

September 2010

# RECOVERY ACT

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



GAO

Accountability \* Integrity \* Reliability

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# Appendix I: Arizona

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## Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)<sup>1</sup> 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>.

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## 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.

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

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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,<sup>2</sup> 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.

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## 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.

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<sup>2</sup>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<sup>3</sup> 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.

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## 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<sup>4</sup> 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

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<sup>3</sup>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).

<sup>4</sup>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 <sup>a</sup>	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
<b>Total</b>	<b>\$49,420,593</b>	<b>6,414</b>	<b>1,930</b>	<b>30</b>	<b>\$10,705,191</b>	<b>\$5,547</b>

Source: GAO analysis of ADOC data.

<sup>a</sup>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.<sup>5</sup> 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

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<sup>5</sup>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.

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work.<sup>6</sup> 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.

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**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.<sup>7</sup> 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.

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<sup>6</sup>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).

<sup>7</sup>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.<sup>8</sup> 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

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<sup>8</sup>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.

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

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### 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.<sup>9</sup> 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

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<sup>9</sup>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.

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## 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.

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## 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.

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### 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.

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**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

91252.09R-000.268

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
<b>City Hall Annex Building</b>			
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
<b>Dave White Park</b>			
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
<b>Dorothy Powell</b>			
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
<b>Facilities Maintenance Shop</b>			
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
<b>Fire Station #1</b>			
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
<b>Fire Station #2</b>			
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 EECEBG 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 EECEBG 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 EECEBG projects). Phoenix officials said that one of the first projects Phoenix completed when the city received its EECEBG 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 EECEBG 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**

<b>Project</b>	<b>Estimated cost</b>	<b>Date completed or planned to be completed</b>
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
<b>Total</b>	<b>\$15,295,500</b>	

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.

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## 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.

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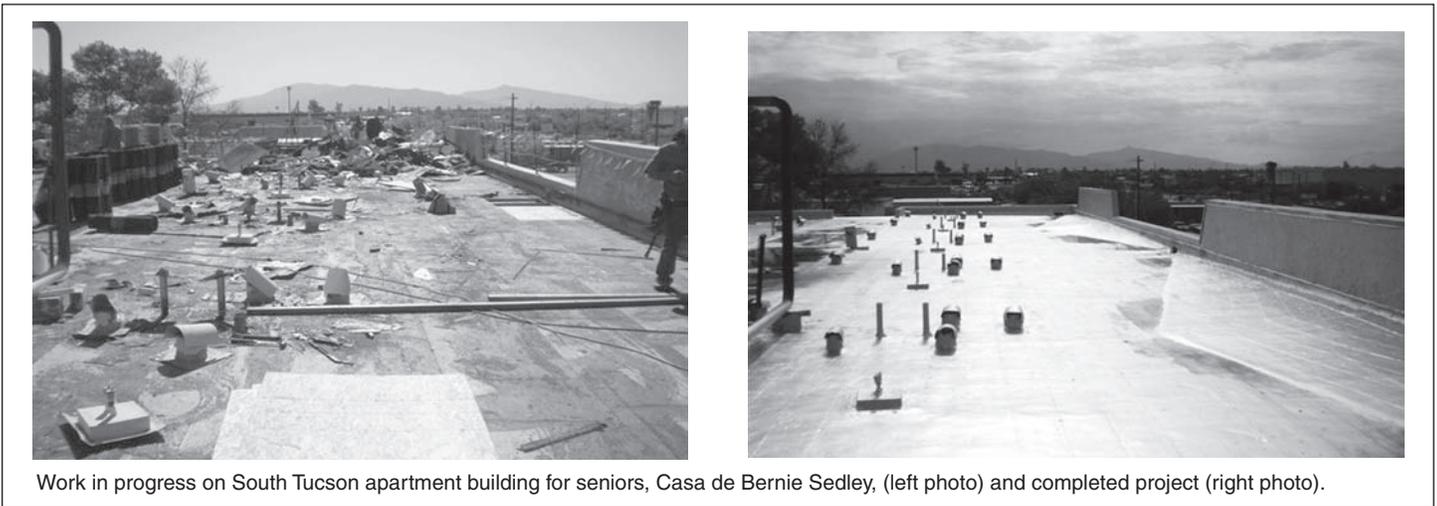
## Housing Agencies Are Expending Their Formula Funds by the Mandated Deadlines

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**



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.<sup>10</sup> 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.

<sup>10</sup>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.<sup>11</sup> 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.

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### 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.<sup>12</sup> 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.

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<sup>11</sup>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.

<sup>12</sup>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).

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## 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.<sup>13</sup>

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.

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<sup>13</sup> [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.<sup>14</sup> 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.

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<sup>14</sup>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.

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## 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<sup>15</sup> 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.

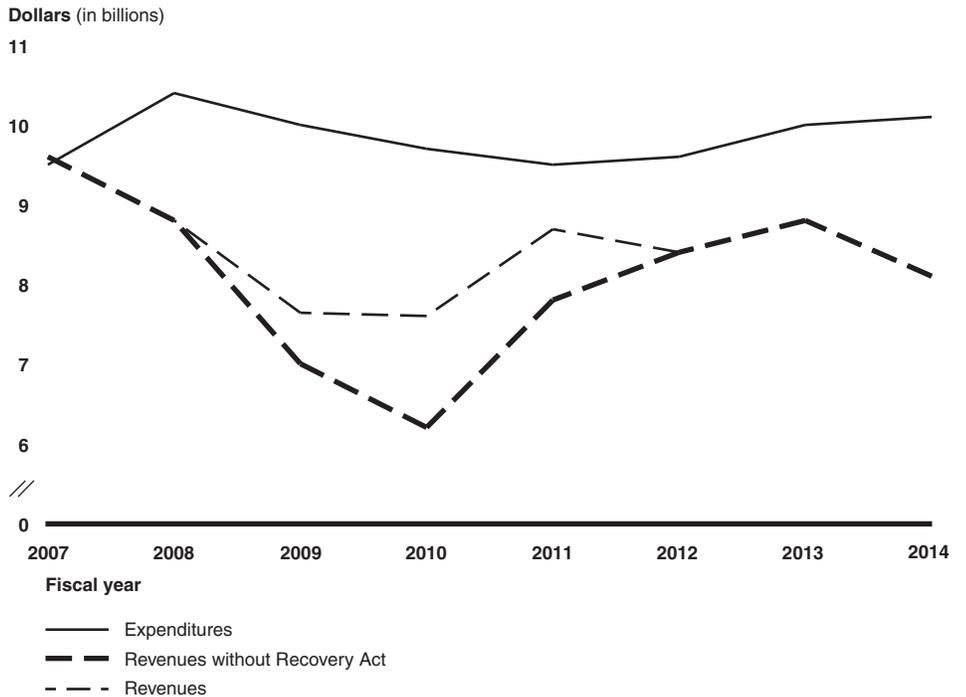
For fiscal year 2012, Arizona faces budget challenges, particularly as the Recovery Act funds phase out. Current economic forecasts project gradual growth in Arizona's economy; however, revenues are not expected to return to 2007 levels until after 2014, as seen in figure 3. To fully address the shortfalls 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

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<sup>15</sup>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**

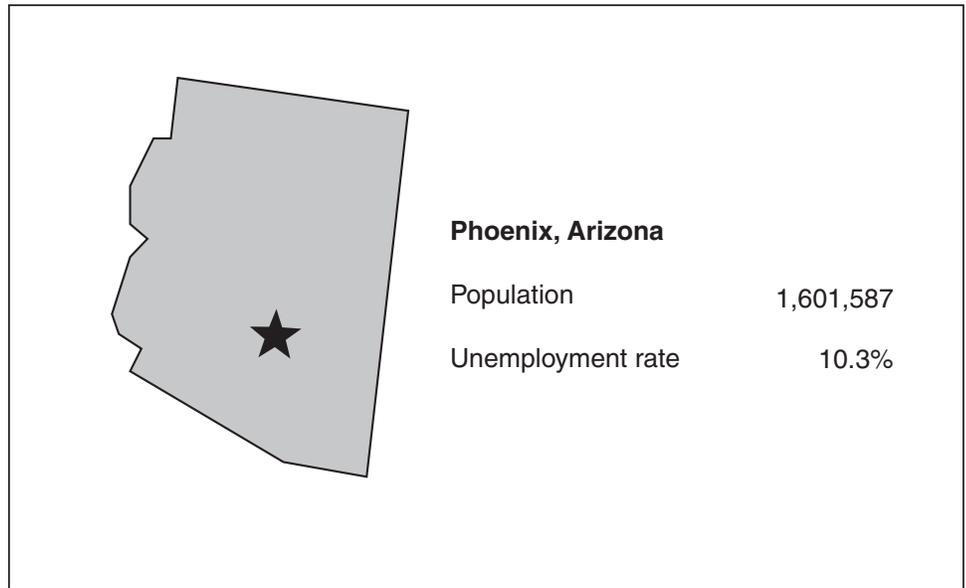


Source: Arizona Joint Legislative Budget Committee Analysis and the Arizona Governor's Office of Economic Recovery.

### 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**



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

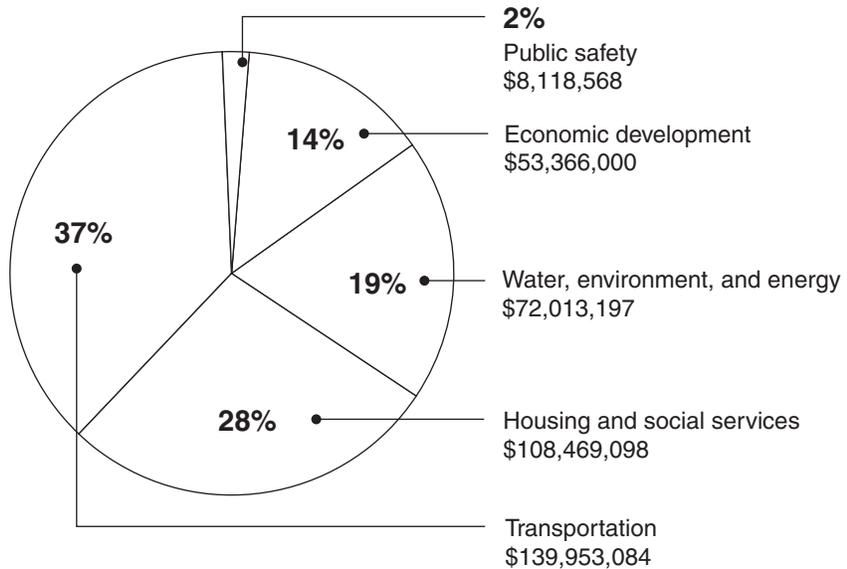
Notes: Population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for June 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

### 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.<sup>16</sup> 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.

<sup>16</sup>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.

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### 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 <sup>a</sup> 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.

<sup>a</sup>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,<sup>17</sup> 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.

<sup>17</sup>Recovery Act, div. A, § 1512.

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## 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.

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## 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.

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## 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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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Steven Calvo, Assistant Director; Lisa Brownson, auditor-in-charge; Karyn Angulo; Rebecca Bolnick; Roy Judy; Jeff Schmerling; and Radha Seshagiri made major contributions to this report.

# Appendix II: California

## Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)<sup>1</sup> spending in California. 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

This appendix is based on GAO's work in California and provides a general overview of (1) California's uses of Recovery Act funds for selected programs, (2) the steps California oversight entities are taking to ensure accountability for Recovery Act funds, and (3) the impacts that these funds have had on creating and retaining jobs. During the course of our work, we reviewed selected programs to assess how California recipients used funds. Table 1 provides a general description of the programs included in our review. For more details on these programs and their requirements, see appendix XVIII of [GAO-10-1000SP](#).

**Table 1: Description of Selected Recovery Act Programs**

Recovery Act program	Selected Recovery Act program funding levels and program purposes
Edward Byrne Memorial Justice Assistance Grants (JAG)	<ul style="list-style-type: none"><li>The Department of Justice awarded California a total of about \$225 million in JAG Recovery Act funds.</li><li>JAG is a federal grant program to state and local governments for law enforcement and other criminal-justice activities, such as crime prevention and domestic violence programs, corrections, drug treatment, justice information-sharing initiatives, and victims' services.</li></ul>
Energy Efficiency and Conservation Block Grant (EECBG)	<ul style="list-style-type: none"><li>The Department of Energy (DOE) allocated California about \$406 million in Recovery Act EECBG formula grants directly to the state and local governments.</li><li>EECBG formula grants are intended for the development and implementation of projects to improve energy efficiency and reduce energy use and fossil fuel emissions.</li></ul>
Elementary and Secondary Education Act of 1965 (ESEA) Title I, Part A	<ul style="list-style-type: none"><li>The Department of Education (Education) allocated approximately \$1.1 billion in Recovery Act funding to California to support ESEA Title I, Part A, and has disbursed about \$580.6 million of those funds as of August 6, 2010.</li><li>The purpose of the funds is to improve teaching and learning for at-risk students and at schools with high concentrations of families living in poverty.</li></ul>
Individuals with Disabilities Education Act (IDEA), Part B	<ul style="list-style-type: none"><li>Education allocated about \$1.3 billion in Recovery Act funding to California to support IDEA, Part B, and has disbursed about \$621.5 million of those funds as of August 6, 2010.</li><li>IDEA, Part B, provides funds to ensure that preschool and school-aged children with disabilities have access to free and appropriate public education through grants to states.</li></ul>

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

Recovery Act program	Selected Recovery Act program funding levels and program purposes
State Energy Program (SEP)	<ul style="list-style-type: none"> <li>• DOE distributed about \$226 million in Recovery Act SEP funds to California to be spent over a 3-year period.</li> <li>• SEP provides funds through formula grants to achieve national energy goals, such as increasing energy efficiency and decreasing energy costs.</li> </ul>
Weatherization Assistance Program	<ul style="list-style-type: none"> <li>• DOE allocated approximately \$186 million in Recovery Act weatherization funding to California to be spent over a 3-year period.</li> <li>• This program enables low-income families to reduce their utility bills by making long-term energy efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.</li> </ul>

Sources: GAO analysis of U.S. Departments of Education, Energy, and Justice data.

To determine how California used Recovery Act funds under selected programs, we met with officials from state agencies in charge of administering program funds. We also met with recipients of Recovery Act funds in three local jurisdictions—the City of Redding (Redding), the City of San José (San José), and the County of Sacramento (Sacramento)—to discuss their use of Energy Efficiency and Conservation Block Grant (EECBG) funds. For the two programs administered by Education—ESEA Title I, Part A, and IDEA, Part B—we met with five local educational agencies (LEA)—Los Angeles Unified School District, Moreno Valley Unified School District, Sacramento City Unified School District, San Bernardino City Unified School District, and Stockton Unified School District—to discuss their uses of Recovery Act funds and the impact or expected impacts of these funds. For the Weatherization Assistance Program, we selected four service providers to discuss and observe their Recovery Act weatherization programs: Community Action Partnership of Orange County, Maravilla Foundation, Project GO, Inc., and Self Help Home Improvement Project.

To assess the steps taken by California oversight entities to ensure accountability for Recovery Act funds, we interviewed officials from the California Recovery Task Force (Task Force), which was established by the Governor in March 2009 and has overarching responsibility for ensuring that the state’s Recovery Act funds are spent efficiently and effectively and are tracked and reported in a transparent manner. We also met with California’s Recovery Act Inspector General, the California State Auditor, and selected local auditors to obtain information or updates on their oversight and auditing activities. In addition, we reviewed products, such as guidance memorandums, letters, and reports, issued by these entities related to the Recovery Act.

To assess the effect Recovery Act funds have had on job creation and retention, we reviewed the information California recipients reported on

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www.recovery.gov (Recovery.gov). As required by the Recovery Act, recipients of Recovery Act funds must report quarterly on several measures, including estimates of the jobs created or retained using Recovery Act funds. To collect this information, the Office of Management and Budget (OMB) and the Recovery Accountability and Transparency Board created a nationwide data-collection system to obtain data from recipients, www.federalreporting.gov (FederalReporting.gov), and another site for the public to view and download recipient reports, Recovery.gov. In addition, we met with the Task Force to obtain current information on the state's experience in meeting Recovery Act reporting requirements and preparing the state's report for the quarter ending June 30, 2010. We continued to follow up with the California Department of Education (CDE) on issues we previously reported on related to estimating and reporting jobs.

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## What We Found

California recipients continue to use Recovery Act funds to create new programs and expand services under existing programs that are expected to provide long-term benefits. For example, localities we visited plan to use EECBG funds, which is a program funded for the first time by the Recovery Act, to help achieve energy efficiency goals, including reduced energy use, and other long-term benefits. As part of this program, Sacramento County spent about \$531,000 in EECBG Recovery Act funds on energy efficiency improvements to a county facility that is expected to reduce operations and maintenance costs. Recovery Act funds also expanded existing federal programs, such as the State Energy Program (SEP), ESEA Title I, Part A, and IDEA, Part B. For instance, California was allocated \$226 million in SEP Recovery Act funds, which is a significant increase from the state's fiscal year 2009 appropriation of \$1.5 million. These funds allowed the state to develop several new activities and expand services, including allocating about \$110 million of the \$226 million to retrofit municipal, commercial, and residential buildings. In prior reports, we noted programs, such as the Weatherization Assistance Program and Edward Byrne Memorial Justice Assistance Grants (JAG), which received significant increases in funding through the Recovery Act, faced some implementation challenges, but recently overcame hurdles and are on track to meeting production and spending milestones. While Recovery Act funds have helped expand programs and services, California continues to face significant budgetary problems. State officials reported that Recovery Act funds will have less of an impact this fiscal year than they did last year because the state has largely distributed its State Fiscal Stabilization Fund (SFSF) funds and other one-time Recovery Act funds. As of August 19, 2010, California has not yet adopted a budget for state

fiscal year 2010-2011, which began on July 1, and faces an estimated \$19 billion budget gap.

Since the Recovery Act was enacted in February 2009, state and local audit and oversight entities we met with have continued to take steps to help ensure the accountability of Recovery Act funds. Our prior reports discussed the oversight roles and activities of key state entities, including the Task Force, the California Recovery Act Inspector General, and State Auditor. Since our last report in May 2010, these entities regularly met with state departments and agencies regarding Recovery Act funds, reviewed selected subrecipients to ensure proper accounting for funds received, and issued reports highlighting concerns about the management of Recovery Act funds. For example, on June 9, 2010, the State Auditor provided an update on the progress three state agencies made in responding to recommendations in reports issued over the last year and noted areas where additional work remained related to the management and oversight provided by these entities for three Recovery Act programs—JAG, SEP, and Weatherization Assistance Program. Local auditors we met with have generally not begun to conduct Recovery Act-specific audits, with the exception of the San José Auditors Office, which has issued two Recovery Act reports to date. Some local auditors stated that they plan to conduct Recovery Act-specific audits in the future, while others stated that staffing resources limited their ability to conduct additional audits at this time.

Overall, California recipients reported funding more than 83,000 full-time equivalents (FTE) with Recovery Act funds during the last recipient reporting cycle—the period covering April 1, 2010, to June 30, 2010—as reported on Recovery.gov on July 31, 2010. According to the Task Force, there were numerous new grants awarded and more Recovery Act funds expended during the fourth quarter reporting period compared to the prior quarter. Task Force officials also noted that this round of recipient reporting went more smoothly than prior rounds. During the reporting period, the Task Force took steps to ensure California recipients that do not directly report through the state’s centralized system were accurately reporting FTEs. For instance, the Task Force contacted and provided guidance to recipients that did not report in the previous quarter to help them improve reporting in future quarters. CDE also took steps to address issues raised in our prior reports, including recipient reporting concerns about underreporting of vendor FTEs by its subrecipients and CDE’s process for reviewing data.

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## California Is Gaining Long-Term Benefits from Recovery Act Funds for New and Expanding Programs, While Short-Term Budget Stabilization Benefits Are Waning

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### Local Governments Are Using Recovery Act Funds under a Newly Funded Program to Help Achieve Energy Goals

EECBG was funded for the first time by the Recovery Act and is intended to help localities achieve a variety of energy efficiency goals, such as reducing fossil fuel emissions and total energy use. DOE allocated about \$356 million directly to 334 eligible<sup>2</sup> localities in California based on their residential and commuter populations. The state was also allocated approximately \$49.6 million in EECBG Recovery Act funds, which are administered by the California Energy Commission (CEC) to largely be distributed to localities ineligible for EECBG direct formula funds.<sup>3</sup>

Officials from the three localities we met with that received direct formula EECBG allocations—Redding, Sacramento, and San José—told us that they plan to use EECBG funds to achieve long-term energy efficiency goals, including reduced energy use and increased use of renewable energy sources. For instance, San José plans to use EECBG funds to help the city make progress towards its energy goals to reduce the city's per capita energy use by 50 percent by 2022 and to receive 100 percent of its electricity from renewable energy sources, which are included in the city's 15-year plan for economic growth and environmental sustainability. Table

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<sup>2</sup>Funding for EECBG direct formula grants to eligible units of local government—cities and counties—were allocated to cities with populations of at least 35,000 or that are among the top 10 highest populated cities of the state in which they are located; and to counties with a population of over 200,000 or that are among the 10 highest populated counties of the state in which they are located.

<sup>3</sup>States must pass on at least 60 percent of its allocation to localities ineligible for a direct formula grant. California intends to award approximately 67 percent of its allocation to such entities noncompetitively using a formula based on population and unemployment rates among other factors.

2 shows how the three localities we visited are planning to use these funds.

**Table 2: EECBG Direct Recovery Act Funds Awarded and Expended, as of July 29, 2010, to Selected Localities and Examples of Planned Used**

Locality	Amount awarded (dollars)	Amount expended (dollars)	Examples of planned uses
Redding	\$892,700	\$892,700	<ul style="list-style-type: none"> <li>Energy efficiency home retrofits, such as air sealing and Heating, Ventilation, and Air Conditioning (HVAC) installation for low-income residents</li> </ul>
Sacramento	5.4 million	1.1 million	<ul style="list-style-type: none"> <li>Energy efficiency upgrades and retrofits for county facilities such as a park facility in an underserved community, a community center, and a correctional facility</li> <li>For county owned and leased facilities, establish a revolving loan fund to finance (1) energy audits, which evaluate a building's energy use and can help target energy leaks or inefficiencies, (2) energy retrofits, and (3) retro-commissioning, a systematic process that identifies low-cost operational and maintenance improvements in existing buildings to optimize system performance</li> <li>Development of green building policies and standards by an energy task force which may serve as the basis for county ordinances</li> <li>Development of phase two of the County Climate Action Plan, which will present a prioritized list of recommended actions and a schedule of costs for implementation to reduce green house gas emissions and manage water and other resources</li> <li>The design, purchase, and installation of a generator for the Sacramento International Airport</li> </ul>
San José	8.8 million	180,795	<ul style="list-style-type: none"> <li>Energy efficiency retrofits to municipal buildings, which could include replacing lighting, and installing cool roofs</li> <li>Replace about 1,500 streetlights with more energy efficient Light Emitting Diode (LED) lights</li> <li>Solar projects for municipal buildings including associated design, project engineering, building, solar assessments, and contracting for development services</li> </ul>

Sources: GAO analysis of City of Redding, County of Sacramento, and City of San José data.

In addition to helping them meet energy efficiency goals, local government officials anticipate other benefits from EECBG Recovery Act funds, such as increased comfort and safety for residents and reduced operations and maintenance costs. For example, Redding plans to use EECBG funds for an energy retrofit program in which 65 to 70 homes of low-income residents will receive energy efficiency remediation through retrofits, such as new heating, ventilation, and air conditioning systems, which are expected to increase comfort as well as improve safety by reducing carbon dioxide levels within homes. According to San José officials, the city's

EECBG projects are estimated to provide the city \$700,000 in energy savings each year. During the first 2 years, the savings will be returned to the city’s energy fund to fund future energy projects, and in subsequent years, savings will go to the city’s general fund. In order to reduce the county’s energy use and maintenance costs, Sacramento plans to upgrade and retrofit several county facilities—a park facility in an underserved community, a community center, and a correctional facility. For example, the cost savings from spending approximately \$531,000 in Recovery Act funds on energy efficiency improvements to a county correctional facility are estimated to pay for the project’s Recovery Act portion within 5-years and result in future savings that the county can use for operations or other cost saving measures. See fig. 1 for more detail.

**Figure 1: Energy and Cost Savings Associated with Sacramento County Correctional Facility Project Partly Funded by Recovery Act EECBG Funds**

Project	Annual electric savings (kilowatt hours)	Annual natural gas savings (therms)	Annual cost savings
 Replace 4,158 light fixtures with higher efficiency units	847,587	N/A	\$94,930
 Install a more reliable, higher efficiency cooling system	62,503	N/A	\$5,698
 Replace obsolete and broken building temperature control system with a new digital, networked control system	85,773	2,845	\$12,764
<b>Total</b>	<b>995,863</b>	<b>2,845</b>	<b>\$113,392</b>

Sources: County of Sacramento; and GAO.

### Recovery Act Funds Enabled California to Expand Existing Programs and Services

Although the Recovery Act provided first-time funding for some programs, like EECBG, Recovery Act funding increased funding levels for existing federal programs with annual appropriations, which allowed California recipients to expand services and implement new projects and activities. For instance, California was allocated \$226 million in SEP funds through the Recovery Act, which is a significant increase from the state’s fiscal year 2009 appropriation of \$1.5 million. DOE requires Recovery Act SEP funds to be spent over a 3-year period and like EECBG funds these funds aim to achieve energy goals, such as increasing energy efficiency and

decreasing energy costs. CEC, the state administering agency for SEP funds, expanded California’s program by funding several new activities, including establishing a revolving loan program for energy efficiency retrofits to state buildings, providing loans to businesses to develop energy efficient products, and training for green jobs. CEC plans to use about half of the state’s SEP allocation, \$110 million, to retrofit various types of facilities including municipal, commercial, and residential buildings. This effort is known as the Energy Efficiency Program or SEP 110 and has three components targeting different markets. Table 3 provides additional details about the three subprograms.

**Table 3: Description of the Three Subprograms under California’s SEP 110 Energy Efficiency Program**

Subprogram	Description
Municipal and Commercial Building Targeted Measure Retrofit (\$50 million)	The program aims to achieve significant energy savings from targeted retrofit measures to the state’s municipal and commercial buildings with a focus on capitalizing on low-risk, high-return efficiency opportunities that are readily available throughout the state. Some examples of measures include occupancy controlled lighting fixtures for parking lots; commercial kitchen ventilation; and heating, ventilation, and air conditioning (HVAC) systems.
Municipal Financing (\$30 million)	The program will fund local governments to implement or continue a program in which property owners provide grants for the installation of energy efficiency or renewable energy generation improvements. One financing option under this program allows property owners to repay the assessments with their property taxes; however, other financing approaches will be considered.
California Comprehensive Residential Building Retrofit (\$30 million)	The program will implement energy retrofits in existing residential buildings by working with groups such as local governments, utilities, affordable housing programs, and energy experts to create and retain jobs. The program will focus on deploying retrained construction workers, contractors, and youth entering the job market, and will pursue bringing the advantages of energy efficient housing to underserved, economically disadvantaged populations.

Source: CEC.

CEC plans to use the remaining \$116 million on the following programs to help reduce long-term energy costs:

- **Revolving loans for state building retrofits**—CEC awarded \$25 million to the Department of General Services to retrofit state buildings.
- **Green jobs workforce training**—CEC used \$20 million of the state’s SEP allocation to partner with the Employment Development Department and Employment Training Panel to train workers for green job skills, such as home energy rating, duct testing and sealing, and solar technology installation and design.

- **Low interest loans for energy conservation assistance**—CEC apportioned \$25 million of its allocation to offer 1 percent loans to 25 local jurisdictions to invest in energy efficiency.
- **Clean energy business finance loans**—CEC plans to use about \$31 million to fund a new loan program designed to promote clean energy manufacturing and provide financial assistance to both existing and start-up companies that make energy efficient products, such as photo voltaics, energy efficient motors, and bio-methane facilities that generate energy with methane.
- **Program support and evaluation**—CEC plans to use approximately \$15 million to support the program administration, auditing, measurement, and evaluation of SEP funds.<sup>4</sup>

The Recovery Act also provided funds to existing federal education programs that allowed California LEAs to expand programs and services for students. Specifically, California was allocated approximately \$1.1 billion in Recovery Act ESEA Title I, Part A, and about \$1.3 billion in Recovery Act IDEA, Part B, funds, which was in addition to their regular fiscal year 2009-2010 allocations of \$1.5 billion and \$1.1 billion respectively. We previously reported that California LEAs planned to use Recovery Act funds to help retain jobs and improve services. We visited five of California's largest LEAs that were allocated a total of about \$370.8 million in Recovery Act ESEA Title I, Part A, and \$189.7 million in Recovery Act IDEA, Part B, funding as of June 11, 2010 and focused our discussions on how they used these funds to expand programs and services. Table 4 shows the amounts allocated to each of the five LEAs.

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<sup>4</sup>Under SEP, recipients may use any amount judged "reasonable and prudent" by DOE when reviewing the state's plan of their awards for general services and administration. For SEP Recovery Act activities, states usually follow the limit that applies to their respective state funds.

**Table 4: Amount of Recovery Act ESEA Title I, Part A, and IDEA, Part B, Funds Allocated to Selected LEAs as of June 11, 2010**

Dollars in millions

LEA	ESEA Title I, Part A allocation	IDEA, Part B allocation
Los Angeles Unified School District	\$323.7	\$152.1
Moreno Valley Unified School District	5.0	7.4
Sacramento City Unified School District	13.8	10.4
San Bernardino City Unified School District	16.8	11.6
Stockton Unified School District	11.5	8.2
<b>Total</b>	<b>\$370.8</b>	<b>\$189.7</b>

Source: GAO analysis of information from the California Department of Education (CDE).

While LEAs we visited spent Recovery Act ESEA Title I, Part A, and IDEA, Part B, funds to help preserve jobs, they also plan to use funds to increase capacity through technology purchases and professional development for teachers and other staff that would have lasting effects. Some of the goals and related expected uses of Recovery Act spending identified by LEAs include:

**Improve student achievement.**

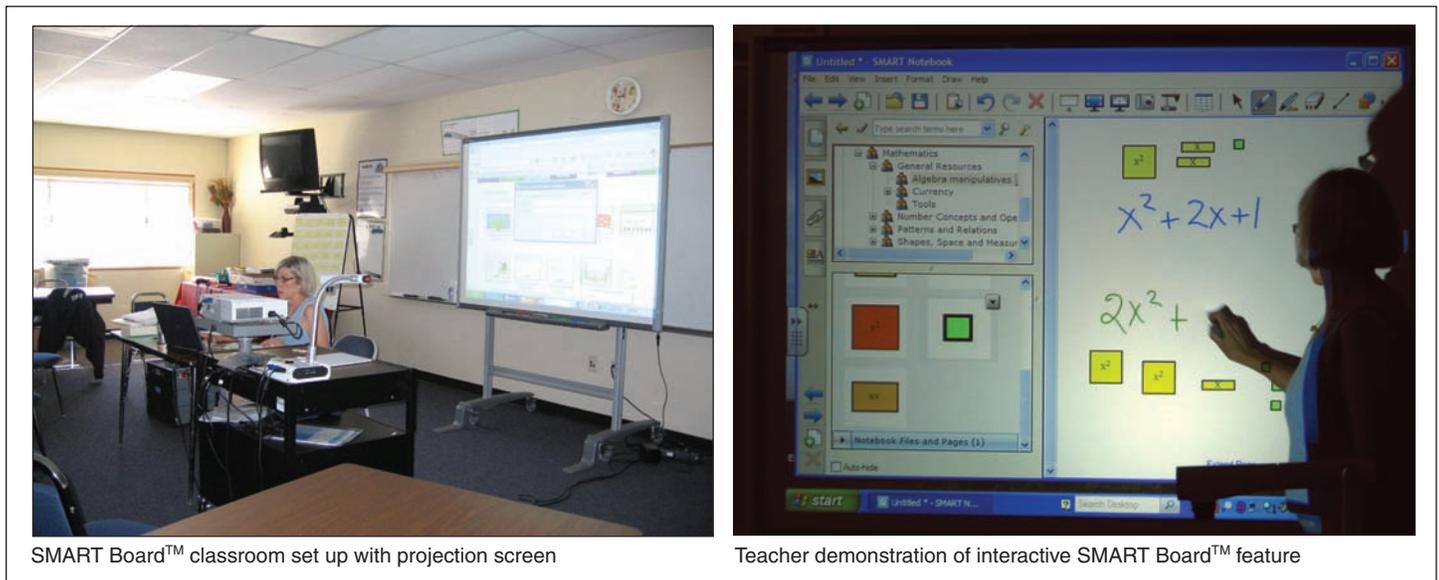
- Stockton Unified School District plans to spend about \$433,000 in Recovery Act ESEA Title I, Part A, funds to provide professional development for its staff to support student achievement in the core curriculum<sup>5</sup> by hiring specialists to coach teachers in math and English language acquisition.
- Moreno Valley Unified School District is spending about \$500,000 in Recovery Act ESEA Title I, Part A, funds to implement a math curriculum called “Digital Math”—which includes the procurement of 70 SMART Boards<sup>TM6</sup> and training for teachers who will be using this

<sup>5</sup>ESEA defines core academic subjects as: English, reading/language arts, mathematics, science, foreign languages, civics/government, economics, arts, history, and geography.

<sup>6</sup>SMART Boards<sup>TM</sup> are interactive white boards that allow students to engage directly with the screen by using special stylus pens, fingers or a computer keyboard. In addition to the large white board screen, which is touch sensitive and is connected to a computer, the technology includes a wireless slate that the instructor uses as the master control and individual student response system, which allow students to answer from their desks as well as to vote on questions or topics. The technology can also come with a wide variety of programs, including programs for math and science.

technology. The program is aimed at improving student achievement in mathematics at the district's four middle schools that have been in improvement status<sup>7</sup> for over 5 years. The curriculum is scheduled to be implemented in September 2010 and, according to Moreno Valley Unified School District officials, will help improve students' math achievement by increasing student engagement. Figure 2 shows a teacher demonstrating the interactive feature of a SMART Board™.

**Figure 2: SMART Board™ Demonstration at Moreno Valley Unified School District**



SMART Board™ classroom set up with projection screen

Teacher demonstration of interactive SMART Board™ feature

Source: GAO.

**Expand teacher capacity with new skills and techniques.**

- Los Angeles Unified School District is using about \$4.1 million in Recovery Act ESEA Title I, Part A, funds to support two major professional development initiatives aimed at enhancing the district's efforts toward data-driven instruction by providing teachers with the

<sup>7</sup>ESEA requires all states to implement statewide accountability systems based on challenging state standards in reading, mathematics, and science; annual testing for all students in grades three through eight; and annual statewide progress objectives ensuring that all groups of students reach proficiency by 2014. LEAs and schools that fail to make Adequate Yearly Progress toward statewide proficiency goals are subject to improvement and corrective action measures.

skills to access student data and use it to improve both their teaching proficiency and student achievement. These two initiatives are (1) training for a student intervention program, which includes coaching and problem solving that will help teachers provide instruction (e.g., in reading, math, and language development) and intervention that matches student needs; and (2) training on the district's student performance data system to help teachers better identify student and classroom needs.

- For the 2009-2010 school year, San Bernardino City Unified School District used about \$3.7 million for the salaries and benefits of 42 full-time teaching coaches—one at each school in the district—to help teachers implement new learning strategies and improve their classroom techniques. According to officials, schools with coaching programs have fewer students in intervention programs—reflecting the improvement in teachers' ability to serve student needs and promote student achievement.

**Better address needs of special education students.**

- Los Angeles Unified School District plans to use approximately \$1 million in Recovery Act IDEA, Part B, funds for four libraries, where teachers, students, and parents can preview and try out assistive technology<sup>8</sup>—such as computer and speech generating devices controlled by eye movement, lightweight, portable electronic keyboards that can be integrated with whiteboards, and other classroom technologies—before the district purchases it for them.<sup>9</sup> According to officials, these libraries could help save money over the long run by averting expensive equipment purchases that ultimately do not work for the students and help ensure students with disabilities and special needs can be assisted to meet their academic, social, and behavioral goals.

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<sup>8</sup>Assistive technology is an item, piece of equipment, or system, whether acquired commercially, modified, or customized, which is commonly used to increase, maintain, or improve functional capabilities of individuals with disabilities.

<sup>9</sup>According to Los Angeles Unified School District officials, the district also created a library Web site that will contain links to associated training materials as well as links to resources for parents to use to help their children communicate, complete homework, and access curriculum.

- Stockton Unified School District is using Recovery Act IDEA, Part B funds to help address the needs of the growing number of autistic students. The LEA has awarded a contract with a value of \$12,000 for an assessment to determine the district’s training needs in serving these students. According to officials, during the 2010-2011 school year, they plan to develop a training plan based on this assessment and to spend \$50,000 for the associated training.
- One of the schools we visited in the San Bernardino City Unified School District spent about \$20,000 on a “sensory room,” where autistic students can take time out from their regular classroom to calm down when they feel agitated, which was something officials told us the school needed and wanted to purchase for a long time (fig. 3 shows items in the sensory room). According to officials, the sensory room environment with bright colors has the ability to both stimulate and calm the sensory system. Practitioners at the facility said that the sensory stimulation students receive helps them be more attentive when they return to the classroom.

**Figure 3: Recovery Act IDEA, Part B Funds Used for a Sensory Room for Special Needs Students at a School in the San Bernardino City Unified School District**



Source: GAO.

**Reduce spending on costly outside services.**

- Los Angeles Unified School District officials said they are focusing Recovery Act IDEA, Part B, funding to build district capacity to better accommodate students with special needs, which will result in less

spending on outside providers for those services. For example, the district spent about \$150,000 to train 6,000 paraprofessionals in behavior management during the last week of June 2010 to improve their long-term ability to help special education students with appropriate classroom behavior and social skills, which will also help reduce the district's reliance on outside professionals. Officials said the paraprofessionals will be better able to assist teachers in maintaining an effective teaching classroom environment that promotes student achievement.

- Sacramento City Unified School District is spending about \$394,000 in Recovery Act IDEA, Part B, funds to reform the district's approach to special education needs using a model aimed at including special education students in regular classrooms.<sup>10</sup> District leadership hopes to see an increase in the number of special education students being supported in regular classrooms within 5 years. Through this model and other training and intervention efforts funded by the Recovery Act, the district plans to increase its capacity to provide services to special needs students and decrease their use of outside services.

In addition to these special education initiatives, all of the LEAs we met with reported taking advantage of the flexible spending authority under IDEA that allows them to reduce their local special education funding and spend it on non-special education activities, such as teacher and other salaries.<sup>11</sup> For example, Los Angeles Unified School District officials said they used over \$67 million in Recovery Act funds to support programs they would otherwise have had to cut from their operating budget.

For school year 2010-2011, according to Education data, California is projected to receive about \$1.2 billion from the new Education Jobs Fund.<sup>12</sup> The Education Jobs Fund will generally support education jobs in

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<sup>10</sup>This inclusion approach involves keeping special education students in regular classrooms and bringing the support services to the child, rather than the child to the support services.

<sup>11</sup>Generally, in any fiscal year in which an LEA's IDEA, Part B, allocation exceeds the amount the LEA received in the previous year, the LEA may reduce its local spending on disabled students by up to 50 percent of the amount of the increase, as long as the LEA (1) uses those freed-up funds for activities authorized under the ESEA, (2) meets the requirements under the act, and (3) can provide each child a free and appropriate public education.

<sup>12</sup>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 2010-2011 school year and be distributed to states by a formula based on population figures. States can distribute their funding to LEAs based on their own primary funding formulas or districts' relative share of federal ESEA Title I funds.

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### Some Recovery Act Recipients Faced Initial Challenges That Affected Spending Timelines, but Are Now on Track to Meet Milestones

Our prior reports highlighted challenges faced by state recipients of Recovery Act Weatherization Assistance Program and JAG funds, but both programs have recently overcome hurdles and are on track to meet production goals and spending milestones. California was allocated approximately \$186 million in Recovery Act funds to be spent over a 3-year period for the Weatherization Assistance Program, which enables low-income families to reduce their utility bills by making long-term, energy efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment. By June 2009, DOE had provided 50 percent—about \$93 million—of these funds to the California Department of Community Services and Development (CSD), the state agency responsible for administering the program.<sup>13</sup> DOE limited California's and other states' access to the remaining funds until each has met certain performance milestones, including weatherizing 30 percent of all homes estimated to be weatherized in the approved state plan.<sup>14</sup> In prior reports, we highlighted delays in this program, which could affect California's ability to access the remaining 50 percent of Recovery Act funds, including the fact that, in March 2010, CSD did not yet have service providers in place for six areas of the state. Additionally, as of March 31, 2010, CSD had weatherized 2,934 homes, which was short of its target to weatherize 3,912 homes for the first quarter. Recently, CSD made progress in these areas. Specifically, CSD did the following:

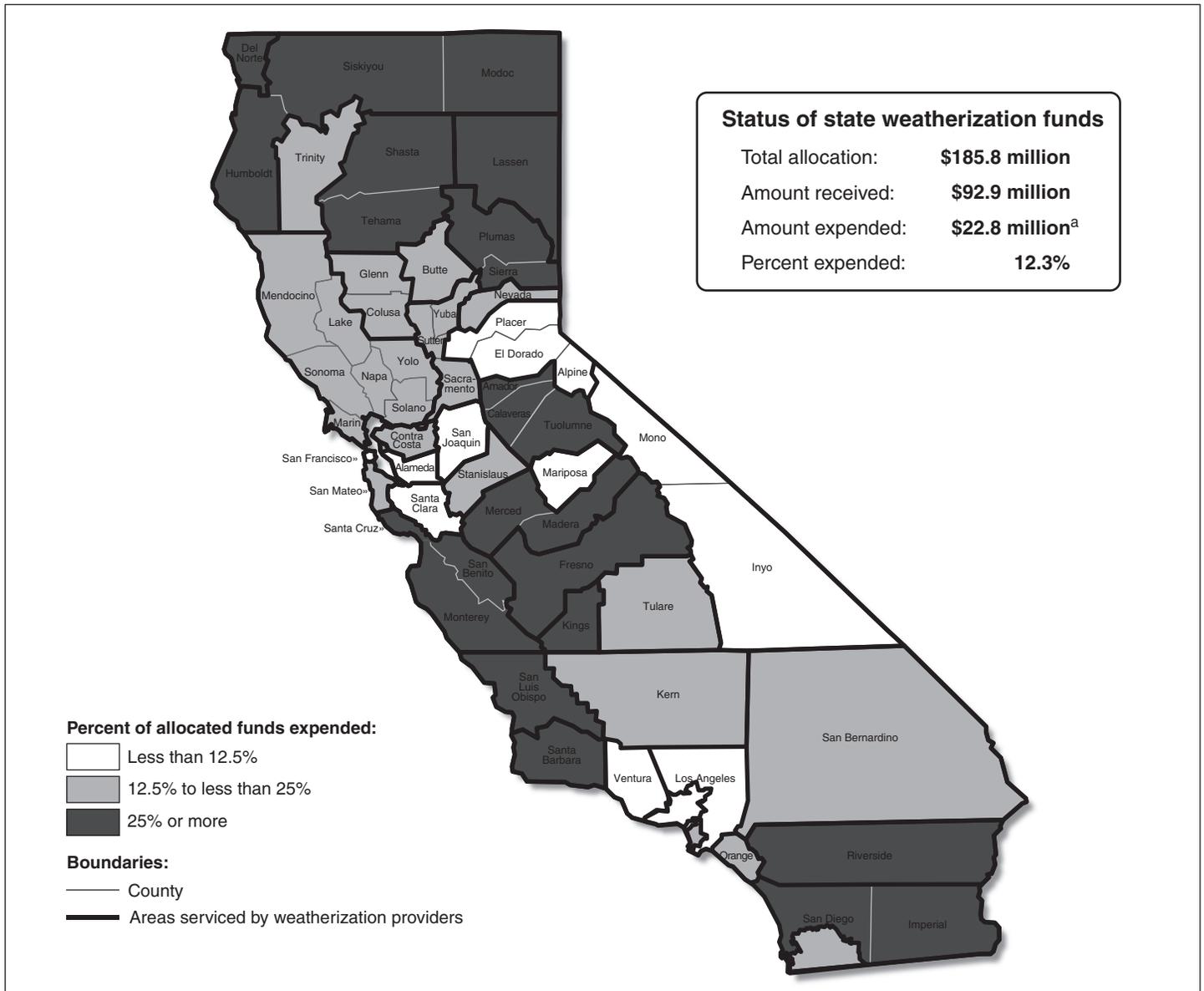
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<sup>13</sup>California's \$186 million Recovery Act weatherization allocation represents a large increase in funding over California's annual weatherization program appropriation, which was about \$14 million for fiscal year 2009. CSD retained about \$16 million of the 50 percent received (approximately \$93 million) to support oversight, training, and other state activities and distributed the remaining roughly \$77 million to local weatherization service providers, including nonprofit organizations and local governments.

<sup>14</sup>The other performance milestones recipients must meet to access the remaining funds are (1) monitoring all service providers at least once each year to determine compliance with administrative, fiscal, and state policies and guidelines; (2) inspecting at least 5 percent of completed units during the course of the respective year; (3) fulfilling the monitoring and inspection protocols established in the approved state plan; (4) ensuring that local quality controls are in place; and (5) submitting timely and accurate progress reports to DOE and confirmation of acceptable performance by recipients via DOE monitoring reviews.

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- **Secured service providers for all areas.** As of June 30, 2010, CSD awarded contracts to service providers for the remaining six areas and has a total of 38 service providers in place covering all 58 counties of the state. Service providers spent about \$22 million on weatherization services, as of June 30, 2010, with some providers expending funds at a faster rate than others (see fig. 4).

Figure 4: Expenditure Rates for California’s Weatherization Service Providers, as of June 30, 2010



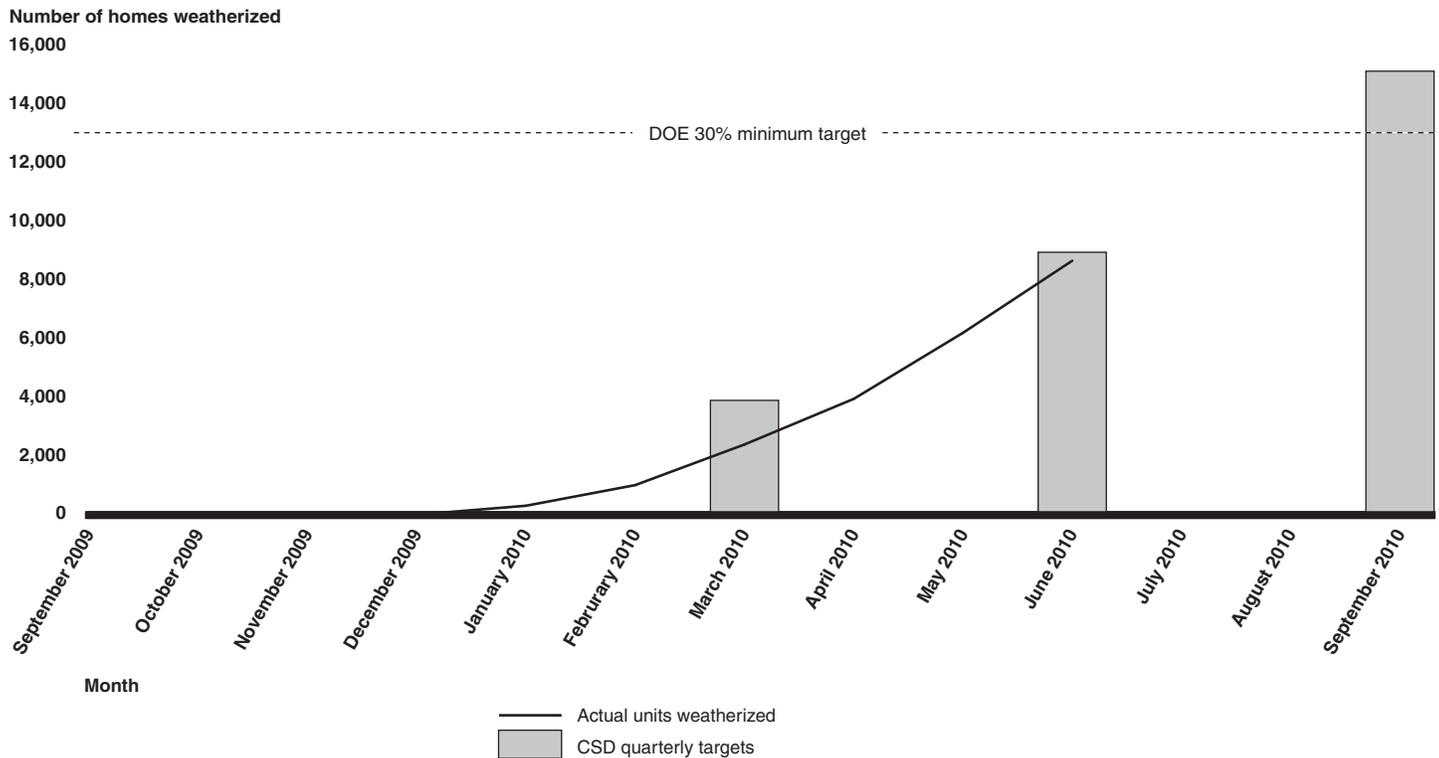
Sources: GAO analysis; Map Resources (county map)

Note: Service providers for the counties of Alpine, El Dorado, San Francisco, San Mateo, and parts of Alameda and Los Angeles were awarded contracts by CSD to begin weatherizing units on June 30, 2010.

<sup>a</sup>As of June 30, 2010, service providers expended about \$21.8 million of the approximately \$77 million that has been distributed to them by CSD and CSD has spent about \$1 million on oversight, training, and other statewide activities.

- Increased pace of weatherization to help meet production targets.** While CSD initially experienced delays weatherizing homes, it made steady progress toward meeting DOE's performance milestone of weatherizing 30 percent of the total number of units estimated to be weatherized with Recovery Act funds by weatherizing 8,679 homes or about 20 percent, as of June 30, 2010. DOE officials indicated that its goals are for each recipient to have met this target by September 30, 2010. As a result, CSD set September 30, 2010, as the deadline for the state to weatherize 15,145 homes, or 35 percent of the total goal of 43,150 units, which exceeds DOE's minimum target of 12,945 units. Figure 5 shows the monthly progression of units weatherized through June 30, 2010.

**Figure 5: California's Unit Production Progress Toward Meeting Targets, as of June 30, 2010**



Source: GAO analysis of DOE and CSD data.

While CSD is on track to meet its September 2010 production target, lower than expected per unit expenditures have affected CSD's rate of spending and may necessitate an increase in its targets. As of June 30, 2010, the average cost to weatherize a unit was \$2,750 or approximately 21 percent

lower than CSD's projected average of \$3,500 per unit.<sup>15</sup> According to the service providers we met with, one factor that reduced the cost per unit was instances in which test<sup>16</sup> results showing that the unit already met minimum ventilation standards precluded them from installing additional energy conservation measures in a unit. The energy conservation measures service providers can provide to eligible residents are prescribed in CSD's state plan under the list of allowable cost-effective measures. As of June 17, 2010, CSD officials recently updated the list of measures, which should have been revised in 2006, and submitted it to DOE for expedited approval.<sup>17</sup> According to CSD officials, once the list is approved, they expect per unit expenditures to increase, because new measures were added to the list, which will allow service providers to implement additional cost-effective measures per unit. CSD officials plan to continue monitoring spending rates and production levels, and stated that CSD will amend its production targets, if necessary.

Our May 2010 report also noted that the California Emergency Management Agency (Cal EMA), the state agency responsible for administering JAG funds to localities, began awarding funds to localities in February 2010 after spending 3 months defining program strategies for 2 of 10 targeted funding areas: Intensive Probation Supervision Program and Court Sanctioned Offender Drug Treatment Program. These two activities accounted for \$90 million of the \$135.6 million allocated to the state to award to local jurisdictions. As of June 30, 2010, Cal EMA awarded almost all of the \$135.6 million Recovery Act JAG funds to localities,<sup>18</sup> and anticipates that all funds will be expended well before the February 28, 2013, deadline.

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<sup>15</sup>California's projected average cost per unit is significantly lower than the \$6,500 maximum average allowable under the Weatherization Assistance Program. CSD officials believe that the maximum average was raised to \$6,500 by the Recovery Act primarily to meet the needs of states with more extreme climates than California where more weatherization measures can be installed.

<sup>16</sup>CSD requires that blower door tests, which measure a unit's building tightness, be performed on 100 percent of weatherized units with an exception for multifamily properties. For multifamily properties, it is recommended that the blower door test be performed on a sample of units.

<sup>17</sup>CSD's current list of cost-effective weatherization measures authorized for use by service providers to weatherize homes was last approved by DOE in October 2001. The list is required to be revalidated every 5 years.

<sup>18</sup>Of the \$135.6 million allocated to the state, about \$550,000 remains to be allocated. Cal EMA plans to retain those funds for state operations.

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## Although Recovery Act Funds Expanded Programs and Services, Budgetary Problems Persist at the State and Local Levels

Task Force officials reported that Recovery Act funds played an important role in helping balance the state's fiscal year 2009-2010 budget, but there will be a lesser impact this fiscal year because the state depleted its SF/SF funds and other one-time Recovery Act funds. As discussed in our prior reports, a portion of the state's Recovery Act funds—over \$8 billion—was used to help balance its fiscal year 2009-2010 budget, when the state faced a nearly \$60 billion budget gap. As of August 19, 2010, the state faces an estimated budget gap of \$19 billion and has not yet adopted a 2010-2011 budget for the fiscal year that began on July 1, 2010.<sup>19</sup> In May the Governor proposed addressing the gap with a number of budget solutions, including about \$12 billion in spending reductions, such as reducing funding for local mental health services by approximately 60 percent and eliminating some programs. In June, the State Controller informed the Governor and state legislative leaders that in the absence of a state budget, the state will cease to make certain payments including payments to local governments, vendors (for services provided on or after July 1), and salaries of state elected officials and their appointed staff. The State Controller's office also plans to issue registered warrants, called IOUs, beginning in late August or September, if the situation continues.<sup>20</sup>

Officials we met with from two local governments—Redding and San José—also reported that they continue to face budgetary problems. For example, Redding officials anticipate budget and staff reductions, and told us that over the last 3 years their general fund budget has been reduced from \$74 million to \$60 million, a 20 percent decrease. According to Redding officials, retail and property tax revenue decreases are the primary reason for their general fund budget reductions. In San José, officials reported that for fiscal year 2010-2011, the city had a \$118.5 million gap, its largest deficit ever. According to San José officials, to close the gap, the city took several actions, such as deferring the openings of new facilities such as community centers, parks, and fire stations, cutting public services, increasing fees and charges, and eliminating city positions. San Jose eliminated 783 FTEs from the 2010-2011 budget, which represents a 12 percent reduction from the city's 2009-2010 workforce

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<sup>19</sup>The California state government fiscal year is July 1 to June 30. Included in the estimated \$19 billion budget gap is a nearly \$8 billion general fund deficit at the end of the 2009-2010 fiscal year.

<sup>20</sup>A registered warrant is a "promise to pay" with interest, that is issued by the state when there is not enough cash to meet all of its payment obligations. The State Controller's office issued \$1.95 billion in registered warrants last fiscal year when the state failed to pass a budget before the start of the state 2009-2010 fiscal year on July 1, 2009.

level of 6,623 FTEs.<sup>21</sup> Figure 6 highlights selected information about the local governments that we met with.

**Figure 6: Information about Redding and San José**

	Redding	San José
		
Estimated population (July 1, 2009):	90,521	964,695
Unemployment rate, June 2010:	13.4%	12.5%
Total Recovery Act funding awarded (dollars in millions):	\$9.4	\$108.1
Budget fiscal year 2010 (dollars in millions):	\$307	\$3,000
Locality type:	City	City

Sources: U.S. Census Bureau and U.S. Department of Labor (demographic information); City of Redding and City of San José (funding information); Map Resources (map); and GAO.

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.

Although these localities continue to face budgetary problems, Recovery Act funds helped them fund infrastructure and other improvement projects that will have lasting benefits. Redding officials reported that the city was awarded about \$9 million in Recovery Act funds, and San José officials reported Recovery Act awards totaling about \$108 million for projects and services. In general, officials from both localities noted that Recovery Act funds were used to fund projects that had no previous funding identified. For example, approximately \$3 million in transportation Recovery Act funds allowed Redding to pursue a highway interchange project—which they were previously unable to obtain funding for—that will facilitate future commercial and retail growth in the area. San José plans to use \$25 million in housing Recovery Act funds to purchase and rehabilitate foreclosed and abandoned homes in targeted areas around the city, and provide secondary financing for income-eligible purchasers of foreclosed homes, among other activities. Table 5 describes selected projects that were funded by Redding and San José using Recovery Act funds.

<sup>21</sup> According to San José officials, the position eliminations resulted in over 228 employee layoffs, with over 100 additional employees having to accept lower level positions within the city to help bridge the budget gap.

**Table 5: Selected Projects Funded by Redding and San José Using Recovery Act Funds**

Program Area	Redding	San José
<b>Aviation</b>	\$0.7 million in Grants-in-Aid for Airports funds used for improvements to extend the life of runway pavement and to re-paint runway markings to be in compliance with new safety standards.	\$20.9 million in Electronic Baggage Screening funds for the installation of a baggage screening system and about \$5.2 million in Grants-in-Aid for Airports funds for airport taxiway improvements.
<b>Highway</b>	\$3.2 million in Recovery Act Federal-Aid Highway Surface Transportation funds for the construction of a highway interchange, as well as pavement preservation throughout the city.	\$15.4 million in Recovery Act Federal-Aid Highway Surface Transportation funds to resurface 25 miles of arterial streets in the city.
<b>Water</b>	\$2.0 million from a Clean and Drinking Water State Revolving Fund grant for the construction of a wastewater treatment center.	\$6.5 million in U.S. Bureau of Reclamation Title XVI funds to support the construction of 15 miles of pipeline for recycled water.

Source: GAO analysis of information from the City of Redding and the City of San José.

## State and Local Entities Continue to Conduct Oversight Activities to Help Ensure Appropriate Accountability for Recovery Act Funds

State oversight entities in California continue their efforts to ensure appropriate uses of Recovery Act funds. The Task Force and the California Recovery Act Inspector General carry out their ongoing oversight responsibilities by regularly meeting with state departments and agencies receiving Recovery Act funds to ensure funds are efficiently and effectively spent, among other activities. For example, since our last report, the Task Force issued two more Recovery Act Bulletins to provide instructions and guidelines to state agencies receiving Recovery Act funds. Since May 2010, the California Recovery Act Inspector General published five reviews of Recovery Act funds received by four localities—subrecipients of funds administered by three different state agencies for three different Recovery Act programs—and one state department, the Department of Rehabilitation. The four subrecipient reviews were aimed at determining if these recipients properly accounted for and used Recovery Act funds in accordance to federal laws and requirements. Three of the reviews identified several issues, including inappropriate eligibility determinations, incorrectly reported job calculations, and ineligible expenditure charges, and the localities have taken steps to respond to these findings. There were no issues identified in the other two reviews.

As of August 18, 2010, the State Auditor’s role in overseeing Recovery Act funds has included testimony during five state and one federal legislative

committee hearings, issuance of the traditional Single Audit<sup>22</sup> report for state fiscal year 2008-2009, and issuance of nine interim reports or letters communicating early results of the Single Audit as part of an OMB project intended to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken more quickly. The Single Audit report for the year ending June 30, 2009, was the first Single Audit for California that included Recovery Act funds. The report identified 226 significant internal control deficiencies related to compliance with federal program requirements, of which 85 were classified as material weaknesses. Some of these material weaknesses and significant deficiencies occurred in programs that included Recovery Act funds.

Since our last report, the California State Auditor also followed up on interim report recommendations made to three state agencies—Cal EMA, CEC, and CSD—administering Recovery Act funds under the JAG, SEP, and Weatherization Assistance Program, respectively.<sup>23</sup> Our prior reports noted the State Auditor’s work in these areas, which covered issues such as the pace of spending and program monitoring and evaluation procedures. According to the State Auditor’s June 9, 2010 update on these programs, all three agencies made progress in response to the State Auditor’s recommendations, but some issues remain. Table 6 provides a summary of selected State Auditor comments and results of follow-up work on recommendations made to the three agencies. The State Auditor plans to continue to monitor these agencies and issue interim reports on their progress. Additionally, the State Auditor is also reviewing the reliability of California’s recipient reporting data for selected programs.

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<sup>22</sup>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 risks.

<sup>23</sup> California State Auditor, Bureau of State Audits, *California Emergency Management Agency: Despite Receiving \$136 Million in Recovery Act Funds in June 2009, It Only Recently Began Awarding These Funds and Lacks Plans to Monitor Their Use*, Letter Report 2009-119.4 (Sacramento, Calif.: May 4, 2010); California State Auditor, Bureau of State Audits, *California Energy Resources Conservation and Development Commission: It Is Not Fully Prepared to Award and Monitor Millions in Recovery Act Funds and Lacks Controls to Prevent Their Misuse*, Letter Report 2009-119.1 (Sacramento, Calif.: Dec. 1, 2009); California State Auditor, Bureau of State Audits, *Department of Community Services and Development: Delays by Federal and State Agencies Have Stalled the Weatherization Program and Improvements Are Needed to Properly Administer Recovery Act Funds*, Letter Report 2009-119.2 (Sacramento, Calif.: Feb. 2, 2010).

**Table 6: Selected California State Auditor Updates to Reviews of Three Recovery Act Programs, as of June 9, 2010**

Recovery Act program	Administering state agency	Selected State Auditor recommendations	Selected State Auditor comments and results of follow-up work
JAG	Cal EMA	Promptly execute subgrant agreements to localities. Identify the workload associated with monitoring subrecipients and the workload standards necessary to determine the number of program staff needed.	As of May 24, 2010, Cal EMA executed 214 subgrant agreements totaling \$118.9 million of the \$135 million administered by the state. Cal EMA provided the audit team three workload measurement tools; however, none provided convincing evidence of the number of program staff needed to administer the Recovery Act program.
SEP	CEC	Take the necessary steps to implement a system of internal controls adequate to provide assurance that Recovery Act funds will be used to meet the purposes of the Recovery Act.	CEC awarded a contract valued at \$4.1 million to provide performance evaluation and reporting capabilities to assist CEC in meeting its subrecipient monitoring and reporting responsibilities. While the contract contains specific tasks, it does not assign timelines to the tasks, without which CEC cannot be certain the benefits of the contract will be available in time to provide meaningful monitoring, evaluation, and verification of subrecipient performance.
Weatherization	CSD	Seek federal approval to amend its state plan for implementing the program.	CSD amended its state plan to reduce the number of homes it intends to weatherize. However, at the request of the Governor's Office DOE performed an assessment of CSD in March 2010 and informed CSD that it may need to weatherize 3,300 more homes if the average cost to weatherize each home remains low.

Source: GAO analysis of information provided by the California State Auditor.

With the exception of the San José Auditor, local auditors we met with have not yet conducted Recovery Act-specific audits. While some auditors told us that they planned to conduct Recovery Act-specific audits in the future, others stated that staffing limitations hindered their ability to conduct such audits on top of their normal workload. However, we met with officials from the Office of the San José City Auditor, which issued two Recovery Act reports to date. The first report, issued on June 18, 2009, focused on San José's readiness to receive Recovery Act funds and comply with Recovery Act requirements. The next report issued on November 12, 2009, reviewed San José's ability to comply with Recovery Act recipient reporting requirements and included the following observations:

- The San José City Manager's Office was not regularly updating all parts of the city's Recovery Act Web site to help ensure reporting transparency.

- While corrections to Recovery Act reports were being performed in accordance with federal guidance, the process for making corrections was not consistent.

According to officials from the San José Auditor's office, the city has taken actions to address the concerns raised in the report. In addition, the San José Auditor's office has proposed a third Recovery Act report to review the effect Recovery Act funds will have on local taxpayers.

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## California Reported over 83,000 Jobs in the Fourth Reporting Cycle and Continued to Make Improvements in the Reporting Process

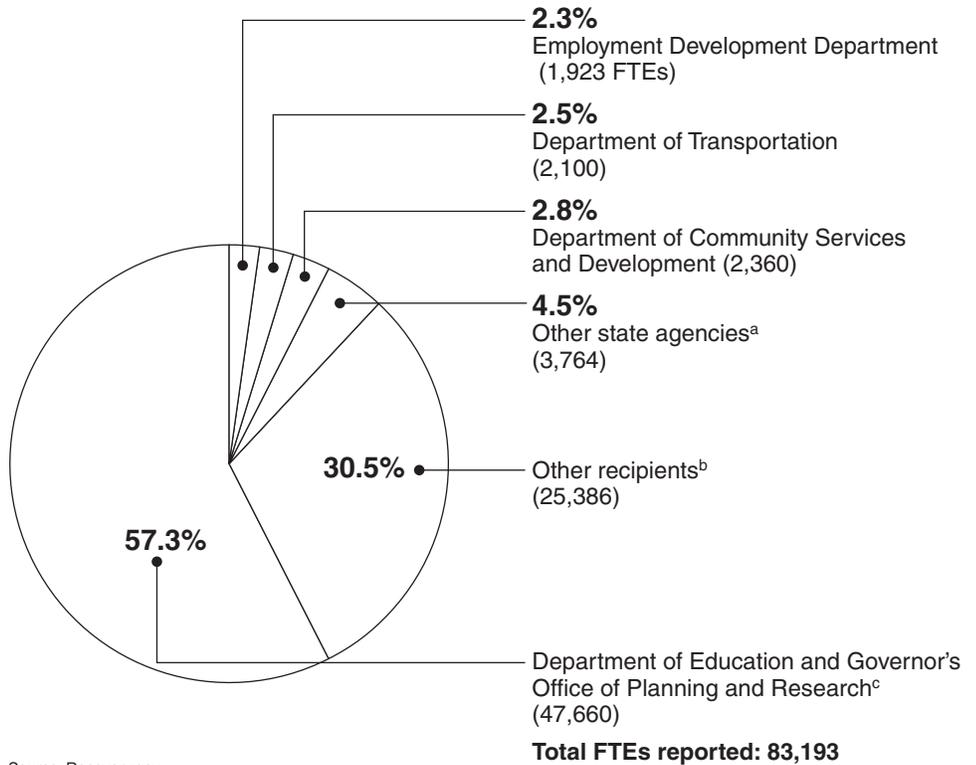
According to [Recovery.gov](http://Recovery.gov), as of July 31, 2010, California recipients reported funding 83,193 FTEs<sup>24</sup> with Recovery Act funds during the fourth quarter reporting period, which covers the period April 1, 2010, to June 30, 2010.<sup>25</sup> California recipients were awarded numerous new Recovery Act grants and expended more Recovery Act funds this quarter compared to last quarter, according to the Task Force. Through the Task Force's centralized reporting system for Recovery Act funds received through state agencies—the California ARRA Accountability Tool (CAAT), 35 California state agencies reported funding a total of about 57,807 FTEs during the fourth round of recipient reporting, or about 70 percent of the total reported for California. Other recipients that receive Recovery Act funds directly from federal agencies report through the national database, [FederalReporting.gov](http://FederalReporting.gov). Figure 7 provides further details on the number of FTEs reported for the fourth quarter of recipient reporting.

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<sup>24</sup>An FTE is a full-time equivalent, which is calculated as the total hours worked divided by the number of hours in a full-time schedule.

<sup>25</sup>Although the reporting deadline has passed, the nationwide data system, [FederalReporting.gov](http://FederalReporting.gov), was reopened for a period of correction—for the fourth reporting cycle the period is from August 2 through September 20, 2010.

**Figure 7: FTEs Reported by California Recipients of Recovery Act Funding for the quarter ending June 30, 2010, as of July 31, 2010**



Source: Recovery.gov.

Notes: Totals may not add to 100 percent due to rounding.

<sup>a</sup>Other state agencies include the CEC, Cal EMA, and the California Department of Public Health.

<sup>b</sup>Other recipients are those that received Recovery Act funding directly from federal agencies, such as local governments, transit agencies, and housing authorities.

<sup>c</sup>Estimates for the Department of Education and the Governor's Office of Planning and Research were combined because the Office of Planning and Research acts as the pass-through agency for education funds under the SFSF.

During the fourth round, Task Force officials took steps to ensure California recipients that do not directly report through the CAAT were accurately reporting FTEs and said that this round of recipient reporting went more smoothly than prior rounds for those state agencies that report directly through the CAAT. For example, the Task Force requested a list of California recipients that did not report the previous quarter. The Task Force sent these recipients letters to inform them of their status and provided them with input to improve reporting in future quarters. Additionally, the Task Force partnered with CDE to host a webinar for CDE's subrecipients on calculating and reporting FTEs on June 1, 2010,

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following the issuance of our May 2010 report in which we raised concerns about FTEs reported by CDE.

CDE also took steps to address recipient reporting concerns we raised in prior reports. In prior reports we highlighted concerns about underreporting of vendor FTEs by CDE subrecipients and the need for CDE to review the FTE information for reasonableness. CDE responded to these concerns by taking the following actions:

- In May 2010 CDE issued additional guidance to LEAs and other subrecipients on jobs reporting for vendors. Several LEAs we previously visited had believed that vendor FTEs were only reported for contracts over a \$25,000 threshold. The new guidance specifically noted that FTEs must be reported for all direct<sup>26</sup> vendor jobs irrespective of the total contract amount and noted that FTEs are to be reported as a separate data element.
- CDE spent more time reviewing the reports of the 10 largest LEAs during the last reporting period by performing a reasonableness check on all of their reports, as we recommended in our May 2010 report.

Overall, CDE officials were pleased with the recipient reporting results for the quarter and did not experience any major problems. CDE officials said that almost all of the LEAs that were required to report responded. CDE followed up with the LEAs that did not report and plans on updating its quarterly report at the end of the correction period.

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## State Comments on This Summary

We provided the Governor of California with a draft of this appendix on August 16, 2010. Representatives from the Governor's office agreed with our draft. We also provided various state agencies and local officials with the opportunity to comment. In general, they agreed with our draft and provided some clarifying and technical suggestions that were incorporated as appropriate.

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<sup>26</sup>Under OMB guidance, prime recipients are required to generate estimates of job impact by directly collecting specific data from subrecipients and vendors on jobs resulting from a subaward. To the maximum extent practicable, prime recipients are to collect information from all subrecipients and vendors in order to generate the most comprehensive and complete job impact numbers available. Job estimates on vendors are to be limited to direct job impacts and not include "indirect" or "induced" jobs. OMB, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, § 5.7 (Dec. 18, 2009), at 19.

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**Staff  
Acknowledgments**

In addition to the contact named above, Emily Eischen, Guillermo Gonzalez, Richard Griswold, Delwen Jones, Susan Lawless, Gail Luna, Heather MacLeod, Joshua Ormond, Emmy Rhine, Eddie Uyekawa, and Lacy Vong made major contributions to this report.

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# Appendix III: Colorado

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## Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of Colorado's spending under the American Recovery and Reinvestment Act of 2009 (Recovery Act).<sup>1</sup> 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>.

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## What We Did

Our work in Colorado included reviewing the state's use of Recovery Act funds and its experience reporting Recovery Act expenditures and results to federal agencies under Office of Management and Budget (OMB) guidance. We continued our review of the State Fiscal Stabilization Fund (SFSF) and added two new programs to our review—the State Energy Program and the Energy Efficiency and Conservation Block Grant (EECBG) program, both managed by the Department of Energy (DOE). For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#). In addition to reviewing state programs, interviewing state officials, and examining documents for these programs, we continued our visits to local governments to better understand their use of and controls over Recovery Act funds. All regions of Colorado are experiencing economic stress. We chose to visit two local governments that had received an EECBG grant on the basis of each locality's size, location, and unemployment rate. Specifically, we selected the City of Colorado Springs, the second largest city in Colorado, which has an unemployment rate of 8.9 percent, higher than the state's average of 8.3 percent. We also selected Weld County, a rural county in northern Colorado, which has an unemployment rate of 9.6 percent. Furthermore, we asked state and local accountability organizations about their efforts to audit and review Recovery Act programs in the state.

During this round, we also followed up on contracts that we selected and reviewed in previous rounds and spoke to officials about whether there were cost or schedule changes and whether there were any contractor performance issues.<sup>2</sup> We selected 13 contracts on the basis of the state programs we have reviewed and reported on previously and the contract's dollar value. We interviewed contract administrators for several state

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

<sup>2</sup>GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Colorado)*, [GAO-09-1017SP](#) (Washington, D.C.: Sept. 23, 2009).

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agencies, including the Colorado Department of Transportation (CDOT), the Governor's Energy Office (GEO), three water utilities that provide drinking water and wastewater services, two transit authorities, and two housing authorities.

In addition, we continued our efforts to understand state and local entities' reporting on Recovery Act funds. Under the Recovery Act and OMB's related guidance, recipients are required to report to [FederalReporting.gov](http://FederalReporting.gov) on the number of full-time equivalent (FTE) positions paid for with Recovery Act funds. We reviewed FTEs reported by the Colorado Department of Education (CDE) for certain education programs; the Colorado Water Resources and Power Development Authority (Authority), the Colorado Department of Public Health and Environment (CDPHE), and the Department of Local Affairs (DOLA) for Clean Water and Drinking Water State Revolving Funds (SRF); the Governor's office for SFSF funds; and GEO, Weld County, and Colorado Springs for the energy programs.

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## What We Found

**State Fiscal Stabilization Fund.** During fiscal year 2011, Colorado plans to use \$89.2 million—the remainder of the \$621.9 million of SFSF education stabilization funds allocated to it—to support higher education. However, the level of support provided will be significantly diminished, given the lessened amount of SFSF funds remaining. Overall, the amount of state spending on higher education will be reduced for the first time in 3 years. The state also has \$6.2 million that remain unallocated of the \$138.3 million of SFSF government services funds it received. As of August 15, 2010, the state had not determined how it will spend these remaining funds. Since our last report, the state has continued to refine its plan for monitoring the use of SFSF funds and plans to have its first round of monitoring completed in mid-October 2010. It has also received additional federal funding to improve its data systems to track key SFSF data.

**State Energy Program.** Colorado received \$49 million in State Energy Program funds to spend in 3 years—a significant infusion that increased the state's annual funding for that program, which totaled only \$1.5 million in 2009. GEO is using the funds to remove financing, information, and access barriers to the deployment of energy efficiency and renewable energy across the state and develop a sustainable infrastructure to support the renewable and energy efficiency industry in Colorado, which the Governor calls the "New Energy Economy." More than a year after receiving its Recovery Act award, Colorado had obligated more than 80 percent of its funds to pay for various energy efficiency and renewable energy activities and had spent nearly 20 percent of its funds, but had not

yet reported energy savings because these projects have only begun to be implemented. The state has supplemented existing program controls to oversee the use of these funds.

**Energy Efficiency and Conservation Block Grant.** In addition to State Energy Program funds, DOE awarded almost \$43 million in EECBG funds directly to state and local governments, as well as Native American tribes, in Colorado for them to develop and implement projects to improve energy efficiency and reduce energy use and fossil fuel emissions in their communities. The three recipients we reviewed—GEO, Colorado Springs, and Weld County—varied in the amount of funds they had obligated as of August 15, 2010, yet all expect to meet their deadlines for obligating and spending funds. The state has modified existing controls from other energy programs to provide internal controls over EECBG funds, but local recipients reported startup problems, such as interpreting a large amount of guidance from multiple sources, that still need resolution with DOE. While it is too early to know the long-term energy benefits of the program, GEO and the local recipients have started to report jobs information.

**Contracting.** State and local entities in Colorado have awarded a number of contracts under the Recovery Act for a variety of programs, including transportation, housing, weatherization, and drinking water and wastewater management. Of the 13 contracts we reviewed, which had a total value of about \$61.4 million, contract oversight officials said that 7 have experienced a change in either cost or schedule. In some instances, the contract changes were the result of savings from lower than anticipated contract costs or the receipt of additional Recovery Act funds. Two of these 7 contracts also experienced issues with contractor performance. The remaining 6 contracts, according to officials, did not have changes or performance issues.

**State and local budgets.** The state expects to use about \$400 million in Recovery Act funds—specifically the increased Federal Medical Assistance Percentage (FMAP) and SFSF funds—to help offset continued cuts to its fiscal year 2011 budget. However, these remaining funds are significantly less than the \$800 million in Recovery Act funds the state applied to its budget in fiscal year 2010, which also included funding for the state Department of Corrections. For the two local governments we visited—Weld County and the City of Colorado Springs—the Recovery Act funds they received did not help balance their budgets, but will help them maintain some services and complete needed projects. For example, although Colorado Springs cut \$90 million from its budgets beginning in

fiscal year 2008, Recovery Act funds allowed the city to maintain service on bus routes in 2010 that it otherwise would have cut.

**Recipient reporting.** According to state officials, the state's central reporting process worked smoothly during the fourth round of Recovery Act reporting, covering April 1, 2010, through June 30, 2010, although our work reviewing recipient reports indicates the need for a corrections process. Colorado recipients, including agencies that reported centrally and local entities that reported directly, reported a total of about 17,790 FTEs funded by the Recovery Act for the fourth reporting period.<sup>3</sup> The state's FTEs increased by more than 7,530 over the previous period largely because of an influx of \$205 million in SFSF phase II funding in April 2010. Because of a change to reporting guidance and because funding was received late in the year, the state did not report all FTEs associated with SFSF phase II funds in the fourth period. As a result, the state will need to adjust FTEs it reported in the January through March 2010 reporting period. In addition, through our review of recipient reports, we found that data quality is still a concern at some other state agencies and local entities, also demonstrating the need for a corrections process.

**Accountability.** The Colorado audit community is continuing to conduct reviews of Recovery Act projects and uses of funds, both as part of larger reviews and as specific program audits. Specifically, Colorado auditors have issued 13 audit reports and 2 non-audit services that contained findings related to Recovery Act programs, an increase of 6 reports since we last reported in May 2010.<sup>4</sup> The reports include findings aimed at improving management of Recovery Act funds. For example, independent auditors found that the City of Fort Collins paid about \$684,000 to two subrecipients under its federal transit grants, which included a Recovery Act grant, without checking whether or not the subrecipients had been suspended or debarred from participation in federal programs. In response to the finding, the city has established a process to check a federal database of excluded parties before issuing any purchase orders for projects containing federal funding.

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<sup>3</sup>FTE data are as of August 11, 2010, unless otherwise indicated.

<sup>4</sup>GAO, *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Colorado)*, [GAO-10-605SP](#) (Washington, D.C.: May 26, 2010).

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## State Draws Down Remaining State Fiscal Stabilization Fund Monies and Is Moving Forward with Monitoring Plan and Data System

During fiscal year 2011, Colorado plans to distribute the remainder of its SFSF education stabilization funds to support higher education, although the level of support provided will be significantly diminished and overall spending on higher education will be reduced for the first time in 3 years. The remaining \$89.2 million of education stabilization funds is only a fraction of the funds provided in the last 2 fiscal years to the state's institutions of higher education (IHE), which prompted the state to appropriate more general fund support to higher education than the year before. In addition, as of August 15, 2010, the state had allocated \$1.6 million of government services funds to two projects in fiscal year 2011 and had \$6.2 million unallocated—the state had not determined how it will spend these remaining funds. Since our last report, the state has continued to refine its plan for monitoring the use of SFSF funds and plans to have its first round of monitoring completed by mid-October 2010. The state also received federal grant funding to develop a new data collection and reporting system that will enable it to more efficiently gather key education data required under the SFSF grant.

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## Colorado Plans to Use Most of the Remaining SFSF Funds for Higher Education in Fiscal Year 2011

The Recovery Act provided Colorado with a total allocation of \$760.2 million in SFSF funds. Of this, \$621.9 million was designated as education stabilization funds and \$138.3 million as government services funds. As we have previously reported, Colorado is providing all of the education stabilization funds to its IHEs and has used nearly all of the government services funds for the state Department of Corrections.<sup>5</sup> The state originally planned to distribute its education stabilization funds for higher education evenly across fiscal years 2009 through 2011. However, because of shortfalls in the state's fiscal year 2010 revenue projections, the state shifted \$61.3 million of SFSF funds for higher education originally planned for 2011 to fiscal year 2010. In addition, the state reallocated \$170.0 million in SFSF funds originally slated for K-12 to higher education for fiscal year 2010.<sup>6</sup> As a result, the state allocated \$150.7 million of SFSF funds in fiscal

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<sup>5</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Colorado)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

<sup>6</sup>The focus on using Recovery Act funds for higher education is a result of the state's constitutional requirement to maintain its level of funding for K-12 programs, according to officials. According to a state legislative study, in 2000, Colorado voters approved a measure to increase education spending in the state; this amendment directed a portion of state tax revenues to the State Education Fund through fiscal year 2011. The amendment requires an annual increase in per-pupil funding and requires the state general fund appropriation for state aid to schools to increase by 5 percent per year, unless state personal income increased by less than 4.5 percent during the previous year.

year 2009 and \$382.0 million in fiscal year 2010 to the IHEs, which, according to officials, spent it largely on faculty costs. The balance of the education stabilization funds remaining for use in fiscal year 2011 is \$89.2 million. For the period covering April 1, 2010, through June 30, 2010, IHEs reported more than 8,830 FTEs funded with SFSF funds.

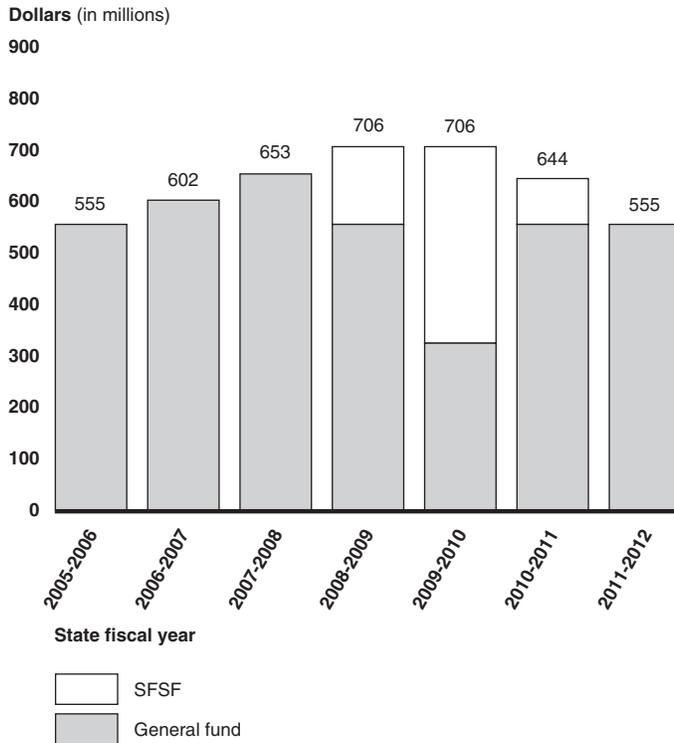
One of the conditions of receiving SFSF funds is that the state is to maintain its level of spending on education at least at the level of fiscal year 2006 funding in each of fiscal years 2009 through 2011 or receive a waiver of this maintenance-of-effort requirement.<sup>7</sup> Because Colorado reduced state support for higher education in fiscal year 2010 below fiscal year 2006 levels, it requested a waiver for that year. According to state officials, as of August 15, 2010, the state had not received final approval of the waiver from the U.S. Department of Education (Education). State officials said that Education is waiting to assess whether Colorado's actual revenues for fiscal year 2010 match the estimated amounts in the waiver before making a final determination. State officials said they believe the actual revenues and expenditures will be close to the estimates in part because the state's June 2010 revenue forecast did not represent an improvement in expected revenue. The state plans to submit its actual revenue data to Education after the September revenue forecast is published. For fiscal year 2011, state officials said they are not anticipating the need to file a waiver request because the state has increased its contribution from the general fund to the \$555.3 million necessary to meet the maintenance-of-effort provision. However, the final decision hinges on the state's ability to maintain this level of IHE funding in the face of potential statewide budget balancing efforts.

Although the state plans to provide more state funding to IHEs in fiscal year 2011 than fiscal year 2010, the decline in SFSF funds in 2011 will contribute to an overall reduction of about \$62 million in state higher education funding (from about \$706 million to \$644 million), as compared to funding levels for the previous 2 fiscal years. As shown in figure 1, this is the first reduction in the state's higher education budget since the enactment of the Recovery Act.

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<sup>7</sup>To receive a waiver from the maintenance-of-effort requirement, a state has to show that its share of education spending as a percentage of total state revenues is equal to or greater than that of the previous year.

**Figure 1: IHE Funding from SFSF and State General Fund for Fiscal Years 2006 through 2012**



Source: GAO analysis of state data.

Note: Dollars have not been adjusted for inflation.

According to state officials, the IHEs were expected to budget accordingly to accommodate the reduction in funds. Officials we spoke with at the University of Colorado said since they have known about this coming reduction for a few years, they have had sufficient time to plan to reduce costs. For example, they are taking budget balancing actions totaling \$51 million over 2 years, including eliminating 148 filled positions and reducing operating costs. In addition, according to state officials, Colorado enacted a law in June 2010 allowing the IHEs to increase their annual tuition by up to 9 percent to help compensate for reductions in state and federal funds.

Colorado allocated about 94 percent of the \$138.3 million the state received in SFSF government services funds for fiscal years 2009 and 2010. While the Department of Corrections was the largest recipient of these funds in previous years, the loss of SFSF funds is not expected to affect the department’s budget for fiscal year 2011 because, according to state

officials, it has been funded for this fiscal year from the state's general fund. For fiscal year 2011, the state allocated \$1.5 million to help hire teachers under the Teach for America program, \$120,000 for a Historical Society capital project, and, as of August 15, 2010, had approximately \$6.2 million unallocated. According to a senior state budget official, the state plans to spend these funds by September 2011.

In addition, the state has reserved \$2.7 million of its government services funds to cover costs associated with oversight and administration of the Recovery Act. OMB guidance allowed states to recover costs related to such central administrative activities to manage Recovery Act programs and funds.<sup>8</sup> As of July 13, 2010, the state had collected approximately \$3.6 million of the total \$4.7 million calculated as its statewide indirect costs over 3 years, an increase of \$1.4 million in funds collected since we reported in May 2010.<sup>9</sup> According to state officials, they believe they will successfully collect the remaining \$1.1 million from Recovery Act grants over the next 2 fiscal years, which may allow the state to use these government services funds for other program needs through September 2011.

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### State Is Making Progress on Its SFSF Monitoring Plan and Has Received Funding for Improving Its Data System to Gather Key Education Data

The Governor's office has made progress in developing the required monitoring plan for SFSF funds. States receiving SFSF funds were required as part of their application to comply with Education regulations, including the requirement that they monitor grant and subgrant supported activities.<sup>10</sup> As we previously reported, the office submitted its proposed plan to Education in March 2010. Since that time, state officials explained they have consulted with other states, gathering monitoring best practices to implement in Colorado. The Governor's office is working with a local consulting firm to perform initial sampling and planning, which will allow the state to determine the scope and cost of the monitoring efforts. The consulting firm will also aid the Governor's office in determining the appropriate level of monitoring necessary for each subrecipient—this will

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<sup>8</sup>OMB, *Payments to State Grantees for Administrative Costs of Recovery Act Activities*, M-09-18 (Washington, D.C.: May 11, 2009).

<sup>9</sup>The state's supplemental statewide indirect cost allocation plan estimated that the state would need \$6.3 million over 3 years. This includes \$4.7 million in statewide indirect costs and \$1.6 million to pay for direct billed services such as audits by the Office of the State Auditor.

<sup>10</sup>34 C.F.R. § 80.40(a).

likely be based on a combination of dollars received as well as an assessment of operational risk and past compliance. The monitoring itself is expected to include desk and on-site reviews of recipients, depending on the level of monitoring. Officials said that, at a minimum, they plan on completing the reviews and corrective action plans for all schools deemed medium- and high-risk by October 18, 2010, the scheduled date of a review of the state's efforts by Education.

The state has also made progress toward another SFSF requirement, the need to collect specific indicators and descriptors showing that the state is making progress on education reforms in four areas. In our May report, we noted that the state's ability to more efficiently collect the indicators and descriptors hinged on the receipt of additional federal funding. Since that report, CDE received a \$17.4 million Recovery Act Statewide Longitudinal Data Systems grant from Education. According to CDE officials, it will use most of the grant to develop a new data collection system, which is designed to allow more efficient collection of state data, including the SFSF indicators and descriptors data. CDE plans to use a small portion of the grant to cover most of the remaining funding needed to collect specific data on two of the indicators and descriptors.

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## Colorado Plans to Use State Energy Program Funds to Further the Development of Energy Efficiency and Renewable Energy across the State

With Recovery Act funds provided for the State Energy Program, DOE will disburse \$3.1 billion to states to fund energy efficiency and renewable energy activities such as expanding states' existing energy efficiency programs and renewable energy projects. Colorado received \$49 million in State Energy Program funds to spend over 3 years—a significant infusion that increased the state's annual funding for that program, which received a total of \$1.5 million in 2009. The Governor's Energy Office is managing the use of these funds in the state. GEO plans to use the funds to remove financing, information, and access barriers to the deployment of energy efficiency and renewable energy across the state and develop a sustainable infrastructure to support the renewable energy and energy efficiency industry in Colorado, which the Governor calls the "New Energy Economy." States have 18 months from the date they receive their award to obligate the full award amount and 36 months from the same date to spend the full award amount. Further, states that receive Recovery Act funding are required to report quarterly to [FederalReporting.gov](http://FederalReporting.gov) on their use of funds and number of FTEs paid for with Recovery Act funds and, in addition, either monthly or quarterly to DOE on a number of items, including hours worked, expenditures, and certain performance metrics such as energy saved.

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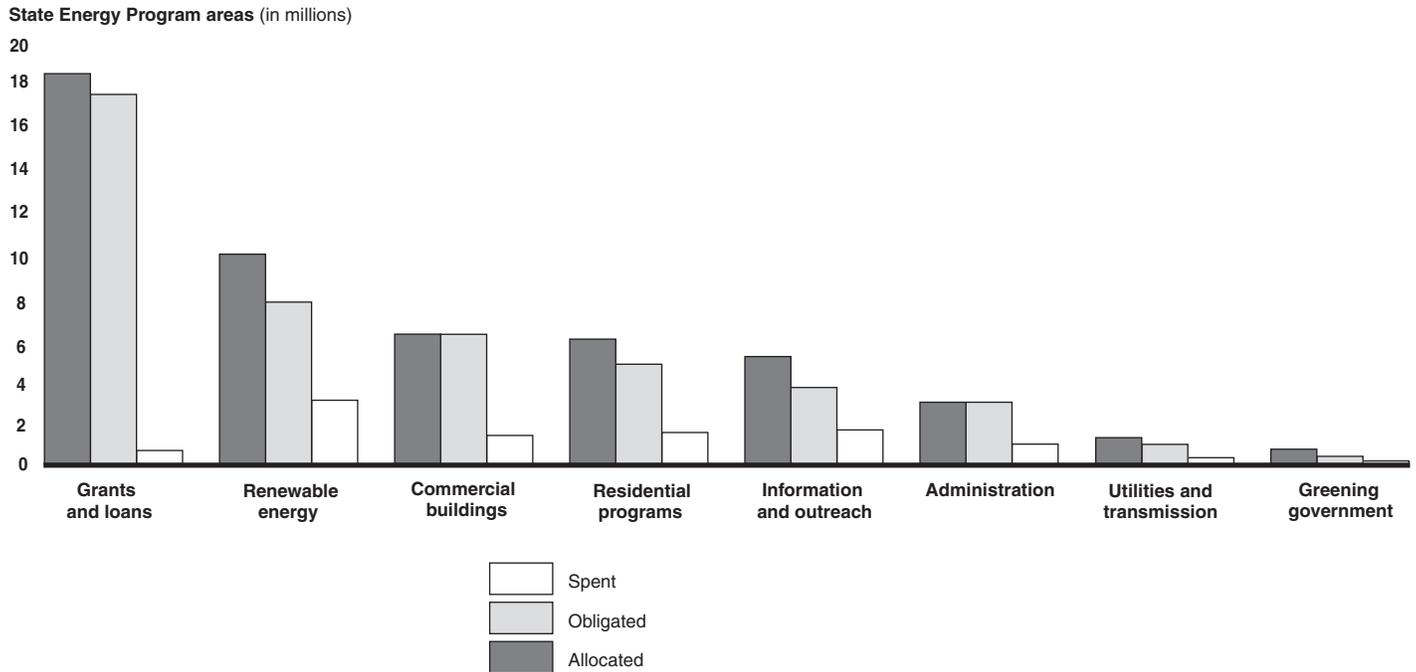
**Colorado Has Obligated Most of Its State Energy Program Recovery Act Funds and Has Started to Spend Them in Key Program Areas**

GEO has allocated its State Energy Program Recovery Act funding to be used in eight areas. More than a year after receiving its Recovery Act award, Colorado has obligated more than 80 percent of its State Energy Program funds to pay for various energy efficiency and renewable energy activities, and has spent nearly 20 percent of these funds.<sup>11</sup> Figure 2 illustrates the amounts of funds GEO allocated, obligated, and spent as of August 15, 2010, by area, including: (1) capital investment grants and revolving loans; (2) renewable energy development and expansion; (3) commercial building programs; (4) residential programs; (5) information and outreach; (6) administration; (7) utilities and transmission; and (8) greening government.

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<sup>11</sup>We use the term allocated to mean that the state designated funding to particular program areas; obligated to mean that the state entered into a binding agreement or otherwise committed the funds; and spent to mean that the state expended funds by making payments.

**Figure 2: GEO’s State Energy Program Recovery Act Amounts Allocated, Obligated, and Spent as of August 15, 2010 (Dollars in millions)**



Source: GAO analysis of GEO data.

Since it received State Energy Program Recovery Act funding, GEO officials have been planning to expand existing programs and coordinating different energy incentives in the state. GEO’s plans in these eight areas include the following:

- GEO plans to use the largest piece of the State Energy Program award—\$18 million—to provide capital for businesses and consumers to invest in energy efficiency and renewable energy projects. For example, GEO plans to develop a revolving fund to provide banks low-cost capital for loans for renewable energy and efficiency projects such as on-site renewable energy systems and energy efficiency retrofits.
- GEO will provide \$9.7 million in incentives for investments in solar, wind, and other renewable energy technologies for homes and businesses. This funding will be used for several types of rebates, including commercial investments in solar energy systems. Because the state already has a significant utility-backed solar rebate program,

GEO officials said they focused their residential rebate program on customers earning less than the national adjusted mean income.

- GEO plans to use \$6 million to encourage energy efficiency in new and existing commercial buildings. For example, GEO pre-approved 13 energy service companies to provide energy performance contracting, which, according to officials, involves contracting for energy retrofits that are then repaid through utility savings. GEO will also provide help to state and local agencies that want to reduce their energy and carbon emissions using energy performance contracts and technical assistance, workshops, and trainings for construction of new energy efficient public buildings.
- GEO plans to use \$5.8 million of its State Energy Program funds to improve the energy efficiency of new and existing homes. First, GEO officials will work with counties to adopt and enforce energy codes that increase the efficiency of new and existing homes. Second, GEO officials will educate and work with cities, counties, utilities, and home builders to build more efficient Energy Star-rated new homes.<sup>12</sup> Finally, GEO will expand its current “Insulate Colorado” program for existing homes to provide duct sealing, furnace replacement, air sealing, and lighting and appliance replacement.
- GEO’s Information and Outreach program aims to spend \$5 million on providing simple and accurate information to the public through a telephone hot line, direct outreach to consumers, and a Web site. Under this set of activities, GEO is setting up a separate Web site to facilitate its rebate efforts as well.
- GEO will use nearly \$2.9 million to pay for administrative costs of managing the program. DOE allows for a prudent and reasonable amount of Recovery Act funds to be used for administrative costs.
- The state plans to use more than \$1.2 million working with the state’s utilities and others to promote the goals of the Governor’s Climate Action Plan to reduce carbon dioxide emissions by 20 percent from electric utilities, transportation, and industry sources. GEO will work

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<sup>12</sup>To earn the Energy Star rating, a home must meet strict guidelines for energy efficiency set by the U.S. Environmental Protection Agency. These homes are at least 15 percent more energy efficient than homes built to the 2004 International Residential Code and include additional energy-saving features that typically make them 20 to 30 percent more efficient than standard homes.

to align utility rate structures with the plan's objectives to manage energy demand and increase use of renewable sources.

- Finally, GEO plans to use about \$712,000 to help state agencies to “green” government by reducing their use of petroleum products, energy, paper, and water, among other things. Ways to do this include energy performance contracting with energy service companies, improving the fuel efficiency of state vehicles, and using environmental purchasing policies.

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### State Has Supplemented Existing Controls over State Energy Program Funds and Is Adding a Contractor to Measure and Verify Results

According to GEO officials, GEO is using its already-existing controls to oversee the use of its State Energy Program funds and, in some cases, has created new controls specific to the requirements of the Recovery Act. Specifically, officials told us GEO awards funds through its existing contracting or grant processes, which involve a formal announcement of the request for applications or proposals and multiple levels of internal review before recipients are selected. Some of the funding is awarded through contracts between GEO and vendors. While these contracts are issued through the state's procurement process using existing controls, according to officials, the controls have been modified to incorporate the requirements of the act, including Davis-Bacon and Buy American provisions. GEO plans to monitor the monthly progress of its contracts after they are in place. This monitoring work will be conducted by GEO staff who will contact vendors directly. In addition, vendors will provide required documentation for reporting purposes, including the number of hours worked on Recovery Act activities and expenditures.

In addition, GEO has implemented two new controls over particular aspects of its State Energy Program. First, because it was concerned about the significant increase in the number of rebates it expected to issue under the Recovery Act and the potential increase in fraudulent claims, GEO instituted a new control over its rebate programs. The state has 18 rebate programs, such as furnace rebates, residential solar rebates, and commercial wind rebates, and multiple funding sources in addition to Recovery Act funds. GEO selected a contractor to manage the increased rebate volume and to verify that applicants satisfy all rebate requirements before awarding the rebate checks. The contractor, which GEO selected in part because of its proposed internal controls, has developed certain controls over rebate claims, such as the automatic calculation of rebate amounts based on program rules and automatic identification of different state funding sources. The contractor also provides GEO with online access to claims and regular reports on issued rebate checks.

Second, GEO plans to use a contractor to measure and verify the results of the different GEO programs being paid for with Recovery Act funds, including the State Energy Program and other programs such as appliance rebates and EECBG. Measurement and verification involves the field verification of energy conservation measures and renewable energy installations, and also involves quantifying energy savings from these projects. GEO plans to use the information gathered to report to DOE on specific performance metrics, such as energy saved. In July 2010, GEO issued a request for proposals for these services because, according to GEO officials, the significant increase in the size of the programs makes oversight by GEO's program managers insufficient. GEO expects the initial period of measurement and verification to be completed by December 31, 2011, with an option to extend the contract.

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### GEO Plans to Save Energy from State Energy Program Activities, but Has Not Yet Reported Savings

After its State Energy Program activities are implemented, GEO officials stated they expect to save 366 billion British thermal units (Btu) of energy annually and to have paid for about 470 jobs, but as of June 30, 2010, the state had not reported energy savings achieved.<sup>13</sup> The state has been responsible for reporting this metric, plus energy cost savings, jobs created and retained, and other metrics such as obligations and outlays on a monthly and quarterly basis to DOE using DOE's Performance and Accountability for Grants in Energy system. However, DOE reduced reporting requirements for State Energy Program grantees in August 2010, including limiting monthly reporting to outlays. Obligations and the other performance and accountability metrics will still be reported quarterly. As of June 30, 2010, GEO reported 19,812 hours worked but did not report energy savings because, according to officials, it was too early for the projects to produce savings.

In addition to this performance reporting to DOE, GEO has reported FTE data quarterly to [FederalReporting.gov](http://FederalReporting.gov), as required by OMB's Recovery Act reporting guidance, since such reporting began. For the past three quarters, GEO reported about 30 FTEs per quarter. The state has implemented a process to report FTEs that involves program managers gathering and reporting hours from the subrecipients and vendors and reporting this to one key person who then performs the calculation to convert hours to FTEs. This person works with the program managers to

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<sup>13</sup>A Btu is the quantity of heat needed to increase the temperature of 1 pound of water by 1 degree Fahrenheit.

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gather their internally worked hours and convert these to FTEs as well. According to GEO officials, reporting for the quarter ending June 30, 2010, went smoothly.

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## Energy Efficiency and Conservation Block Grant Projects Are Underway at the State and Local Levels

In addition to providing funds for the State Energy Program, the Recovery Act also appropriated \$3.2 billion for DOE to fund, for the first time, the EECBG program. While the program has objectives that are similar to those of the State Energy Program—to reduce fossil fuel emissions and energy use and improve energy efficiency—the funding approach is different. With the EECBG program, DOE is distributing EECBG funds to state and local governments, as well as Native American tribes, for them to develop and implement projects to improve energy efficiency and reduce energy use in their communities. DOE is providing the majority of funds directly to two types of recipients: (1) communities eligible to receive a direct EECBG formula award—for example, cities with populations 35,000 or greater, counties with populations greater than 200,000, or the 10 cities and counties in a state with the highest population count—and (2) states, with the requirement that at least 60 percent of the funds be distributed to those communities that are not eligible to receive a direct formula grant from DOE.<sup>14</sup> In Colorado, DOE awarded \$9.6 million to the state through GEO and 32 grants worth \$33 million directly to eligible communities in the state, which included 20 cities, 10 counties, and 2 Native American tribes. We reviewed the \$9.6 million grant to GEO and two direct grants made to the City of Colorado Springs and Weld County.

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## After Initial Groundwork, Most of GEO's Energy Efficiency and Conservation Projects Have Begun

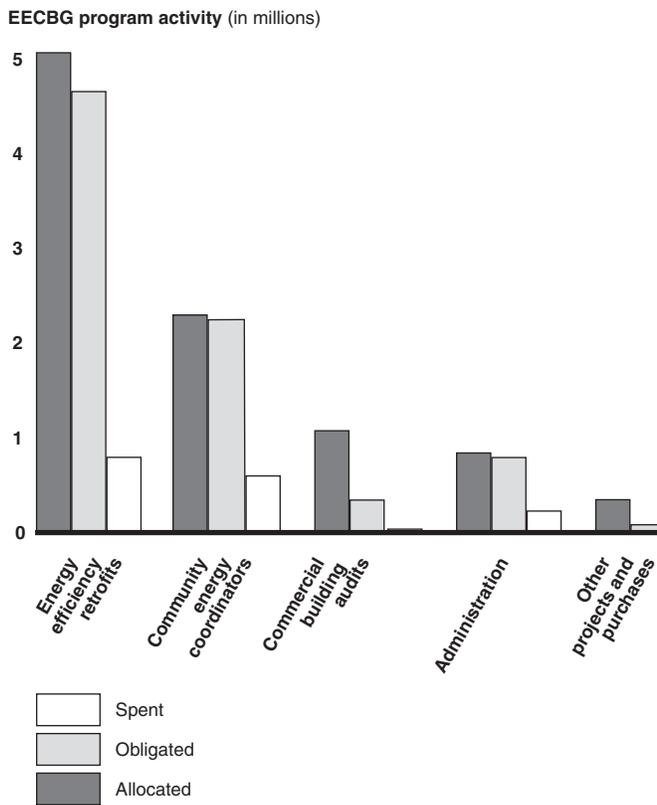
As of August 2010, the state's EECBG grant had been awarded and almost fully obligated, but as with the State Energy Program, the state had just begun spending EECBG funds and had not yet reported energy savings related to the EECBG activities. Under DOE's guidelines for the EECBG funds, states were required to develop an energy strategy designating the funds for particular program areas and, once the award was approved, to obligate and spend the awarded funds in 18 months and 36 months, respectively. DOE approved GEO's strategy for using its \$9.6 million in EECBG funding and awarded the funds to the office on September 30, 2009. As of August 15, 2010, GEO had obligated about \$8.1 million, or 84 percent, of the funds and spent about \$1.6 million. GEO officials told us

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<sup>14</sup>Of the total \$3.2 billion, up to \$456 million is to be awarded on a competitive basis to grant applicants of any population size, while the rest was distributed as formula grants.

that GEO expects to have fully obligated the funds before its March 2011 deadline. Figure 3 shows the amounts GEO allocated, obligated, and spent as of August 15, 2010, for each of GEO’s energy efficiency and conservation program areas.<sup>15</sup>

**Figure 3: GEO’s EECBG Amounts Allocated, Obligated, and Spent as of August 15, 2010 (Dollars in millions)**



Source: GAO analysis of GEO data.

According to GEO officials, the office was given significant flexibility within the DOE approved program areas to designate how to spend its EECBG funds. As such, GEO plans to distribute \$7.3 million, or 75 percent, of its total award to those communities across the state not eligible to

<sup>15</sup>As with the State Energy Program, we use the term allocated to refer to funds that the state designated to programs areas; obligated to mean that the state entered into a binding agreement or otherwise committed the funds; and spent to refer to funds that have been paid.

receive a direct formula grant from DOE with the overall goal of providing rural communities with access to new energy and economic opportunities. GEO's planned uses of the EECEBG funds are primarily focused in the following program areas:

- **Energy efficiency retrofits.** The largest portion of GEO's EECEBG funding is \$5.1 million slated for counties and local communities to spend on energy efficiency retrofits of residential and public buildings, including energy audits, and renewable energy rebates for residences and businesses installing on-site renewable technologies such as solar or wind. According to GEO, the renewable energy rebates will be limited to consumers who have substituted a renewable energy resource for a traditional energy source, such as propane, thereby improving their building's energy efficiency. For example, GEO plans to offer a \$400 rebate for the purchase and installation of a biomass burning stove that meets certain thermal efficiency requirements and will offer rebates for various solar or wind projects as well. The rebate program will be managed by the same contractor that is managing the state's 18 rebate programs. Similar to its State Energy Program funds, GEO has apportioned EECEBG program funds across several different rebate programs: energy audits, insulation and air sealing, duct sealing, high efficiency furnaces and boilers, commercial solar photovoltaic and thermal projects, and commercial wind projects. The contractor then selects the correct funding source for claims that are submitted, following GEO's program rules for each rebate. According to state officials, the large increase in funds available for rebates can be effectively applied because of the large number of people across the state interested in rebates.
- **Community Energy Coordinators.** GEO plans to spend about \$2.3 million of EECEBG funds on 18 Community Energy Coordinators who will work to create economic growth and build local capacity for energy efficiency and conservation measures throughout the state, specifically in those communities that were not eligible to receive an EECEBG grant directly from DOE. According to GEO officials, GEO has invested a significant amount of upfront work in establishing these community coordinator positions. Among other responsibilities, the coordinators are to: (1) develop an energy efficiency and conservation strategy for those communities not eligible to receive a direct formula grant from DOE; (2) deliver one clean energy training or outreach event each calendar quarter; (3) work with local utility providers and GEO to develop clean energy goals; (4) develop a plan to upgrade residential and commercial building energy codes by February 2017; and (5) help to develop plans to conserve materials and water in their

communities. As of August 2010, GEO had selected all 18 coordinators, who had begun working with their communities on these activities.

- **Commercial building audits.** GEO plans to spend about \$1.1 million to conduct the initial work necessary to improve the energy efficiency of businesses such as those found in a community’s “Main Street” area, or businesses located in older buildings, through funding energy audits of these buildings. GEO technical consultants will work with Community Energy Coordinators, business district representatives, and other partners to create a plan that identifies ways in which each business can reduce energy consumption and business operating costs. The business or building owner can then make more informed decisions about retrofitting the building and potentially collaborate with other state or local community development programs to obtain funding for the retrofit.
- **Administration and monitoring.** GEO has dedicated about \$834,000 for project administration and monitoring. These funds will be used to pay the salaries and expenses of the GEO officials who are administering the program, process rebates, and pay a contractor GEO plans to hire to verify work performed under the EECEBG program.
- **Direct purchases for select projects.** GEO plans to spend the remaining \$340,000 of EECEBG funds on a variety of projects to diversify its portfolio of projects. Specifically, GEO is awarding competitive grants for solar installations at municipal and county-owned buildings, an on-site recycling project at a correctional facility, and the purchase of high-efficiency street lights in those communities not eligible to receive a formula grant from DOE.

GEO spent the early months after receiving its EECEBG award developing and coordinating local energy programs with state objectives. According to officials, GEO decided to hold off on issuing any requests for proposals because DOE guidance on National Environmental Policy Act and National Historic Preservation Act requirements was in flux during the initial months after DOE approved GEO’s energy efficiency and conservation plan. Meanwhile, GEO established the Community Energy Coordinator positions and conducted a “listening tour” throughout the state to gather information on what types of EECEBG projects would be most beneficial to localities. Using this input, GEO selected a diverse set of activities within its program areas.

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**GEO Has Modified Existing Controls from Other Programs to Oversee EECEBG Funds and Is Adding Procedures for Measuring and Verifying Results**

To provide internal controls over EECEBG funds, GEO modified controls it uses for its existing programs. For example, according to GEO officials, the office follows federal and state rules for reimbursing subrecipients and vendors and has added a control requiring that three people—the program manager, controller, and deputy director—review every invoice before payment of EECEBG funds is approved. Officials further stated that they oversee all subrecipients through direct communications, scheduled reviews, and monthly and final reports. For example, GEO reviews monthly reports prepared by the subrecipients to ensure that deliverables are on schedule and on budget. GEO also conducts formal quarterly reviews of the Community Energy Coordinators. During the review, the program manager and GEO’s regional representative meet with the coordinator to assess progress and performance, including the coordinator’s ability to meet deadlines, level of engagement in the community, quality and completeness of the energy efficiency and conservation strategy, and level of energy efficiency and renewable energy projects implemented. In addition, GEO engineers evaluate the reasonableness of costs (hourly rates and hours worked) and deliverables that are shown in reports prepared by the Community Energy Coordinators.

As with the State Energy Program, GEO is adding procedures to verify work performed under the EECEBG program. Specifically, GEO expects the measurement and verification contractor will verify energy savings and examine the physical energy efficiency and conservation work performed under the EECEBG award.

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**It Is Too Early to Know Long-Term Energy Benefits of EECEBG but GEO Is Starting to Report Jobs**

GEO estimated that it could save 770 billion Btu annually—assuming identified efficiency improvements are implemented—and pay for about 100 jobs with EECEBG funding, but as of August 2010, the state had not reported savings and reported few jobs. Under DOE’s reporting requirements, EECEBG award recipients, including states, are required to report cost savings, energy saved, jobs created and retained, and standard reporting metrics such as obligations and outlays.<sup>16</sup> GEO officials told us that they plan to measure actual energy savings that result from EECEBG; they relied on manufacturers’ estimates of expected energy savings to estimate long-term energy benefits for planning purposes. GEO plans to track energy savings that will result from three project areas: residential

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<sup>16</sup>As with the State Energy Program, DOE recently reduced reporting requirements.

and commercial building audits, energy efficiency retrofits, and lighting projects. GEO expects that the greatest energy savings will result if changes are made to Main Street area businesses as a result of the commercial building audits; the improvements made could yield 645 billion of the 770 billion Btu GEO estimated as potential annual savings.

Under OMB Recovery Act reporting guidance, GEO is required to report FTEs paid for with Recovery Act EECBG funds. GEO reported about 12 FTEs paid for with EECBG funds for the April through June reporting period. To calculate and report FTEs, as with the State Energy Program, the program manager gathers and reports hours worked from subrecipients and vendors and then sends the data to the GEO reporting staff. This staff person converts the hours worked into FTEs. Also as with the State Energy Program, reporting for the April through June period went smoothly, according to GEO officials.

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### Localities Are Using EECBG Funds to Enhance Long-Term Programs and for One-Time Projects

The two localities we visited, Colorado Springs and Weld County, both received direct EECBG formula grants from DOE that they are using to invest in energy efficiency in their communities. Colorado Springs received approximately \$3.7 million from DOE, which it plans to use to further its long-term goals for improving energy efficiency in the city. The city already had an environmental sustainability coordinator in place who was looking for energy efficiency opportunities. According to city officials, the funds represent an opportunity to (1) demonstrate that energy conservation projects are a good financial investment, potentially impacting future city decisions, and (2) develop an energy sustainability plan that will reduce energy use and emissions and result in cost savings beyond the period of EECBG funding. According to a Colorado Springs official, approximately 22 percent of its EECBG funds were obligated as of August 15, 2010, and the city expects all funds to be obligated by its March 2011 deadline. The following include some of the projects selected and their anticipated benefits:

- Retrofitting municipal buildings, costing \$1.9 million, to improve energy efficiency. The city projects savings of \$140,000 in annual utility costs.
- Replacing city-owned streetlights with LED bulbs, costing about \$500,000, which will reduce energy use and costs, as well as demonstrate to the local utility that LED streetlights are cost-beneficial.

- Weatherization of affordable housing units, costing about \$400,000, including funding energy efficiency measures not paid for by existing programs, such as replacing windows and exterior doors.
- Conducting energy audits and related retrofit work for small to mid-size commercial, non-profit and educational customers, costing more than \$500,000, which has provided training opportunities for students in energy-related fields through a collaborative effort with the local utility, which supervised and trained the students.

Weld County, a rural county in northern Colorado, received more than \$616,000 in EECBG funds that it is largely using to pay for replacing boilers, lighting, and heating, ventilation, and air conditioning systems in several county buildings, including the administration building and a jail complex. County officials expect the new equipment to yield energy savings of 20 to 40 percent. Weld County will also fund a new transportation software project for non-emergency transit services for medical patients, which should produce more efficient routes, thereby reducing energy consumption. According to Weld County officials, all EECBG funds had been obligated as of June 30, 2010, and officials expect to spend all the funds by the end of September 2010.

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### Two Colorado Localities Have Established Controls and Reporting Processes, but Said DOE Guidance Is Overwhelming and Confusing

The two localities that we visited have procedures intended to ensure that EECBG funds are used for approved purposes, although they have found some of the DOE guidance confusing and requirements challenging. Colorado Springs has designated someone to manage each of its EECBG activities, written an EECBG grant oversight and responsibilities plan, and assigned each EECBG activity a separate account code. Weld County is using its standard grant oversight procedures for its EECBG award. A designated Weld County official does regular on-site visits to ensure work is being completed prior to signing invoices for payment by the controller. Both Colorado Springs and Weld County have one person responsible for submitting all the required EECBG reports. Colorado Springs plans to use a portion of its EECBG funds to hire a half-time grants administrator to ensure quality control over the EECBG monitoring and reporting requirements.

As they developed their plans for EECBG funds, these two localities received a large amount of program guidance from DOE. Both localities stated that the amount of communication from DOE has at times been overwhelming and confusing and, as a result, they found it challenging to understand and ensure compliance with all of the EECBG requirements.

For example, Weld County officials explained they have limited resources for EECBG monitoring and reporting; as a result, they have not been able to keep up with all the guidance and emails and have sometimes missed information. The confusion and misinterpretation have resulted in errors that have had to be corrected.

- Based on Colorado Springs officials' understanding of a DOE funding announcement, city officials thought that they should draw down the city's entire \$3.7 million award as of March 2010, even though federal guidance requires that grant recipients draw down funds only as they are needed. A Colorado Springs official attended training provided by a private grants management training company in late April 2010 and realized the mistake. The official then notified DOE and paid back \$3.1 million in mid-May 2010. Since then, DOE has begun providing reports to its project officers to enable them to monitor the draw down of funds.
- Weld County misunderstood how to calculate FTEs associated with its EECBG award. County officials said that for the April through June reporting period they planned to use a formula that projected FTEs based on amount of expenditures rather than the actual hours worked, in contrast to OMB and DOE guidance.<sup>17</sup> According to officials, they were not aware of these guidance documents and acknowledged that any announcements they might have received containing the new guidance were likely missed among the voluminous correspondence they receive from multiple people within DOE. After we provided the DOE and OMB guidance, county officials used hours worked to calculate FTEs for the April through June reporting period, reporting three FTEs for this period.

We found several other instances where the local entities found DOE's guidance unclear and confusing:

- **Budgets.** Colorado Springs initially sought guidance from DOE on allocating indirect costs among its EECBG funded activities. Based on the information it received, the officials submitted a budget to DOE. However, city officials were told to allocate indirect costs differently

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<sup>17</sup>OMB, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, M-10-08 (Washington, D.C.: Dec. 18, 2009) and DOE, *Calculation of Job Creation Through DOE Recovery Act Funding*, EECBG Program Notice 10-08 (Washington, D.C.: Mar. 11, 2010).

by another DOE contact and, as a result, have had to reallocate costs and revise these budget worksheets accordingly.

- **Reporting time frames.** The localities we visited had different understandings of how long they are to continue providing DOE with performance reports and did not find clear direction for this in DOE guidance. Colorado Springs officials said they are to report for the entire 3-year period of the award in order to have time to report on energy savings. On the other hand, Weld County officials said that they believed that reporting would stop once all funds were expended.
- **Energy metrics.** DOE expects its grantees to report on energy savings and other metrics on a monthly or quarterly basis; however, the localities we visited had different understandings of what was required. Colorado Springs officials plan to measure and calculate actual energy reductions after their projects are implemented, but Weld County officials plan to report projected energy savings and do not plan to collect data on energy savings for reporting purposes beyond their projects' completion.
- **Buy American guidance.** Colorado Springs officials said that trying to meet the Buy American requirements has delayed their LED lighting-replacement project by at least four months and they are still not sure if their four possible vendors are truly eligible. DOE issued guidance in June 2010 directing recipients to verify that products were manufactured or produced in the United States, but Colorado Springs officials said they were unclear how to comply with this additional requirement in a reasonable way. They asked DOE to provide a list of eligible vendors but were told DOE did not have one. City officials thought such a list would be important for the other communities like itself that are purchasing this equipment with Recovery Act funds. In a June 25, 2010, notice, DOE indicated that it expected to get a list from the National Electrical Manufacturers Association of domestic producers that can meet the Buy American criteria; however, as of August 16, 2010, this information was not available.<sup>18</sup>

DOE program monitors for GEO, Weld County, and Colorado Springs agreed that these issues have caused delays and misreported data but that DOE has efforts underway to address some of these problems. According

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<sup>18</sup>DOE, *EERE Program Notice: Recovery Act Buy American Provisions and Potentially Misleading Manufacturer Claims* (Washington, D.C.: June 25, 2010).

to the officials, heavy workloads at the beginning of the program reduced the time they spent on EECBG monitoring. Since March and April 2010, DOE has reduced the workload of project officers and technical monitors providing assistance and oversight to recipients, which the DOE officials believe has improved their responsiveness. Further, to deal with the amount of guidance and requirements being provided to grantees, DOE has a proposed initiative, referred to as “One Voice,” that is intended to improve the coordination of communication that comes from various DOE offices. DOE is also working on developing specific requirements for closing out the EECBG grants that should clarify when recipients can stop reporting and a working group within DOE plans to clarify the energy metrics reporting guidance.

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## Status of Contracts and Reasons for Cost, Schedule, and Performance Changes

State and local entities in Colorado have awarded a number of contracts under the Recovery Act to support a variety of programs, including transportation, housing, weatherization, and drinking water and wastewater management. These entities are prime recipients of awards under the Recovery Act and have chosen to use all or a portion of their awards to contract out work to be performed. In 2009, we selected 13 Recovery Act contracts to review, including 4 we reported on in September 2009, considering the value of the contract and the state program it helped support.<sup>19</sup> Table 1 shows the 13 contracts—which have a combined estimated value of about \$61.4 million—and any cost or schedule changes or contractor performance issues.

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<sup>19</sup>[GAO-09-1017SP](#).

Table 1: Changes in 13 Selected Contracts as of June 30, 2010

Contracting agency	Purpose	Original contract value	Cost change	Schedule change	Contractor performance issue
CDOT	Highway construction at C-470	\$25,850,411		✓	
Summit County	Construction of fleet maintenance facility	8,398,741	✓	✓	✓
Town of Georgetown	Wastewater treatment facility improvements	5,116,786			
City of Manitou Springs	City water and sanitation system improvements	4,361,360	✓		
CDOT	Highway construction at Johnson Village North	4,197,756		✓	✓
Pagosa Area Water and Sanitation District	Construction of wastewater conveyance system	3,524,189	✓		
Town of Georgetown	Drinking water treatment facility improvements	3,008,000			
Governor's Energy Office	Weatherization assistance for 641 low-income residences in Adams and Arapahoe counties	2,925,575			
City of Fort Collins	Purchase of transit buses	2,433,792	✓		
Governor's Energy Office	Weatherization assistance for 325 low-income residences in western Colorado	1,271,920			
Denver Housing Authority	Renovation of 192-unit Westwood Homes	295,926	✓	✓	
Holyoke Housing Authority	Replacement of hinged patio doors at Sunset View Apartments	27,409			
Denver Housing Authority	Purchase of energy saver gas water heaters for residential properties	24,800			
<b>Total</b>		<b>\$61,436,665</b>	<b>5</b>	<b>4</b>	<b>2</b>

Source: GAO analysis of contracting agencies' information.

Although work is still ongoing under most of the 13 contracts we reviewed, oversight officials for 6 of these contracts reported that as of June 30, 2010, there have been no cost or schedule changes or any contractor work performance issues for their contracts. Oversight officials reported that 7 of the 13 contracts have experienced changes in their planned costs or schedules; in some instances these changes were due to additional funds becoming available for the project, allowing contracting officials to expand the scope of work. Further, oversight officials reported that 2 of the 7 contracts experienced challenges related to contractor performance.

**Changes in Contract Cost**

Officials responsible for five of the seven contracts that experienced changes reported that, for various reasons, the original costs of the contracts changed after the contracts were awarded. Table 2 shows the cost changes for these five contracts.

**Table 2: Recovery Act Contract Cost Changes as of June 30, 2010**

<b>Contract</b>	<b>Original contract value</b>	<b>Current contract value</b>	<b>Percent change</b>
Denver Housing Authority—Westwood Homes	\$295,926	\$605,026	104.5
Pagosa Area Water and Sanitation District—wastewater system	3,524,189	3,874,189	9.9
Summit County—fleet maintenance facility	8,398,741	8,891,516 <sup>a</sup>	5.9
City of Manitou Springs—water and sanitation improvements	4,361,360	4,395,740 <sup>a</sup>	0.8
City of Fort Collins—purchase of transit buses	2,433,792	2,449,350 <sup>a</sup>	0.6

Source: GAO analysis of contracting agencies' information.

<sup>a</sup>According to oversight officials, these cost increases are being covered with county or city funds and not Recovery Act funds.

In two of these cases, the Recovery Act award recipient either received additional Recovery Act funds beyond its initial award or decided to dedicate a larger portion of its original award to the contract, thereby making more funding available to spend on the contract. For example, a Denver Housing Authority official explained that after its contract with an architectural and engineering design firm was awarded, the housing authority learned that it had received, through a Capital Fund Recovery Competition grant, an increase from \$4 million to \$11 million in Recovery Act funds for its Westwood Homes project, which is renovating a 192-unit housing development. This official explained that the additional funds allowed the housing authority to expand the scope of its renovation work from a limited rehabilitation of the 192 units to a full-scale rehabilitation, incorporating energy efficiency measures. As a result, the cost of technical services that the housing authority contracted for increased from about \$296,000 to about \$605,000.

For the remaining three contracts, costs have come in higher than expected, either due to requests for design changes after the contracts were signed or due to unexpected circumstances. In the first situation, the additional costs are being paid for by the awarding entities and not with Recovery Act funds. For example, a Summit County oversight official reported that the cost of its contract to construct a new fleet maintenance facility had increased by almost \$500,000, from about \$8.4 million to \$8.9 million. The official explained that the fleet manager and shop foreman

requested changes in the locations of an office, various electrical outlets, and an exterior air connector for the buses. In addition, the fire inspector requested a change in the position that sprinkler heads were mounted in a building's ceiling and an increase in the height of a building's heating duct work. The oversight official explained that Summit County was using county funds set aside for work contingencies to cover the contract cost increases. Similarly, a Fort Collins oversight official reported that the cost of six 40-foot transit buses it was acquiring with Recovery Act funds increased by about \$16,000 to accommodate design changes requested by the city. For example, for safety reasons, the city requested a change in the type of brakes installed on the buses (from S-cam brakes to four-wheel disc brakes). This official clarified that the city would use local transportation funds, and not Recovery Act funds, to pay for these changes.

In the second situation, costs have increased due to difficulties associated with unanticipated project conditions. According to an official for the City of Manitou Springs, the contract to improve the city's water and sanitary system had, as of June 30, 2010, incurred close to a 1 percent increase in contract costs. He said the contractor is upgrading a system that is very old and no good records existed at the time the contract was signed regarding its condition. As a result, the contractor is frequently dealing with unanticipated conditions in the field that require changes to the planned work. The official stated that, if at contract completion total costs exceed the nearly \$4.4 million contract award amount, city officials will pay the additional costs using city funds.

It should also be noted that while a Governor's Energy Office oversight official on the two weatherization contracts stated that these contracts did not experience a change in cost during the contractor performance period (which ended June 30, 2010), GEO's final reconciliation of the contracts determined that the contractors weatherized more homes for less than originally budgeted. For example, one weatherization contractor completed work on 650 instead of 641 residences for approximately \$500,000 (about 17 percent) less than the state cost estimate, while the other contractor completed work on 327 instead of 325 residences for approximately \$100,000 (about 8 percent) less than the state cost estimate. The oversight official explained that these differences between actual costs and the original estimated costs were a normal occurrence in the weatherization program and were due to actual costs of construction work, including such items as supplies and labor, coming in less than originally anticipated. The official said that GEO will use the \$600,000 in unspent funds from these two contracts prior to March 2012 for further

activities under its Recovery Act weatherization award, as required by DOE.

**Changes in Contract Schedule**

Officials responsible for four of the seven contracts that experienced changes reported that the original work schedule changed after contract award, also for a variety of reasons. Table 3 outlines the extent of the schedule changes associated with these four contracts.

**Table 3: Recovery Act Contract Schedule Changes as of June 30, 2010**

<b>Contract</b>	<b>Original planned completion date</b>	<b>Current planned or actual completion date</b>	<b>Schedule change</b>
Denver Housing Authority—Westwood Homes	September 5, 2009	March 30, 2012	2.5 years
CDOT—C-470 project	August 13, 2010	September 18, 2010	36 days
CDOT—Johnson Village North project	October 10, 2009	November 9, 2009	30 days
Summit County—fleet maintenance facility	July 26, 2010	August 18, 2010	24 days

Source: GAO analysis of contracting agencies' information.

The lengths of the schedule changes ranged from a few weeks to roughly 2.5 years. According to officials, in two instances, the original contract schedule was extended to account for spending additional funds—these funds resulted from either receipt of additional Recovery Act funds or savings generated from lower than anticipated contract costs—that allowed for an expansion of the scope of work for both projects. For example, Denver Housing Authority’s decision to expand the scope of its Westwood Homes project after receiving an additional Recovery Act award also resulted in an extension of the project’s schedule by 2.5 years to accommodate the additional renovation work. In another example, a CDOT contract oversight official reported that the schedule for completing highway construction work at its Johnson Village North project in Chaffee County was extended from 65 to 80 working days, which translated to about a 30-day extension.<sup>20</sup> The official explained that additional funds became available from contract costs being lower than anticipated because, for example, the contractor did not earn incentive fees. As a result, some of these funds were used to pave 4 more miles of highway than originally planned and the work schedule was extended the

<sup>20</sup>The contract schedule was based on working days—actual days on which work occurred—minus holidays or days when poor weather suspended construction activity, rather than calendar days.

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additional 15 working days to perform the work. In addition, some of the funds were used on another project to pave 7 additional highway miles.

Moreover, schedule changes occurred at the remaining two projects because of unanticipated issues encountered during construction. For example, a CDOT official responsible for the C-470 highway construction project reported that contract completion was extended by 36 days because of weather delays and additional engineering work (including concrete, pipe drainage, sealant, and guardrail) required of the contractor. The official explained that costs for this work were paid under the contract. In another example, the Summit County oversight official reported that the completion date of its fleet maintenance facility contract was extended by 23 days in part because of delays associated with the need to complete unanticipated underground cabling work and manage groundwater pooling onsite.

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## Contractor Performance

Officials for 2 of the 13 contracts we reviewed reported that during inspections they identified issues with the contractors' performance of work that adversely affected the projects' schedules. According to officials, these performance issues extended the time needed for the contractors to complete the work and the associated costs were borne by the contractors. For example, a CDOT inspector determined that the top mat of paving did not meet the required smoothness criteria at its Johnson Village North project. The contracting official reported that the main cause of the problem with the contractor's work performance was the contractor's choice and operation of paving equipment, which resulted in the pavement not meeting the smoothness criteria. CDOT required the contractor to grind the rough areas of pavement repeatedly until the road met the criteria, determined by further inspection by CDOT. In a second example, a Summit County inspector observing the construction of the county's fleet maintenance facility identified substandard work by a subcontractor doing concrete work in the facility's vehicle wash building. According to the county's oversight official, the subcontractor prematurely poured concrete in a specific location before the crew responsible for performing related heating work had satisfactorily finished and the building inspector had reviewed and approved the work. The official stated that the inspector required the subcontractor to remove the concrete so that the heating crew could complete all the necessary work and it could be re-inspected for approval, causing a schedule delay of about 1 week. The oversight official reported that the costs and schedule delay associated with this subcontractor mistake were absorbed by the contractor.

## Recovery Act Funds Will Provide State Budget Relief for One More Year and Additional Funds for Local Projects and Services

The state expects to use about \$400 million in Recovery Act funds for higher education and Medicaid assistance to Colorado residents, which will help offset cuts to its fiscal year 2011 budget. This remaining funding is significantly less than the \$800 million in Recovery Act funds the state applied to its fiscal year 2010 budget, including \$87 million used to fund the state Department of Corrections. Table 4 shows the Recovery Act funds that, according to a senior state budget official, have provided a significant direct benefit to the state’s budget over 3 fiscal years. This official said that other Recovery Act funds received by entities in the state also have had a positive, if indirect, effect on the state’s fiscal stability by meeting needs that cannot be met with state funds and by creating jobs. For example, the state continues to spend \$265 million in Individuals with Disabilities Education Act, as amended, (IDEA) Part B, and Elementary and Secondary Education Act of 1965, as amended, (ESEA) Title I, Part A Recovery Act funds to pay for teachers, curriculum, and other education needs at the state’s local educational agencies (LEA).

**Table 4: Recovery Act Funds Directly Affecting Colorado State Budgets**

Fiscal year	Increased FMAP	SFSF Education Stabilization Funds	SFSF Government Services Funds—Corrections <sup>a</sup>	Total
2009	\$215,721,373	\$150,676,055	\$24,600,000	<b>\$390,997,428</b>
2010	331,409,119	382,008,243	87,206,274	<b>800,623,636</b>
2011	311,551,463	89,194,099	0	<b>400,745,562</b>
<b>Total</b>	<b>\$858,681,955</b>	<b>\$621,878,397</b>	<b>\$111,806,274</b>	<b>\$1,592,366,626</b>

Source: GAO analysis of Colorado Office of State Planning and Budgeting data.

<sup>a</sup>Funds in this column represent SFSF government services funds that were spent on the state Department of Corrections. According to a state budget official, it was this portion of the SFSF government services funds that had a direct impact on the state’s budget.

Note: Dollars have not been adjusted for inflation.

As we have previously reported, state officials said Recovery Act funds—specifically, SFSF funds and the increased FMAP—have had a significant positive effect on the state’s budget condition since the Recovery Act was enacted.<sup>21</sup> A senior state budget official said that the funds will still provide significant benefits to the state’s budget condition in fiscal year 2011, despite the overall decline in Recovery Act funding, because the funds will enable the state to save the equivalent amount from its general fund for use in other areas. With the passage of federal legislation in early

<sup>21</sup>GAO-10-605SP.

August, the state learned that it would receive an extension to its increased FMAP for the remainder of fiscal year 2011, rather than those additional funds ending in December 2010.<sup>22</sup> However, the amount of the extension was about \$67 million less than the state had projected in its fiscal year 2011 budget. The legislation, according to state officials, is also estimated to provide about \$156 million in funding for certain K-12 jobs.<sup>23</sup>

The state expects that a combination of this extension of increased FMAP funds, higher than expected actual general fund revenues from fiscal year 2010, and budget balancing measures presented in August 2010 will help it maintain its general fund reserve at slightly more than 2 percent by the end of fiscal year 2011.<sup>24</sup> The state's June 2010 revenue forecast projected a reserve shortfall below the 2 percent level by the end of fiscal year 2011, prompting the Governor to submit a budget balancing plan on August 23, 2010.<sup>25</sup> The plan addressed both this projected shortfall as well as the additional monies needed to compensate for the less-than-budgeted FMAP extension amount. Specifically, the plan incorporated \$76.8 million more in general fund revenues for fiscal year 2010 than had been forecasted and presented \$59.6 million in specific budget balancing measures, including \$53.4 million in cash fund transfers and \$6.2 million in general fund reductions. These reductions included a \$4.9 million across-the-board reduction in personnel costs by delaying hiring of some state positions and a \$1.3 million cut to the Department of Corrections. The Governor's next budget review will follow the revenue forecasts to be released in late September 2010.

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<sup>22</sup>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).

<sup>23</sup>Public Law 111-226 also 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. *See* Pub. L. No. 111-226, § 101.

<sup>24</sup>A state budget official explained that, although the state is required to maintain its general fund reserve at 4 percent of appropriations for 2011, section § 24-75-201.5 of the Colorado Revised Statutes allows the state to use half of this reserve if revenues come in short of appropriations.

<sup>25</sup>This quarterly forecast is from the Office of State Planning and Budgeting. The Colorado Legislative Council also prepares quarterly forecasts.

The state faces some potentially significant budget challenges in fiscal year 2012 as the nearly \$400 million in Recovery Act funds from fiscal year 2011 are no longer available for the state budget. State forecasts show slow growth for the Colorado economy for the next few years. The June 2010 forecast reported fiscal year 2011 general revenue increases of 10.9 percent over the previous year. According to the Office of State Planning and Budgeting, this is qualified by the fact that the increases are the result, in part, of specific legislative actions such as the elimination of tax exemptions on sales of cigarettes, candy, and soft drinks.

We visited two local governments—Weld County and the City of Colorado Springs—to discuss the effects of Recovery Act funds on their budgets. They differed in terms of their economic situations and in the amount of Recovery Act funds they received, as shown in table 5. Overall, the Recovery Act funds did not help balance local budgets because the funds could not generally be used for operating costs, but to varying degrees, will help the localities maintain services and complete projects.<sup>26</sup>

**Table 5: The City of Colorado Springs and Weld County, Colorado**

Dollars in millions

Locality	Population	Unemployment rate	Total operating budget in 2010	Recovery Act funds reported
City of Colorado Springs	399,827	8.9%	\$385.0	\$63.0
Weld County	254,759	9.6%	\$192.1	\$5.1

Source: GAO analysis of U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS) data and local governments' data.

Note: 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 shown are a percentage of the labor force. Estimates are subject to revision. The state's unemployment rate is 8.3 percent.

**Weld County.** Recovery Act funds have not had a major impact on Weld County's fiscal situation, but the funds have allowed the county to implement one-time projects it had previously prioritized. Although Weld County is projecting a slight increase in general fund revenues in 2010 (from \$77.0 million to \$77.7 million), it is projecting revenue reductions in 2011 and 2012. Specifically, compared to 2010, the county is anticipating a

<sup>26</sup> Although additional Recovery Act funds went to separate jurisdictions within Weld County and the county in which Colorado Springs is located, such as school districts and housing agencies, these funds are not included in our review.

decrease in property tax revenues of \$20 million in 2011 and \$14 million in 2012, primarily due to reductions in oil and gas prices. The county plans to absorb these reductions by cutting expenditures and spending portions of its general and total fund reserves. The cuts will be distributed across the county's general fund and other funds it uses to provide services to the county (the general fund comprises about 40 percent of county's total expenditures for 2010). For example, when preparing the 2010 budget, county officials asked all departments to cut their budgets by 10 percent, resulting in \$1.5 million in savings, and have asked departments to cut another 2.5 percent in 2011. In addition, the county is using its property tax revenue from 2010 to build up its fund reserves in preparation for the upcoming revenue decreases—the total fund reserve is projected to reach \$50 million by the end of 2010, of which \$5 million is the general fund reserve.

Weld County received \$5.1 million in Recovery Act funds: \$3.7 million in formula grants and \$1.4 million in competitive grants. The County Board of Commissioners chose to pursue funding for programs and projects that were already a priority for the county—they were not interested in receiving funds that would create an expectation of continued funding once Recovery Act funds were spent. As a result, the county focused its Recovery Act funds on augmenting existing programs and completing high priority projects. For example, the county is using a \$526,000 Health and Human Services Child Care and Development Fund grant to provide child care assistance to additional eligible families and approximately \$696,000 in Workforce Investment Act of 1998 (WIA) funds for existing adult job-training programs. More specifically, the WIA funds are providing occupational skills training, placement assistance, and on-the-job training to unemployed clients. According to county officials, the EECBG funds have also been significant in that they are enabling the county to improve energy efficiency in county buildings and are expected to provide budget savings in the future. Finally, the county used its Federal Highway Administration grant of about \$431,000 to complete road construction on County Road 74 and a \$487,000 Community Services Block Grant primarily to provide short-term rental assistance for low income and unemployed citizens. According to a county official, without these funds, Weld County would not have been able to provide these additional social services and would have delayed several projects, including the energy efficiency improvements and the road improvement project.

**Colorado Springs.** Colorado Springs received \$63.0 million in Recovery Act funds, which, according to city officials, helped implement some high-priority projects, maintain critical city services, and support some

community activities. Nonetheless, the Recovery Act funds did not help make up for large funding losses in the city’s operating budget. According to officials, other than for transit services, the funds could not be used for operating expenses. As such, Colorado Springs faces a difficult economic and budget situation, having worked to close a \$90 million funding gap in its budgets since 2008. According to city officials, continual budget cuts were necessary in part because the city’s revenues from sales and use taxes—which account for approximately half of its general funds—have been declining. Specifically, the city has reduced services, including eliminating night and weekend bus operating hours, turning off street lights, and leaving city parks unwatered, and has cut about 195 city positions.

According to Colorado Springs officials, Recovery Act funds enabled the city to pay for key projects and to keep transit services that would otherwise have been cut from the city’s budget. Of its \$63.0 million in Recovery Act funding, the city is using \$43.8 million for two key transportation projects. Table 6 shows the Recovery Act grants Colorado Springs is using to fund these transportation efforts.

**Table 6: Colorado Springs’s Recovery Act Transportation Awards**

Dollars in millions

Project name	Federal program/Grant name	Funding	Description	Benefits
Woodmen Road Widening and Interchange	Highway Infrastructure Investment Funds	\$35.0	Woodmen Road will be widened to six lanes and an overpass will be built at the intersection of Academy Boulevard and Woodmen Road.	Traffic congestion mitigation, improved safety, economic development.
Transit Operating and Capital Projects	Federal Transit Administration	\$8.8	Provide bus service for 2010, 2011, and a portion of 2012; fund a portion of the Americans with Disabilities Act paratransit services for 2010; and fund building and vehicle preventative maintenance for 2010.  The grant will also fund some infrastructure investments, including renovating the Downtown Bus Terminal.	Cuts to additional hours of fixed-route service and paratransit service avoided.

Source: City of Colorado Springs.

The city received \$35.0 million in Recovery Act funds from CDOT, which will allow it to complete the Woodmen Road Widening and Interchange project, a high priority project in the area. This project has been on the city’s and the Pikes Peak Rural Transportation Authority’s (PPRTA)

priority list for many years due to projected increases in traffic volumes.<sup>27</sup> However, according to a Colorado Springs official, it has been difficult to fund this project because the city has a limited amount of resources to use for an investment of this size. With the receipt of Recovery Act funds to complete the project, the city was able to return approximately \$16.4 million to PPRTA, which was originally slated to provide the majority of the funds for the project, allowing PPRTA to complete four other high-priority transportation projects—including road upgrades and bridge design—in the area.

The city's \$8.8 million award from the Federal Transit Administration allowed it to keep its full offering of bus routes during 2010. According to city officials, the city has already eliminated evening and weekend bus service on these routes, and without these funds it would have eliminated certain routes altogether. The transit funds will allow the city to continue to maintain operation on all routes at the reduced hours through 2011, with the exception of one express route to Denver that will be eliminated. Colorado Springs officials said they are working on a plan for maintaining bus service from 2012 forward, after the Recovery Act funds are expended.

According to city officials, the city's other Recovery Act awards also provided some significant benefits. For example, its \$3.7 million in EECSBG funding enabled the city to pursue its energy efficiency goals, while four housing grants provided a combined \$5.5 million to purchase abandoned property and provide, on average, 3 months of rental assistance to 179 households. The officials explained that without these Recovery Act funds, the city would not have been able to provide housing assistance to citizens facing foreclosure, improve public safety services, or increase energy efficiency at public facilities.

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<sup>27</sup> PPRTA was established by voters in late 2004 and has the authority to levy a 1-cent sales and use tax to be used to fund specific capital projects, maintenance projects, and metro transit improvements in unincorporated El Paso County, the Cities of Colorado Springs and Manitou Springs, and the Town of Green Mountain Falls.

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## State's Central Reporting Process Is Working Smoothly, Although Data Quality Is Still a Concern and FTE Data from Past Quarters Will Need to Be Corrected

State officials said the state's central reporting process worked smoothly during the fourth round of Recovery Act reporting, although they expressed some concerns about the quality and accuracy of data reported by local entities that do not report through the state's central process.<sup>28</sup> Colorado recipients, including state agencies that reported centrally and other entities that reported directly, reported about 17,790 FTEs funded by the Recovery Act for the fourth reporting period, covering April 1, 2010, through June 30, 2010. These FTEs increased by more than 7,530 over the previous quarter largely because of an influx of \$205 million of SFSF phase II funding in April 2010. With the additional SFSF funding, IHEs reported about 8,830 FTEs during this round, an increase of 5,590 FTEs over the previous quarter. However, to accommodate this late funding and revised guidance, the state did not report a total of 1,110 FTEs associated with some IHEs' phase II awards in the April through June period. As a result, at such time that OMB issues instructions for making corrections in closed quarters, the state will need to update FTEs it reported for the January through March quarter to include these 1,110 FTEs. In addition, through our review of recipient reports, we found incorrect data reported by other state agencies and local entities that also indicate the need for a corrections process for previous quarters' reported data.

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## Despite Some Challenges, Central Reporting Process Was Completed Successfully

Colorado officials reported that the April through June round of centralized reporting was more challenging than the last round, but was completed successfully. According to reporting officials, the primary challenge was the untimely submission of data by IHEs to the state—the submissions were delayed largely because they were due at the same time IHEs were closing out their fiscal years. However, the officials stated that the 4-day extension to the reporting deadline by the Recovery and Accountability Transparency Board—from July 10 to July 14—was beneficial because it provided additional time to perform data quality checks to identify necessary corrections, particularly since one of the days leading up to the deadline was the July 4 holiday.

Going forward, state officials said they expect some modest challenges for future reporting. First, they foresee problems with uploading data during the next round of recipient reporting in October 2010 for those recipients

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<sup>28</sup>As we have previously reported, the state of Colorado has chosen to report its Recovery Act information centrally, meaning that the state agencies submit their data through one central office. The state's central reporting process does not include local governments, authorities, or other direct recipients, including non-profit organizations or private entities.

whose registration in the Central Contractor Registration database will have expired. As we reported in May 2010, recipients and subrecipients must maintain a current registration in the database—if they do not, FederalReporting.gov will reject their submissions. We also reported that state officials have proposed that the Recovery Accountability and Transparency Board allow the original registrations to be used throughout the life of the grant, preventing the rejections. According to state officials, they have not received a response. Second, Colorado will experience a change in state leadership in January 2011 and state officials said they and others are in the initial planning phase for this transition. While the officials believe the central recipient reporting process has stabilized and should transfer to the next administration with little disruption, the inherent uncertainty of the political transition process could pose a challenge.

Finally, state officials said that reporting by recipients who receive grants directly from the federal government and do not report centrally through the state will be challenging as these recipients may not have the resources to navigate the changing guidance and processes. For example, we found that one of these recipients—Weld County—encountered problems when reporting its FTEs for the April through June period. According to a senior county official, the county was unable to obtain sufficient assistance from DOE, resulting in county officials creating a duplicate award record in FederalReporting.gov when they were trying to update an existing record from the prior period. While the state Recovery Office has offered assistance to non-state recipients, according to officials, the offer largely resulted in confusion—most of the small percentage of recipients who responded to the offer did not understand the state’s role in local reporting and in some cases thought they were being informed they had received state funds in addition to Recovery Act funds.

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**Quality of Reported Data Remains a Concern, While a Process Is Needed to Correct FTEs from Closed Reporting Periods**

Several Colorado recipients will need to make corrections to FTEs reported in previous quarters, which continues to raise questions about the quality of some of the FTE data reported. For example, one recipient needs to correct reported FTEs because of changed guidance it received for calculating FTEs, while other recipients need to correct FTEs because they misunderstood or misinterpreted federal guidance and miscounted FTEs. According to OMB’s December 18, 2009, guidance, if recipients need to make corrections to their quarterly FTE data for prior quarters, these

recipients are expected to maintain records containing this information until such time that OMB develops a process to submit it to the federal government, which OMB has yet to do.<sup>29</sup>

For selected programs, we identified a number of instances in which state and local entities will need to correct or update FTE data for prior reporting periods that are currently closed to additional changes. These instances raise questions about the quality of FTE data for previous rounds published on Recovery.gov, as well as support the need for a defined corrections process.

- **SFSF Education Stabilization Funds.** The infusion of SFSF phase II funds late in the fiscal year resulted in Colorado IHEs using those funds to pay for additional FTEs in fiscal year 2010. However, because funding was received late in the year and changes were made in federal guidance, about 1,110 FTEs have not been reported. Based on guidance received from Education, the state had instructed IHEs in May 2010 to report all FTEs funded by phase II monies in the April through June reporting period, regardless of whether the FTEs were created or saved in this period, to prevent undercounting FTEs.<sup>30</sup> Even if the IHEs did not have sufficient expenditures to absorb the infusion of SFSF funds in the April through June quarter, the instructions directed the IHEs to report all FTEs reimbursed by phase II funds in that quarter. However, Education subsequently alerted the states on July 8, 2010—6 days before the reporting deadline—they should not report all FTEs paid for with phase II funds in the fourth reporting period if an IHE's expenditures were less than the SFSF phase II funding. The alert stated that the IHEs should instead retain records of FTEs worked in previous quarters so this data can be corrected at some point in the future. According to Education, this change resulted from a Recovery Accountability and Transparency Board decision that

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<sup>29</sup>OMB's December 2009 guidance established a continuous corrections period, during which recipients are able to make corrections to reported FTEs for the quarter most recently ended. According to a subsequent update posted on FederalReporting.gov, recipients have about 40 days after the data is published on Recovery.gov to make corrections to that quarter only, after which the quarter is closed to future corrections.

<sup>30</sup>We noted in our May 2010 report that if an IHE allocated its SFSF phase II funding across its annual budget (assuming it did so with its SFSF phase I funding), it would underreport those FTEs associated with prior, closed quarters because FederalReporting.gov does not allow for adjustments to previous quarterly reports once the continuous corrections period has closed. See GAO, *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, GAO-10-604 (Washington, D.C.: May 26, 2010).

all FTEs should be reported in the quarter in which they were worked, not the quarter in which funding was received. As a result, the state attributed approximately 1,110 FTEs to the January through March quarter, prompting the need to update its reported FTE figure for that quarter as part of a future corrections process.

While this change in approach does not raise questions about the quality of the state's fourth reporting period SFSF FTEs, it does highlight the need for a corrections process for closed reporting periods. According to state reporting officials, they agreed with Education's initial assessment that the new approach may result in underreporting of FTEs associated with phase II SFSF funds if OMB's corrections process does not include all closed reporting periods. Furthermore, a state official expressed concern that the new approach may be less transparent if the public does not know to go back to previous quarters on Recovery.gov to see corrected data.

- **Clean Water and Drinking Water SRFs.** Although OMB guidance requires all FTEs paid for with Recovery Act funds to be reported, the Authority, CDPHE, and DOLA—the three entities which jointly manage the Recovery Act SRF programs in Colorado—have not reported any FTEs associated with the management of the two SRF programs, likely resulting in underreporting of FTEs in past quarters that will subsequently need to be corrected. As allowed under the SRF program, the state SRF agencies reserved a portion, in this case \$2.6 million, of their SRF Recovery Act awards as “administrative” set-asides to pay for project management activities, including project oversight and loan monitoring. Based on guidance from OMB and the U.S. Environmental Protection Agency (EPA) and a conversation with regional EPA staff that indicated the state was not required to report administrative FTEs, state officials said they determined in mid-2009 that they were not required to report FTEs associated with project management activities paid for with the set-aside funds.

However, EPA officials said they then interpreted OMB's December 18, 2009, guidance as requiring SRF recipients to report these FTEs since they were funded by Recovery Act monies. Although such an interpretation represented a change in EPA's expectations of what recipients would report, EPA officials said they did not formally or systematically communicate this change to states, including Colorado, because they deferred to the states' interpretations of OMB's guidance. Yet, according to Colorado SRF officials, they did not interpret OMB's December guidance in the same way as EPA; as a result, the Authority, CDPHE, and DOLA have not calculated or reported their SRF-related

FTEs funded by set-aside monies. Based on those hours reported as worked by CDPHE staff on the Clean Water and Drinking Water SRF projects for the January through March period, we estimated there would be at least 10 FTEs associated with CDPHE's efforts.<sup>31</sup>

According to Authority staff, it has records of the hours worked by CDPHE, DOLA, and its own staff that have been paid for with the Recovery Act set-aside funds; as a result, it would be relatively simple for the Authority to reconstruct the FTEs it would need to report for all three agencies for the prior quarters.

Further, the Colorado SRF agencies missed the continuous corrections period for the January through March 2010 reporting period, which ended on June 14, 2010. As a result, they will need to add about 28 FTEs combined to their totals for Clean Water and Drinking Water SRFs for that period. State officials explained that for the January through March reporting period, their quarterly FTE numbers were not final immediately after the quarter had ended, requiring them to initially report forecasted numbers to FederalReporting.gov.<sup>32</sup> They then had the opportunity to upload final numbers during the continuous corrections period. However, according to these officials, they believed that they had until the end of June 2010 to upload their corrected FTEs. Although updated guidance was posted on FederalReporting.gov and shared by EPA indicating the period ended two weeks earlier, officials said they were not aware of the June 14 deadline.

- **IDEA, Part B, and ESEA Title I, Part A.** The Colorado Department of Education will likely need to correct FTE data from its LEAs for previous quarters. In our review of one LEA's FTE calculation for the April through June period, we found that the LEA included FTEs for both years of the grant rather than just 1 year, effectively double counting FTEs worked in that quarter. In response to our review, CDE reexamined the LEAs' FTE submissions for the April through June period and revised the FTE figure it reported from about 1,410 to 1,350. In addition, we found that three LEAs were providing CDE with

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<sup>31</sup>This estimate does not include any hours worked by Authority or DOLA staff for this period.

<sup>32</sup>CDPHE officials explained that, by the end of a quarter, they have final FTEs for the first two months of that quarter but need to report forecasted FTEs for the final month of the quarter in part because of a delay in receiving certification of hours worked from their subrecipients.

monthly FTE data rather than quarterly data as requested. Because an LEA's monthly FTE data can vary, the use of the monthly figure instead of an average of the 3 months of data can result in misreporting total FTEs. CDE officials stated they plan to review LEAs' FTE submissions from previous quarters, which may identify the need to correct calculations of FTEs for those periods.

- **Colorado Springs.** Due to confusion and incorrect assistance provided by DOE, the city reported FTEs associated with its EECBG award in the April through June period inaccurately. Although Colorado Springs reported about two FTEs for the January through March quarter, city officials explained they did not include vendor hours in their calculations and they did not check supporting documentation from each reporting entity to verify hours worked. According to city officials, they misinterpreted DOE's March 11, 2010, guidance until the City Auditor informed them that they should have included vendor hours in their FTE calculation. In addition, upon further review of the supporting documentation, Colorado Springs officials identified additional FTEs that had not been reported. According to these officials, once they identified the problem, they contacted DOE to report the error and make corrections and were told that these missed FTEs should be included in their April through June FTE calculations. According to OMB's December 2009 guidance, these missed FTEs should be recorded by the city and retained until a corrections process is established. However, based on the direction it received from DOE, Colorado Springs reported about six FTEs for April through June, which includes the two FTEs from vendor and other corrected hours worked during the January through March quarter. This will likely prompt the need in the future for the city to correct both the January through March and April through June reporting periods. Although the FTE impact is relatively minor, it raises a concern regarding guidance being provided by DOE.

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## Colorado's Accountability Community Continues to Review Recovery Act Programs

The Colorado audit community is continuing to conduct reviews of Recovery Act projects and uses of funds, both as part of larger reviews and as specific program audits. Specifically, Colorado auditors have issued 13 audit reports and 2 non-audit services, an increase of 6 reports since we last reported in May 2010.<sup>33</sup> Some of these reports contained findings aimed at improving the management of Recovery Act funds. In addition, ongoing audits include a review of the state's weatherization program under the act by the Office of the State Auditor, three reviews of CDOT Recovery Act projects by the agency's audit division, and an assessment of the City of Denver's Recovery Act processes and monitoring by the City Auditor. These and other audit entities have additional reviews planned into 2011.

As we reported in May 2010, Colorado issued its Single Audit Report for fiscal year 2009 in February 2010.<sup>34</sup> According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Colorado's initial Single Audit reporting package for the year ending June 30, 2009, on March 23, 2010, in advance of the state's deadline of March 30, 2010.<sup>35</sup> According to the State Auditor, the Clearinghouse then requested additional information from the state, which audit officials submitted on May 25, 2010. In addition, we reported Colorado participated in OMB's Single Audit Internal Control Project in 2009, whereby audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular A-133. According to officials at the Colorado State Auditor's office, OMB is continuing this project for fiscal year 2010 single audits but Colorado has not determined whether it will participate.

Since we reported in May, Colorado's State Auditor issued two reports which contained findings relevant to the Recovery Act. The first examined the state's compliance with federal reporting requirements during the first round of recipient reporting, which covered the February 2009 through

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<sup>33</sup>[GAO-10-605SP](#).

<sup>34</sup>This was the first Single Audit for Colorado that includes Recovery Act programs. The audit identified 55 significant internal control deficiencies related to compliance with Federal Program requirements, of which 19 were classified as material weaknesses. Some of these significant deficiencies occurred in programs that included Recovery Act funds.

<sup>35</sup>The Single Audit Act requires that a nonfederal entity subject to the act transmit its reporting package to a federal clearinghouse designated by OMB no later than 9 months after the period audited.

September 2009 period.<sup>36</sup> The State Auditor's findings corroborated findings we reported in November 2009 with respect to the first round of recipient reporting—for example, that the lack of reporting a standardized FTE meant jobs data could not be aggregated or compared nationally or statewide.<sup>37</sup> The report did not make any recommendations and stated that the change in methodology contained in OMB's December 18, 2009, guidance—from identifying jobs created and retained to jobs funded and calculating FTE using a standard formula—attempted to address these issues.

The second recently issued report from the State Auditor found the laws, policies, and practices in place in Colorado do not promote the long-term solvency of the state's Unemployment Insurance Trust Fund, and that reform of the state's unemployment insurance financing system is needed.<sup>38</sup> Colorado's trust fund is used to pay regular unemployment benefits, lasting up to 26 weeks, to eligible unemployed claimants. Under the Recovery Act, Colorado received an additional \$127.5 million in 2009 to help make payments for these regular benefits to claimants.<sup>39</sup> However, because of a decrease in the trust fund's primary source of revenues—payroll premiums—combined with a more than doubling of benefit payments from the prior year, the trust fund reserve became insolvent (the reserve is zero or in deficit) in January 2010. This prompted Colorado to borrow about \$254 million from the federal government to pay its regular unemployment insurance benefits, as of May 20, 2010. The report recommended that the state Department of Labor and Employment, which has responsibility for administering the program, perform a comprehensive evaluation of the unemployment insurance financing system, focused in part on raising the maximum annual wage amount on which unemployment insurance premiums are charged and raising the

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<sup>36</sup>Office of the State Auditor, *American Recovery and Reinvestment Act of 2009, Section 1512 Reporting, Performance Audit* (Denver, Colorado: Mar. 19, 2010). Although the report is dated March 2010, it was not released to the public until June 2010.

<sup>37</sup>GAO, *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, [GAO-10-223](#) (Washington, D.C.: Nov. 19, 2009).

<sup>38</sup>Office of the State Auditor, *Evaluation of the Unemployment Insurance Trust Fund, Department of Labor and Employment* (Denver, Colorado: June 23, 2010).

<sup>39</sup>At the time of the State Auditor's review, the federal government and the state of Colorado also offered extended benefits to eligible unemployed workers paid for with funds appropriated under the Recovery Act.

amount of the premiums themselves, and communicate the need to improve the long-term solvency of the trust fund to Colorado decisionmakers and employers. The agency agreed with all of the report's recommendations.

Further, a CDOT audit of one of the agency's Recovery Act-funded highway resurfacing projects found, among other things, the agency may have violated state fiscal rules when it authorized and paid for additional work that was outside of the scope of the original project before it executed a change order.<sup>40</sup> The audit report noted that CDOT does not provide clear guidance on this matter. Nevertheless, the report also noted that the additional work was necessary, the prices appeared to be fair and reasonable, the contractor performed the work as agreed, and the work was paid for at the agreed-upon prices. In a separate communication related to the audit report, the Audit Division suggested that CDOT stress the importance of timely execution of change orders, clarify the documentation requirements for change orders and price justifications, and emphasize that the authority to review and approve change order documentation rests with the Resident Engineer, subject to funding approval by the Program Engineer. In response to the concerns raised in the audit, CDOT has formed a task force to look at revisions to its construction manual.

In addition to these state-level audits, two city audits found compliance problems with federal grants. First, as part of the City of Fort Collins's fiscal year 2009 Single Audit, independent auditors found that the city paid about \$684,000 to two subrecipients under its Federal Transit Formula Grants, which included a Recovery Act grant, without checking whether or not the subrecipients had been suspended or debarred from participation in federal programs.<sup>41</sup> According to the audit report, the city is required by OMB to verify this information before issuing procurement contracts of \$25,000 or more or making subawards of any amount. The report recommended that the city ensure vendors and subrecipients that may receive federal awards have not been suspended or debarred from participation in one of two ways, either (1) have these entities sign certifications as to their eligibility or (2) have the city check the federal

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<sup>40</sup>CDOT Memorandum, *Audit of Construction Project Payments, Project ES4 0141-020, State Highway 14 Resurfacing (SA 15511), Prime Contractor: LaFarge North America dba LaFarge West*, Audit Number A1-1010 (Denver, Colorado: May 3, 2010).

<sup>41</sup>City of Fort Collins, Colorado, *Compliance Report* (Denver, Colorado: Dec. 31, 2009).

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Excluded Parties List System before making any subawards. In response, according to the audit report, the city has established a process that includes checking the Excluded Parties List System before issuing any purchase orders for projects containing federal funding.

Finally, the Denver City and County Auditor found several areas in need of improvement related to reporting and managing Recovery Act funding for the Airport Improvement Program at Denver International Airport (DIA).<sup>42</sup> The report identified some specific weaknesses, including that DIA's written policies and procedures do not contain the necessary steps to ensure that an effective review of Recovery Act data is completed. This resulted in DIA reporting incorrect data and failing to submit reimbursements to the Federal Aviation Administration in a timely manner and in accordance with applicable regulatory requirements. The report made a number of recommendations to DIA to strengthen its management and reporting of Recovery Act funds, which DIA agreed to implement by October 31, 2010.

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## Colorado's Comments on This Summary

We provided officials in the Colorado Governor's Recovery Office, Governor's Office of State Planning and Budgeting, Department of Personnel and Administration, the Office of the State Controller, and the Office of the State Auditor with a draft of this appendix for comment. State officials agreed with this summary of Colorado's recovery efforts to date. The officials provided technical comments, which were incorporated into the appendix as appropriate.

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## Staff Acknowledgments

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<sup>42</sup>City and County of Denver's Office of the Auditor, *Denver International Airport, Airport Improvement Program, Performance Audit* (Denver, Colorado: Aug. 19, 2010).

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# Appendix IV: District of Columbia

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## Overview

The following summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in the District of Columbia (the District).<sup>1</sup> The full report on our work, which covers 16 states and the District, is available at <http://www.gao.gov/recovery>.

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## What We Did

We reviewed the following programs funded under the Recovery Act—the State Energy Program (SEP), the Energy Efficiency and Conservation Block Grant Program (EECBG), the Weatherization Assistance Program (WAP), and three education programs. We began work on SEP and EECBG because services and projects were just getting underway for these programs. We continued our work on WAP and three education programs to update the status of these programs. For descriptions and requirements of the programs covered in our review, see appendix XVIII of [GAO-10-1000SP](#). Our work focused on how the funds were being used and monitored, how safeguards were being implemented, and issues that were specific to each program. To gain an understanding of the District's efforts to oversee and monitor the use of Recovery Act funds, we talked to the District's Office of the Inspector General (DC OIG) about its oversight role and audits related to Recovery Act funds. In addition to our program-specific reviews, we also updated information on the District's fiscal situation and how Recovery Act funds are being used for budget stabilization, as well as the District's experience in meeting Recovery Act reporting requirements.<sup>2</sup>

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## What We Found

**State Energy Program and Energy Efficiency and Conservation Block Grant Program.** Under the Recovery Act, the U.S. Department of Energy (DOE) awarded the District over \$31 million in funding through SEP and EECBG. The District Department of the Environment (DDOE) administers both programs for the District. In April 2009, the District received the initial award notice for approximately \$22 million in Recovery Act SEP funding, although the full funding award was not available to

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

<sup>2</sup>Recipients of Recovery Act funds are required to report quarterly on a number of measures, including the use of funds and estimates of 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.

DDOE until September 2009. Although approximately 2 percent (\$366,513) of funds have been expended as of June 30, 2010, DDOE officials expect all non-personnel Recovery Act SEP funds to be obligated by September 30, 2010 and approximately 40 percent to be expended by that date. DDOE plans to use the majority of SEP funds for energy efficiency retrofits at various District government and public school buildings. The EECBG program, funded for the first time by the Recovery Act, was created to assist state, local, and tribal governments in implementing strategies to reduce fossil fuel emissions, reduce total energy use, and improve energy efficiency in the transportation, building, and other appropriate sectors. In December 2009, the District was awarded almost \$9.6 million in Recovery Act funding for the EECBG program. According to DDOE officials, the District has obligated nearly all of the \$9.6 million of EECBG funds as of June 25, 2010. However, less than 0.5 percent has been expended, as of June 30, 2010—mainly for expenditures on personnel costs, as projects did not begin until late July 2010. The majority of EECBG funds have been obligated to District facilities, such as libraries and recreation centers, to provide energy improvements.

**Weatherization Assistance Program.** DOE allocated about \$8 million in Recovery Act weatherization funds to the District for a 3-year period. DDOE—the agency responsible for administering the program for the District—did not begin to spend its operational weatherization funding until February 2010. However, as of July 30, 2010, DDOE obligated all of its Recovery Act funding for weatherization and has completed weatherization for 230 homes, according to DDOE officials. These officials stated that the District will spend all its weatherization funding by March 31, 2011. DDOE expects to exceed its initial goal of weatherizing 785 homes using its Recovery Act funding, but does not have an updated estimate at this time.

**Education.** The U.S. Department of Education allocated \$143.6 million in Recovery Act funds to the District from the State Fiscal Stabilization Fund (SFSF); for grants under the Individuals with Disabilities Education Act, as amended (IDEA) Part B; and for grants under Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA). A large percentage of these funds are being used to pay employee salaries. The Office of the State Superintendent of Education (OSSE) continues to monitor the District's local educational agencies (LEA)<sup>3</sup> utilizing the

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<sup>3</sup>The District has 58 LEAs, including 57 charter school LEAs and the District of Columbia Public Schools (DCPS).

monitoring protocol it developed in March 2010, which includes conducting on-site monitoring visits and desk reviews. As of June 2010, OSSE completed its ESEA grant on-site monitoring visits for the 2009-2010 school year, consisting of visits to 18 LEAs. Concurrently, OSSE visited 3 LEAs receiving IDEA Part B grant funds, and completed 19 desk reviews of LEAs receiving Recovery Act funds—all of which OSSE officials considered to be higher-risk subrecipients. According to OSSE, LEAs generally complied with Recovery Act requirements, but some LEAs had inconsistencies with specific record management practices. OSSE has required these LEAs to improve their record management practices.

**Accountability efforts.** As of July 14, 2010, the DC OIG has initiated one audit specifically related to the use of Recovery Act funds involving construction contracts at the District Department of Transportation that were awarded under the Recovery Act. This audit is expected to be completed by spring 2011. Other planned Recovery Act audits have not yet begun because of lack of resources. Additionally, the District completed its fiscal year 2009 Single Audit report on June 29, 2010. The 2009 audit—the first Single Audit for the District that included Recovery Act programs—identified 5 significant deficiencies and 17 material weaknesses related to controls over programs that received Recovery Act funds, including the Medicare program. However, a senior official from the Office of the Chief Financial Officer (OCFO) noted that the deficiencies and weaknesses were not a result of noncompliance with Recovery Act requirements.

**The District's fiscal situation.** Additional Recovery Act funds have helped support certain District education, human services, and technology programs. District officials told us that the District has received over \$56 million in Recovery Act funding since we last spoke with them in April 2010 – about \$36 million in noncompetitive grants and about \$20 million in competitive grants. According to the District's Chief of Budget Execution, the infusion of Recovery Act funds has helped mitigate the negative effects of the recession on the District's budget by providing time to adjust for the decline in revenues, which allowed the District to avoid making drastic cuts to services and programs. Although the District continues to face fiscal challenges, there are signs that the District's economy is starting to recover. In June 2010, the District's Chief Financial Officer reported that the revenue estimates for fiscal years 2010 through 2014 remain unchanged from the estimate made in the previous quarter, noting that there are indicators of economic recovery.

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## The District Is Beginning to Spend Recovery Act Funds on the State Energy Program and the Energy Efficiency and Conservation Block Grant Program

Under the Recovery Act, DOE awarded the District over \$31 million in funding through SEP and EECBG. In the District, both programs are administered by DDOE. To develop a proposed allocation of funding among District agencies, DDOE and the Office of the City Administrator (OCA) requested detailed energy efficiency project proposals from various District government agencies that would deliver immediate energy savings and create jobs, and could easily be implemented. DDOE officials said that District agencies submitted requests for funding (over \$200 million) that far exceeded the available budget. DDOE officials said the final allocation of funding agreed upon by DDOE and OCA was based on two factors: (1) the agency's approximate share of the District government's total building energy retrofit needs,<sup>4</sup> and (2) the desire to distribute Recovery Act funding across the District portfolio to promote energy efficiency measures by as many agencies as possible, and for the benefit of as many constituencies as possible.

SEP provides funds through formula grants to achieve national energy goals such as increasing energy efficiency and decreasing energy costs. In April 2009, the District received the initial award notice for approximately \$22 million in Recovery Act SEP funding, although the full funding award was not available to DDOE until September 2009. According to a DDOE official, DDOE submitted its original application (or state plan) to DOE in May 2009. The application described the activities the District planned to implement; a description of how the District intended to achieve 20-30 percent cost savings annually through 2012; how the activities will help achieve this goal, along with any preliminary progress toward achieving this goal; and a monitoring plan for how the District will conduct oversight of project implementation. The original application has been revised because of changes in the proposed uses of funds, according to DDOE officials.

DDOE officials stated that, as of June 30, 2010, approximately 2 percent (\$366,513) of the SEP funds have been expended. DDOE officials explained that they have allocated funding to other District agencies through memorandums of understanding for about 91 percent of Recovery Act SEP funds. DDOE is working to ensure that all non-personnel Recovery Act SEP funds are obligated under signed agreements with the contractors or partners that will do the work by September 30, 2010 and

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<sup>4</sup>A building that has been retrofitted is one that has been updated with new or modified equipment or systems for the purpose, in this case, of increasing energy savings.

approximately 40 percent to be expended by that date.<sup>5</sup> According to DDOE officials, the District has a portfolio of buildings that need energy efficiency measures and retrofiting. To address this need, DDOE officials stated that about 75 percent of Recovery Act SEP funds will be allocated for building retrofits and about 25 percent will be allocated for internal/direct service projects, such as outreach and education, renewable grants, and energy efficiency activities. For example, according to DDOE, almost \$7.9 million of the District's Recovery Act SEP funds will be used to retrofit eight elementary and middle schools in the District. This project started on June 23, 2010, and is expected to be completed by August 23, 2010. DDOE officials said another \$1.3 million of Recovery Act SEP funds will be used for advertisements of energy conservation measures for programs funded under SEP and specific outreach programs, among other things.

The EECSBG program, funded for the first time by the Recovery Act,<sup>6</sup> was created to assist state, local, and tribal governments in implementing strategies to reduce fossil fuel emissions, reduce total energy use, and improve energy efficiency in the transportation, building, and other appropriate sectors. The Recovery Act appropriated \$3.2 billion for this program. In December 2009, the District was awarded almost \$9.6 million in Recovery Act funding by DOE for the EECSBG program. EECSBG funding will be used in the District to (1) reduce energy consumption in government facilities, (2) help District residents and businesses conserve energy by implementing energy efficient practices, and (3) create "green collar" jobs.

According to DDOE officials, the District had memorandums of understanding and other agreements executed with other District agencies and community-based organizations (CBOs) as of June 25, 2010 for \$7 million and expected to have almost all of the \$9.6 million of EECSBG funds under agreements by July 31, 2010. However, less than 0.5 percent has been expended, as of June 30, 2010—mainly for expenditures on personnel costs, as projects did not begin until late July 2010. DDOE officials stated

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<sup>5</sup>According to DOE guidance, states are required to obligate all of the Recovery Act SEP grant funds within 18 months. DOE guidance further states that Recovery Act SEP grant funds should be obligated by September 30, 2010 and spent by March 31, 2012 to meet Congressional and Department goals.

<sup>6</sup>The EECSBG program was authorized in Title V, Subtitle E of the Energy Independence and Security Act, which was signed into law on December 19, 2007.

that about 75 percent of EECBG funds has been allocated to District facilities such as libraries, firehouses, and recreation centers. For example, \$1.5 million will be used to provide energy efficiency improvements to 10 public libraries in an effort to reduce their overall energy use. DDOE officials said that this project began in July 2010 and is estimated to end by March 31, 2011. DDOE officials said the other 25 percent of EECBG funds is allocated to worthwhile programs that had no longer been funded or new programs that could not be funded in the absence of Recovery Act funds. District officials said they had been unable to serve certain target populations, such as the nonprofit and small business sectors, and a portion of EECBG funds will be targeted to these populations. For example, the District plans to use \$500,000 of EECBG funds to provide energy audits and retrofits to nonprofit CBOs in the District. The estimated completion date for this project is April 30, 2011.

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### Monitoring of SEP and EECBG Programs is Just Beginning

DDOE officials stated that because Recovery Act SEP and EECBG projects have just begun in the District, as of July 1, 2010, DDOE had not yet conducted any monitoring activities of these programs. However, DDOE officials indicated that the District is committed to the proper management and oversight of all Recovery Act SEP- and EECBG-funded projects and has a number of procedures planned or in place to monitor both programs. For example, the District has recently developed a grants manual and sourcebook as a complement to the pre-existing subrecipient monitoring manual for District agencies to implement as part of their management of grant-funded programs. DDOE plans to adapt this manual to address the specific monitoring requirements of the SEP and EECBG programs. DDOE also noted that all District agencies receiving SEP and EECBG funds must meet Recovery Act requirements and ensure that standard protocols are being used, monitoring is occurring, and reporting and projects are done on time. According to DDOE officials, they are developing plans that describe how this monitoring will occur in practice. For example, DDOE officials told us that their monitoring will include monthly field visits to District agencies receiving SEP and EECBG funds to check on the progress of SEP and EECBG projects. In addition, DDOE officials stated that these agencies would provide DDOE with monthly status updates on SEP and EECBG projects, which would include a discussion of milestones and timelines for each project.

For the SEP program, DDOE officials told us they will, at a minimum, conduct routine monitoring visits to the two largest projects—the energy retrofit projects at the eight District schools and the largest District government building. DDOE officials also stated they will monitor all

projects using the Recovery Act monitoring checklist they developed, which includes checking expenditures of funds awarded, energy measures installed, and milestones met or missed by projects, based on the District's state plan. DDOE officials stated that their focus while monitoring will be to ensure that the work being done is consistent with the agreed-upon scope of work. Further, DDOE officials stated that their Recovery Act financial manager will conduct a separate "desktop" financial monitoring of projects by verifying expenditures through a shared financial database used by DDOE and the other District agencies.

DDOE officials told us they will use a process for monitoring the EECEBG program very similar to what they use for the weatherization program. For example, although DDOE has partnered with other District agencies to complete SEP and EECEBG projects, DDOE officials said they will also make use of six of the seven CBOs doing weatherization under the Weatherization Assistance Program for the District to implement retrofit projects, including conducting postwork inspections for completed projects. DDOE officials said they will conduct monthly field visits to the CBOs to ensure that the invoices received from the CBOs match up with the work ordered, as well as conducting postwork inspections to ensure quality workmanship. In addition, DDOE will use the same project tracking system set up for the weatherization program. DDOE officials stated they plan to monitor all parties they have contracts with as well as audit 10 percent of all projects for administrative, programmatic, and financial compliance.

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### The District Will Use the Same Recipient Reporting Process for Both Recovery Act Energy Programs

DDOE is one of the prime recipients in the District and utilizes the centralized recipient reporting system, which is discussed in further detail later in this report.<sup>7</sup> For recipient reporting purposes, DDOE officials told us that only one SEP or EECEBG program—an SEP funded outreach program—had started during the reporting period ending June 30, 2010, so both programs reported minimal program costs expended and minimal full-time equivalents (FTE) for the latest reporting period, consisting only of hours worked by DDOE's Recovery Act administrative staff for SEP and EECEBG. DDOE officials told us that when more work on SEP and EECEBG projects begins, they plan to collect recipient reporting data from the

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<sup>7</sup>Prime recipients are nonfederal entities, such as District agencies, that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government.

subrecipients, including certified payroll records to verify hours worked by contractors. Additionally, DDOE officials told us that other District agencies receiving SEP and EECBG funding will be responsible for submitting recipient reporting data to the District for its respective projects. However, officials indicated there have been issues in the past with other agencies not reporting in a timely fashion on SEP projects. DDOE officials told us they have developed Recovery Act training for other District agencies and subrecipients, which should help ensure timely reporting. According to DDOE officials, the recipient reporting data collected will then be reviewed by the SEP or EECBG program officer and Recovery Act grant managers for accuracy before the data are submitted to the District and federal recipient reporting systems for review and approval.<sup>8</sup> However, DDOE officials told us they needed additional staff to help with timely recipient reporting for all of its Recovery Act grants, including SEP and EECBG, and planned to hire a Recovery Act coordinator in August 2010.

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## The District Plans to Measure Project Impacts

Because DDOE has just begun to implement projects with SEP and EECBG funds, DDOE does not yet have outcome measures, such as energy savings or job creation. As part of its quarterly reports to DOE, DDOE is required to report measures such as energy saved and greenhouse gas emission reductions. For completed SEP projects, officials stated that DDOE will calculate energy savings and greenhouse gas emissions by incorporating the building square footage, pre- and postinstallation utility bills, measures installed, and dollars spent. For EECBG projects, officials told us the District will measure both kilowatt and thermal savings generated from the installation of the various energy efficiency measures. Most of the energy retrofit projects require a pre- and postaudits that clearly identify the energy upgrades needed and the projected energy savings from installing the recommended energy efficiency measures.

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<sup>8</sup>In July 2009, the City Administrator directed District agencies to assign one individual staff member as the grant manager for each individual Recovery Act grant award an agency received. According to the City Administrator, the grant manager is responsible for day-to-day management of the grant, such as verifying that all recipient reporting information for the grant is accurate and submitted within deadlines.

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## Although the District Has Made Progress Performing Weatherization Work, Oversight Challenges Remain

The Weatherization Assistance Program is intended to weatherize homes, save energy, and create jobs. Under the Recovery Act, the District Department of the Environment (DDOE), the agency responsible for administering the program for the District, was allocated about \$8 million in Recovery Act funds by DOE.

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## After a Slow Start, the District Has Made Progress Expending Funding and Weatherizing Homes

DDOE did not begin to spend its operational weatherization funding until February 2010. However, as of July 30, 2010, DDOE had obligated all of its Recovery Act funding for weatherization and expended about \$3,774,000, according to DDOE officials. Seven community-based organizations in the District manage weatherization projects and could not start weatherizing homes until they received funding from DDOE. As a result, CBOs did not begin to weatherize homes until March 2010, making the District among the last recipients of Recovery Act weatherization program funding to begin spending funds. According to a senior DDOE official, DDOE was slow to expend funds because DDOE was developing the infrastructure to administer the program. Recovery Act funding has substantially increased the size of the weatherization program in the District, from about \$650,000 in 2008 to about \$8 million in Recovery Act funds. To manage the program, DDOE has worked to increase its staff, but there had been delays in this process. However, as of June 30, 2010, DDOE had completed hiring six additional staff to help oversee and manage the program.<sup>9</sup> According to DDOE officials, the District will spend all its weatherization funding by March 31, 2011.<sup>10</sup> With Recovery Act funding, CBOs have completed weatherizing 230 homes in the District as of July 30, 2010. DDOE expects to exceed its initial goal of weatherizing 785 homes using its Recovery Act funding, but does not have an updated estimate at this time.

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<sup>9</sup>Since March 2010, DDOE has hired a program manager, an assistant program manager, two energy auditors, and two energy program specialists.

<sup>10</sup>This represents a delay from prior estimates. In May 2010, we reported that DDOE officials anticipated expending all of its Recovery Act funding by September 30, 2010. See GAO, *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (District of Columbia)*, [GAO-10-605SP](#) (Washington, D.C.: May 26, 2010).

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## District Efforts to Monitor Weatherization Program Have Just Begun

DDOE and the CBOs have a number of procedures in place or planned to monitor the weatherization program.

- *Annual reviews of CBOs:* DDOE officials informed us that, as of July 15, 2010, their program managers had just recently conducted monitoring visits to all seven CBOs. The final reports from these monitoring visits were not available for us to review in time for this report, as the CBOs have 30 days to address any findings prior to issuance of DDOE's final written report. However, DDOE reported to us that there were no major findings. The final monitoring reports will be forwarded to DOE and to the associated CBOs.

DOE requires that DDOE conduct such comprehensive monitoring of each CBO at least annually. This monitoring must include a review of client files and the CBO's records, as well as a status-of-work statement and a comparison of the actual accomplishments with the goals and objectives established for the period, the cost status, and schedule status. The cost status must show the approved budget by the budget periods and the actual costs incurred, and the schedule status should list milestones, anticipated completion dates, and actual completion dates. The annual review must also include results of the site inspections referred to below.

- *Site inspections:* In its Recovery Act program guidance, DOE requires state agencies, such as DDOE, to inspect at least 5 percent of all completed weatherization work and recommends inspection of even more. DDOE, in its grant agreement with the CBOs, had committed itself to inspecting 10 percent of all work completed. According to DDOE officials, DDOE's auditors had begun conducting site inspections for the quality assurance of work completed by contractors.

In addition to DDOE's oversight of the program, all CBOs are required to perform site inspections of 100 percent of completed weatherization projects. One CBO performs weatherization work using its own crews and has contracted with independent site inspectors to review their work, to avoid a conflict of interest. These inspection reports are checked by that CBO's program manager, according to officials from the CBO. According to the CBOs we talked to, if they find cases of poor quality or workmanship, CBOs will require contractors to fix the problem at no additional cost to the CBO.

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## The District's System of Internal Controls for Weatherization Is in Transition and Presents Challenges

We conducted a customer file review of three of the seven CBOs to understand how CBOs document their weatherization work and to determine the extent to which DDOE uses its CBOs' files to track the status of weatherization projects.<sup>11</sup> We found that while some of the customer files maintained by the CBOs were not complete, much, but not all, of the missing documentation could be found in DDOE's online software system used to manage weatherization projects. We met with DDOE and received an in-person demonstration of the system and how the agency uses its many features. We found that the system—complete with price lists and automated change order approvals via email—is a useful tool in managing weatherization projects, but has not yet been fully implemented and does not contain all the data necessary to track individual weatherization projects from start to finish. As a result, at the time of our review neither the physical customer files maintained by the CBOs nor the online weatherization management system presented a complete record of weatherization projects.<sup>12</sup>

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## GAO File Review of CBOs Revealed Some Incomplete Physical Files

For the purposes of this report, we contacted three of the seven CBOs DDOE is using to perform weatherization work under the Recovery Act. At each CBO we planned to randomly select 10 customer files of completed weatherization jobs to review.<sup>13</sup> Customer files are retained by CBOs for payment purposes and consist of documentation of work authorizations and progress of weatherization work, among other things. We also consulted with CBO staff to clarify any questions we had about the customer files we reviewed, and met with DDOE officials to discuss their record-keeping policies. Our file reviews at the CBOs were limited in scope and were not sufficient for expressing an opinion on the

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<sup>11</sup>To capture a variety of approaches to performing weatherization work, we selected these three CBOs on the basis of their use of contractors as opposed to use of their own crews, whether they offer training to these crews, and congressional interest. We determined that the selection was appropriate for our design and objectives, and that the selection would generate valid and reliable evidence to support our work.

<sup>12</sup>DDOE reported that they conducted inspections of CBOs in early July 2010—roughly 2 weeks after our review—and found that all CBOs they reviewed had copies of all required documentation.

<sup>13</sup>Only one of the three CBOs we visited had more than 10 complete customer files for us to choose from. Of the other two CBOs, one had 4 and another had 9 complete files; other customer files were on jobs that were still in progress. In total we reviewed 23 completed weatherization customer files.

effectiveness of CBO internal control or compliance with Recovery Act requirements.

We found that DDOE officials were unable to cite clear guidance to CBOs on what CBOs must at a minimum include in their weatherization customer files. One CBO official told us that he maintains records that he deems necessary for the files based on his experience with managing weatherization projects. However, shortly before the beginning of our file review, DDOE distributed a checklist of minimum file contents to CBOs. This list includes (1) DDOE's energy audit report, (2) a data client sheet (work order detail), (3) the CBO's post inspection form, (4) a customer satisfaction form and (5) an invoice for work completed.

We found that in some cases, the CBOs' files did not contain all the documents required by DDOE's checklist. For instance:

- According to DDOE's checklist, copies of work orders and invoices are to be included in the file. Officials told us that these documents, along with copies of change orders, are intended to show that the scope of work has been approved before the contractor or CBO is paid for work completed. In our review, 12 of 23 files either lacked copies of work orders or invoices, or the work invoices exceeded work shown in the work orders without documented approval from DDOE. Without a complete set of these documents, the physical file does not record that the work that was paid for was also approved.
- Also, DOE requires recipients to perform an energy audit on every home receiving weatherization assistance. According to DDOE's customer file checklist, a copy of this audit must be included in each file. The energy audit forms the basis of the scope of work and represents DDOE's assessment of what weatherization work a unit requires. Weatherization measures in the energy audit are listed in priority order, with those measures with the greatest energy efficiency impact listed first. In our review, 13 of 23 files either lacked copies of the energy audit or the work listed in the work orders exceeded work recommended in the energy audit without documented approval. Without a complete set of these documents, the physical file does not indicate that the scope of work addresses the unit's most critical energy efficiency issues identified by the energy auditor.
- DOE requires CBOs to conduct a final quality inspection of 100 percent of all units before submitting an invoice to DDOE for reimbursement. In addition, DDOE's checklist requires CBOs to collect signed customer satisfaction forms as a final assurance that work was

performed professionally. In our review, 5 of 23 files did not contain a final quality inspection form, and in an additional 5 cases, the forms were neither signed nor dated. According to a DDOE official, invoices associated with these files have been paid. Without a completed quality inspection form, the physical file does not record whether the CBOs were satisfied with the contractors' weatherization work.

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**DDOE Uses an Online Reporting Tool to Track Progress and Expenditures, but It Is Not Fully Implemented and Does Not Capture All Required Documentation**

We found that much, but not all, of the documentation missing from CBO customer files was found in DDOE's Hancock Energy Software Weatherization Program (Hancock system). The Hancock system is a private-sector online reporting tool for tracking and managing Recovery Act funds, including budgeting and invoicing, administrative costs, and job management, among other things.<sup>14</sup>

After our file review, we met with DDOE officials and received a demonstration of the capability of the Hancock system and their application of it. Using the Hancock system, CBOs record project data, allowing them and DDOE to track, for example, the number of jobs CBOs have completed as well as those still in progress. The system is designed to show estimated costs for each weatherization item or task as well as estimates of the time it will take to complete the work. Officials from CBOs said they used this feature to evaluate contractor bids. DDOE officials stated that they use the Hancock system to monitor each CBO's progress and perform daily checks of the data entered. The following are examples of information contained in the system:

- *Client eligibility.* The Hancock system maintains information pertinent for WAP eligibility such as the household income, income sources, size of household, and client eligibility letter. However, DDOE WAP staff receive this information from another program within DDOE that does not use the Hancock system.<sup>15</sup> As a result, client eligibility information must be entered into the Hancock system manually. A DDOE WAP official we spoke with voiced a desire that Hancock be widely adopted, because this manual data entry is cumbersome and time-consuming.

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<sup>14</sup>Other states also use the Hancock system.

<sup>15</sup>The eligibility of a client for WAP is based on the same criteria the District uses for its Low Income Home Energy Assistance Program (LIHEAP). Within DDOE, this program shares client eligibility data with WAP.

- *Work orders.* From the energy audit, the Hancock system generates a work order that lists weatherization measures for the CBO to complete. The Hancock system lists the weatherization measures in order of priority based on criteria such as effectiveness, health and safety, and DOE requirements or guidance. The Hancock system also displays the estimated cost for the line items on the work order. A DDOE official told us that the estimated prices for material are based on retail prices found at local home improvement stores and that, for example, a window replacement is expected to cost about \$300. DDOE increases this cost estimate in the Hancock system to provide CBOs and contractors a margin for profit.

However, a DDOE official told us that the Hancock system does not yet contain estimated costs for all the weatherization work the CBOs and contractors perform. For example, some energy audits have specified gutter replacement as one of the necessary weatherization measures. However, gutters had not been an approved use of weatherization funds in prior years and therefore do not have an associated estimated cost. Consequently, the Hancock system assigns an estimated price of \$0. When this happens, the Hancock system underestimates the true cost of a weatherization job and there is a risk of that job exceeding the \$6,500 per unit threshold. DDOE is working on adding accurate cost estimates for these tasks in the Hancock system.

- *Project changes.* DDOE and CBOs have found that while a contractor is working on site, additional work may be identified as necessary in order to appropriately weatherize a home. For example, in the course of insulating a room per the energy audit, a contractor discovered that the ceiling or roof must be mended as well.<sup>16</sup> When a CBO identifies that there is additional work to be completed, the CBO will enter the request for additional work into the Hancock system. This generates an e-mail automatically sent to an approving official at DDOE who either approves or denies the request. Currently there is only one official at DDOE who approves such project changes—the program director. Typically, this official approves the request as long as she considers it to be “reasonable” and under the \$6,500 per unit threshold. Because of time constraints and other responsibilities, this official told us she does not closely review each project change but largely relies

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<sup>16</sup>It is the CBO’s responsibility to get DDOE’s approval to proceed with additional work. DDOE monitors that the average cost of all Recovery Act jobs does not exceed the \$6,500 federal maximum per home average limit for weatherization.

on the CBOs' and contractors' judgment that the work is necessary. This DDOE official told us that because the Hancock system is Web-based, she can respond to these change requests at any time, including while on vacation. DDOE is currently training additional staff to approve requests for project changes, according to this official.

- *Invoices and payment.* DDOE officials told us that CBOs can submit invoices to DDOE through the Hancock system. A DDOE official reviews the invoice for accuracy and compares it with the corresponding work order and energy audit in the Hancock system. After approval, DDOE pays the invoice. However, as of July 9, 2010, DDOE had not released payment for any invoices submitted through the Hancock system for weatherization work funded by the Recovery Act. The DDOE official who reviewed Hancock-issued invoices received prior to July 9, 2010, told us that the Hancock system had improperly calculated invoice totals, but that the problem had since been fixed. The Hancock system was incorrectly calculating the CBOs' administrative fees by adding \$650, or 10 percent of the maximum allowable average cost per home of \$6,500, instead of adding 10 percent of the actual cost incurred.

Also the Hancock system has been set up to raise a flag and identify invoices related to homes that have incurred costs in excess of the maximum allowable average cost per home of \$6,500.<sup>17</sup> A senior DDOE official told us that units in the District incur weatherization costs both above and below this amount, but that WAP was still within the allowable limit.

- *Energy savings.* DDOE is trying to capture energy savings for each weatherized unit in the Hancock system, but this is a work in progress, and the savings currently cannot be determined for the weatherization program as a whole. A senior DDOE official told us until the weatherization online system is updated, DDOE will continue to use the National Energy Audit Tool (NEAT) to determine energy savings.

While the system contains a variety of information on weatherization projects and fills in some of the gaps we identified in the physical files maintained by the CBOs, the system does not contain a record of all required documents. For example, the system does not maintain the client satisfaction form that must be completed at the close of each

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<sup>17</sup>The Hancock system raises an alert when the invoice amount for one home exceeds \$7,150, or \$6,500 plus the 10 percent administrative fee.

weatherization job. The Hancock system also does not include a record of the postinstallation inspection conducted by the CBO.

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### DDOE Is Using the District's Centralized Recipient Reporting System

DDOE officials told us they use the same recipient reporting process for all of its Recovery Act grants, including WAP. DDOE reported 13.42 FTEs were funded by WAP funds from April 1, 2010, to June 30, 2010.<sup>18</sup> DDOE is one of the District's prime recipients and utilizes the centralized recipient reporting system, which is discussed in further detail later in this report. CBOs submit certified payroll records to DDOE on a weekly basis to support the hours reported that were worked and funded by Recovery Act weatherization funds by the CBOs' employees and contractors. According to a DDOE official, weatherization program staff and the Recovery Act grant manager review for accuracy the recipient reporting information submitted by the CBOs before DDOE reports it to the District on a monthly basis. The DDOE official told us that DDOE did not experience problems collecting or reporting recipient reporting information for weatherization for the period ended June 30, 2010.

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### The District's Local Educational Agencies Continued Using Recovery Act Funds, and the Office of the State Superintendent of Education Began Monitoring Fund Use

The U.S. Department of Education has allocated \$143.6 million in Recovery Act funds to the District for three programs:

- \$16.7 million in Individuals with Disabilities Education Act, as amended (IDEA) Part B Recovery Act funds, which provides funding for special education and related services for children with disabilities;
- \$37.6 million in Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA) Recovery Act funds, which provides funding to help educate disadvantaged students;
- \$89.3 million in funds from the State Fiscal Stabilization Fund (SFSF), which was created under the Recovery Act in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services. Of the SFSF funds, 81.8 percent are designated as education stabilization funds and intended to support public elementary, secondary, and higher education, and as applicable, early childhood education programs and services. The remaining 18.2 percent of SFSF funds are designated as government services funds, intended to provide additional resources to support public safety and other government services, which may include education.

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<sup>18</sup>We obtained the FTE information from Recovery.gov on August 6, 2010.

Additionally, 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.<sup>19</sup> 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.

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### The District LEAs Are Accessing Their Recovery Act Funds

**IDEA Part B.** OSSE provides the LEAs with IDEA Part B Recovery Act funds on a reimbursement basis, whereby the LEAs can obligate Recovery Act funds, spend their state and local funds, and then request reimbursement from OSSE for Recovery Act funds. OSSE reported that as of July 23, 2010, out of the \$16.7 million in Recovery Act funds allocated to the District LEAs for IDEA Part B, about \$2.2 million had been requested for reimbursement by 32 charter school LEAs and OSSE had made a total of over \$1.2 million in payments to those charter schools. OSSE also reported that as of August 16, 2010, the District of Columbia Public Schools (DCPS) had submitted an IDEA Part B Recovery Act reimbursement request for about \$9.1 million out of its allocation of approximately \$12.9 million. According to OSSE officials, DCPS has provided assurances that it is working closely with its Office of the Chief Financial Officer to submit timely reimbursement requests and has established a timeline for submitting multiple requests for reimbursement before September 30, 2010.

**ESEA Title I.** OSSE also provides the ESEA Title I Recovery Act funds to the LEAs on a reimbursement basis, whereby the LEAs can obligate Recovery Act funds, spend their own state and local funds, then request reimbursement from OSSE for Recovery Act funds. As of July 23, 2010, the charter school LEAs had requested reimbursement for about \$7.1 million and DCPS had requested \$264,197 for a total of about \$7.4 million requested for reimbursement by the District LEAs.<sup>20</sup> As of July 23, 2010, OSSE had made a total of about \$3.5 million in payments to 33 charter school LEAs and an additional \$1.5 million was approved with payment

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<sup>19</sup>Pub. L. No. 111-226, § 101, 124 Stat. 2389. The legislation also provided for an extension of increased Federal Medical Assistance Percentage (FMAP) funding.

<sup>20</sup>The amount requested for reimbursement may not equal the amount ultimately paid to the subrecipient (LEA) depending on the grant manager's review of the submitted expenditures.

pending. According to OSSE officials, DCPS has provided assurances that it is working closely with its Office of the Chief Financial Officer to submit timely reimbursement requests and has established a timeline for submitting multiple requests for reimbursement before September 30, 2010. Officials at the two charter school LEAs that we contacted, Center City Public Charter School and Friendship Public Charter School, noted that while the flow of ESEA Title I Recovery Act funds started late in the year, once it was underway, the reimbursement process ran faster and smoother than it had in the past.

**State Fiscal Stabilization Fund.** The District was allocated \$73.1 million in Recovery Act SFSF education stabilization funds.<sup>21</sup> The District was also allocated almost \$16.3 million in SFSF government services funds, \$9.8 million (60 percent) of which it designated for public schools, including public charter schools.<sup>22</sup> OSSE's Deputy Chief of Staff told us that the District allocated the SFSF funds directly to LEAs using the District's Uniform per Student Funding Formula (UPSFF) which, by law, is distributed in quarterly payments to public charter schools and is incorporated into DCPS's budget as DCPS is a District agency. As a result, charter schools are not reimbursed for their SFSF spending. Rather, charter schools spend their SFSF funds as UPSFF funds and report their expenditures to OSSE, which reviews their expenditures to verify appropriate use of the funds. OSSE disbursed the SFSF funds to the charter school LEAs in two payments, one on January 14, 2010 (government services funds), and the other on April 15, 2010 (education stabilization funds). As of May 7, 2010, OSSE had completed its payments of SFSF funds to the District charter school LEAs for a total of more than \$29 million. As of July 23, 2010, the charter school LEAs had submitted expenditure reports for SFSF funds totaling about \$23 million out of the over \$29 million that OSSE had disbursed. However, SFSF funds are

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<sup>21</sup>Of the total \$73.1 million in SFSF education stabilization funds allocated to the District, the District allocated almost \$1.3 million to the University of the District of Columbia (UDC).

<sup>22</sup>The Metropolitan Police Department received \$6.5 million (40 percent) of the District's SFSF government services funds.

federal funds governed by the applicable cash management rules.<sup>23</sup> In general, these rules require executive agencies implementing federal assistance programs and states, including the District, participating in them to minimize the time elapsing between the state's disbursement of federal funds to subrecipients, such as LEAs, and the disbursement of those funds by subrecipients.<sup>24</sup> To address this issue, on June 18, 2010, OSSE provided guidance to its LEAs about reporting their SFSF expenditures to OSSE in order to comply with such federal rules.

Unlike the charter school LEAs, DCPS must access SFSF funds in the same manner as it accesses other federal funds—by requesting reimbursement for its expenditures through OSSE. As of August 18, 2010, according to the Deputy Chief of Staff, DCPS had requested reimbursement and received approval for \$40 million of its \$52 million SFSF allocation.

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<sup>23</sup>The Cash Management Improvement Act of 1990, as amended, requires the Secretary of the Treasury, along with the states, including the District, to establish equitable funds transfer procedures so that federal financial assistance is paid to states in a timely manner and funds are not withdrawn from Treasury earlier than they are needed by the states for grant program purposes. The act requires that states pay interest to the federal government if they draw down funds in advance of need and requires the federal government to pay interest to states if federal program agencies do not make program payments in a timely manner. The Department of the Treasury promulgates regulations to implement these requirements. 31 C.F.R. pt. 205. However, cash management by subrecipients, such as LEAs, is subject to Department of Education grant administration regulations, which may require subrecipients to remit to the U.S. government interest earned on excess balances. *See* 34 C.F.R. §§ 74.22, 80.21.

<sup>24</sup>For the Department of Education, see 34 C.F.R. § 80.21(b). The specific requirements can vary depending on whether the program (1) is listed in the Catalogue of Federal Domestic Assistance, (2) meets the threshold for a major federal assistance program, and (3) is covered by an agreement between the U.S. Treasury Department and the state, among other circumstances.

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## The Majority of LEAs Planned to Use Their IDEA Part B Recovery Act Funds Primarily for Salaries and Contracted Services

At the time of our analysis, 33 LEAs had submitted a Phase II application and were approved by OSSE to receive reimbursement for their allocated portion of the District's \$16.7 million in IDEA Part B Recovery Act funds.<sup>25</sup> The District LEAs planned to spend the largest portion of their IDEA Part B Recovery Act funds on salaries (about 45 percent) and the second largest portion on contractual services (about 35 percent).<sup>26</sup> The third largest portion of planned spending was designated for supplies and materials (about 10 percent). About 3 percent of IDEA Part B Recovery Act planned spending was designated for fringe benefits such as health care or retirement accounts. The remaining portion of planned spending was spread across the other budget categories.<sup>27</sup>

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<sup>25</sup>To receive Recovery Act funds, OSSE requires that LEAs submit an application that describes how the funds will be used, and OSSE must approve this application. The IDEA Part B Recovery Act application process consists of three phases: phase I—LEAs make programmatic assurances; phase II—LEAs submit spending plans and budgets based on preliminary allocations; and phase III—LEAs submit revised spending plans and budgets based on their final allocations. The 33 LEAs that applied for and were approved to receive Recovery Act IDEA funds at the time of our analysis—May 24, 2010—comprise 32 public charter schools and DCPS. As of August 4, 2010, OSSE reported that an additional 7 LEAs had applied for and received IDEA Part B Recovery Act funds, for a total of 40. The additional 7 LEAs were not included in our analysis. In addition to its 129 schools, DCPS also serves as the LEA for IDEA purposes for 16 public charter schools. According to an OSSE official, 2 of those 16 LEAs will be closed as of the 2010-2011 school year, and as a result, DCPS will be the IDEA LEA for 14 public charter schools for the 2010-2011 school year. In our last report ([GAO-10-695SP](#)), we discussed the planned uses for ESEA Title I Recovery Act funds and SFSF funds. We found that a significant portion of LEAs planned to use these funds for salaries and benefits.

<sup>26</sup>To gather these data, we obtained from OSSE the IDEA Part B Recovery Act fund applications with budget sheets for the 33 LEAs that had submitted applications for those funds at the time of our analysis. These budget sheets were approved by OSSE and identified the LEAs' planned uses of these funds. We reformatted and analyzed the planned uses and determined that the data were sufficiently reliable for the purposes of this report. The totals do not add to 100 percent because the four budget categories discussed are four out of the seven total budget categories on the budget sheets and the percentages have been rounded.

<sup>27</sup>Including salaries, contracts, supplies and materials, and fringe benefits, there are seven budget spending categories in the OSSE-created application that LEAs must complete to receive IDEA Recovery Act funds. The other three categories are fixed costs (rent and utilities), other services, and equipment. The categories for IDEA budgets and direct costs are slightly different from the categories used in the Recovery Act ESEA Title I and SFSF applications. The ESEA Title I and SFSF applications put salaries and benefits together in one budget category. The IDEA application puts salary and fringe benefits into two separate budget categories. The totals do not add to 100 percent because the four budget categories discussed are four out of the seven total budget categories on the budget sheets and the percentages have been rounded.

Twenty-two of the 33 LEAs planned to use all or part of their IDEA Part B Recovery Act funds for salaries. Specifically, 11 of the 22 LEAs designated 100 percent of their funds and 6 of the 22 LEAs designated between 75 and 100 percent for that purpose. Six of the 22 LEAs that planned to use their funds for salaries also planned to use up to 25 percent of their IDEA Part B Recovery Act funds to provide fringe benefits.

Fourteen of the 33 LEAs planned to use all or part of their IDEA Part B Recovery Act funds for contractual services.<sup>28</sup> Seven of those LEAs designated from 75 through 100 percent of their funds for that purpose. According to DCPS's Phase III application, DCPS planned to spend 37 percent of its IDEA Part B Recovery Act funds on salaries and 63 percent on contractual services.<sup>29</sup> This is similar to DCPS's plan for ESEA Title I Recovery Act funds, of which DCPS planned to spend about 70 percent on contracted professional services.<sup>30</sup>

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<sup>28</sup>The budget category "contractual services" can include contracts for direct instruction, administration, support services, operation and maintenance, and student transportation. For the 33 LEAs that were part of our analysis, "contractual services" were used primarily in the program categories of direct instruction and support services.

<sup>29</sup>DCPS submitted its IDEA Part B Recovery Act Phase III application on August 2, 2010, according to OSSE officials.

<sup>30</sup>Recovery Act ESEA Title I and SFSF fund recipient LEAs can be separated into two distinct groups for analysis—the public charter schools and DCPS. In contrast, for IDEA Recovery Act funds, DCPS is the LEA for its own 129 schools and additionally serves as the LEA for IDEA purposes for 16 of the public charter school LEAs. Thus, it is not possible in this analysis of Recovery Act IDEA Part B funds to separate all the public charter LEAs and their planned spending from the DCPS LEA and its planned spending.

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Selected LEAs Used  
Recovery Act Funds to  
Implement Programs that  
Focus on Students with  
Disabilities and on  
Reducing Negative  
Behaviors

We met with three District LEAs—DCPS, Center City Public Charter School,<sup>31</sup> and Friendship Public Charter School<sup>32</sup>—to discuss uses of Recovery Act funds that they consider to be successful.<sup>33</sup> We selected these LEAs based on factors such as the amount of Recovery Act funds allocated, the amount of Recovery Act funds expended, and to maintain continuity with our prior Recovery Act reports.

**IDEA Part B Recovery Act funds.** DCPS officials described their enhancements to the Special Education Data System (SEDS) as a success that was made possible by IDEA Part B Recovery Act funds. SEDS is a state-level data system that tracks students with disabilities and services provided for them. A DCPS official observed that prior to the infusion of IDEA Part B Recovery Act funds, SEDS did not provide all the tools that DCPS desired for converting raw data into usable information. The official told us that the improved SEDS program will allow various DCPS staff to track a variety of data such as the timeliness of ordering and conducting new assessments, achievement levels, and areas for improvement.<sup>34</sup> According to the official, using the IDEA Part B Recovery Act funds to improve SEDS functionality will strengthen DCPS's ability to provide special education services to its students, and ultimately result in cost savings. Without the Recovery Act funds, the improvements would have taken a number of years to accomplish, according to DCPS officials.

Officials at Center City Public Charter School told us they used some IDEA Part B Recovery Act funds to improve their program for students with disabilities by hiring six inclusion specialists. According to Center City documents, inclusion specialists are the primary educators responsible for ensuring that students with Individualized Education Programs (IEP) receive appropriate and consistent instruction and services prescribed by their IEPs.<sup>35</sup> The specialists worked not only with students but also

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<sup>31</sup>Center City Public Charter School has six campuses.

<sup>32</sup>Friendship Public Charter School has six campuses.

<sup>33</sup>When asked to describe what they saw as successes, Center City Public Charter School and Friendship Public Charter School chose to describe the use of both ESEA Title I Recovery Act funds and IDEA Part B Recovery Act funds. DCPS chose to describe successes using IDEA Part B Recovery Act funds.

<sup>34</sup>The DCPS official also noted that SEDS provides information not just across the individual schools but also across the whole LEA.

<sup>35</sup>An IEP is a written educational plan for a student with disabilities. The purpose of an IEP is to provide for a child with disabilities specialized or individualized assistance in school.

worked collaboratively with classroom teachers and parents. According to Center City officials, by increasing the number of inclusion specialists, the LEA would be able to provide greater support for every Center City student. Center City Officials said that without IDEA Part B Recovery Act funds, they would not have been able to hire these six additional specialists. Officials view this program as successful because the additional six specialists enabled the LEA to ensure that its inclusion model exceeded IDEA requirements for such models and fulfilled the goal of giving additional support to all students as well as ensuring that students with IEPs reached their IEP goals.

Officials from Friendship Public Charter School told us they used some of their IDEA Part B Recovery Act funds to support a program to benefit students with behavioral or academic challenges. Friendship officials stated that the program, known as the Resource Intensive Support for Education (RISE) program, provides a continuum of services for students who are experiencing behavioral or academic challenges beyond the scope of Friendship's education model, which aims to educate all students in the general education classroom and provide students with additional resources as needed. The RISE program's goal is to help more students stay in general education rather than being placed in a special school by giving students who need assistance additional support on a temporary basis. According to program officials, there are three RISE centers in the Friendship LEA differentiated by grade level—pre-kindergarten through grade 4, grades 5 through 8, and grades 9 through 12. RISE classes are small, with a maximum of 12 students, one teacher, and one aide. The RISE teachers are generally experienced teachers and offer students one-on-one attention. Each RISE student has an individualized plan with a timeline at the end of which the student returns to the home school or moves to a more restricted environment. Officials told us that the IDEA Part B Recovery Act funds allowed Friendship to hire more staff, purchase more resource materials, and open all three centers in a timely manner. According to Friendship officials, the RISE program for the 2009-2010 school year produced positive outcomes for the students who required more intensive academic and behavioral support. Friendship officials reported that the students' overall behavior improved, while discipline referrals were markedly reduced or eliminated.

**ESEA Title I.** Using ESEA Title I funds, Center City was able to convert part-time counselors to full-time employment, enabling the LEA to place a full-time counselor on each Center City campus. LEA officials reported that the counselors were instrumental in identifying key student needs that distract from academic success. For example, according to officials, data

collected at one campus demonstrated that the students needed support in managing emotions—specifically anger. Bullying and peer pressure also were identified as consistent challenges among students. This data collection was an important first step that subsequently guided the development of a program to work on these issues by highlighting areas of need that could be addressed by classroom guidance and small-group counseling. To address these challenges, staff at one Center City school began a small program to emphasize and recognize positive interactions among peers and increase the use of appropriate language during conflicts. Center City officials noted that without Recovery Act funds, the LEA would not have been able to afford full-time counselors at each campus.

Friendship officials described a behavior management program funded by ESEA Title I Recovery Act funds as a success. According to officials, the model they adopted is based on minimizing the time students spend outside the classroom for discipline-related issues. The program provides intensive training to help teachers keep the students in the classroom by better managing discipline and redirecting negative or unacceptable behaviors. For example, coaches observe and advise new teachers to help them recognize disengaged students and redirect the students before there are behavior issues. The program also involves parents and administrators which, officials said, helps provide consistency throughout the grades (pre-K through 12) and the six charter schools. The program is evaluated by tracking how many students are sent out of the classroom and how many suspensions there are.<sup>36</sup> This model of classroom discipline had been started on a small scale in the previous year, but the ESEA Title I Recovery Act funds made it possible to expand the program to cover grades Pre-K through 12.

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<sup>36</sup>According to Friendship officials, prior to the program, Friendship's former discipline policy was based on rule enforcement and was inconsistent both within the individual schools and across the LEA. Additionally, a teacher's response to a discipline problem was often sending a child out of the classroom, a response that meant children were missing school time.

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## The Office of the State Superintendent of Education Continues to Monitor LEAs Utilizing Both Its Monitoring Protocol and Quarterly Review of Its LEAs' Recovery Act Data

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### OSSE Continues to Monitor Its LEAs and Has Completed Reviews of the Higher-Risk LEAs It Has Identified

In May 2010, we reported that OSSE took steps to reform its processes of monitoring its federal grants, including implementing new protocols to monitor its subrecipients.<sup>37</sup> OSSE developed and implemented a monitoring protocol in March 2010 that included conducting on-site monitoring visits and desk reviews for LEAs, with expenditure testing conducted during both procedures. OSSE's on-site monitoring protocols encompassed SFSF funds, ESEA grant awards, including ESEA Title I Recovery Act funds, and IDEA Part B Recovery Act funds.<sup>38</sup> The on-site monitoring protocol involves interviewing LEA officials and external stakeholders, including parents, in addition to reviewing the LEA's policies and procedures and conducting expenditure testing to verify appropriate use of funds. Additionally, OSSE developed a desk review protocol to review Recovery Act-related expenditures made by its subrecipients.<sup>39</sup> OSSE's Deputy Chief of Staff told us that as of June 21, 2010, OSSE had completed its ESEA grant on-site monitoring visits for the 2009-2010

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<sup>37</sup>Subrecipients consist of District LEAs and other District organizations receiving federal funds through OSSE.

<sup>38</sup>The SFSF funds, ESEA grants, and IDEA Part B on-site monitoring reviews utilize separate protocols.

<sup>39</sup>OSSE's desk review examines the uses of the following Recovery Act funds, where applicable: IDEA Part B; McKinney-Vento; School Improvement Grants; State Fiscal Stabilization Fund—education stabilization funds and government services funds; ESEA Title I, Part A; and Enhancing Education Through Technology.

school year, consisting of visits to 18 LEAs. Further, another OSSE official told us that concurrently, OSSE visited 3 LEAs receiving IDEA grant funds, and the Deputy Chief of Staff added that they completed 19 desk reviews of LEAs receiving Recovery Act funds—all of which OSSE officials considered to be higher-risk subrecipients.<sup>40</sup>

Following the on-site or desk review, OSSE's monitoring team compiles summary reports for the subrecipients, which present findings identified by OSSE during the monitoring review and recommended corrective actions for resolving the findings. According to OSSE's protocols, subrecipients with one or more findings must develop and submit a corrective action plan that describes the subrecipient's strategies and a timeline for resolving the findings.<sup>41</sup> OSSE officials told us that OSSE would consider all findings resolved only after a subrecipient has provided evidence, such as documentation of changed policies, that the corrective action plan has been implemented.<sup>42</sup> Then OSSE will issue a letter to the subrecipient indicating the resolution of findings and document any restrictions that have been lifted. According to OSSE officials, if a subrecipient fails to implement its corrective action plan in a timely manner, as determined by OSSE officials, OSSE may impose restrictions on the subrecipient's future grant funds, including additional required reporting to OSSE, additional on-site monitoring by OSSE, mandatory technical assistance from OSSE, and withholding or suspending grant funds.

We reviewed 3 ESEA grant on-site monitoring reports and 13 Recovery Act desk review reports to understand OSSE's monitoring activities of its

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<sup>40</sup>OSSE officials told us that the on-site monitoring schedule and the desk-review schedule were determined by separate risk analyses. Some of the LEAs that received on-site monitoring visits also received desk reviews from March through June 2010. The on-site monitoring schedule divided the LEAs into two categories—higher-risk and lower-risk—with OSSE conducting visits to higher-risk LEAs in the 2009-2010 school year. OSSE has developed its ESEA grants on-site monitoring schedule for the 2010-2011 school year. The desk-review schedule divided the LEAs into three categories—high-risk, medium-risk, and low-risk—with OSSE conducting reviews of LEAs in May 2010 and July 2010 and planning to conduct reviews in October 2010.

<sup>41</sup>As of July 23, 2010, an OSSE official told us they had received corrective action plans from two LEAs.

<sup>42</sup>OSSE officials told us that they may conduct additional on-site monitoring or desk reviews to verify plans have been sufficiently implemented, as determined by OSSE staff.

LEAs.<sup>43</sup> According to the 3 on-site monitoring reports prepared by OSSE, the LEAs generally complied with Recovery Act requirements, but 2 of the 3 LEAs had inconsistencies in keeping and maintaining records for financial management and administrative purposes—specifically, the 2 LEAs failed to maintain supporting documentation for expenditures so that the documentation could be easily located. OSSE’s monitoring report states that supporting documentation includes, but is not limited to, invoices, contracts, canceled checks, and other documentation related to expenditures made with federal grant funds. OSSE officials told us that a majority of the supporting documentation that could not be located was not for expenditures made with Recovery Act funds; and in examining expenditures, the scope of OSSE’s review did not require OSSE’s team to separately identify expenditures made with Recovery Act funding, as the purpose was to review LEA’s ESEA grants as a whole. OSSE’s monitoring team found that one LEA only provided supporting documentation for only 16 of the 52 expenditures that OSSE requested to review. OSSE required the LEA to provide all of the documents requested during the on-site visit by July 2010, but the LEA provided only half of the documents, according to an OSSE official. The OSSE official stated that in response, OSSE is withholding subsequent reimbursements to this LEA until the LEA complies with OSSE’s request and creates and implements a corrective action plan to resolve the issue and prevent future occurrences.<sup>44</sup> With respect to the second LEA, OSSE found that the LEA could not provide the documentation for a significant amount of expenditures. In response, OSSE required that LEA submit corresponding invoices to support all future reimbursement requests until the LEA creates and implements a corrective action plan, approved by OSSE, such as revising its procedures

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<sup>43</sup>We reviewed the 3 on-site monitoring reports that were completed as of July 2, 2010 and the 13 desk review reports that were completed as of July 20, 2010. Our review of the monitoring reports is limited to discussing the findings related to Recovery Act funding, because of the scope of our work. Additionally, as of July 15, 2010, OSSE had not finalized any on-site monitoring reports of subrecipients receiving IDEA funds, and therefore there were no reports for us to review.

<sup>44</sup>OSSE provides subrecipients with certain Recovery Act funds on a reimbursement basis, whereby subrecipients can obligate Recovery Act funds, spend their own state and local funds, then request reimbursement from OSSE for the expenditure amount. Before subrecipients can access the funds, OSSE requires subrecipients to submit an application that describes how the funds will be used in a budget and spending plan and provide assurances that the uses comply with the Recovery Act. According to OSSE officials, upon approval of the application, subrecipients can submit requests for reimbursement, using a Recovery Act reimbursement workbook developed by OSSE. OSSE officials then review these workbooks quarterly, to verify the requests align with the subrecipients’ approved applications.

so that supporting documentation for its expenditures is retained and easily located.

On the basis of our analysis of the 13 desk review reports that OSSE had completed, we found that OSSE identified at least one finding for all 13 LEAs it had reviewed, and two findings were identified for nearly all of the LEAs. First, OSSE's desk reviews identified that 12 of the 13 LEAs did not demonstrate that their accounting records accurately and separately tracked expenditures made with Recovery Act funds. To address this finding, OSSE required, for example, that an LEA submit evidence to OSSE that it is separately tracking Recovery Act expenditures in its general ledger, by September 2010; otherwise, OSSE may suspend all Recovery Act payments at that time. Second, OSSE found that 12 of the 13 LEAs either did not submit a section of their Recovery Act grant application on time or did not submit required revisions in a timely fashion, for applicable grants. To address this finding, in one instance OSSE required an LEA to develop a policy by September 2010 that governs the preparation and approval of the LEA's Recovery Act grant applications to enforce timely submission of the LEA's applications to OSSE. OSSE officials explained that the number of findings identified is due, in part, to the LEAs' lack of experience with the monitoring process and Recovery Act requirements because they had not been subjected to such a rigorous review in prior years.<sup>45</sup> However, OSSE officials told us that as OSSE strengthens its federal grant oversight role, LEAs will learn the process and should have fewer findings.

According to OSSE officials, they plan to continue their on-site monitoring reviews after the Recovery Act funds are expended. OSSE intends to visit all subrecipients receiving ESEA grants in 2-year cycles and subrecipients receiving IDEA grants in 3-year cycles. However, OSSE officials do not plan to continue the Recovery Act-specific desk reviews after Recovery Act funds are expended, but said they may modify the desk review protocol for oversight of other grant funds.

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<sup>45</sup>OSSE was created in October 2007 to be the District's stand-alone state educational agency. Prior to this, DCPS served as both the local and state educational agency.

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## OSSE Utilizes a Quarterly Review of Its Subrecipients' Recovery Act Grant Information

In addition to conducting on-site and desk reviews at LEAs, OSSE also reviews the uses of Recovery Act funds through reimbursement workbooks, which LEAs use to submit reimbursement requests to OSSE. According to OSSE officials, while reviewing subrecipients' reimbursement workbooks, they found that subrecipients were trying to comply with Recovery Act requirements, as the workbooks were generally free of egregious or deliberately inappropriate requests.<sup>46</sup> OSSE officials told us that the disallowable expenditures they identified during their reimbursement workbook reviews were generally for expenditures that did not align with an LEA's approved budget and spending plan. For example, some LEAs requested reimbursement for a specific category that exceeded the budgeted amount in that category. In such cases, OSSE advised its LEAs to either resubmit the request under a different budget category or readjust its budget to get approval for the reimbursement within 3 business days in order to receive payment. Additionally, an OSSE official noted that OSSE also identified reimbursement requests that were not in compliance with the Recovery Act. For example, according to the OSSE official, an LEA submitted a request for reimbursement of ESEA Title I Recovery Act funds for the cost of a field trip to an amusement park, which is not allowable under the ESEA Title I program. Accordingly, OSSE denied payment to the LEA. The official added that because of OSSE's review process, some LEAs are now seeking approval for spending Recovery Act funds before accruing the expenditure.

In addition to reviewing Recovery Act reimbursement requests, OSSE officials told us they also use the reimbursement workbooks to collect recipient reporting data. OSSE has been using the District's centralized recipient reporting process to report to the federal reporting Web site, which is discussed in further detail later in this report. OSSE reported a total of 2,833.2 FTEs were funded by Recovery Act SFSF, ESEA Title I, and IDEA Part B funds from April 1, 2010, to June 30, 2010.<sup>47</sup> OSSE collects recipient reporting data from its subrecipients on a quarterly basis,

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<sup>46</sup>The Recovery Act generally dictates that funds may not be used for any casino or other gambling establishment, aquarium, zoo, golf course or swimming pool, and also provides specific spending limitations for certain grant programs. For example, the State Fiscal Stabilization Fund provisions state that LEAs may not use SFSF funds for payment of maintenance costs; stadiums or other facilities primarily used for athletic contests for which admission is charged to the general public; purchase or upgrades of vehicles; or improvement of stand-alone facilities the purpose of which is not the education of children, including central office administration or operations or logistical support facilities.

<sup>47</sup>We obtained the FTE information from Recovery.gov on August 6, 2010.

according to OSSE officials. OSSE officials told us that they implemented multiple levels of review of the recipient reporting data, which included verifying that the subrecipient's actual FTE calculation was consistent with the subrecipient's requested reimbursement amount for salaries. OSSE officials told us that they are working with subrecipients to implement the recipient reporting process, but some LEAs are still having difficulties in reporting. For example, we found that an LEA misunderstood the recipient reporting requirements for its Recovery Act IDEA funds in that it did not report the hours worked by its contractors that were funded by IDEA grant as FTEs. OSSE's Deputy Chief of Staff told us that OSSE is working with the LEA to provide corrections and updates to the data during the continuous corrections period prior to the next reporting period.<sup>48</sup> OSSE also identified 9 LEAs that had not submitted any expenditure data for their SFSF funds as of July 13, 2010, even though LEAs received their SFSF payments in January and April 2010.<sup>49</sup> In response, an OSSE official told us that OSSE followed up with each of the identified LEAs, resulting in 4 of the 9 LEAs reporting expenditure data for SFSF funds, as of August 9, 2010.

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<sup>48</sup>In January 2010, the Recovery Accountability and Transparency Board modified the process for correcting data on the federal reporting Web site by initiating a "continuous corrections" period, where Recovery Act fund recipients could correct submitted data for the immediately preceding reporting period, if necessary, after the reporting period ended. Prior to January, data in the federal reporting Web site, for a given reporting period, were locked and no longer correctable once the reporting period ended and the information was published on Recovery.gov.

<sup>49</sup>In July 2010, OSSE issued a memorandum to its subrecipients reminding them to, among other things, submit quarterly SFSF expenditure reports and identifying LEAs that have obligated all of their SFSF funds and completed reporting of their SFSF expenditures, as well as LEAs that have not submitted SFSF expenditure reports. According to OSSE's Deputy Chief of Staff, LEAs have until September 30, 2012 to report all of their SFSF expenditures.

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## Recipient Reporting Provided the District the Opportunity to Develop Plans for Future Districtwide Grant Oversight

The District has consistently met the quarterly Recovery Act recipient reporting deadlines, utilizing its centralized Web-based recipient reporting system designed by the District, according to officials in the Office of the City Administrator (OCA). An OCA official told us that as of July 29, 2010, the District agencies reported 3,512 FTEs funded by Recovery Act funds from April 1, 2010, to June 30, 2010.<sup>50</sup> As described in detail in our December 2009 report,<sup>51</sup> the District developed a Web-based system for reporting mandated recipient reporting data. Per the District's process, with the exception of OSSE, each District agency receiving Recovery Act funds submits recipient reporting data to the District's recipient reporting Web site ([reporting.dc.gov](http://reporting.dc.gov)) on a monthly basis.<sup>52</sup> Designated OCA officials—known as Recovery Act coordinators—are to review each District agency's recipient reporting data for accuracy and completeness before that agency can submit data to the federal recipient reporting Web site. At the end of the reporting period, the coordinators complete the review of each agency's recipient reporting data and approve the data for submission to the federal reporting Web site ([federalreporting.gov](http://federalreporting.gov)), and the data are then published on the federal Web site for tracking Recovery Act spending ([Recovery.gov](http://Recovery.gov)).

According to the Recovery Act coordinators, the District did not face significant problems or issues with recipient reporting for the period ended June 30, 2010. In fact, the coordinators added that the recipient reporting process has gone more smoothly for the District agencies and OCA after each successive reporting period, as agencies became more experienced with the process. The coordinators noted that they designed the centralized Web-based reporting system so they could implement

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<sup>50</sup>In May 2010, our report on the Recovery Act stated that the recipient reporting exercise is highlighting problems in obtaining quality recipient-reported data because of the overall complexity of funded programs and the nationwide scope. Although, updated guidance and system enhancements have helped improve data and quality reliability, FTE calculations continue to result in noncomparable data across Recovery Act-funded programs and pose problems for some recipients.

<sup>51</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (District of Columbia)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

<sup>52</sup>According to OCA and OSSE officials, one District agency—OSSE—does not submit recipient reporting data to the District's reporting Web site on a monthly basis because OSSE collects and submits recipient reporting data for its subrecipients on a quarterly basis, imposing a deadline of 1 to 2 weeks prior to the end of each reporting period to allow for data quality review and processing time. According to OSSE officials, OSSE cannot require subrecipients to report their recipient reporting data on a monthly basis, but highly recommends that subrecipients do so.

changes to the system as needed to comply with federal reporting requirements or to assist District agencies in recipient reporting. For example, when the federal reporting system was modified to allow for continuous corrections by prime recipients, the Recovery Act coordinators altered the District's system so that District agencies could correct inaccurate or incorrect recipient reporting data during the continuous corrections period. The coordinators told us they made the change to the system—limiting agencies to access and revise only inaccurate or incorrect recipient reporting data—because the coordinators were concerned that agencies would accidentally change accurate recipient reporting data that had been submitted. The coordinators also noted that, on the basis of requests from District agencies, the District's system can now produce summary reports of recipient reporting data for individual Recovery Act grants, such as SFSF funds, in the same format as displayed on Recovery.gov. This allows District agencies to compare and more easily verify that the data they submitted to the federal reporting Web site were correct. Prior to the ability to create these reports, according to the coordinators, the District agencies were comparing their submitted recipient reporting data with summary reports produced by the District's reporting system that were difficult to read and understand because reports were displayed in programming language. The coordinators added that they required District agencies to also submit the new summary reports to OCA when submitting recipient reporting data for review, to aid in the coordinators' review. Other than this change in how data were verified by agencies and the District before being submitted to federalreporting.gov, the coordinators stated that the District's recipient reporting process was the same for the reporting period ended June 30, 2010, as compared with the reporting process for previous reporting periods.

According to the District's Recovery Act coordinators, the recipient reporting experience has been helpful in a number of areas, most notably in providing the District with the opportunity to reform its grant management practices. Coordinators told us that because they implemented a centralized reporting process—with OCA developing and leading the process and reviewing and approving the District's recipient reporting data—the District, through OCA, was able to establish a new approach for federal grant oversight. Recovery Act coordinators explained that prior to the Recovery Act, the District's grant oversight was decentralized, and primarily grant management was dependent upon individual District agencies. However, utilizing the new approach, the coordinators told us that they plan to strengthen the District's grant oversight by creating a new office to manage all District grants under OCA.

With the new office, Recovery Act coordinators told us the District plans to strengthen oversight by developing citywide grant management training, standardizing grant management practices, and providing technical assistance to District agencies, as needed. Recovery Act coordinators told us that additional staff positions for the new office have already been budgeted for the next fiscal year. Coordinators added that because District agencies demonstrated the ability to report consistently due to the recipient reporting mandate, they plan to continue to use the centralized Web-based system to manage all federal grant funds awarded to the District after Recovery Act funds are expended.

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## The District's Office of the Inspector General Has Initiated One Audit of Recovery Act Funding

The DC OIG is responsible for conducting audits, inspections, and investigations of government programs and operations in the District, including auditing the District's use of Recovery Act funds. In our last report, issued in May 2010, we noted that DC OIG had initiated one audit specifically related to the use of Recovery Act funds involving construction contracts with the District Department of Transportation that were awarded under the Recovery Act.<sup>53</sup> According to DC OIG, the purpose of this audit is to determine whether the District Department of Transportation fulfilled the terms of its certification under Section 1511 of the Recovery Act,<sup>54</sup> complied with District procurement regulations in awarding contracts, and utilized effective controls. This audit is expected to be completed by spring 2011. DC OIG plans to coordinate with GAO and U.S. Department of Transportation officials to obtain general information about the federal requirements for Recovery Act funds provided to the District and the project certification process. As of July 14, 2010, the District OIG has not initiated any additional Recovery Act audits. A senior DC OIG official told us that other planned audits and inspections of Recovery Act funds had not begun because of limited resources within the agency.

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<sup>53</sup>GAO-10-605SP.

<sup>54</sup>With respect to Recovery Act funds made available to state or local governments for infrastructure projects, the governor, mayor, or other chief executive, as appropriate, is required to certify that the infrastructure investment has received the full review and vetting required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars. The certification is also to include a description of the investment, the estimated total cost, and the amount of Recovery Act funds to be used, among other requirements. Recovery Act, div. A. § 1511, 123 Stat. 287.

## The District’s Single Audits Provide Oversight of Some Recovery Act Funds

According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing single audit results, it received the District’s single audit reporting package for the year ending September 30, 2009, on June 29, 2010. The 2009 audit—the first Single Audit for the District that included Recovery Act programs—identified 5 significant deficiencies and 17 material weaknesses related to controls over programs that received Recovery Act funds, including FMAP.<sup>55</sup> However, a senior official from the Office of the Chief Financial Officer (OCFO) noted that the deficiencies and weaknesses were not a result of noncompliance with Recovery Act requirements. This official added that the District has a single audit oversight committee—chaired by a staff member from the OCFO with representatives from the Executive Office of the Mayor, City Council, and the Office of the Inspector General—that oversees the progress of the Single Audit to include follow-up and remediation of past findings and timely completion of the audit.

## Recovery Act Funds Have Helped Support Certain District Programs and Balance Its Budget in Fiscal Year 2010, and There Are Signs the District’s Economy Is Improving

**Table 1: Characteristics of the District of Columbia**

Population	Unemployment rate	Fiscal year 2011 proposed operating budget
599,657	10.5%	\$8.9 billion

Sources: U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS), District of Columbia budget document.

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

Additional Recovery Act grants have helped support certain District education, human services, and technology programs. District officials told us that the District has received over \$53 million in Recovery Act funding since we last spoke with them in April 2010—about \$36 million in non-competitive grants and about \$20 million in competitive grants. On April 2, 2010, OSSE was awarded \$12 million to improve its persistently lowest-achieving schools through the non-competitive School Improvement Grant, administered by the U.S. Department of Education.

<sup>55</sup>The District’s Single Audit for the year ended September 30, 2009 identified a total of 78 significant internal control deficiencies related to compliance with Recovery Act and non-Recovery Act Federal Program requirements, of which 66 were classified as material weaknesses. A senior official from the Office of the Chief Financial Officer told us that the number of findings identified in the fiscal year 2009 Single Audit decreased by 32 percent, compared with the number of findings identified in the prior year.

Additionally, on April 28, 2010, the District's Department of Human Services qualified for and was awarded about \$24 million from the U.S. Department of Health and Human Services for the Temporary Assistance for Needy Families Emergency Contingency Fund to support the increased demand for assistance due to the economic downturn. Of the \$20 million awarded to the District in Recovery Act competitive grants after March 2010, about \$17 million was awarded to the District's Office of the Chief Technology Officer, on June 28, 2010, by the U.S. Department of Commerce for its Broadband Technology Opportunities Program (BTOP) to support its Comprehensive Community Infrastructure award. The District plans to provide direct Internet connections to public areas in communities located predominately in the District's economically distressed areas. An additional \$1.6 million was awarded to the District through the same BTOP program on July 2, 2010, focusing on providing public computer centers to the District of Columbia Public Libraries. The remainder of the competitive grant awards consists of over \$600,000 awarded to the District's Department of Employment Services by the U.S. Department of Labor for its On-the-Job-Training Grant to assist in reemployment for dislocated workers experiencing prolonged unemployment.

Although the District continues to face fiscal challenges, there are signs the District's economy is starting to recover. In our May 2010 report, we noted that the Mayor's proposed fiscal year 2011 budget identified a \$523 million budget gap as a result of the decline in revenues in fiscal year 2011, slow economic recovery, and the end of Recovery Act funding. The Mayor's budget proposes to close the projected \$523 million budget shortfall for fiscal year 2011 through maximizing efficiency in the District government, including such strategies as the elimination of 385 positions through attrition, retirement, and reductions in force;<sup>56</sup> freezing automatic pay increases for government employees; and renegotiating contracts with the District's vendors. According to the District's Chief of Budget Execution, the infusion of Recovery Act funds has helped mitigate the negative effects of the recession on the District's budget by providing time to adjust for the decline in revenues, which allowed the District to avoid making drastic cuts to services and programs.

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<sup>56</sup>According to the Mayor's proposal, the District has eliminated a total of 2,016 District government positions during the last 2 years.

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In June 2010, the District's Chief Financial Officer (CFO) reported that the revenue estimates for fiscal year 2010 through 2014 remain unchanged from the estimate made in February 2010, noting that there are indicators of economic recovery, although recovery will be a long, slow process.<sup>57</sup> For example, the District's real property tax collections were better than expected, and withholding tax collections remained strong, according to the CFO. On the other hand, collections from the April individual tax filings performed below expectations, according to the quarterly revenue estimate.

The District has prepared for the end of Recovery Act funding because the District is required by law to prepare an annual balanced budget and multiyear financial plan. As a result, District officials have accounted for the future decrease in Recovery Act funds in planning the budgets for fiscal years 2011 to 2014.

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## Comments from the District of Columbia

We provided the Office of the Mayor of the District a draft of this appendix on August 16, 2010. On August 18, 2010, the Recovery Act Co-Coordinator within the Office of the City Administrator concurred with the information in the appendix and provided technical suggestions that were incorporated, as appropriate. In addition, we provided relevant excerpts to officials of the District agencies and organizations that we visited. They agreed with our draft and provided some clarifying information, which we incorporated, as appropriate.

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## GAO Contact

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## Staff Acknowledgments

In addition to the contact named above, Leyla Kazaz, Assistant Director; Adam Hoffman, analyst-in-charge; Laurel Beedon; Labony Chakraborty; Sunny Chang; Nagla'a El-Hodiri; Nicole Harris; and Mattias Fenton made major contributions to this report.

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<sup>57</sup>The District's fiscal year begins on October 1 and ends on September 30. Each February, the Office of the Chief Financial Officer issues a revenue estimate that is used to develop the budget for the next fiscal year. The estimate is revised as the new fiscal year begins and subsequently at regular intervals.

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# Appendix V: Florida

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## Overview

The following summarizes GAO's work on the latest in a series of bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Florida.<sup>1</sup> The full report on our work in 16 states and the District of Columbia is available at [www.gao.gov/recovery](http://www.gao.gov/recovery).

Florida has been deeply affected by the national economic recession with high unemployment and home foreclosure rates. State officials have taken steps to reduce expenditures and increase revenues and have used Recovery Act funds to address short-term economic hardship. Florida officials expect the state to receive about \$21.7 billion in Recovery Act funds over multiple years through formula and competitive grants and contracts as well as benefits directly to individuals. Of the \$21.7 billion, approximately \$10.75 billion is subject to special reporting requirements that include an estimate of the number of jobs created or retained by the project, with about \$7.8 billion of that amount coming through state agencies. The remaining \$10.98 billion goes directly to individuals (e.g., unemployment compensation, increased food stamp assistance, and other programs) and is not subject to the special reporting requirements.

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## What We Did

Our work in Florida focused on specific programs funded under the Recovery Act. For this review, we collected relevant data from June to September 2010 on the use of specific funds, recipients' experiences in reporting Recovery Act expenditures and results to state and federal agencies, and steps to ensure accountability of the funds (see table 1). Our review focused exclusively on these entities and programs and our results cannot be generalized to Florida or nationwide. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).

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

**Table 1: Sites Selected for the Seventh Report, Rationale, and Work Done**

Program	Entities and sites selected	Methodology and information collected
Weatherization Assistance Program	Florida Department of Community Affairs (DCA) Two subgrantees: Tampa Hillsborough Action Plan, and Miami-Dade Community Action Agency. Selected subgrantees based on the dollar value of weatherization funding allocated to the respective programs and geographic dispersion.	DCA: Discussed management controls in place. Subgrantees: Selected 28 weatherization client files: 13 randomly and 15 nongeneralizable cases based on geographic dispersion within the subgrantees' service areas, high dollar amount and whether the home was inspected by a contract field monitor to review for documentation supporting compliance with DCA requirements, such as income eligibility; however, we did not independently verify clients' income. Weatherized homes: Visited 20 homes to determine whether the work paid for was completed and of acceptable quality. A licensed engineer on our staff participated in inspections of these homes to assess work quality.
Tax Credit Assistance Program (TCAP) and Section 1602 Program	Florida Housing Finance Corporation (FHFC) Three projects receiving funding awards: Cypress Cove in Winter Haven; Bonnet Shores in Lakeland; and Northwest Gardens 1 in Ft. Lauderdale. Projects were selected based on source of funds.	FHFC: Reviewed and collected relevant documentation. Projects: Visited Cypress Cove and Bonnet Shores sites to observe status of projects; interviewed FHFC, Cypress Cove, Bonnet Shores, Northwest Gardens and Boston Capital officials with focus on the increased risks and costs to FHFC for monitoring compliance, FHFC's internal controls for ensuring compliance with federal requirements, and changes in asset management responsibilities among project owners, investors, and FHFC.
Energy Efficiency and Conservation Block Grant	City of Jacksonville, City of Miami, Miami-Dade County, and the City of Tampa were selected because, among cities and counties receiving grants, they received the largest allocations.	Interviewed cognizant officials and collected relevant documentation.
Early Head Start Expansion Grant	U.S. Department of Health and Human Services (HHS) Office of Head Start (OHS) Two grantees: Miami-Dade Community Action Agency and Children First, Inc. in Sarasota. Grantees were selected based on the size of the grant, geography, and previous audit findings.	OHS Atlanta Regional Office: Interviewed officials regarding oversight and grantee use of funds. Grantees: Interviewed officials regarding their use of Recovery Act funds, challenges in spending within the Recovery Act time frame, and protocols for enrollment of eligible children.
State and local budgets	State budget officials Selected Miami-Dade County because it received Energy Efficiency Conservation Block Grants (EECBG). We conducted joint site visits to the county for the use of Recovery Act funding in general, and its use of EECBG specifically, to focus on a common program from a budget and program perspective.	Interviewed state officials on state's use and effect of Recovery Act funds on the current fiscal year, 2010-2011, budget and strategies for when these funds are no longer available and reviewed budget documentation. Interviewed county officials on use and amount of Recovery Act funds received, effect of these funds on the county's budget, and strategies for addressing challenges when Recovery Act funds are no longer available, and reviewed budget documents.

Program	Entities and sites selected	Methodology and information collected
Contracting	Selected a total of 12 highway, education, and Workforce Investment Act (employment and training) contracts that we had reviewed in previous audit cycles to gain an understanding of the extent to which officials believed the contracts were awarded competitively and chose pricing structures that reduce the government's risk.	<p>We followed up on 12 contracts to determine whether contracts experienced significant changes to cost, schedule, scope of work, and/or experienced performance issues.</p> <p>We administered a questionnaire to the project managers responsible for each contract and reviewed their responses and supporting documentation, such as contracts, contractor performance reports, and project management system reports.</p> <p>We also reviewed the highway contracts with Florida Department of Transportation (FDOT) officials and FDOT's Inspector General to obtain further understanding of how the state manages contracts, including changes to contract schedules.</p>
Transparency and accountability	<p>Florida Auditor General</p> <p>Florida Chief Inspector General and Agency Inspectors General</p> <p>Florida Recovery Czar</p>	<p>Interviewed state officials on audit work planned or completed. Reviewed accountability activities reported by state officials and Inspectors General.</p> <p>Reviewed state officials' websites to assess transparency of state's accountability activities and information made publicly available.</p> <p>Participated in the Inspector General's quarterly Recovery Act Oversight Partners Meeting.</p>
Recipient reporting	<p>Florida Recovery Czar</p> <p>Florida Department of Community Affairs</p> <p>Florida Energy and Climate Commission</p> <p>City of Tampa</p> <p>Tampa Hillsborough Action Plan</p> <p>Pinellas County Urban League</p>	<p>Interviewed state officials on the reporting of jobs created and retained.</p> <p>Interviewed a local agency administering the Energy Efficiency and Conservation Block Grant and two subrecipients of the Weatherization Assistance Program regarding jobs calculations for recipient reporting for the quarter ended June 30, 2010 and reviewed documentation used to calculate the reported number of jobs.</p>

Source: GAO.

## What We Found

The following are highlights of our review.

- Weatherization.** As of June 30, 2010, Florida reported weatherizing 3,878 housing units, or about 20 percent of the 19,090 housing units it expects to weatherize with Recovery Act funding, and spending \$35 million, or 40 percent of the \$88 million it has thus far been allocated. Florida's Department of Community Affairs (DCA) has instituted various management controls over the program, but our review of two additional subgrantees identified similar control gaps and compliance issues as those identified in our May 2010 report. For example, weatherization work done was often not consistent with the recommendations of home energy audits and no reasons were given for the differences; in some instances, work was charged to the

program but not done or lacked quality; several potential health and safety issues were not addressed; and contractors' prices were not being compared to local market rates, as required by DCA. In addition, DCA's contract field monitors did not identify these issues in their reviews of the two subgrantees' completed cases we and they reviewed. DCA officials have acknowledged these problems and have taken steps to address the problems, including changing procedures and guidelines and instructing contract field monitors to be more attentive to these issues. The two subgrantees we reviewed also agreed to take corrective actions.

- **Tax Credit Assistance and Section 1602 Tax Credit Exchange.** Although Florida's Housing Finance Corporation (FHFC) and its project owners appeared to be on track to meet the Department of Housing and Urban Development's spending deadlines for TCAP, this did not appear to be the case for Department of the Treasury's December 31, 2010 funding and spending deadlines for the Section 1602 Program. For example, as of July 30, 2010, 28 provisionally approved projects had not yet received final funding awards under the Section 1602 Program. FHFC generally expected these projects to receive final approval or close by November 2010. In addition, several projects could face additional risk because they did not have third-party investors who would also typically monitor the projects to ensure compliance with program requirements and protect their financial interests. FHFC has taken or planned steps to address the risks associated with not meeting Treasury's deadlines and the absence of third-party oversight. FHFC reported significant job creation under these programs, but the methodologies used for these estimates differed. TCAP is subject to Recovery Act recipient reporting requirements but the Section 1602 Program is not.
- **Energy Efficiency and Conservation Block Grants.** As of July 15, 2010, of the municipalities we reviewed, only Jacksonville did not yet have monitoring procedures in place to track EECBG funds. While each city and county had met project requirements, such as environmental review, they varied in their progress toward meeting Department of Energy deadlines for obligating funds.
- **Early Head Start Expansion Grants.** Delays in OHS's award of the grant and in grantee implementation of the program slowed the delivery of services. For example, although Miami-Dade County Community Action Agency anticipated serving all its Recovery Act-funded children by January 1, 2010, it was not able to achieve full enrollment until months later. Due to the delays, the Community

Action Agency also expects to have unspent funds at the end of fiscal year 2010, but they hope to obtain approval to use the unspent funds in the second and final year of the grant.

- **State and local budgets.** Florida's state budget for the current fiscal year includes \$2.6 billion in Recovery Act funds in addition to about \$270 million for increased federal match for Medicaid. However, the state may be required to make budget reductions for its fiscal year 2011-2012 when the flow of Recovery Act funding decreases substantially. Officials in Miami-Dade County said that Recovery Act funds are considered as nonrecurring revenue and have primarily been used for infrastructure and capital projects and that budget gaps have been closed with salary and service reductions and the use of reserve funds; remaining reserves are now below the goal established in county policy.
- **Contracting.** While most of the 12 Recovery Act-funded contracts we reviewed had post-award changes, according to project managers, the changes generally did not have significant effects on the projects' outcomes or costs and were within acceptable levels.
- **Transparency and accountability.** The Office of Inspector General (OIG) at each Florida agency receiving Recovery Act funds continues to conduct oversight activities. For example, the Florida Department of Transportation's (FDOT) OIG reported that it performed 493 reviews and identified no findings that would jeopardize federal funding. The State Auditor General's Office performs annual audits of federal award expenditures, including the \$1.8 billion identified as Recovery Act funds in fiscal year 2008-2009. The Auditor General reported that its audits of these expenditures in certain programs, such as Medicaid, identified some internal control issues.
- **Recipient reporting.** Florida's Recovery Czar said that overall this round of recipient reporting appeared to go smoothly as the process has become routine. However, at the three recipients we visited we identified some reporting omissions or errors in estimating job creation or retention.

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## Our Work Found Some Compliance and Control Issues in Florida's Weatherization Assistance Program but It Has Taken Steps to Address Concerns

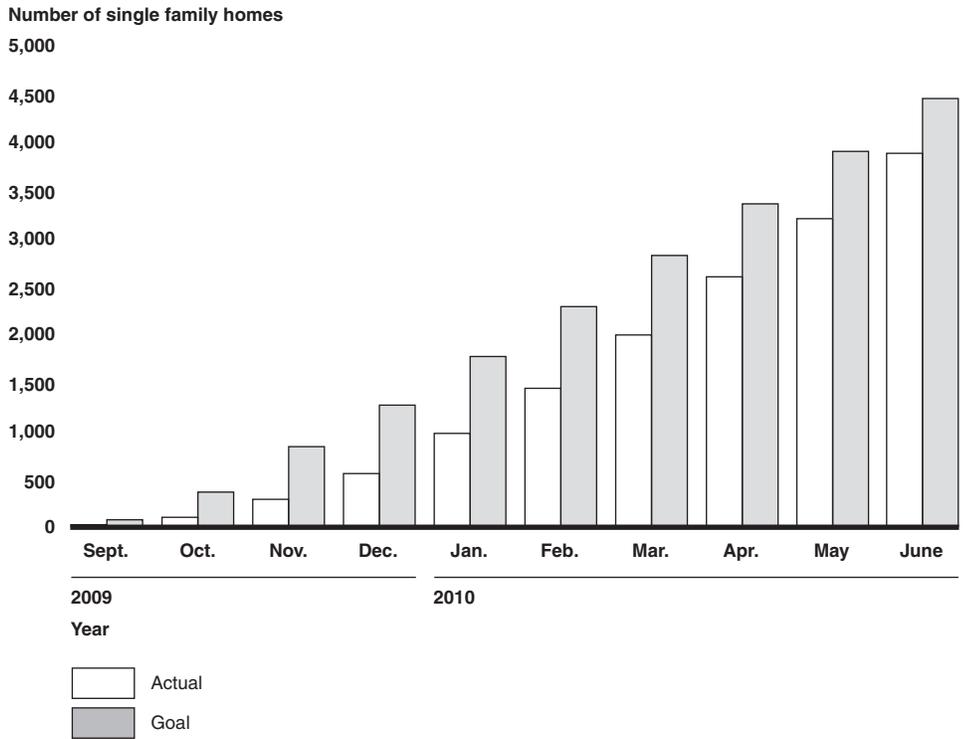
The Weatherization Assistance Program is intended to weatherize homes to save energy and improve health and safety, and to create jobs. As of June 30, 2010, the Florida Department of Community Affairs (DCA) had received \$88 million (half of its total allocation) and reported obligating about \$65 million and expending about \$35 million in Recovery Act money for the program. It has funded 27 subgrantees to deliver weatherization services throughout the state. DCA's goal is to weatherize 13,812 single-family and 5,278 multifamily residences by March 31, 2012, the date by which the U.S. Department of Energy (DOE) has indicated all Recovery Act weatherization program funds are to be spent by grantees. As figure 1 shows, after a slow start, program weatherizations have steadily increased each month since September 2009. By June 30, 2010, a total of 3,878 single-family residences had been weatherized or about 20 percent of the program's total goal of 19,090.<sup>2</sup> Furthermore, DCA officials said Florida is on track to weatherize 30 percent—about 5,700 homes—of its total program goal by the end of September 2010. DCA officials said that on May 10, 2010, DCA contracted with the University of Florida to conduct a study of energy savings overall and by weatherization measure installed utilizing consumption data obtained from clients' utility bills. According to DCA, Florida saved or created about 215 jobs for the quarter ending June 30, 2010, as a result of the weatherization program.<sup>3</sup>

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<sup>2</sup>As of June 30, 2010, DCA had not yet approved weatherization of multifamily residences, but it reported having received proposals.

<sup>3</sup>Our spot check of data reported by two subgrantees raised questions about the completeness of jobs data being reported to DCA. This issue is discussed further in the recipient reporting section of this appendix.

**Figure 1: Actual Single Family Homes Weatherized Compared to Cumulative Monthly Goals for Florida’s Weatherization Assistance Program**



Source: DCA.

As previously reported, DCA has instituted a variety of management controls, including policies for determining and documenting (1) client eligibility and priority for services, (2) completion of home energy audits prior to weatherization work, and (3) acceptable completion of weatherization work.<sup>4</sup> DCA also reviews subgrantee operations. As of June 30, 2010, DCA said it had completed reviews of 22 subgrantees and inspected 101 homes for completed work. Since November 2009, DCA has also contracted with field monitors to verify subgrantees’ data entry, review all client files, and inspect 50 percent of homes completed.<sup>5</sup> As of June 30, 2010, DCA reported that contract field monitors had reviewed all

<sup>4</sup>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, 2009).

<sup>5</sup>DOE requires grantees to inspect 5 percent of the homes weatherized.

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required completed client files and had inspected 1,957 completed homes, considerably more than the number of homes DOE requires to be inspected.<sup>6</sup>

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**Client Files We Reviewed and Homes We Visited Generally Met Program Requirements, but We Found Some Compliance Issues and Control Gaps**

For our previous report issued in May 2010, we visited three subgrantees. Although they generally met DCA's program requirements, we found gaps in the state's controls, resulting in problems undetected by state program personnel or noncompliance.<sup>7</sup> In this review of two additional subgrantees, we found similar issues; however, DCA has taken several steps to put procedures in place aimed at reducing the occurrence of these types of issues.

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**Client File Reviews and Home Inspections at Two Subgrantees Identified Several Issues**

For this update, we reviewed 28 client files and inspected 20 completed homes at two DCA subgrantees. Officials at both subgrantees attributed problems we identified to such reasons as staff errors or omissions and said corrective actions would be or have been taken. DCA has also taken steps to address these issues.

**Client Eligibility**

All 13 client files we reviewed at one subgrantee contained the required documentation for program eligibility. At the other subgrantee, 7 of 15 cases had discrepancies: household income recorded on the client application form did not match income amounts in supporting documentation; documentation for disability was missing; or both.<sup>8</sup>

**Home Energy Audits**

Based on the 28 client files we reviewed, subgrantees performed home energy audits required by DCA. These audits, which are done before work

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<sup>6</sup>DCA has also contracted for fiscal monitoring and technical assistance to its subgrantees and training and technical assistance to subgrantees on Davis-Bacon prevailing wage and reporting requirements. As of June 30, 2010, DCA reported that its contractors performed fiscal reviews at seven subgrantees and visited nine subgrantees for Davis-Bacon reviews.

<sup>7</sup>We found instances in which (1) required documentation was missing from client files; (2) work listed as completed was not consistent with home energy audit recommendations; (3) listed improvements were either not completed or lacked quality; (4) health and safety issues were not addressed; (5) procurement practices were inconsistent with DCA's requirements; and (6) file reviews and home inspections by DCA's contract field monitors did not always detect problems with subgrantee program or noncompliance (see [GAO-10-605SP](#)).

<sup>8</sup>We did not independently verify client income. According to the subgrantee, the staff computational errors made in determining client income did not affect client eligibility.

begins, are used to determine appropriate weatherization measures as well as any needed health and safety improvements. However, in 26 of the 28 client files reviewed, we found one or more instances in which work listed as completed was not consistent with audit recommendations. For example, installation of a new hot water heater, sliding glass door, or smart thermostat was either recommended in the audit but not done, or done without recommendation. In six cases, a test that is part of the energy audit done to determine if heating and air conditioning ducts need to be sealed was not performed, or showed air leakage higher than DCA's targeted maximum, with no explanation.

Subgrantees attributed the various audit discrepancies to such reasons as staff errors, omissions or changes occurring after the audit without documenting explanations for those changes. We also noted both subgrantees did not always authorize weatherization work in the priority order prescribed by DCA.<sup>9</sup> DCA conducted monitoring visits to these subgrantees prior to our review and noted similar issues. DCA instructed both subgrantees to conduct home energy audits and follow DCA's priority order as required.

## Weatherization Work

We found the work charged to the program was authorized, performed, and appeared to be of acceptable quality in 14 of the 20 homes we inspected. In all 20 cases, the clients said they were generally satisfied. However, in 6 of the 20 homes some listed improvements were either not completed or lacked quality.<sup>10</sup> For example, at one home we inspected, attic insulation was reported as done and charged to the program but had not been installed. Subgrantee officials said this problem occurred due to a contractor coordination issue, and the insulation has since been installed. At another home, a smart thermostat was on the work order and included in the contract price but not installed. Subgrantee officials said this was due to a misunderstanding and the issue would be resolved. None of the client files we reviewed contained documentation of inspections while work was in progress although both subgrantees said they

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<sup>9</sup>Florida's 10 authorized weatherization measures, in descending order of energy savings importance are: air sealing, attic and floor insulation, dense-pack sidewall insulation, solar window screens, smart thermostat, compact fluorescent lamps, seal/ insulate ducts, refrigerator replacement, heating and cooling systems, and water heater repair or replacement.

<sup>10</sup>In one case involving loose weather-stripping, it is not clear whether the problem existed at the time of installation or arose subsequently.

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performed such inspections.<sup>11</sup> They said they would document those inspections in the future. In addition, at another home which we did not inspect, our client file review noted that the subgrantee had double charged DCA for certain costs. Subgrantee officials said a supervisor and a crew chief unknowingly both made time sheets for the same crew for the same day; they refunded the excess charge.

## Health and Safety

As required by DCA policy, home energy audits performed by the two subgrantees we reviewed covered health and safety issues. However, we found 9 instances in the 28 client files we reviewed in which the air flow/ventilation rate in the homes was insufficient based on the subgrantee's energy audit, possibly affecting indoor air quality, and no remedial actions were taken or explanations provided in the client files.<sup>12</sup> In a few of these instances, the standard for restricting air flow through a home to prevent the loss of too much conditioned air (heated and air conditioned/dehumidified air) conflicted with the standard for providing adequate ventilation for good indoor air quality. Although both subgrantees said the issue was discussed at a DCA meeting with subgrantees in May 2010, they told us they were still unclear how to handle situations in which this conflict exists. DCA said it has a procedure to address the situation. At one subgrantee, we noted three cases in which window heating and air conditioning units were installed without evidence in the client file of a check for electrical system capacity, and in one case wiring was exposed.<sup>13</sup> At the other subgrantee, the energy audit recommended venting a gas stove but the work was not done and documentation regarding why was not included in the client file, as required by DCA. Subgrantee officials told us costs of venting were prohibitive and the homeowner did the work.

## Fair and Reasonable Prices

One of the subgrantees did most of the weatherization work itself, and provided documentation showing it advertised and received multiple bids for materials used by its in-house crews and some work performed by

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<sup>11</sup>DCA's procedures and guidelines manual states subgrantees should perform home inspections at least once while work is in progress for such purposes as documenting lead-safe weatherization procedures and to spot check compliance. However, except for photos of lead-safe procedures, DCA's manual does not require such inspections be documented.

<sup>12</sup>As noted in our May 2010 report ([GAO-10-605SP](#)), when the air flow / ventilation rate for a home is found to be below the minimum threshold, a case-by-case assessment should be made on how to address the problem.

<sup>13</sup>The subgrantee said electrical system checks were done for two cases, but the results were not in the client files.

contractors. The other subgrantee outsourced all weatherization work and officials said they awarded contracts mostly through a sealed bid process. It believed that the prices it received from contractors were significantly below market rates. However, information made available to us on the solicitation and receipt of multiple bids for the 15 client files we reviewed was either absent, incomplete, or unclear. Neither subgrantee provided documentation of price comparisons with local market rates, as required by DCA. Both subgrantees said they would perform and document price comparisons in the future. In addition, officials at the second subgrantee said it would develop clear procurement policies and procedures to address the issues involving the bidding process. To address these issues statewide, DCA has changed its procedures and guidelines manual, as discussed below, including issuing new guidance on price comparisons and bid information, and has its fiscal contractor review subgrantees' procurement policies and procedures as part of its work scope. DCA also said it was working with one of its subgrantees who has collected comparable pricing data for Florida regions so the data can be shared with other subgrantees.

#### Reviews by Contract Field Monitors

DCA's contract field monitors had reviewed all 28 client files we reviewed for this report, but the DCA reviews did not note any of the problems we identified regarding client eligibility, home energy audits, or possible duct system leakage.<sup>14</sup> Field monitors had also inspected two of the seven homes with issues that we inspected, but did not note the workmanship issues we found.

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#### DCA Has Taken Actions to Address Concerns and Non-compliance Issues

DCA officials told us many of the concerns and non-compliance items we noted in this and the prior round have been addressed by a state monitor, issuance of notices to subgrantees and contract field monitors or in conference calls with those monitors. In May 2010, DCA met with its subgrantees and included the issues we identified among the topics discussed. The Florida Solar Energy Center made a presentation on how to address home ventilation issues in Florida.

On June 17, 2010, partly in response to our findings, DCA made changes to its procedures and guidelines manual and energy audit form, effective July

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<sup>14</sup>According to DCA, field monitors have not been required to determine whether a test was done as part of the energy audit to determine if heating and air conditioning ducts need to be sealed; however, it will consider adding this to the list of review items.

1, 2010.<sup>15</sup> DCA's changes address the issues we noted during our reviews. For example, its newly issued procedures and guidelines and/or home energy audit form now requires (1) documentation of disability if it is used in determining priority points and documentation from a public entity with the name of the applicant or household member and the Social Security number; (2) justifications or data for addressing or not addressing each item to be covered in the home energy audits, including venting gas stoves, and for certain measures, the client's initials on the pre-work order agreement form if the client refuses to accept the measure; (3) before and after pictures for each measure to help document the need for and performance of the work; (4) performance of an electrical load test if a window air conditioning unit is to be installed and use of air flow calculations to govern air sealing activities and the need for additional ventilation for air quality; and (5) periodic (every 6 months) cost comparisons to local market rates for each allowable work measure, justifications for excessive costs, and reference to a DOE guide for establishing a bidding process that meets DCA's competition requirements. The procedures and guidelines also clarified requirements for testing duct system leakage. DCA also revised its form for subgrantees to report completed work so it includes two items—faucet aerators and smart thermostats—previously on the audit form but not on the completed work form.

We believe that the actions DCA has taken are responsive to the issues we noted during our review of its five subgrantees. Because our field work was completed before DCA changes to procedures and the energy audit form became effective, we were not in a position to assess their implementation or the extent to which contract field monitors now handle these issues differently. It will be important for DCA to work closely with its subgrantees and contract field monitors to achieve effective implementation and oversight.

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<sup>15</sup>DCA said that briefings we provided on the results of the reviews at the two subgrantees we most recently reviewed, along with our previous work and information from others, were used to develop its new guidance.

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## Tax Credit Programs Have Spurred Creation of Housing and Jobs but Some Projects Could Miss Treasury Funding Deadline

The Recovery Act established two funding programs that provide capital investments to Low-income Housing Tax Credit (LIHTC) projects: (1) the Tax Credit Assistance Program (TCAP) administered by the U.S. Department of Housing and Urban Development (HUD), and (2) the Grants to States for Low-income Housing Projects in Lieu of Low-income Housing Credits Program under section 1602 of division B of the Recovery Act (Section 1602 Program) administered by the U.S. Department of the Treasury (Treasury) to fill financing gaps in planned LIHTC projects. Descriptions and requirements of the programs are discussed in the program descriptions section of this report.

The Florida Housing Finance Corporation (FHFC) administers these as well as other low income housing programs. FHFC received about \$101 million in TCAP funds and about \$580 million under the Section 1602 Program. As of July 30, 2010, FHFC made provisional or final awards totaling about \$659 million (about 97 percent) and disbursed about \$113 million (about 17 percent) under these two programs for acquisition, new construction, or rehabilitation. Altogether, FHFC has selected 82 multi-family housing projects involving 8,026 rental housing units for TCAP and Section 1602 Program funds throughout Florida.<sup>16</sup> Of the 82 projects, 13 involve repayable loans under TCAP; 56 involve grant awards under the Section 1602 Program; and 13 have been awarded funding under both programs.

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## FHFC Appears on Track to Meet HUD Spending Deadlines but Some Projects Could Fall Short of Meeting a Treasury Deadline

FHFC projects appear on track to meet HUD's TCAP spending deadlines. Under the Recovery Act, FHFC must disburse 75 percent of TCAP funds by February 2011, and individual projects must spend all their TCAP funds by February 2012. FHFC has awarded all TCAP funds and expects the eight projects that had not yet closed (signed the legal and financial documents to allow funds disbursement to begin) to do so in sufficient time for it and its projects to meet HUD's spending deadlines. It reported disbursing about \$45.7 million, or about 45 percent of its TCAP funds, as of July 30, 2010. Under the Recovery Act, all Section 1602 Program awards must be committed by December 2010, or the housing finance agency (HFA) must return the unawarded funds to Treasury. Treasury's deadline for HFAs to disburse all Section 1602 Program funds is December 31, 2011. However, Treasury requires that individual project owners spend 30

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<sup>16</sup>This rental housing, to be located in both urban and rural areas, is to serve mostly low income families, the elderly, farm workers and commercial fishing workers.

Several Factors Could Negatively Affect FHFC's Section 1602 Program Awards and Spending Deadlines

percent of their eligible project costs by December 31, 2010 in order to continue receiving Section 1602 Program funds in 2011.<sup>17</sup> As of July 30, 2010, FHFC reported disbursing about \$66.6 million (about 11.5 percent) of its funds. FHFC and several project owners might be challenged to meet Recovery Act's Section 1602 Program spending deadlines.<sup>18</sup>

As of August 2010, about \$22.3 million of Section 1602 Program funds were involved in litigation.<sup>19</sup> FHFC expected to resolve litigation for the majority of these funds in September 2010 but was uncertain when the litigation involving the remainder of the funds would be resolved. In addition, the number of projects in provisional stages of approval could affect spending deadlines.<sup>20</sup> For example, as of July 30, 2010, 28 projects with provisional awards ranging from \$2.3 million to about \$14.5 million had not received final FHFC approval. FHFC generally expected these projects to receive final approval or close by November 2010. It noted that if a problem does arise, it would most likely involve projects having \$5 million or more in Section 1602 Program provisional funding, of which there were 13. Further, as of July 30, FHFC had not disbursed funds to 19 projects with final awards ranging from \$1.8 million to \$21.8 million; one of the projects had closed, and FHFC generally expected the remaining 18 to close between August and November 2010. In addition to needing to complete the award process, projects could face delays in closing or construction.<sup>21</sup>

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<sup>17</sup>Project owners must spend 30 percent of the project's adjustable basis for land and depreciable property by December 31, 2010. FHFC requires that each project's accountant report this information to FHFC along with the accountant's certification on compliance with the spending requirement in January 2011.

<sup>18</sup>As of June 30, 2010, Treasury had not issued guidance on how its December 31, 2010 deadline is to be enforced or monitored or whether a time extension may be possible.

<sup>19</sup>According to FHFC, the litigation involves three projects for which the owners disagreed with FHFC's decision to rescind provisional awards based on an unfavorable credit underwriting review.

<sup>20</sup>FHFC said the review and approval process includes (1) application review to determine whether all application requirements have been met, (2) a provisional award; i.e., a preliminary commitment of funds pending a credit underwriting review; (3) a credit underwriting review and final award, which can take about 3-6 months; and (4) closing, which involves execution of legal and financial documents and triggers the beginning of FHFC's release of funding for construction.

<sup>21</sup>Each of the three projects we reviewed, all in the early stages of construction, reported experiencing delay in closing or construction.

FHFC noted that these programs significantly expanded its workload and given their nature and complexity, require a significant amount of time and effort to implement. Nonetheless, FHFC said it has taken or is taking steps to meet Section 1602 Program deadlines, including increasing the number of Board meetings to expedite the review and approval process and having a monthly assessment by its contract monitors of projects' progress toward meeting the December 31 deadline. FHFC said that it is prepared to reduce the size of grant awards to ease grantees' ability to spend all of their awarded funds and may divide un-awarded funds available to it among ongoing projects so that Treasury's deadlines can be met. FHFC said that project owners may also take steps, such as buying materials early (to incur costs earlier) or beginning construction before closing, although officials noted this step increases the project owner's risk. Although these steps should help, their ability to enable FHFC and all of its projects to meet Treasury's deadlines is unclear.

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**Despite FHFC's  
Monitoring, Absence of  
Investors Could Create  
Risks**

According to FHFC officials, they oversee TCAP and the Section 1602 Program using FHFC's existing asset management program.<sup>22</sup> For much of its asset management activities, FHFC uses contractors and says FHFC staff periodically performs tests of the contractors' work for completeness, accuracy, and timeliness. FHFC also coordinates its activities with project investors, who typically engage in similar activities to protect their financial interests.<sup>23</sup> However, 13 TCAP projects as well as 15 Section 1602 Program projects do not have third-party investors.<sup>24</sup> An FHFC official said that both the appropriate up-front structuring of transactions and monitoring are important to mitigate this risk. More specifically, he said that FHFC imposed reserve and guarantee

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<sup>22</sup>This program includes various review and inspection steps and required reporting to ensure that projects, both during and after construction, continue to meet requirements and remain financially viable, in good physical condition, and affordable to low income tenants.

<sup>23</sup>This is particularly important because a project's failure to comply with LIHTC requirements over a 15-year compliance period can result in the investors losing their tax credits.

<sup>24</sup>These projects have both TCAP and Section 1602 Program funds. Treasury does not require equity investments for Section 1602 Program projects, but HUD requires such investments for TCAP projects. However, HUD does not require a specific kind of investment or specify a minimum investment amount. For these 13 TCAP projects, the owners contributed \$650 in investment equity to each project, but there were no third-party investors.

requirements on project owners greater than those typically required by investors and restricted the size of first mortgages. In addition, FHFC noted that it implemented tighter market standards, including minimum market occupancy rates; supplemented typical financial monitoring of each project with the development of a new electronic data base that can track and compare projects' financial performance based on many common characteristics; and requires monthly project reports that are to include such information as unit occupancy and rent structures. Although these measures appear to provide additional assurance relative to maintaining project financial viability over the compliance period, it is unclear whether they will fully mitigate the risks associated with the lack of project oversight by third-party investors.

The three project owners and the investor representative we spoke with about Florida projects gave FHFC high marks for its implementation and management of these programs. Even though FHFC shifted some risk to project owners through requiring guarantees and higher reserves, they believed the project's benefits outweighed the risks. Further, they noted that the projects would not have moved forward without this funding and that an extension of the Section 1602 Program for 2010 would likely be necessary to fund new projects because the market for tax credits has not fully recovered. FHFC officials concurred.

FHFC said using FHFC funds to administer and enforce the programs' requirements adversely affects its ability to fund other programs. FHFC said that federal restrictions prohibit it from collecting administrative fees or using program funds to cover such costs as those associated with program administration and recapturing funds from projects that do not meet program requirements.<sup>25</sup> FHFC expects these costs to amount to about \$6.3 million over the next 5 years.

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## TCAP and Section 1602 Appear to Have Had an Impact on Job Creation

For the quarter ending June 30, 2010, FHFC reported significant job creation: 266 jobs for TCAP; 2,402 for 16 projects awarded only Section 1602 Program funds; and, 1,275 for 11 projects awarded funds under both programs.<sup>26</sup> However, job estimates for the two programs are not

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<sup>25</sup>Under the conventional LIHTC program, HFAs are not liable for recapturing funds if a project owner fails to comply with LIHTC requirements. Rather, HFAs are to report noncompliance to IRS, which then takes any further actions with respect to recapture.

<sup>26</sup>We did not confirm the reliability of these data.

comparable. TCAP is subject to Recovery Act recipient reporting requirements but Section 1602 is not.<sup>27</sup> Both programs require use of a full-time equivalent approach to job estimation. However, unlike the Office of Management and Budget's instructions that apply to TCAP, FHFC specified that job estimates under the Section 1602 Program should cover the entire project period rather than just the most recent reporting quarter and that the count should not be reduced to reflect parts of the project not funded under the Section 1602 Program.<sup>28</sup> Project owners we spoke with said that the Recovery Act jobs reporting method results in an understatement of TCAP's jobs impact because TCAP job estimates are to reflect only those jobs that were or are to be funded by TCAP. They argue that because projects funded under TCAP would not have moved forward without TCAP funds, all the jobs associated with the projects should be counted.

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<sup>27</sup>Section 1512 of the Recovery Act describes recipient reporting requirements, including that of estimated jobs created and retained. Section 1512 and the recipient reporting requirements apply only to programs under division A of the Recovery Act, which includes TCAP. The Section 1602 Program is under division B of the Recovery Act, and, therefore, not subject to Section 1512 requirements. Except for requiring the use of full-time equivalents, Treasury has not issued detailed guidance specifying job estimation methodology under the Section 1602 Program.

<sup>28</sup>Thus, for TCAP projects, job estimates are to reflect only those jobs that were or are to be funded by TCAP for the most recent quarter; whereas for Section 1602 Program projects, job counts are to reflect all jobs created or retained for the entire project period regardless of funding sources.

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## Most Recipients of Largest Energy Efficiency and Conservation Block Grant Allocations Have Procedures in Place to Monitor Funds

The State of Florida, 87 eligible counties and cities, and 2 tribal governments received Energy Efficiency and Conservation Block Grant direct formula grant allocations totaling \$168,886,400.<sup>29</sup> The Department of Energy has made site visits to nine Florida cities and counties receiving funds as of July 20, 2010. Florida direct formula grantees, on average, had obligated 45 percent of their funds as of July 13, 2010 and spent 5 percent, as of July 18, 2010.<sup>30</sup>

We selected the one county and three cities with the largest direct formula grant allocations: Miami-Dade County, and the cities of Miami, Jacksonville, and Tampa. Combined, their allocations represent about 21 percent of the total going directly to Florida cities and counties. We visited one project in Tampa.

The county and cities we reviewed vary in their progress toward meeting Department of Energy deadlines for obligating funds. (See table 2.)

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<sup>29</sup>A city is eligible to receive a formula grant if it has a population of at least 35,000 or if it is one of the 10 highest populated cities in the state. Similarly, a county is eligible for a formula grant if it has a population of at least 200,000 or if it is one of the 10 highest populated counties of the state in which it is located. Each state awarded a formula grant must pass on at least 60 percent of its allocation to cities and counties that are not eligible for such formula grants.

<sup>30</sup>According to program Notice10-011 dated April 21, 2010, grantees, the majority of whom received their grants by September 2009, must obligate all funds within 18 months of receipt and spend them within 36 months. Funds “spent” are those drawn down for an obligation.

**Table 2: Percent of EECBG Funds Obligated and Spent by the County and Cities We Reviewed as of August 19, 2010**

Municipality	Allocation	Percentage of EECBG funds	
		Obligated <sup>a</sup>	Spent <sup>b</sup>
Miami-Dade County	\$12,523,700	55	20
Jacksonville	\$7,891,500	25	1.6
City of Miami	\$4,742,300	9	0
Tampa	\$3,712,100	39	17.5

Source: Department of Energy and Miami officials.

Note: The starting points to meet the deadlines for obligating and spending funds were as follows: Jacksonville, April 2010; Miami, October 2009; Miami-Dade, September 2009; and Tampa, October 2009.

<sup>a</sup>Obligation includes funds under contract and funds set aside for internal costs.

<sup>b</sup>According to Department of Energy officials, these represent funds the city or county drew down for an obligation; drawing down of funds does not necessarily mean that the obligation has been liquidated.

As of July 15, 2010, officials for each locality, except Jacksonville, reported having monitoring procedures in place. For example, Miami-Dade County and the city of Miami officials said they will provide oversight through routine site visits and/or meetings with project managers, contractors and sub-recipients and through regularly monitoring expenditures. Jacksonville officials said they were still developing a process for tracking obligated funds; that their current financial system could track such information, but not produce reports; and that they did not anticipate having subgrantee agreements or a checklist for monitoring sub-grantees until fall. Nonetheless, officials said it was their intent to monitor expenditures on a routine basis, to conduct site visits, and require appropriate documentation from grantees. According to Department of Energy project managers, Miami-Dade County and the cities of Miami, Tampa, and Jacksonville have adequate systems in place to monitor their grants. A Department of Energy monitoring review of Jacksonville from June 16, 2010 noted that the city had procedures for personnel and payroll, procurement and financial management and accounting that specifically address the grant program. It also noted that the city planned to create specific policies and procedures that address onsite monitoring of grantees.

In each locality, officials said projects followed Department of Energy guidance. Specifically, projects had met requirements for historical preservation and environmental review. Each had a plan for waste disposal, according to officials.

Each municipality has projects with potential to create jobs, but some projects are expected to create jobs as a result of goods procured, rather than through hiring workers for the project in question. Miami-Dade County used over \$1,000,000 to purchase computer equipment that county workers installed. Likewise, Jacksonville plans to procure recycling bins (\$42,000), lighting and light controls (over \$746,000) installed by state employees and solar parking meters (over \$187,000) that may be installed by city workers.<sup>31</sup> Tampa planned to use over \$2.5 million to purchase electrical lighting for municipal garages and incandescent traffic signal lighting installed by city workers.<sup>32</sup> In contrast, the City of Miami will use its grant funds to make city-owned buildings more energy efficient and will contract out all work.

Officials in Tampa, the one site we visited to view a project, reported positive outcomes resulting from grant-funded projects. Specifically they reported jobs created. In addition, they provided data showing the energy usage in two garages where lighting was changed reduced energy consumption by over 40 percent. Officials said they did not know how long the Department of Energy would expect them to report energy savings from funded projects.

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<sup>31</sup>In Jacksonville's grant application each of the above mentioned projects is part of a larger project. The estimated job creation for the larger projects is 69.

<sup>32</sup>In its grant application, Tampa estimated that the procurement of lighting would create 8 jobs and result in the retention of 16.

## Early Head Start Grantees Experienced Delays in Funding and Implementation of Recovery Act Expansion Funds in 2010

Grantees in Florida received approximately \$26.8 million in Recovery Act Early Head Start (EHS) expansion grants for fiscal year 2010—the first year of the 2-year grant—to serve additional children and provide training and technical assistance to grantees.<sup>33</sup> To review the implementation of the grants, we visited the Miami-Dade Community Action Agency (CAA), a county agency that administers social programs including Early Head Start, and Children First, a nonprofit organization that provides early childhood services in Sarasota County. See table 3 for Recovery Act-funded activity at the grantees we visited in Florida for Fiscal Year 2010.

**Table 3: Recovery Act-Funded Early Head Start Activity at Selected Grantees in Florida, for Fiscal Year 2010**

	Miami-Dade Community Action Agency	Children First, Sarasota
Grant amount	\$1,716,860	\$1,451,694
Children to be served by Recovery Act funding	128 (including 40 home based)	120 (all center based)
Date service began	January 2010	January 2010
Date grantee was fully enrolled	July 2010	March 2010
Projected unspent funds	\$320,000	\$0

Source: [www.recovery.gov](http://www.recovery.gov), Miami-Dade Community Action Agency, and Children First.

Delays in the award of the EHS grants and in grantee implementation of the program slowed the delivery of services. As GAO previously reported, HHS’s Office of Head Start (OHS) delayed the award of EHS expansion grants.<sup>34</sup> CAA and Children First did not receive their grants from OHS until the end of November 2009—2 months after the grants were scheduled to be awarded. Officials at CAA said that the delay in funding was their greatest challenge to implementation. Although CAA anticipated full enrollment of Recovery Act-funded children by January 1, 2010—3 months after the expected award notification from OHS—they were not

<sup>33</sup>The Head Start program, administered by the Office of Head Start (OHS) of the Administration for Children and Families within the Department of Health and Human Services, provides a variety of education, health, and social services to enhance physical, social, emotional, and intellectual development of low-income infants, toddlers, and pregnant women.

<sup>34</sup>GAO, *Recovery Act: States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](http://www.gao.gov/products/GAO-10-604) (Washington, D.C.: May 26, 2010).

able to achieve full enrollment until July 14, 2010— more than 7 months after the award was actually received. CAA officials explained that this extended implementation period was caused by their inability to negotiate agreements to deliver services with subgrantees until the grant was received, the time associated with meeting county hiring requirements, and renovations required by one subgrantee. Officials at Children First said that they began planning for the expansion and negotiating with partner organizations prior to receiving the grant and were able to reach full enrollment by March 10, 2010.

One grantee we visited expects to have unspent funds at the end of fiscal year 2010.<sup>35</sup> CAA officials said they used the Recovery Act funds to hire additional staff for home-based care and new teachers. However, due to the delay in initiating services, CAA officials said they expect to have approximately \$320,000—more than 18 percent of their fiscal year 2010 grant—remaining at the end of fiscal year 2010. CAA officials said they will request that OHS allow them to use the unspent funds to purchase equipment and supplies as well as to hire two additional staff in fiscal year 2011; however, OHS has not yet determined the strategy for addressing unspent funds. Children First officials said the organization used the EHS expansion grant to hire new teachers and expand services by offering year-round enrollment for some Recovery Act-funded children. Due to capacity limitations in its own facilities, Children First partnered with other agencies to provide services to more children. Children First officials reported that they do not expect to have any funds remaining at the end of fiscal year 2010.

Both grantees we visited hope to be able to identify funds to continue to provide services to the additional children once the Recovery Act funding ends in September 2011. CAA officials said they plan to shift Recovery Act funded children into regularly funded Early Head Start and Head Start spots when possible. Children First officials said they are also seeking alternative funding from state, local, and private sources. However, officials at both of the grantees acknowledge that there may not be funding to continue services for some children currently funded under the Recovery Act.

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<sup>35</sup>Unspent funds are the difference between a Head Start grantee's total federal award for a budget year and the amount spent by the grantee during that year.

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## Florida State Budget Includes \$2.6 Billion in Recovery Act Funding, and State Officials Are Preparing for Decreased Flow of Recovery Act Funds

Florida's adopted budget—about \$70 billion in total—for fiscal year 2010-2011 was approved by the governor in late May 2010. Florida officials stated that about \$2.6 billion in Recovery Act funding was included for education, health and human services, transportation, and general government operations. In addition to this amount, state officials said that about \$270 million was budgeted for the extension of the increased Federal Medical Assistance Percentages (FMAP).<sup>36</sup> Officials stated that certain appropriations for economic development, Everglades restoration, student aid, and health care were contingent on Florida receiving the extended FMAP. Officials said that because these appropriations were contingent on the state receiving the increased FMAP funds, balancing the state's budget did not rely on the increased funding.

According to state officials, Florida is preparing for when the flow of Recovery Act funds substantially decreases beginning in the state's fiscal year 2011-2012. Although budget officials have yet to determine whether reductions will be necessary due to the state's improving fiscal condition, the Office of Policy and Budget has instructed agencies to submit reductions totaling at least 5 percent of their appropriations that could be used to address a potential revenue shortfall for fiscal year 2010-11. Further, agencies are required to submit reductions totaling 15 percent of their recurring appropriations that could be used to address a potential revenue shortfall for fiscal year 2011-12.<sup>37</sup> Officials said that they may use the agencies' plans in combination with other measures to make budget recommendations to close any potential budget gaps.

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<sup>36</sup>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).

<sup>37</sup>Florida officials report that the state's fiscal condition is improving based on revenues exceeding estimates in fiscal year 2009-2010, and projected continued revenue growth of 5 to 6 percent in fiscal year 2010-2011, which began July 1, 2010. As we previously reported, increased revenue resulting from certain fees such as driver's license, motor vehicle, and court fees led to a moderate increase in the general revenue fund in fiscal year 2009-2010, according to state officials. Moreover, officials said the state exceeded its estimates for taxes on insurance premiums and corporate income in fiscal year 2009-2010.

## Miami-Dade County Considers Recovery Act Funding as Nonrecurring Revenue While Fiscal Challenges Continue

We also examined the use and effect of Recovery Act funds on a local government’s budget, Miami-Dade County.<sup>38</sup> According to county officials, the county received about \$89.8 million over multiple years in Recovery Act funds. Housing programs for low- to moderate-income residents received the largest amount of Recovery Act funding. Generally, county officials said Recovery Act funds are treated as nonrecurring revenue and primarily used for infrastructure and capital projects such as purchasing police equipment and computer equipment.<sup>39</sup> (See table 4). Overall, Recovery Act funds received over multiple years contribute a small amount to the county’s total general fund operating budget of about \$1.7 billion for the current fiscal year, 2009-2010.

**Table 4: Recovery Act Grants and Loans to Miami-Dade County, Fiscal Years 2008-2011**

Program area	Project or federal award
Housing	Public Housing Capital Fund Program for the construction and renovation of public housing developments. Community Development Block Grant Recovery to promote neighborhood stabilization in low to moderate-income communities. Homeless Prevention and Rapid Re-housing Program for homeless services. <b>Total: \$48.2 million over 3 years</b>
Energy efficiency	Energy Efficiency and Conservation Block Grant used to demonstrate and evaluate the use of renewable alternative energy technologies and Weatherization Assistance Program used to improve energy efficiency for privately-owned residences. <b>Total: \$15.6 million over 3 years</b>
Human services	Head Start and Early Head Start for salaries, cost of living increases, and to expand child care services. Community Services Block Grant to provide employment-related services to low-income communities. <b>Total: \$11.1 million over 3 years</b>
Public safety	Edward Byrne Memorial Justice Assistance Grant used for salaries, equipment purchases, and to address substance abuse. Grant for system enhancement to automate reporting and expedite the booking process. <b>Total: \$9.3 million over 3 years</b>

<sup>38</sup>Miami-Dade County is comprised of 35 municipalities and unincorporated municipal service areas that do not fall within the jurisdiction of a municipality.

<sup>39</sup>County Recovery Act funds referred to in this section include only funds administered by the county government and not the full scope of Recovery Act funds—including unemployment insurance, Medicaid, highways, and transit—that benefit county residents. For example, Recovery Act highway and transit funds being used in Miami-Dade County total \$123.5 million.

Program area	Project or federal award
Environment	National Diesel Funding Assistance Program used to purchase five hybrid diesel transit buses and programs to reduce diesel fuel emissions. Drinking Water State Revolving Fund for construction of water lines. <b>Total: \$5.2 million over 3 years</b>
Arts, culture, and humanities	National Foundation on the Arts and Humanities to sustain jobs in the arts community threatened by declines in philanthropic support during the economic downturn. <b>Total: \$300,000 over 1 year</b>
<b>Total Recovery Act Funding</b>	<b>\$89.8 million over multiple years</b>

Source: GAO analysis of federal and state data.

Note: Amounts for each program area do not add up to total Recovery Act funding due to rounding.

Although Recovery Act funds have not been used to balance the current 2009-2010 fiscal year budget, county officials explained that several actions were taken to address a budget gap of about \$426 million.<sup>40</sup> For example, county officials said the gap was closed by salary and service reductions and using reserves—about \$58 million—from the Countywide Emergency Contingency Reserve. Remaining reserves are currently below the goal established in county policy, according to its officials, which requires a minimum reserve fund balance of 7 percent of the general fund operating budget by fiscal year 2012. County officials stated that the minimum can be waived during times of fiscal constraints by the Board of County Commissioners with the County Manager’s recommendation and the condition that a plan is in place to replenish the funds over a period of 7 years.<sup>41</sup> Moreover, county officials said that further reductions to reserves would jeopardize the county’s bond rating.

<sup>40</sup>The county’s revenue has been directly impacted by decreased property taxes resulting, in part, from the housing market decline.

<sup>41</sup>Strategies to begin replenishing reserves are being considered in the fiscal year 2010-2011 budget development process, according to county officials.

**While Most Contracts We Reviewed Had Post-award Changes, the Modifications Generally Do Not Appear to Have Significantly Affected Projects' Outcomes, Schedule, or Costs**

While most of the 12 Recovery Act-funded contracts we reviewed had post-award changes, according to state and local project managers, the changes generally did not have significant effects on the projects' outcomes or costs and were within acceptable levels. As shown in table 5, 8 of 12 contracts experienced changes to the schedule, cost, and/or scope of work from the original contracts. However, none of the changes adversely impacted the delivery of services under the contracts.

**Table 5: Changes to Selected Recovery Act-Funded Contracts in Florida as of July 26, 2010**

Description of projects	Original contract cost	Changes in cost	Changes to scheduled completion
Highways—contract T3066: road and bridge reconstruction in Okaloosa County. <sup>a,c</sup>	\$25.2 million	1.87% change (\$407,916 increase)	3% change (29 days added)
Highways—contract E2N36: Road widening and improvements in Nassau County. <sup>c</sup>	\$26.2 million	No change	3.7% change (26 days added)
Highways—contract T2303: Highway and drainage improvements in Union County. <sup>b</sup>	\$454,745	0.17% change (\$809 decrease)	23 days ahead of allowable contract time
Highways—contract E2N34: Road reconstruction, widening, and bike lanes in Duval County. <sup>c</sup>	\$12.8 million	No change	5.2% change (33 days added)
Highways—contract E2N37: New road and bridge construction in Clay County. <sup>c</sup>	\$7.3 million	No change	3.2% change (14 days added)
Highways—contract E2N56: Road repaving in Alachua County. <sup>b</sup>	\$936,007	No change	88 days ahead of allowable contract time
Highways—contract APJ94: Drainage and road improvements in Putnam County. <sup>a,b</sup>	\$398,484	1.2% change (\$4,866 increase)	12.5% change (30 days added)
Education—contract 10795C: 1-day writing training for teachers in Hillsborough County. <sup>b</sup>	\$4,725	20% change (\$945 decrease)	No change
Education—contract 10797C: 1-day teacher training in Hillsborough County. <sup>b</sup>	\$4,800	No change	No change
Education—contract K02479981: Teacher and principal training in Miami-Dade County. <sup>c</sup>	\$900,000	No change	No change

Appendix V: Florida

Description of projects	Original contract cost	Changes in cost	Changes to scheduled completion
Education—contract R02475264: Extra academic help, such as tutoring, for students with disabilities in Miami-Dade County. <sup>b</sup>	\$98,600	No change	No change
WIA Summer Youth—contract 525: Providing appropriate classroom-type space and support for Employment and Leadership teams, such as verifying daily attendance among trainees. <sup>b</sup>	\$11,252	No change	No change

Source: Analysis of information from contract project managers of highway, education, and Workforce Investment Act projects funded by the Recovery Act

Notes: According to FDOT Office of Inspectors General (OIG) officials, the OIG’s Rapid Review Advisory and Consulting Group have been monitoring numerous Recovery Act contracts, including T3066, E2N34, and E2N36. According to these officials, the contracts are being monitored and to date, none of the contracts exhibited the risk characteristics that would trigger a more detailed review or audit.

<sup>a</sup>The scope of work changed.

<sup>b</sup>As of July 26, 2010, the contract has been completed.

<sup>c</sup>This contract remains ongoing as of June 15, 2010, so additional days or costs, for example, could be added to the contract.

The days added to contract schedules for each of the five highway projects accounted for less than a 20 percent change of the initial estimated time, which is the performance measure set in agreement by the Florida Department of Transportation (FDOT) and Federal Highway Administration (FHWA) and according to state and local project managers, did not increase the financial costs of the projects.<sup>42</sup> Two other highway contracts we reviewed were completed ahead of schedule.<sup>43</sup>

<sup>42</sup>According to FDOT officials, adding days to contract schedules was mainly attributed to days off granted for inclement weather and holidays. Their policy permits granting extensions of contract schedules when work is delayed by factors not reasonably anticipated or foreseeable at the time of bid, such as for inclement weather. Additionally, FDOT officials said holidays are granted as they occur during the course of a contract because it is more efficient than estimating the number of holidays as part of the original contract and because of the uncertainty of when a contractor will actually begin the work. While FDOT tracks weather and holidays in the time added to the original contract time, it does not count those added days against their performance measures.

<sup>43</sup>In reviewing FDOT officials’ responses and supporting documentation for 3 of the 7 highway projects, we identified minor discrepancies between the summary reports produced by an FDOT procurement system and memorandums documenting FDOT granted days off for inclement weather, holidays, and other events. FDOT officials said the discrepancies were due to human error in data entry. FDOT officials corrected the errors, and the overall impact of these discrepancies appears minor. Officials from FDOT’s Office of Inspector General said that on occasion they have found similar types of discrepancies related to data entry in their reviews of other contracts and have brought these to management’s attention for resolution.

As reported by state and local project managers, costs increased for two of the contracts while costs decreased for two others. The cost increases—accounting for less than a 2 percent change from the awarded contracts’ costs—are within FDOT and FHWA performance measures of less than a 10 percent cost increase. According to state officials, costs increased due to changes in the scope of work. They told us that the scope changes occurred because of conditions not anticipated at the time of the contract award. For example, in one case the county design engineer inadvertently omitted required materials from the contract; this required subsequent adjustments that increased the project cost. In both cases, project managers reported that the modifications were beyond the control of the contractors. Two other contracts we reviewed—involving an education training program and a highway project—experienced price reductions. State and local project managers reported that price reductions occurred because of price adjustments, such as having fewer people than expected attending training or the cost of paving material being less than estimated.

## Florida Continues to Provide Oversight and Transparency to Recovery Act Spending

Florida’s Office of the Chief Inspector General and the Auditor General have the primary responsibility for the audit of the state’s use of Recovery Act funds. The Chief Inspector General monitors the activities of the Offices of Inspectors General for Florida’s various state agencies who are responsible for conducting audits and investigations within their respective agencies. The Auditor General conducts the state’s annual audit of federal awards expenditures and other audits of Florida’s governmental entities which serve to promote accountability and stewardship within government operations.

Florida’s inspectors general continue to conduct the types of oversight and accountability activities we described in our previous work.<sup>44</sup> For this reporting period, several inspectors general reported Recovery Act

<sup>44</sup>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); *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: December 2009); *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.: September 2009); *Recovery Act: States’ and Localities’ Current and Planned Uses of Funds While Facing Fiscal Stresses (Appendixes)*, [GAO-09-830SP](#) (Washington, D.C.: July 2009); and, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, D.C.: April 23, 2009).

programs audits that were completed, in process, or planned. For example, as of June 15, 2010, the Florida Department of Transportation Office of Inspector General (FDOT OIG) reported it had reviewed 493 Recovery Act funded transportation projects and noted no findings that would jeopardize federal funding.<sup>45</sup> Additionally, FDOT OIG reported that it had initiated a review of 20 Recovery Act funded construction projects with total project amounts over \$10 million. So far, construction files for 2 projects have been reviewed with no findings noted; site visits and reviews are being scheduled. The Florida Department of Law Enforcement reported it is completing reviews of 20 subrecipients' efforts to document and report on the number of full-time equivalent jobs created or retained by Recovery Act funds. The Department of Community Affairs Inspector General reported it had finished fieldwork for the implementation of the Weatherization Assistance Program and was drafting its report. In addition, the Inspector General for the Executive Office of the Governor reported plans to audit the subgrant and contract award processes and the monitoring procedures of the office administering the Energy Efficiency and Conservation Block grant, in fiscal year 2010-2011.

The annual audit of federal award expenditures, conducted by the State Auditor General's Office in accordance with the Single Audit Act, also provides oversight for Recovery Act funds.<sup>46</sup> For the state fiscal year ending June 30, 2009, Florida expended \$30.2 billion in federal awards; of that amount \$1.8 billion was identified as Recovery Act funds.<sup>47</sup> The

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<sup>45</sup>FDOT reported working in conjunction with the Federal Highway Administration to complete these reviews. The reviews were limited to ensuring compliance with certain state and federal laws, rules and regulations.

<sup>46</sup>The Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507), requires that states, local governments, and nonprofit organizations expending more than \$500,000 in federal awards in a year to obtain an audit in accordance with the act and subject to applicable requirements in OMB Circular No. A-133, *Audits of States, Local Governments and Non-profit Organizations* (June 27, 2003 and June 26, 2007). The act sets a deadline for submitting the audit at 9 months from fiscal year end. According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Florida's Single Audit reporting package for the year ending June 30, 2009, on March 29, 2010 which was within the 9 month deadline in accordance with the act.

<sup>47</sup>Of the 39 federal programs or clusters listed as major programs in the Single Audit report, 12 were identified as expending Recovery Act funds.

Auditor General reported several findings.<sup>48</sup> For example, in the audit of the Medicaid cluster of major programs, which expended \$1.3 billion of Recovery Act funds, the state was unable to document that certain individuals were eligible for benefits and procedures were not sufficient to ensure all health care providers receiving Medicaid payments had provider agreements in effect.<sup>49</sup> The state agencies acknowledged these findings continued to exist, citing staff shortages and increased workloads among the contributing factors; however, the agencies plan to provide additional training and implement procedures to address these findings. In planning for the Single Audit for fiscal year 2010, the Auditor General estimated that 24 of the 35 major programs will contain some Recovery Act expenditures due to increased Recovery Act funds expended during fiscal year 2010.

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<sup>48</sup>The Auditor General reported numerous findings on internal control over compliance of federal awards and questioned costs charged to several programs in the Single Audit for the fiscal year ending June 30, 2009. Within the findings, the Single Audit identified 73 significant internal control deficiencies related to compliance with Federal Program requirements, of which 10 were classified as material weaknesses. Of the 73 significant deficiencies which cover many federal programs, 25 were identified in programs receiving Recovery Act Funds. Of the 10 material weaknesses, an elevated level of a significant deficiency, 8 were identified in programs receiving Recovery Act funds. Some findings continue to exist from the prior year pre-dating the receipt of Recovery Act funds. Some findings are categorized as material weaknesses, an elevated level of a significant deficiency, as explained in the Single Audit report. The Auditor General follows up on prior audit findings to assess the status of actions reported to be taken by the agencies to resolve the findings, as required by OMB Circular No. A-133.

<sup>49</sup>Specifically, these two findings, FA 09-059 and FA 09-062, were reported as material weaknesses and contributed to qualified opinions on compliance for the related Medicaid Cluster compliance requirements.

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## Florida Recovery Czar Indicated that Recipient Reporting Process Went Smoothly, but We Found that Some Reports Were Based on Incomplete Data

The state Recovery Czar stated that overall, the fourth round of recipient reporting went smoothly as the process has become routine; however, during site visits to local agencies, we identified instances in which contractors' hours were mistakenly omitted from subrecipients' full-time equivalent (FTE) calculations.<sup>50</sup> The Recovery Act requires recipients to report an estimate of the number of jobs created or retained by the project or activity no later than 10 days after the end of each quarter so this information can be used for reporting on Recovery.gov. The Recovery Czar acknowledged the possibility of under reporting jobs data and plans to follow up at the agency level. However, he emphasized that the jobs reported number is a point in time number of jobs being paid with a portion of Recovery Act funds rather than an overall measure of cumulative jobs being created with Recovery Act funds. Further, he said that while some agencies continue voicing concerns about obtaining jobs data in time to report by the tight deadline, he believes that OMB's process for continuous corrections of data for the most recent quarter will address these concerns. To help identify data anomalies that may be corrected, the Recovery Czar analyzes data from Recovery.gov after the quarter's results are published and provides additional analysis of the state's Recovery Act awards, expenditures and jobs on the Florida Office of Economic Recovery Web site.<sup>51</sup>

We visited three recipients and found that their jobs reports were filed on time, were calculated correctly using the FTE formula, and were supported by timesheets for the periods we tested; however, we identified reporting omissions or errors at each location. The two Weatherization Assistance Program subrecipients did not include hours worked by their contractors weatherizing homes in the jobs data submitted to the Florida Department of Community Affairs (DCA).<sup>52</sup> These subrecipients said they were unaware of the requirement to report contractors' hours, but both agreed to work with DCA to correct this omission. DCA officials said they would look into the reporting from these two subrecipients, as well as

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<sup>50</sup>Florida has a centralized system into which all 17 state agencies report; then the information is uploaded to the federal system via Federal Reporting.gov.

<sup>51</sup>This additional analysis is located on [www.flarecovery.com](http://www.flarecovery.com) under the "Documents" link.

<sup>52</sup>DCA, which administers the Weatherization Assistance Program, is the prime recipient of this Recovery Act funded program, and is responsible for collecting jobs data from its subrecipients. In addition to omitting hours worked by contractors, we noted some discrepancies between the data one of these subrecipients provided to us and DCA; DCA agreed to look into these differences and make and report corrections, as appropriate.

others, and clarify any questions of reporting requirements. Additionally, DCA's Inspector General stated that its office will take steps to help identify omissions when it makes site visits to selected subrecipients.<sup>53</sup> As a result of our work, the DCA Inspector General reported that DCA program staff have taken steps to reiterate to subrecipients the policy and approved method of reporting FTE counts to DCA at the end of each quarter.

The prime Energy Efficiency Conservation Block Grant recipient had two reporting issues. First, after recently centralizing staffing in the grants accounting department, officials discovered that FTE jobs data from its payroll records had not been reported in previous quarters. To correct this omission, the recipient included the omitted hours in its FTE calculation for the quarter ending June 30, 2010. Second, some hours worked on Recovery Act projects will not be reported until the following quarter. This occurs because the accounting systems that produce documentation lag the reporting deadline and the recipient did not want to calculate estimates.<sup>54</sup> For example, for the April, May, and June reporting period, one of the Recovery Act projects instead reported data for March, April, and May.

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## State Comments on This Summary

We provided the Special Advisor to the Governor of Florida, Office of Economic Recovery (who is referred to in this appendix as the Recovery Czar), with a draft of this appendix on August 17, 2010. The Recovery Czar agreed with our draft.

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<sup>53</sup> Currently, DCA's Office of Inspector General performs a review of the agency's quarterly recipient reporting prior to submission to the Recovery Czar by comparing, on a sample basis, data submitted by the subrecipients to the data in DCA's report. However, the Inspector General acknowledged this review would not identify omissions based on the information on hand during that limited period of review. The Inspector General stated that her staff will look into the issue of omissions in subrecipients' reporting during site visits to a sample of subrecipients for the Weatherization Assistance Program.

<sup>54</sup> At this recipient, its departments report payroll data to one of two accounting systems. Jobs data reported on one system lags one full month; jobs data reported on the second system lags for several days at the end of a quarter depending on the timing of the end of the pay period. The recipient stated that it wants to maintain an audit trail based on the actual hours documented in the accounting systems at the time the quarterly reports are prepared in order to demonstrate that at the completion of the projects, it has accounted for all hours charged to Recovery Act funded projects.

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**Staff  
Acknowledgments**

In addition to the contact named above, Michael Armes, Patrick di Battista, Sabur Ibrahim, Kevin Kumanga, Frank Minore, Maria Morton, Daniel Ramsey, Brenda Ross, Bernie Ungar, Margaret Weber, and James Whitcomb made major contributions to this report. Art Merriam assisted with quality assurance. Susan Aschoff contributed to writing this report.

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# Appendix VI: Georgia

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## Overview

The following summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Georgia. The full report on our work, which covers 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery>.

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## What We Did

We reviewed the following programs funded under the Recovery Act—the Early Head Start Program, the Energy Efficiency and Conservation Block Grant Program, the Weatherization Assistance Program, the Tax Credit Assistance Program, the Grants to States for Low-income Housing Projects in Lieu of Low-income Housing Credits Program under section 1602 of division B of the Recovery Act (Section 1602 Program), and the Public Housing Capital Fund. We began work on the Early Head Start Program because significant funds had been obligated and on the Energy Efficiency and Conservation Block Grant Program because it was funded for the first time by the Recovery Act. We continued our work on the Weatherization Assistance Program, the Tax Credit Assistance and Section 1602 Programs, and the Public Housing Capital Fund to update the status of these programs. For descriptions and requirements of the programs covered in our review, see appendix XVIII of [GAO-10-1000SP](#). In addition, we focused on Georgia's efforts to ensure accountability over funds and the use of Recovery Act funds by selected localities.

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## What We Found

Following are highlights of our review.

- **Early Head Start Program.** Under the Recovery Act, the Office of Head Start designated approximately \$19 million for the expansion of the Early Head Start program in Georgia. For example, the Clarke County School District, which received an Early Head Start expansion grant of about \$2.2 million, used the funds in part to construct new classrooms and hire additional staff, allowing it to serve 84 additional clients. Enrichment Services Program, Inc. received an Early Head Start expansion grant of about \$1.5 million, which it used to make a down payment on a new facility and hire new staff, among other things. The funding allowed it to provide Early Head Start services for the first time to 72 clients. The two grantees defined enrollment

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

differently than each other when reporting to the Office of Head Start, but had similar processes in place to determine client eligibility.

- **Energy Efficiency and Conservation Block Grant Program.** The U.S. Department of Energy (DOE) allocated a total of about \$67.2 million in formula grants to the State of Georgia—approximately \$45.6 million directly to 17 cities and 10 counties and about \$21.6 million to the state. The recipients we interviewed—the Georgia Environmental Finance Authority (GEFA), Cobb County, the Columbus Consolidated Government, and the City of Warner Robins—had just begun to spend funds on projects such as a revolving loan fund for improvements to commercial buildings, retrofits to government buildings, and improvements to a wastewater treatment plant. All of the recipients we interviewed were putting monitoring strategies and plans in place and developing methodologies for measuring energy savings.
- **Weatherization Assistance Program.** DOE allocated about \$125 million in Recovery Act weatherization funding to Georgia for a 3-year period. As of the end of June 2010, the 22 service providers in the state had completed 3,017 (about 22 percent) of the 13,617 homes to be weatherized with these funds by March 2012. GEFA and the three providers we interviewed have taken steps to address issues with prioritizing clients for service and awarding contracts that we identified in our May 2010 report.<sup>2</sup>
- **Tax Credit Assistance and Section 1602 Programs.** Georgia received about \$54.5 million in Tax Credit Assistance Program funds and approximately \$195.6 million in Section 1602 Program funds. As of July 31, 2010, the state had committed about \$228 million (approximately 91 percent) under both programs for 39 projects, including the construction of 52 units for persons over age 55 in Sandersville, Georgia. The state expects to commit the remainder of its funds by the end of September 2010. The state has processes in place to conduct oversight of the projects during construction and is developing processes designed to ensure their long-term viability after completion.

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<sup>2</sup>GAO, *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Georgia)*, [GAO-10-605SP](#) (Washington, D.C.: May 26, 2010).

- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development (HUD) allocated about \$113 million in Recovery Act formula funding to 184 public housing agencies in Georgia to improve the physical condition of their properties. As of August 7, 2010, these agencies had obligated all of their funds and drawn down about \$62 million (approximately 55.1 percent). The housing agencies we visited in Athens, Atlanta, and Macon had made progress on projects funded with formula grants. For example, the Athens Housing Authority was close to completing the renovation of 25 scattered site housing units. HUD also awarded about \$14 million in Recovery Act competitive funding to five public housing agencies in Georgia. HUD expects all five agencies to meet the Recovery Act requirement to obligate their funds within 1 year of the date they were made available.
- **Accountability efforts.** The State Auditor's fiscal year 2010 Single Audit will include audits of Recovery Act programs. The internal audit departments of several state agencies have plans to audit or are already auditing Recovery Act funds. For example, GEFA conducts fiscal audits that focus on the contractual, administrative, and accounting aspects of the Weatherization Assistance Program. In addition, the State Accounting Office is implementing an internal control initiative to enhance accountability for Recovery Act funds. The initiative began in June 2010 and provided internal control training to 28 state agencies. These agencies will be required to certify that all necessary controls are in place by the end of fiscal year 2011.
- **Selected localities' use of Recovery Act funds.** The Columbus Consolidated Government and the Unified Government of Athens-Clarke County had been awarded about \$17.5 million and \$13.3 million, respectively, as of August 6, 2010. These localities received funds for purposes such as improving energy efficiency and preventing homelessness.

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## Grantees in Georgia Are Using Early Head Start Funds to Serve Additional Children and Create Additional Infrastructure

In Georgia, 12 organizations operated an Early Head Start program prior to the Recovery Act.<sup>3</sup> Eight of these organizations and seven new organizations received a total of approximately \$19 million in Recovery Act Early Head Start expansion grants to serve approximately 1,300 new clients. As of July 16, 2010, these agencies had drawn down about \$7.4 million (39 percent).

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### Despite a Delayed Start, Georgia Grantees Have Begun Providing Early Head Start Services

We visited two grantees—Clarke County School District (CCSD) and Enrichment Services Program, Inc. (ESP).<sup>4</sup> CCSD had operated an Early Head Start program prior to receiving its Recovery Act funding. ESP had operated a Head Start Program but did not previously have an Early Head Start program. Both grantees used the Recovery Act funds to offer three different program options for their clients—center-based services, home-based services, and a combination of the two.<sup>5</sup>

#### Clarke County School District

CCSD was awarded about \$2.2 million in Recovery Act Early Head Start expansion grants (see fig. 1). As of July 16, 2010, CCSD had drawn down about \$1.2 million (55 percent). With this funding, CCSD plans to serve 84 additional clients through three program options. It began to serve these clients on March 1, 2010, and as of the end of June 2010, had enrolled 78 clients. The district used about \$1 million for an addition to a new building that includes classrooms for Early Head Start and program support areas for Early Head Start and Head Start. In accordance with its grant application, CCSD plans to use the remaining funds to hire additional staff, for professional development, to improve playgrounds, and to purchase program and instruction supplies.

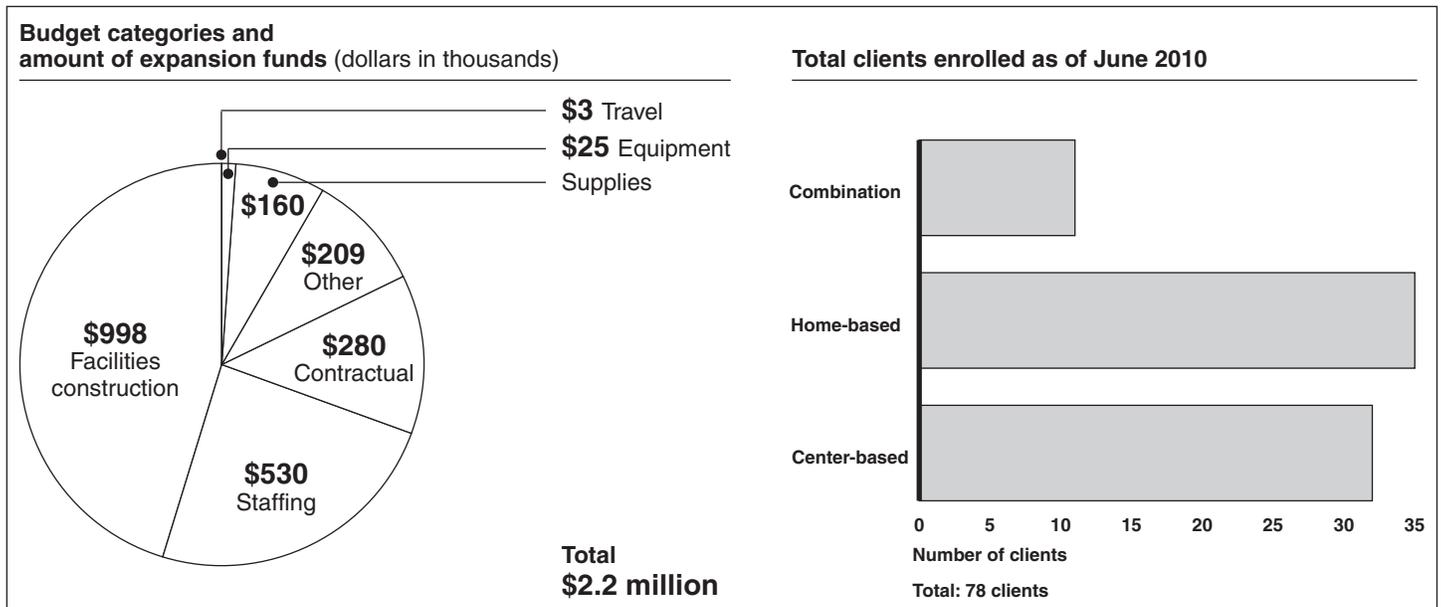
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<sup>3</sup>These organizations include school systems and community action agencies.

<sup>4</sup>Clarke County School District is located in Athens, Georgia. Enrichment Services Program, Inc. is located in Columbus, Georgia. We selected these two grantees because they represented two of the types of organizations that operate the program—school districts and community action agencies. We also wanted to visit a grantee that had operated an Early Head Start program previously (CCSD) and one that had not (ESP), as well as grantees that received grants that were larger than the median for Georgia.

<sup>5</sup>Center-based services refer to child development services that are provided in a child care center. These services are full- or part-day for 4 or 5 days a week. With home-based services, families receive weekly home visits and bimonthly group socialization experiences. A combination program incorporates center- and home-based services.

**Figure 1: Overview of Clarke County School District's Early Head Start Expansion Grant**

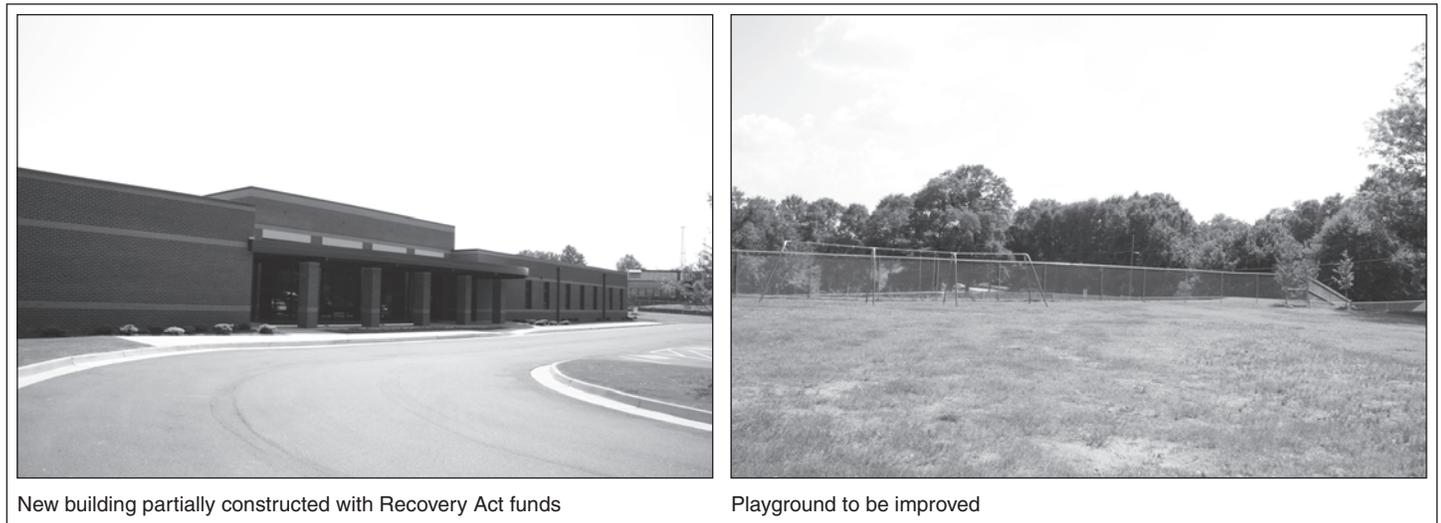


Source: Office of Head Start and Clarke County School District data.

Because CCSD previously operated an Early Head Start program, it also received about \$43,000 in Recovery Act quality improvement funds.<sup>6</sup> CCSD plans to use some of these funds for playground improvements. The remaining funds will be used for supplies and professional development, among other things. Figure 2 shows the new building that was partially constructed with Recovery Act funds and one of the playgrounds to be improved.

<sup>6</sup>Quality improvement funds are used for purposes such as facility upgrades, improving compensation, and increasing the hours of operation.

**Figure 2: Examples of Clarke County School District’s Plans for Its Early Head Start Funds**



Source: GAO.

CCSD experienced some delays in implementing its Recovery Act Early Head Start expansion grant.<sup>7</sup> According to CCSD officials, they originally expected to receive their Financial Assistance Award in September 2009.<sup>8</sup> However, CCSD did not receive its award until December 2009. Officials stated the delay affected the time line for hiring and training staff, preparations for facilities and playgrounds, purchasing of supplies, and completion of the addition to the new building and subsequently delayed the opening date for some of its center-based programming by about 4 months. Despite this delay, officials said they were on target to expend

<sup>7</sup>In our May report, we stated that the Office of Head Start did not meet its initial goal to award Early Head Start expansion grants by the end of fiscal year 2009 due to several factors, contributing to a low drawdown (spending) rate and shortened start-up periods for some grantees. See GAO, *States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](#) (Washington, D.C.: May 26, 2010).

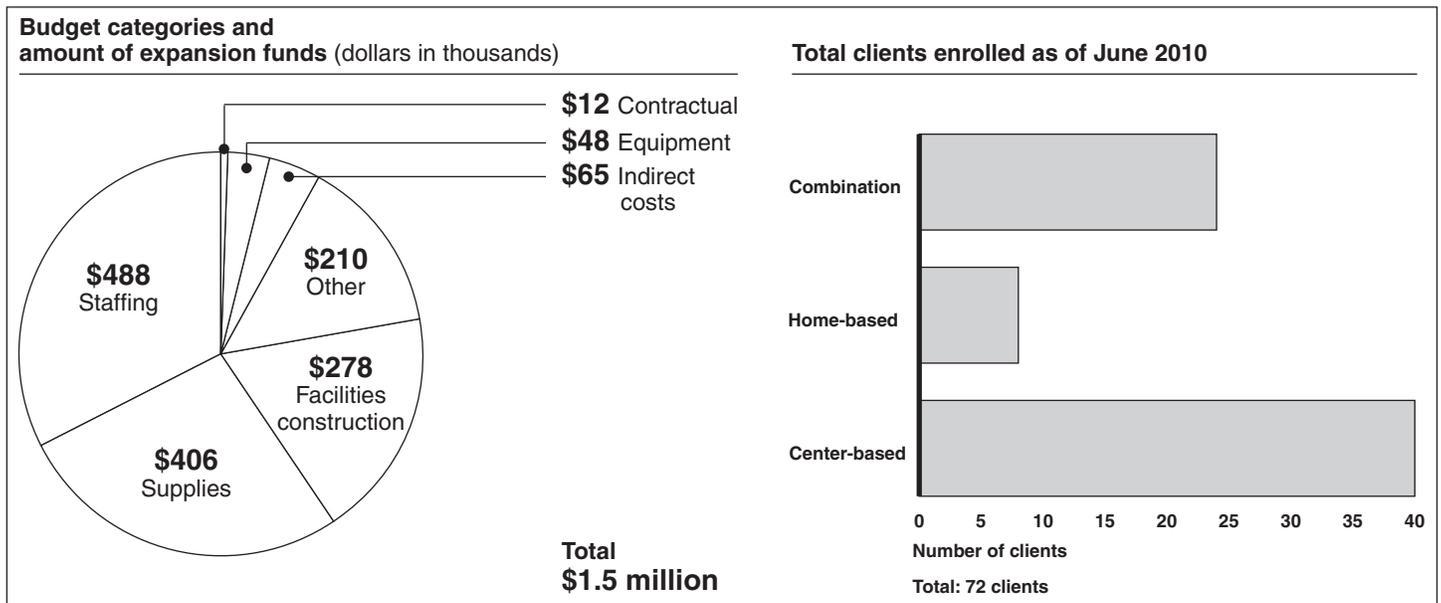
<sup>8</sup>The Office of Head Start regional offices allocate Early Head Start expansion awards among budget categories through a Financial Assistance Award document. Financial Assistance Awards are legally binding and outline how grantees are expected to spend their funds. The document states the terms and conditions of the grants, provides each grantee a grant number and total award amount, and allocates the funds to budget categories representing different program elements, such as supplies.

their first year awards by the end of fiscal year 2010.<sup>9</sup> Once its Recovery Act expansion funding expires at the end of September 2011, CCSD plans to continue to provide expanded services to infants and toddlers by applying for additional federal grants.<sup>10</sup> If funding is made available through the Office of Head Start for continuing the Early Head Start expansion programming, then CCSD will apply to continue Early Head Start services.

Enrichment Services Program

ESP was awarded approximately \$1.5 million in Recovery Act Early Head Start expansion grants (see fig. 3). As of July 16, 2010, ESP had drawn down about \$958,000 (64 percent). According to ESP officials, the funds allowed the agency to start providing Early Head Start services, which had been a goal for them and other entities in the community. ESP began serving 72 clients through three program options on April 15, 2010.

**Figure 3: Overview of Enrichment Services Program’s Early Head Start Expansion Grant**



Source: Office of Head Start and Enrichment Services Program, Inc. data.

<sup>9</sup>The Office of Head Start requires that grantees forfeit first-year program funds they have not obligated by September 29, 2010, unless grantees obtain Office of Head Start approval to carry over funds into the next program year.

<sup>10</sup>CCSD officials rely on multiple grants from the U.S. Department of Education to fund many of their current programs.

ESP used about \$278,000 of its Recovery Act funding to make a down payment on a facility and approximately \$488,000 for personnel costs (see fig. 4). It intends to use the remaining funds to make minor renovations to the facility and to purchase additional supplies, among other things.

**Figure 4: Facility that Enrichment Services Program Purchased with Early Head Start Funds**



Newly purchased building



Community room

Source: GAO.

Similar to CCSD, ESP officials stated that the implementation of their Early Head Start program was delayed. First, ESP did not receive its award until December 2009. Second, ESP faced additional delays because the agency had to make modifications to its proposed program. For instance, ESP had to find an alternate location to hold some of its Early Head Start classes because the originally proposed property was found to be unacceptable because of health and safety concerns. As a result, ESP postponed its original opening date by 2 months to May 2010. Despite this delay, officials expected to expend their first year awards by the end of fiscal year 2010. ESP officials have identified options to extend the services to infants and toddlers once their Recovery Act funds are no longer available. They are presently working on obtaining the required licensing for their newly purchased facility to participate in Georgia's subsidized childcare program.

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## Grantees We Visited Differ in Their Definition of Enrollment but Have Similar Processes in Place to Determine Client Eligibility

The two grantees we visited define enrollment differently when reporting to the Office of Head Start, but had similar processes in place to determine client eligibility.

### Enrollment

For the Head Start and Early Head Start programs, enrollment is defined by regulation as the official acceptance of a family by a program and the completion of all procedures necessary for a child and family to begin receiving services.<sup>11</sup> The Office of Head Start’s guidance states that, for monthly enrollment reporting, grantees should “report the total number of children and/or pregnant women enrolled on the last operating day of the month. [They should] report the total number of enrollees, not the number in attendance.”<sup>12</sup> In our May 2010 report, we concluded that, due to this guidance, the Office of Head Start lacks assurance that grantees actually serve the numbers of children in each program they report having enrolled, and for which they are receiving funds.<sup>13</sup> We noted that under the current regulatory definition of “enrollment,” grantees—particularly those experiencing obstacles in start-up—could reasonably report full enrollment, while some classrooms sat empty, perhaps due to licensure or other delays.

The two Early Head Start grantees we visited were defining “enrollment” differently than one another when reporting to the Office of Head Start. While both grantees use similar processes to enroll students, they consider the client to be “enrolled” at different points during the process.<sup>14</sup> CCSD officials stated they consider a child enrolled on the day the required paperwork is approved. For example, if a client completes the required paperwork on June 1 but does not receive Early Head Start services until

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<sup>11</sup>45 C.F.R. § 1305.2(b).

<sup>12</sup>Office of Head Start, “Enrollment Frequently Asked Questions” (grantee guidance on enrollment reporting, last updated on April 22, 2010).

<sup>13</sup>[GAO-10-604](#).

<sup>14</sup>Both grantees require a client who has expressed interest in participating in the Early Head Start program to complete an application. If the client meets eligibility requirements, the client is asked to complete the enrollment packet, which includes forms and waivers. Upon completion and approval of the required paperwork, the client can begin to receive services.

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July 1, CCSD reports the client as enrolled as of June 1. In contrast, ESP told us it considers a client enrolled on the day the client begins to receive services. Using the above example, ESP would report the same client as enrolled as of July 1.

Client Eligibility

Our review of 20 files and other documentation during site visits to the two grantees found that all 20 files included a form to document that the client's income eligibility was assessed.<sup>15</sup> The form required the grantee's staff to review documentation—such as tax returns, pay stubs, written statements from employers, or documentation showing receipt of public assistance—and record the determination of eligibility. The Office of Head Start's guidance does not require grantees to maintain documentation supporting their eligibility determinations.<sup>16</sup> Consistent with this guidance, we did not find the original documentation used to assess income eligibility in any of the files we reviewed. Both of the grantees we visited indicated that if required to maintain documentation, they could do so without the need for additional resources. However, one noted that the immigrant population it serves could have concerns about how the documents would be used if they were retained.

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Grantees Have Submitted Required Recipient Reports

Both grantees we visited have submitted the quarterly recipient reports required under the Recovery Act.<sup>17</sup> These reports include the amount of funds expended and the number of jobs funded by Recovery Act awards. To determine the number of jobs funded, both grantees told us they rely on payroll information from their accounting systems. CCSD also relied on information from vendors to calculate the full-time equivalents (FTE) associated with the addition to the new building. Both grantees stated they have procedures in place to review the data before it is submitted to FederalReporting.gov, the system through which recipients report information on the projects and activities funded by Recovery Act awards. For example, at CCSD, a fiscal specialist prepares the recipient report and sends it to the Early Head Start coordinator to review before submission. At ESP, the Early Head Start coordinator prepares the recipient report,

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<sup>15</sup>We selected a simple random sample of Early Head Start clients who were being served with Recovery Act funds.

<sup>16</sup>"Income Eligibility for Enrollment in Head Start and Early Head Start Programs," memorandum from the Director of the Office of Head Start, May 10, 2010.

<sup>17</sup>Recovery Act, div. A, § 1512(c), 123 Stat. at 287–88.

and then the financial staff and Executive Director review it prior to submission.

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## Recipients in Georgia Have Begun to Implement the Energy Efficiency and Conservation Block Grant Program

The Energy Efficiency and Conservation Block Grant (EECBG) Program, funded for the first time by the Recovery Act, was established for the purpose of assisting states and communities to develop and implement projects to improve energy efficiency and reduce energy use and fossil fuel emissions.<sup>18</sup> The Recovery Act provides approximately \$3.2 billion for the program. DOE administers the program through competitive and formula grants for local and state governments and Indian tribes. Formula grants were awarded directly to states and larger communities within each state.<sup>19</sup>

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## EECBG Recipients Have Developed Plans to Use Their Funds, but Most Projects Have Just Begun

DOE allocated a total of about \$67.2 million in formula grants to the State of Georgia—approximately \$45.6 million directly to 17 cities and 10 counties and about \$21.6 million to the state. We visited GEFA, the state agency that administers the program, and three communities that received formula grants directly from DOE—Cobb County, the Columbus Consolidated Government, and the City of Warner Robins.<sup>20</sup>

### GEFA

GEFA was awarded about \$21.6 million on September 14, 2009. As of July 30, 2010, the agency had been reimbursed by DOE for about \$237,000. GEFA plans to use the majority of its funds to implement the following three programs:<sup>21</sup>

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<sup>18</sup>EECBG's statutory authorization lists 14 eligible activities for the EECBG program.

<sup>19</sup>The following communities were eligible for direct grants from DOE: (1) cities with populations of at least 35,000 or which are one of the 10 highest-populated cities of the state in which they are located and (2) counties with a population of more than 200,000 or which are one of the 10 highest-populated counties of the state in which they are located.

<sup>20</sup>We selected the three localities we visited based on the amount of their EECBG allocation. We also made the selection based on the type of government (that is, city, county, or consolidated city and county).

<sup>21</sup>GEFA plans to use the remainder of the funds (\$1.3 million) for the administration and oversight of the grant.

- **Competitive grants.** \$13.3 million to local governments for activities such as energy-efficiency conservation and renewable energy technology.<sup>22</sup>
- **On-bill financing.** \$5 million to three utility companies that plan to administer a loan program to homeowners to make energy-efficiency upgrades.
- **Georgia Cities Revolving Loan Fund.** \$2 million for a revolving loan fund to support energy-efficiency improvements in commercial buildings located in downtowns of cities.

To select the competitive grant recipients, GEFA issued a request for proposals from communities outlining projects in the eight eligible activities upon which the agency had decided to focus, including energy-efficiency retrofits, renewable energy technologies in government buildings, and energy-efficiency conservation for building and facilities.<sup>23</sup> GEFA received 84 applications and selected communities using a panel that scored and ranked each application. The final award of 58 grants to 69 communities was approved by the GEFA board. The following are examples of projects that GEFA funded:

- The City of Brunswick was awarded \$300,000 to implement energy-efficiency retrofits for government and nonprofit buildings. The city's proposed retrofits include higher-efficiency lighting, efficiency improvements to heating and air conditioning systems, and programmable thermostats.
- The City of Kingsland, as lead applicant for multiple local governments, was awarded \$500,000 to implement energy-efficiency retrofits for local government and nonprofit buildings, among other things.

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<sup>22</sup>DOE required states to award at least 60 percent of their allocation to communities that did not meet the size requirements to receive formula funds directly.

<sup>23</sup>Other eligible activities that GEFA was willing to fund included the development of an Energy Efficiency and Conservation Strategy, technical assistance, residential and commercial building energy audits, financial incentive programs, and building codes and inspections updates. GEFA decided to limit its awards to 8 of the 14 eligible activities for EECBG, based on a survey of communities and its assessment of projects that would have the greatest return on investment and a small amount of administrative burden, among other things.

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Cobb County

DOE awarded \$5,288,500 in EECBG formula funds to Cobb County on September 8, 2009. As of July 30, 2010, the county had been reimbursed by DOE for about \$385,000. Cobb County plans to use the majority of its funds for three projects: \$270,985 for consultant services to assist with the development of an integrated energy conservation plan, \$4,713,500 for energy retrofits and system improvements at 20 government buildings, and \$100,015 for energy software and benchmarking.<sup>24</sup> The county has made some progress on its projects. According to officials, the county had used consultant services to complete site audits, prioritize the retrofit site selections, and develop performance bid specifications. Energy retrofits and system improvements had been completed at three sites as of July 31, 2010. In addition, the county plans to solicit bids for the energy software by October 15, 2010, with software installation to occur in the fourth quarter of 2010. The software will be used to track and report historic and future energy use, energy cost, and greenhouse gas emissions. Officials expect to fully expend all EECBG funds by 2012, with the majority of work being fully completed by the end of 2011.

Columbus Consolidated Government

DOE awarded \$1,844,800 in EECBG formula funds to Columbus on December 24, 2009. As of July 30, 2010, the consolidated government had not been reimbursed by DOE for any spending. Columbus plans to use its funds for the following four projects:

- \$244,660 for traffic signal and street light upgrades,
- \$1 million for traffic management technology equipment and installation,
- \$400,000 for weatherization assistance to homeowners, and
- \$200,140 for a public awareness campaign on air quality.

Officials explained that they selected these projects based on DOE's guidance on eligible activities and to complement projects that already were underway. As of August 9, 2010, preliminary work had begun on all of the projects. For example, officials were preparing the transportation projects for contract award by January 2011 and had held a "kick off" meeting for the air quality project. Columbus also had awarded a contract for the weatherization assistance project to a community action agency

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<sup>24</sup>Cobb County allocated the balance of its award (\$204,000) for grant administration.

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already providing weatherization services with Recovery Act funds under the Weatherization Assistance Program.<sup>25</sup>

City of Warner Robins

DOE awarded \$573,100 in EECBG formula funds to Warner Robins on September 14, 2009. As of July 30, 2010, the city had been reimbursed by DOE for about \$247,000. Warner Robins plans to use its entire EECBG grant to make energy-efficiency improvements to its wastewater treatment plant that has been operating with inadequate and malfunctioning equipment for a number of years.<sup>26</sup> More specifically, the city plans to procure new equipment for its wastewater treatment plant. According to the project manager, some of the equipment has been installed, and the city anticipates soliciting bids for the remaining project work in October 2010. The project is expected to be completed by March 2011.

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Recipients Have Begun to Develop Monitoring Strategies for the EECBG Program

Recipients we interviewed had developed initial monitoring strategies for their EECBG funds. GEFA was in the process of tailoring the monitoring plan it has been using for other Recovery Act programs to address the specific requirements of the EECBG program. GEFA officials stated they planned to procure the services of a contractor to conduct desk and field reviews and hire two additional fiscal monitors.<sup>27</sup> Similarly, officials at Cobb County explained they were adapting their current oversight policy and procedures. For example, while buildings were undergoing energy retrofits, officials planned to follow their general procedures that include conducting weekly to daily on-site visits. To help ensure compliance with the Buy American provision of the Recovery Act, Cobb County developed certifications for its contractors to complete that attest that equipment and materials used complied with the Buy American standards. Also, officials plan to conduct on-site or desk reviews of the projects. Officials at Columbus and Warner Robins stated they had not developed a specific monitoring plan for EECBG funds, but intended to use their local government's standard contracting and accounting oversight procedures. Additionally, Columbus's internal auditor plans to review Recovery Act

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<sup>25</sup>As we note later in this report, the community action agency (ESP) had only weatherized 13 percent of its Weatherization Assistance Program units as of the end of June 2010.

<sup>26</sup>The total expected cost of the project is \$947,000.

<sup>27</sup>Field monitoring will include a review of building improvements and post-retrofit audits, and a check that the project is following scope. Desk monitoring will include a review of contracts, a review of client files for all necessary documents, and a review of compliance with the Buy American provision of the Recovery Act.

programs upon completion, and the city maintains a dedicated team that provides oversight for all of the city's Recovery Act programs through quarterly reports to the mayor and city council.

Although initial monitoring plans were underway, some recipients we interviewed requested additional or clearer guidance related to monitoring and complying with EECBG requirements. For instance, GEFA officials suggested that a monitoring checklist for subrecipients would be helpful. Officials at Cobb County recommended that DOE develop clearer guidance on the documentation needed to show compliance with the Recovery Act's Buy American provision. Columbus officials stated that some DOE requirements, such as those for environmental reviews, were not necessarily aligned with similar requirements for other programs. For instance, a transportation project approved in its EECBG application would be required to follow different procedures if the project was awarded through the Federal Highway Administration.

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### Recipients Have Plans to Measure Project Impacts and Complete Recipient Reports, but Methods for Measuring Impact Vary

As part of quarterly reports to DOE, EECBG recipients are required to report measures such as energy saved and greenhouse gas emission reductions.<sup>28</sup> However, some officials we interviewed noted that methods for determining these measures can vary. For example, officials from Columbus stated energy savings from upgrades to traffic lights will be estimated by making assumptions on the amount of energy used by the original lights compared to retrofitted traffic lights. The Warner Robins project manager explained the city intends to report project impacts on energy savings after the project is completed by comparing past monthly utility bills for the water treatment plant to new monthly utility bills. To measure the impact of energy retrofits, Cobb County plans a mixed approach. According to officials, the county will take field measurements of the performance of old equipment prior to removal and replacement equipment and use energy models or engineering estimates, including estimates provided by the county's energy audit consultant. Cobb County also intends to use the new energy software procured through the EECBG grant to benchmark and track energy use, cost, and savings and revise calculations based on observed energy usage for each facility. To help ensure consistency, GEFA has provided guidance from DOE to its

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<sup>28</sup>Quarterly reports to DOE include jobs created or retained; standard programmatic metrics, such as obligations, outlays, and metrics associated with the activity undertaken; and other critical metrics such as energy savings and energy cost savings.

subrecipients detailing instructions on estimating and reporting energy savings.

The three localities we visited provided the following anecdotal information on the impact of EECBG funds:

- Cobb County officials anticipate their projects will reduce the energy, cost, and greenhouse gas emissions at county facilities, and will allow the county to sustain savings and continuously improve efficiency.
- According to Columbus officials, expected benefits include electricity efficiency gains from upgraded traffic signals and street lights and reduced energy consumption through the air quality campaign and traffic-management initiatives.
- According to Warner Robins' application, the city's wastewater improvement project is expected to reduce the plant's energy consumption by approximately 30 percent after it is fully completed.

In addition to reporting energy savings measures, EECBG recipients are required under the Recovery Act to submit quarterly recipient reports. These reports include financial information and the number of jobs funded by Recovery Act awards. To help its subrecipients supply the required information, GEFA offered training and developed a Web-based tool. The training covered topics such as how to calculate FTEs for reporting the number of jobs funded by Recovery Act awards. The Web tool pre-populates fields for award and financial data to help ensure accuracy and consistency. To determine the number of jobs funded, Cobb County told us they rely on payroll information from their accounting systems and certified payrolls from their contractors to calculate the FTEs. The Warner Robins project manager said that the city reviews invoices (with hours worked) provided by its contractor. Columbus had not yet reported FTEs because projects were not underway.

GEFA, Cobb County, and Columbus officials told us they have procedures in place to review the data before they are submitted to [FederalReporting.gov](http://FederalReporting.gov). For example, GEFA has developed procedures to assess the accuracy of the information submitted by its subrecipients. First, each subrecipient is required to certify its submission. Then, GEFA reviews the information for reasonableness. If the information is not found to be reasonable, GEFA officials contact the provider to discuss the submission. At Cobb County, multiple staff and the accounting department review the recipient report prepared by the EECBG administrator before

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submission. At Columbus, the project manager prepares the recipient report with assistance and review from a grant accountant. The grant accountant submits the report to [FederalReporting.gov](http://FederalReporting.gov) and the city's internal auditor for review. The Warner Robins project manager explained that no review was conducted on the information submitted in the report.

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## Georgia and Its Service Providers Have Made Improvements to the Weatherization Assistance Program

Under the Recovery Act, GEFA—the agency that administers the Weatherization Assistance Program in Georgia—will receive approximately \$125 million to weatherize 13,617 homes by March 2012.<sup>29</sup> DOE approved Georgia's weatherization plan on June 26, 2009, for the period April 1, 2009, through March 31, 2012. GEFA awarded contracts to 22 providers—community action agencies, nonprofit agencies, or local governments—which were in place prior to the Recovery Act. For our May 2010 report, we visited three providers—the City of Albany (Albany), Economic Opportunity Authority for Savannah-Chatham County Area, Inc. (EOA-Savannah), and Ninth District Opportunity, Inc. (Ninth District), located in Gainesville.<sup>30</sup> We followed up with each of these providers for this report.

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## Weatherization Production Has Increased Since Our Last Report

As of the end of June 2010, 3,017 homes (about 22 percent) had been weatherized, and about \$26.3 million of the \$99.7 million awarded to providers (about 26 percent) had been drawn down.<sup>31</sup> In June 2010, providers weatherized 514 units, below the monthly production goal of 638 homes (see fig. 5). Although the production of weatherized homes has continued to increase since our May 2010 report, Georgia has not met its production goals. GEFA noted that DOE had increased the state's production goal by about 25 percent for April through September 2010, which raised the target from 500 units to 638 units.

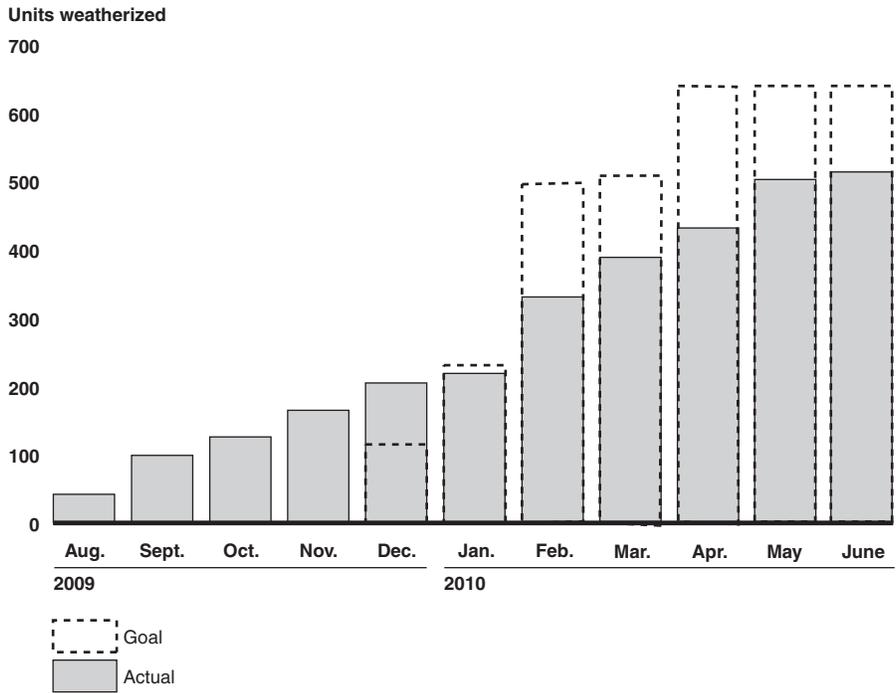
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<sup>29</sup>The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which DOE is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent by March 31, 2012. This program enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes—for example, installing insulation or modernizing heating or air conditioning equipment.

<sup>30</sup>[GAO-10-605SP](#).

<sup>31</sup>GEFA will use the balance of the \$125 million allocation for monitoring, training, and technical assistance, among other things. Drawing down is the process by which subrecipients request and receive authorized federal funds for projects under the terms of the grant.

**Figure 5: Homes Weatherized in Georgia, August 2009 through June 2010**



Source: GEFA.

Note: GEFA did not set a goal during the early months of production (August 2009 to November 2009).

The progress that individual providers made continues to vary. Four providers, including the three largest, had completed 14 percent or less of their targeted number of homes as of the end of June 2010. The highest rate was 35 percent. Table 1 shows the percentage of funds drawn down and homes weatherized by all 22 service providers, as of the end of June 2010.

**Table 1: Percentage of Recovery Act Funds Drawn Down and Homes Weatherized by Service Provider, as of the end of June 2010**

Service provider	Counties served	Total contract value	Percentage drawn down	Homes to be weatherized	Homes weatherized through June	Percentage of homes weatherized
Coastal Plain Area Economic Opportunity Authority, Inc.	10	\$4,886,875	29%	590	206	35%
EOA for Savannah-Chatham County Area, Inc.	1	2,743,978	23	371	120	32
Southwest Georgia Community Action Council, Inc.	14	5,469,280	31	753	242	32
West Central Georgia Community Action Council, Inc.	8	2,448,384	36	336	108	32
Concerted Services, Inc.—Waycross	8	3,455,919	37	478	149	31
Tallatoona Community Action Partnership, Inc.	6	4,103,205	36	563	177	31
Concerted Services, Inc.—Reidsville	9	4,163,318	33	574	165	29
Coastal Georgia Area Community Action Authority, Inc.	6	3,384,006	38	468	130	28
Partnership for Community Action, Inc.	3	6,926,773	23	956	262	27
City of Albany	1	1,546,104	28	209	55	26
Gwinnett County Board of Commissioners	1	3,284,888	18	461	118	26
Heart of Georgia Community Action Council, Inc.	9	2,764,125	33	379	91	24
North Georgia Community Action, Inc.	10	5,471,460	19	752	184	24
Overview, Inc.	7	2,463,271	33	340	82	24
Middle Georgia Community Action Agency, Inc.	12	6,358,846	35	870	200	23
Clayton County Community Action Authority, Inc.	3	3,250,251	18	452	88	19
Community Action for Improvement, Inc.	6	4,138,220	29	569	108	19

Service provider	Counties served	Total contract value	Percentage drawn down	Homes to be weatherized	Homes weatherized through June	Percentage of homes weatherized
Area Committee to Improve Opportunities Now, Inc.	10	5,010,500	20	687	125	18
Southeast Energy Assistance	1	8,196,838	31	1,112	157	14
Enrichment Services Program, Inc.	8	3,758,994	21	512	64	13
Central Savannah River Area EOA, Inc.	13	7,000,302	18	962	91	9
Ninth District Opportunity, Inc.	14	8,837,469	14	1,223	95	8
<b>Total</b>	<b>160</b>	<b>\$99,663,006</b>	<b>26%</b>	<b>13,617</b>	<b>3,017</b>	<b>22%</b>

Source: GAO analysis of GEFA data.

Note: Georgia has 159 counties. However, both Albany and Southwest Georgia Community Action Council, Inc. serve portions of Dougherty County.

According to GEFA officials, seven providers are on a list of underperforming agencies because these providers have not met production goals.<sup>32</sup> These providers were issued warning letters in which GEFA explained the steps it would consider taking if production did not increase, such as (1) reducing the funding level to the provider and providing unexpended dollars to another provider or (2) reducing the funding to the subgrantee and providing the dollars on a competitive basis to a qualified nonprofit to serve the defined geographic territory.

### GEFA and Selected Service Providers Have Taken Steps to Address Issues We Previously Identified

In our May 2010 report, we identified several issues related to the Weatherization Assistance Program in Georgia.<sup>33</sup> We reported that oversight of the providers had been slow to start and some monitoring positions remained vacant. In addition, we noted instances in which the three providers we visited inconsistently followed DOE and GEFA guidance for prioritizing clients for service, determining client eligibility,

<sup>32</sup>The seven providers on the list are Central Savannah River Area EOA, Inc.; Clayton County Community Action Authority, Inc.; Enrichment Services Program, Inc.; Heart of Georgia Community Action Council, Inc.; Middle Georgia Community Action Agency, Inc.; Ninth District Opportunity, Inc.; and Southeast Energy Assistance.

<sup>33</sup>[GAO-10-605SP](#).

prioritizing work, and awarding contracts. GEFA and the three providers have taken steps to address these issues.

First, GEFA worked with the University of Georgia Cooperative Extension (UGA), the entity it hired to perform monitoring, to ensure that all of the providers had monitors assigned to them and to refine their monitoring reports.<sup>34</sup> According to GEFA officials, each of the 22 providers had been assigned a desk and field monitor as of July 2010. In some cases this was achieved by assigning multiple agencies to one monitor. In addition, UGA officials started including summary reports in the monthly monitoring report that (1) rated each provider as very good, good, or unacceptable in 17 areas, such as file documentation, subcontractor administration, and program and financial reporting and (2) described any issues of significant concern. According to GEFA officials, they review the monitoring reports provided by UGA to identify any findings that need to be addressed by the providers. If findings are identified, GEFA requests a corrective action plan from the provider within 15 days.

Second, GEFA has implemented a Web-based reporting tool that helps providers prioritize clients for service. The tool prioritizes applicants based on characteristics such as age (households with people under 12 or over 60), disability status, high energy use or burden, and poverty. Third, GEFA offered procurement training for providers in May 2010 after identifying the need for more education in this area. The training covered topics such as requests for proposal, solicitations and advertising, document retention, and reporting requirements.

The three providers we visited also have taken steps to address issues identified in our May 2010 report. For example,

- According to Albany officials, they have revised their contracts to include language requiring compliance with Recovery Act provisions,

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<sup>34</sup>UGA's desk and field monitors are to conduct weekly visits to each provider to review file documentation and inspect at least 10 percent of individual projects each month. The desk monitors will review contracting documents, compliance with program requirements, and file documentation. In addition, desk monitors will educate clients on energy saving tips and customer behaviors and track the results of those efforts. The field monitors will inspect 10 percent of the homes weatherized each month for overall effectiveness, workmanship, appearance, and compliance with installation standards.

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including Davis-Bacon Act prevailing wages.<sup>35</sup> In addition, Albany has amended its application review procedures to include a new checklist for assessing income eligibility that requires the review of additional income documentation, such as tax returns.<sup>36</sup>

- EOA-Savannah officials told us that they are revising their process for awarding contracts to install heating systems and perform electrical work. Rather than continuing to rely on a group of preferred vendors with which they had negotiated prices, they plan to solicit bids from a larger group of contractors on an ongoing basis.
- To speed up the production process, Ninth District officials stated they have revised the way they procure contractor services. Ninth District now awards contracts to several general contractors and then competes the work required on each home amongst those general contractors. Since implementing this process in July 2010, Ninth District officials have awarded contracts for 60 homes and plan to increase the number of contracts in the coming months.

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### GEFA Has Conducted Training and Developed a Tool to Help Providers Meet Recipient Reporting Requirements

GEFA is responsible for submitting the quarterly recipient report for the Weatherization Assistance Program that is required under the Recovery Act. In this report, it includes financial information and the number of jobs funded by Recovery Act awards. To help its 22 providers supply the required information, GEFA offered training and developed a Web-based tool. The training covered topics such as how to calculate FTEs for reporting the number of jobs funded by Recovery Act awards. The electronic tool pre-populates fields with award and financial data to help ensure accuracy and consistency. To determine the number of jobs funded, the three providers we interviewed told us they rely on payroll information from their accounting systems and certified payrolls from their contractors to calculate the FTEs.

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<sup>35</sup>Historically, the Weatherization Assistance Program funded through the regular appropriations process has not been subject to the Davis-Bacon Act. However, the Recovery Act does require compliance with Davis-Bacon provisions. Under section 1606, division A, of the Recovery Act, all contractors and subcontractors performing work on projects funded in whole or in part by Recovery Act funds must pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area. The Secretary of Labor determines the prevailing wage rates and fringe benefits for inclusion in covered contracts.

<sup>36</sup>In our May report, we noted that files we reviewed did not include evidence that all of the required types of income were considered during application. See [GAO-10-605SP](#).

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Ninth District and Albany have procedures in place to review the data before they are submitted to GEFA; however, EOA-Savannah does not. For example, according to Ninth District officials, the Executive Director reviews the recipient report prepared by the weatherization coordinator prior to submission to GEFA. GEFA also has developed procedures to assess the accuracy of the information submitted. First, each provider is required to certify its submission. Then, GEFA reviews the information for reasonableness. For the most recent reporting period (April 1 to June 30), GEFA officials told us they contacted all 22 providers to discuss their submissions, which resulted in some changes to providers' job calculations.

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## Georgia Has Made Progress in Implementing Its Tax Credit Assistance and Section 1602 Programs

The Recovery Act established two funding programs that provide capital investments in low-income housing tax credit projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Section 1602 Program administered by the U.S. Department of the Treasury (Treasury).<sup>37</sup> Before the credit market was disrupted in 2008, the low-income housing tax credit program provided substantial financing in the form of third-party investor equity for affordable rental housing units. As the demand for tax credits declined, so did the prices investors were willing to pay for them, which created funding gaps in projects that had received tax credit allocations in 2007 and 2008. TCAP and the Section 1602 Program were designed to fill financing gaps in planned tax credit projects and jump-start stalled projects.

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## Georgia Expects to Meet Spending Deadlines for TCAP and the Section 1602 Program

Georgia received about \$54.5 million in TCAP funds. As of July 31, 2010, the Georgia Department of Community Affairs (DCA)—which administers the low-income housing tax credit program—had approved TCAP funding for eight projects containing 1,140 units (including 1,046 tax credit units). For these eight projects, Georgia had committed about \$49.5 million (91 percent) and disbursed about \$20.8 million (38 percent). Under the Recovery Act, state housing finance agencies must disburse 75 percent of TCAP funds by February 2011, and project owners must spend all of their TCAP funds by February 2012. The housing finance agency must return

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<sup>37</sup>State housing finance agencies award low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy by low-income tenants. Once awarded tax credits, project owners sell them to investors to obtain funding for their projects. Investors receive tax credits for 10 years if the property continues to comply with program requirements.

any funds not expended by this deadline to HUD. DCA plans to commit the remainder of its TCAP funds by the end of September 2010 and expects to meet the deadline for disbursing 75 percent of its TCAP funds.

Georgia also received about \$195.6 million in Section 1602 Program funds. As of July 31, 2010, DCA had approved Section 1602 Program funding for 31 projects containing 2,086 units (including 1,847 tax credit units). For these projects, Georgia had committed about \$178.3 million (91 percent) and disbursed about \$62.7 million (32 percent). Under Section 1602 Program rules, all subawards must be made by December 2010, or the housing finance agency must return the funds to Treasury. Housing finance agencies can continue to disburse funds for committed projects through December 31, 2011, provided that the project owners spend at least 30 percent of eligible project costs by December 31, 2010.<sup>38</sup> Housing finance agencies must disburse 100 percent of Section 1602 Program funds by December 2011. DCA plans to award the remainder of its Section 1602 Program funds by the end of September 2010 and expects project owners to meet the 30 percent spending deadline.

We reviewed documentation on or visited three TCAP projects and four Section 1602 Program projects.<sup>39</sup> Table 2 provides information on the progress of each project. The owners of Baptist Towers Apartments and Riverview Heights had spent 100 percent and 97 percent of their TCAP funds, respectively. The project owner at Baptist Towers Apartments expected the renovations of the high-rise for the elderly and disabled to be finished ahead of the planned December 2010 completion date.<sup>40</sup> The project owner at Riverview Heights expected the renovation of the property to be completed in October 2010. DCA officials explained that the closing on TCAP funds for the second phase of Sustainable Fellwood had

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<sup>38</sup>The project owner must have, by the close of 2010, spent at least 30 percent of his or her total adjusted basis in land and depreciable property that is reasonably expected to be part of the low-income housing project.

<sup>39</sup>We selected Riverview Heights and Baptist Towers Apartments because they were TCAP projects that had been awarded by December 31, 2009. We selected Antigua Place because it was a Section 1602 Program project with a tax-credit investor and The Landing at Southlake because it was a Section 1602 Program project without an investor. We selected Camellia Lane because it was a rural green project. In addition, we selected Sustainable Fellwood because DCA suggested it as an interesting example of an urban green project and Waterford Estates because of its proximity to Riverview Heights. For this report, we visited two of these projects, Riverview Heights and Camellia Lane.

<sup>40</sup>Other funding sources are being used to complete the remainder of the renovations.

been delayed several times due to factors such as the need to attract additional investors. DCA and the project owner expect to meet the February 2012 expenditure deadline.

**Table 2: Status of Selected TCAP and Section 1602 Program Projects in Georgia, as of July 31, 2010**

Project name	Type of funding	Recovery Act funds committed	Percentage of Recovery Act funds disbursed	Recovery Act funds as percentage of total project costs	Number of housing units (tax credit units/ total units)	Project description	Expected placed in service date
Baptist Towers Apartments, Atlanta	TCAP	\$1,850,000	100%	11%	268/300	Urban; Rehabilitation; Housing for elderly	December 2010
Riverview Heights (also known as Oconee Park), Dublin	TCAP	8,311,921	97	69	115/116	Rural; Rehabilitation; Housing for families	December 2010
Sustainable Fellwood, Phase II, Savannah	TCAP	4,300,000	0	28	99/110	Urban; New construction; Housing for families	December 2011
Antigua Place, Moultrie	Section 1602 Program	2,102,746	100	39	36/40	Rural; New construction; Housing for ages 55 and older	December 2010
Camellia Lane, Sandersville	Section 1602 Program	8,348,674	68	96	52/52	Rural; New construction; Housing for ages 55 and older	December 2010
The Landing at Southlake, Albany	Section 1602 Program	5,125,000	35	98	36/40	Urban; New construction; Housing for ages 55 and older	December 2010
Waterford Estates, Dublin	Section 1602 Program	9,500,000	23	93	50/56	Rural; New construction; Housing for families	December 2010

Source: DCA.

Note: The placed in service date for a new or existing building used as residential rental property is the date on which the building is certified as being suitable for occupancy in accordance with state or local law.

According to DCA, the four Section 1602 Program projects we reviewed were on target to meet the program's requirement that project owners

spend at least 30 percent of eligible project costs by December 31, 2010. For example, the Camellia Lane project owner had spent 68 percent of the Section 1602 Program funds and planned to complete the project in November 2010. Since our initial visit in March 2010, progress has been made in several areas, including the installation of rooftop solar panels to power the exterior lights on the property and construction of the community center (see fig. 6). This project also will provide geothermal heating and cooling.

Figure 6: New Construction at Camellia Lane



Rooftop solar panels

Community center under construction

Source: GAO.

## Georgia Has Plans for Construction Oversight and Asset Management

TCAP and the Section 1602 Program require a greater project oversight role for state housing finance agencies than the standard low-income housing tax credit program. Under the low-income housing tax credit program, housing finance agencies are not required to monitor construction on a monthly basis, but are required to report that projects are completed and occupied in accordance with program requirements and deadlines. With respect to long-term monitoring under the program, housing finance agencies are required to review projects at least annually to determine project owner compliance with tenant qualifications and rent and income limits. Additionally, every 3 years, agencies must conduct on-site inspections of all buildings in each project and inspect at least 20 percent of the tax credit units and resident files associated with those units. However, under TCAP and the Section 1602 Program, housing finance agencies must monitor the disbursement and use of funds

throughout the construction period. Also, housing finance agencies are obligated to perform asset management, which imposes ongoing responsibilities on the agencies for the long-term viability of each project.<sup>41</sup> Housing finance agencies are responsible for returning TCAP and Section 1602 Program funds to HUD and Treasury, respectively, if a project fails to comply with low-income housing tax credit program requirements.<sup>42</sup>

DCA has processes in place for oversight during the construction period and has made plans for asset management over the 15-year tax credit compliance period. For oversight during the construction period, DCA has contractors that conduct monthly inspections of each project. The resulting inspection reports include descriptions of any funding requests and change orders, site observations, and comments on the schedule. After the agency receives inspection reports, DCA staff stated they compare expenditure rates to the percentage of construction completed. DCA staff also review all costs included in funding requests, and an on-site inspection is required before DCA will process a funding request. DCA also requires each general contractor to provide a cost certification prepared by a certified public accountant at project completion.

Prior to TCAP and the Section 1602 Program, DCA had an asset management department that managed a multifamily portfolio consisting of 206 projects with investments and loans totaling about \$247 million. To cover the costs of the new asset management requirements under the Recovery Act, DCA charged a 3 percent asset management fee for TCAP and Section 1602 Program projects. DCA issued new policy guidelines to recipients of TCAP and Section 1602 Program awards that detail the types

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<sup>41</sup>A housing finance agency's asset management may include monitoring current financial and physical aspects of project operations. For example, a housing finance agency may analyze operating budgets, cash flow trends, and reserve accounts, and physically inspect projects. Asset management activities also include examinations of long-term issues related to plans for addressing a project's capital needs, changes in market conditions, and recommendations and implementation of plans to correct troubled projects. Housing finance agencies also need to ensure compliance with tax credit requirements as part of asset management activities.

<sup>42</sup>In contrast, under the conventional low-income housing tax credit program, housing finance agencies are not liable for recapturing funds if a project owner fails to comply with program requirements. Rather, their obligation is to report any noncompliance to the Internal Revenue Service (IRS), and IRS takes any further actions with respect to recapture. We reported previously on the risks and responsibilities of recapture for housing finance agencies under TCAP and the Section 1602 Program. See [GAO-10-604](#).

of asset management activities that may be performed at various stages of projects that receive TCAP or Section 1602 Program funds.<sup>43</sup> For example, DCA plans to review marketing plans, leasing procedures, and occupancy rates; review project financial management for proper budgeting, accounting, and internal controls; and conduct periodic long-term viability analyses such as the project cash flow and market conditions. Moreover, DCA stated it plans to modify one of its databases to assist in tracking asset management and compliance information for TCAP and Section 1602 Program projects.

For projects without an investor, DCA will be responsible for overseeing all asset management activities. Of the 39 projects in Georgia, 24 (62 percent) do not have an investor or syndicator.<sup>44</sup> According to DCA officials, the participation of a private investor adds an additional layer of oversight because investors have an incentive to protect their capital investments by performing asset management. DCA has not yet decided if it will contract out some or all of its asset management functions, but plans to make a final decision on its approach by the end of 2010. Although officials stated that DCA has more asset management experience than some state housing finance agencies, they may consider contracting out some functions because so few of their Recovery Act projects have investors.

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### The Low-Income Housing Tax Credit Market in Georgia Has Slowly Been Recovering

DCA officials noted that the low-income housing tax credit market in Georgia has slowly been recovering. In one sign of improvement, investors have been willing to pay more for the tax credits. According to DCA and investors, the typical projects that currently are funded are straightforward, located in urban areas, and provide housing for families and seniors. DCA officials stated projects located in rural areas remained difficult to finance and Section 1602 Program funds still were needed for those types of projects. The two investors and three project owners we interviewed stated there was a need to extend the Section 1602 Program

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<sup>43</sup>The project stages include development and construction activities, property management and operations, financial management, and long-term viability assessment.

<sup>44</sup>While TCAP projects are required to have an investor, Section 1602 Program funds can be used to finance projects without investors. Some project owners sell low-income housing tax credits to an investor that will invest directly in the project while others use a syndicator, which assembles a group of investors and pools funds that are then invested in the project.

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for at least 1 more year to help the low-income housing tax credit market in these areas.

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### Georgia Has Submitted Required Reports on Jobs Funded

DCA is required to report information on jobs funded with Recovery Act awards to HUD and Treasury. DCA officials believe HUD and Treasury provided adequate guidance to them on preparing the necessary reports, but they did not believe current reporting systems adequately captured the true economic benefits from Recovery Act funds. For TCAP projects, housing finance agencies are required to report the nature of projects and number of jobs funded via FederalReporting.gov. Recipients of Section 1602 Program funds are not required to report jobs to FederalReporting.gov.<sup>45</sup> Treasury requires state housing finance agencies to submit quarterly financial status reports and performance reports and to report the number of construction and non-construction jobs created and retained. To help its TCAP subrecipients comply with recipient reporting requirements, DCA conducted training and provided guidance. The guidance requires subrecipients to calculate the hours worked on a monthly basis by entering data into HUD's job calculator tool. Once subrecipients have submitted the data, a DCA staff person reconciles the job data submitted by comparing it with Davis-Bacon payroll reports compiled by project owners.

DCA officials believed that only a fraction of the jobs created and retained with Recovery Act funds were captured. For example, \$2 million in TCAP funds could enable an \$8 million project to be constructed that would not otherwise have been built, but only the jobs directly related to the \$2 million TCAP expenditure would be reported. Moreover, one project owner stated the number of jobs he reported on his TCAP project was significantly lower than what he reported for his Section 1602 Program project, but the amount of work being performed was the same.<sup>46</sup>

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<sup>45</sup>Recipient reporting requirements apply only to division A of the Recovery Act. TCAP is a division A program, while the Section 1602 Program is in division B of the act.

<sup>46</sup>As we noted earlier, TCAP projects are required to report quarterly the number of jobs funded based on an FTE calculation. For projects receiving Section 1602 Program funds, Treasury requires state housing finance agencies to report only one time on jobs created and retained. The number of jobs reported to Treasury need not be reduced to reflect the parts of the project not funded under the Section 1602 Program.

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## Housing Agencies in Georgia Continue to Make Progress on Projects Funded with Recovery Act Formula and Competitive Grants

In Georgia, 184 public housing agencies received Public Housing Capital Fund formula grants, and 5 public housing agencies received Public Housing Capital Fund competitive grants. As of August 7, 2010, agencies had expended about 55 percent of their formula grants. The agencies that received competitive grants were expected to meet the Recovery Act's September 2010 obligation deadline.

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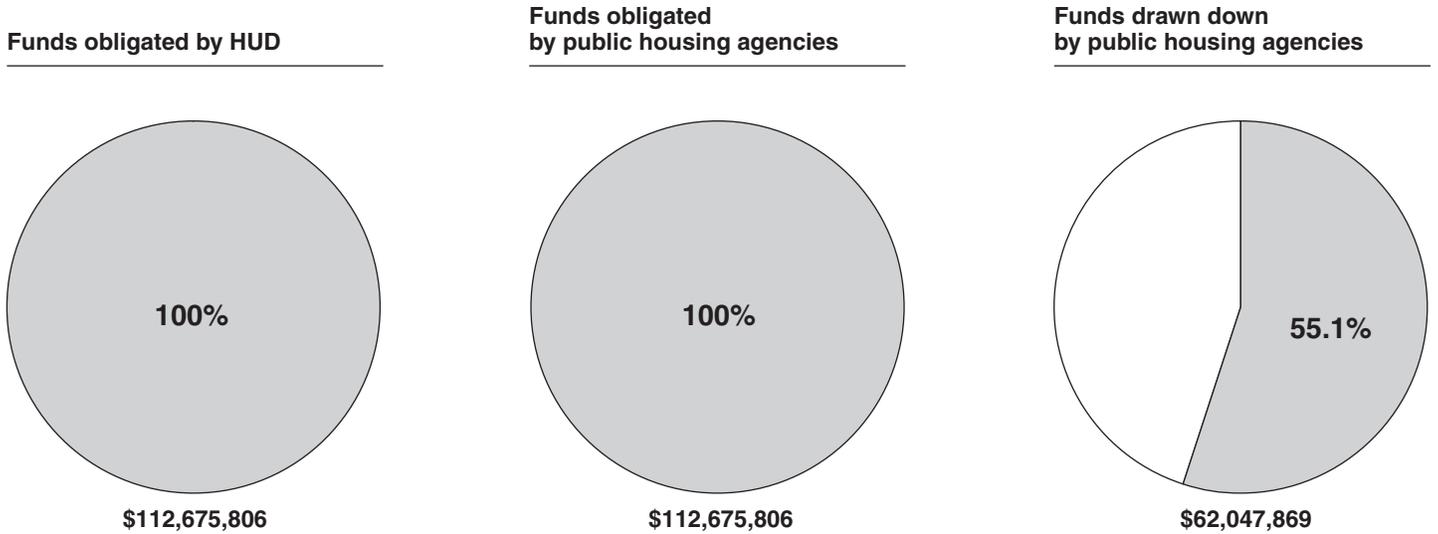
## Housing Agencies in Georgia Have Spent Over Half of Their Formula Grant Funds

In Georgia, 184 public housing agencies received about \$113 million in Public Housing Capital Fund formula grants (see fig. 7). These grant funds were provided to the agencies to improve the physical condition of their properties. As of August 7, 2010, these agencies had obligated 100 percent of their funds and drawn down about \$62 million (about 55.1 percent). Of the 184 agencies, 112 had drawn down 80 percent to 100 percent of their funds while 2 had not drawn down any funds. We interviewed three: the Housing Authority of the City of Athens (Athens Housing Authority), the Housing Authority of the City of Atlanta (Atlanta Housing Authority), and the Housing Authority of the City of Macon (Macon Housing Authority).<sup>47</sup>

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<sup>47</sup>We interviewed these three housing agencies to update information we reported in December 2009. See GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Georgia)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

**Figure 7: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Had Been Obligated and Drawn Down in Georgia, as of August 7, 2010**



Number of public housing agencies	
Were allocated funds	184
Obligated 100% of funds	184
Have drawn down funds	182

Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

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Athens Housing Authority

The Athens Housing Authority received about \$2.6 million in Recovery Act formula grant awards. As of August 7, 2010, the housing agency had obligated all of its funds and drawn down approximately \$2.1 million (81 percent). The agency's largest Recovery Act project is a comprehensive modernization of 25 scattered site housing units, which includes asbestos and lead abatement and the installation of new windows, doors, cabinets, appliances, water heaters, and heating and air systems. Figure 8 shows a unit prior to renovation and improvements made to another unit's heating and air systems and kitchen. The housing agency expects this project to be completed in September 2010. The agency also has designated Recovery Act funds to replace the roofs on 40 units and the two elevators in a senior high rise, among other things.

**Figure 8: Athens Housing Authority's Renovation of Scattered Site Units**



Source: GAO.

Atlanta Housing Authority

The Atlanta Housing Authority received about \$26.6 million in Recovery Act formula grant awards. As of August 7, 2010, the housing agency had obligated all of its funds and drawn down approximately \$4.1 million (15 percent). The Atlanta Housing Authority plans to use about \$20.6 million of its Recovery Act funds to rehabilitate 13 properties containing a total of 1,953 units and the remaining \$6 million to demolish 4 properties. The agency originally planned to use about \$19 million for rehabilitation and about \$8 million for demolition. However, when the procurement for the demolition came in almost \$2 million under the estimated cost, additional funds were made available for the rehabilitation of the 13 properties. The agency has completed its original design plans for the 13 properties and

expects to complete its plans for spending the additional \$2 million by October 30, 2010. The work will include renovations to common areas and exterior and site improvements. Renovations are expected to be completed on all the properties by August 2011.

Macon Housing Authority

The Macon Housing Authority received about \$4.8 million in Recovery Act formula grant awards. As of August 7, 2010, the housing agency had obligated all of its funds and drawn down approximately \$2.3 million (about 49 percent). The agency plans to use all of these funds to complete a major rehabilitation of a 250-unit housing development called Pendleton Homes. The planned work includes remodeling the bathrooms and kitchens; replacing appliances, windows, doors, and flooring; repainting; improving landscaping; and resurfacing parking lots and streets (see fig. 9). As of August 6, 2010, 81 units had been completed and others were undergoing renovation.

**Figure 9: Renovated Kitchen at Pendleton Homes**



Source: GAO.

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## HUD Expects Housing Agencies in Georgia to Meet the Obligation Deadline for Competitive Grants, but the Macon Housing Authority Faces Challenges

In Georgia, five public housing agencies received about \$14 million in Public Housing Capital Fund competitive grants for the creation of energy-efficient communities and improvements to address the needs of the elderly or persons with disabilities.<sup>48</sup> As of August 7, 2010, four of the five agencies had obligated about \$1.1 million (approximately 8 percent) and had drawn down \$523,956 (about 4 percent).

The Recovery Act requires housing agencies to obligate 100 percent of their Public Housing Capital Fund competitive grants within 1 year of the date they received the grants, or by September 2010. To help public housing agencies in Georgia meet this deadline, two HUD field office staff in Atlanta are providing assistance through e-mails and phone conversations. According to HUD field office staff, the five public housing agencies that received competitive funds are not at serious risk of missing the obligation deadline. However, officials stated that the Macon Housing Authority faced some challenges in meeting this deadline due to the complexity of the project and multiple types of financing involved. The project requires the approval of HUD headquarters, the state housing finance agency, and others and is not expected to close until just prior to the September 2010 deadline.

We visited the Macon Housing Authority to determine the status of its competitive grant. The agency will use the \$8.6 million grant awarded under the energy efficiency community category for substantial rehabilitation of a 100-unit housing development. Agency plans include wrapping the exterior of the buildings in a rigid insulation system covered with siding; re-engineering the roof with a higher pitch to allow for more insulation and more efficient duct work for heating and air systems; and installing energy-efficient windows and heating and air systems and water-conserving appliances and fixtures. Also, the units will be reconfigured to reposition doors and windows to give the appearance of single-family houses. The agency had planned to start the work in April 2010 and complete it by December 2011. However, officials told us the construction start date has been delayed due to complications in getting the complex financing—which includes competitive grant funds, bonds, and low-income housing tax credits—approved. Officials stated that once the agency closes on the financing in mid-September 2010, the project will be 100 percent obligated. To date, the agency has hired architects and various

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<sup>48</sup>A total of six competitive grants were awarded. One housing authority, the Housing Authority of the City of Savannah, received two grants.

consultants, designed the project, selected the general contractor, and received the first round of project bids. After the agency closes on the financing, officials stated they will be prepared to simultaneously issue a notice to proceed and sign the general contractor's contract.

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### HUD Field Office Staff Have Conducted Monitoring of Recovery Act Grants

HUD field office staff in Atlanta have conducted oversight of Recovery Act formula and competitive grants. For the formula funds, they conducted 63 "quick look" reviews of public housing agencies that had not obligated 90 percent of their funds as of February 26, 2010. They wanted to ensure that funds obligated after that date, but before the March 17, 2010, obligation deadline for formula grants, were for eligible activities. According to HUD officials, these agencies all met the obligation deadline for formula grants and accurately completed contract activities per HUD and Recovery Act requirements. For the competitive funds, staff told us they had conducted remote reviews of obligations at four of the agencies. HUD headquarters staff will perform the remote review of the Macon Housing Authority. HUD field office officials stated that the additional oversight requirements associated with the Recovery Act programs had not affected their ability to meet their responsibilities for oversight, monitoring, and technical assistance for regular capital fund management. Similarly, the receipt of Recovery Act funds does not appear to have affected the ability of housing agencies in Georgia to obligate their regular capital funds. According to HUD officials, all but one agency in Georgia met the June 12, 2010, obligation deadline for 2008 regular capital funds. The Housing Authority of the City of Savannah received a 1-year extension due to a loss of a major financial commitment. HUD headquarters determined that this event was beyond the control of the agency and granted the extension.

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### Housing Agencies Have Reported Jobs Funded with Recovery Act Grants

The three public housing agencies we interviewed have submitted the quarterly recipient reports required under the Recovery Act. To determine the number of jobs funded, officials at the agencies told us they rely on certified payrolls from their contractors to calculate FTEs. All three agencies had procedures in place to review data prior to submission. Atlanta Housing Authority officials explained that three staff, including the chief operating officer, review the report before submission to [FederalReporting.gov](http://FederalReporting.gov). According to Macon Housing Authority officials, the Director of Technical Services reviews the information prior to submission. Athens Housing Authority officials stated that the financial data are reviewed by two staff prior to submission.

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## Georgia's Accountability Community Continues to Audit Recovery Act Funding

The State Auditor, the State Inspector General, and agencies' internal audit departments continue to be responsible for auditing and investigating Recovery Act funds. As we reported in May 2010, the State Auditor's oversight of Recovery Act funds occurs primarily through the Single Audit.<sup>49</sup> The fiscal year 2009 Single Audit was the first Single Audit for Georgia that included Recovery Act programs.<sup>50</sup> It identified 51 significant internal control deficiencies related to compliance with federal program requirements, of which 14 were classified as material weaknesses. Some of these material weaknesses and significant deficiencies occurred in programs that included Recovery Act funds. For the fiscal year 2010 Single Audit report, the State Auditor plans to include audits of Recovery Act programs administered by GEFA and the Georgia Departments of Community Affairs, Community Health, Corrections, Education, Human Services, Juvenile Justice, Labor, and Transportation.

The State Inspector General continues to take a complaint-based approach to investigating alleged misuse of Recovery Act funds. Citizens can submit complaints directly to the Inspector General using a form on its Web site. Since we last reported in May 2010, the office has received two complaints—one that was resolved without a finding of fraud, waste, abuse, or corruption and one that is still under investigation. In addition, each state agency is required to notify the Inspector General when a complaint is filed with the agency. For example, GEFA has received five complaints about the weatherization program, which involved issues such

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<sup>49</sup>GAO-10-605SP. 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 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 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 (that is, the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

<sup>50</sup>According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Georgia's Single Audit reporting package for the year ending June 30, 2009, on June 24, 2010. This was almost 3 months after the deadline specified by the Single Audit Act. The State Auditor explained that they had initially submitted the Single Audit reporting package to the clearinghouse on March 18, 2010, which was within the deadline. However, due to a technical issue, the data collection form (which is part of the reporting package) had to be revised and resubmitted in June 2010.

as potential fraud and hiring practices. In response to one of the fraud complaints, GEFA required a community action agency to return approximately \$9,000 to the state because the agency had been reimbursed for office furniture that was not received. The State Inspector General reviewed these complaints and GEFA's responses and was satisfied with the actions taken.

A number of state agencies including GEFA and the Georgia Departments of Community Health, Education, Human Services, and Transportation have internal audit departments that plan to audit or are already auditing Recovery Act funds. For example, GEFA conducts fiscal audits that focus on the contractual, administrative, and accounting aspects of the Weatherization Assistance Program. As of August 6, 2010, GEFA had issued fiscal monitoring reports that identified risk and control weaknesses at two of its weatherization service providers. One report included five recommendations related to procurement practices and liability insurance, among other concerns. The second report included four recommendations related to procurement and billing, among other activities. Both providers agreed with the recommendations and planned to make the suggested changes. In addition, the Department of Community Health's internal audit department reviewed the agency's first round of recipient reporting. The auditors identified information that appeared to be missing or duplicated across programs and required the agency to provide explanations.

The State Accounting Office (SAO) continues to monitor Recovery Act funding. For example, it oversees Recovery Act recipient reporting by providing state agencies with technical assistance, reviewing the data each state agency submits, and collecting the data required for the state's Recovery Act Web site. SAO holds periodic implementation team meetings with agency officials responsible for recipient reporting to disseminate guidance and discuss deadlines, processes, and other issues related to the reports. Each quarter, SAO requires state agencies to submit copies of their recipient reports so that the office can review them for reasonableness and potential inaccuracies. After the review period, SAO reconciles the data it received from agencies against information posted on Recovery.gov and supplies the data needed to populate the state's Recovery Act Web site. According to SAO officials, state agencies generally are comfortable with the reporting process and said that they experienced no challenges related to the most recent reporting round.

In addition, SAO has launched an internal control initiative to enhance accountability for Recovery Act funds that began in June 2010 and

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provided internal control training to 28 state agencies.<sup>51</sup> According to SAO officials, many of these agencies were identified as high-risk in the fiscal year 2009 Single Audit and have received Recovery Act funds. After the training, each agency was required to identify an internal control officer. In addition, each agency had to complete an internal control self assessment tool, which covered internal controls in place for six general areas, such as financial reporting, revenue, and Recovery Act funds. Furthermore, SAO plans to hold monthly group meetings with the internal control officers similar to those held with the state officials responsible for recipient reporting. The selected agencies also will be required to certify that all necessary controls are in place and working by the end of fiscal year 2011. According to SAO, it has identified two state agencies—the Departments of Education and Human Services—to work with a consultant on an in-depth risk-assessment initiative. SAO plans to leverage the results of the initiative with other state agencies. SAO also plans to work with the federal Recovery Accountability and Transparency Board to conduct two regional training sessions—one specific to the Department of Transportation and the other related to Medicaid.

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## Recovery Act Funds Have Helped Georgia Balance Its Budget and Enabled Localities to Fund Needed Capital Projects

Georgia has incorporated Recovery Act funding into its budget for fiscal year 2011, but also has planned future budget reductions in anticipation of the end of funding under the Recovery Act. Localities we visited began receiving Recovery Act funds, and they had varying budget situations.

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<sup>51</sup>SAO also provided the training to several universities and technical colleges.

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## Georgia Used Almost \$2 Billion in Recovery Act Funds to Balance Its Fiscal Year 2011 Budget

Georgia's budget for fiscal year 2011 is \$38.2 billion.<sup>52</sup> It includes approximately \$1.9 billion in Recovery Act funds, including about \$749 million in increased Medicaid Federal Medical Assistance Percentage (FMAP) grant awards.<sup>53</sup> Georgia is preparing for the cessation of Recovery Act funds by planning additional budget reductions. The budget office has issued budget instructions directing agencies to submit 6, 8, and 10 percent reduction plans for fiscal year 2012. For the Georgia Department of Education's primary elementary education funding formulas, the budget reduction plans are 2 and 4 percent. Also, the state is projecting moderate revenue growth. Revenue collections improved in June 2010 by 3.8 percent compared to June 2009, but overall revenue collections for fiscal year 2010 were down 9.1 percent compared with fiscal year 2009.

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## Recovery Act Funds Have Helped Selected Localities in Georgia Fund Additional Projects

### Columbus Consolidated Government

We visited two local governments—the Columbus Consolidated Government (Columbus/Muscogee County) and the Unified Government of Athens-Clarke County—to discuss their use of Recovery Act funds and fiscal condition.<sup>54</sup>

According to consolidated government officials, Columbus had been awarded about \$17.5 million in Recovery Act funds as of August 6, 2010 (see fig. 10).<sup>55</sup> The largest award was a \$3.4 million transportation grant for a pedestrian bridge. The consolidated government also was awarded funds under the Transit Capital Assistance Program, Homelessness Prevention and Rapid Re-housing Program, and the EECBG Program, among others.

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<sup>52</sup>The Governor signed the fiscal year 2011 budget on June 4, 2010. The state's fiscal year begins on July 1.

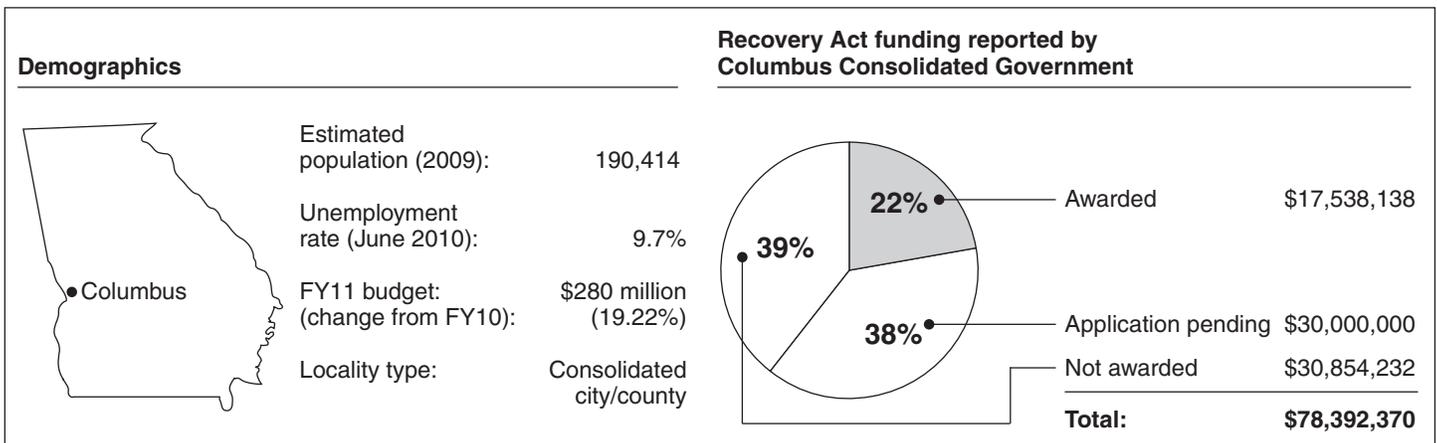
<sup>53</sup>Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures is known as the Federal Medical Assistance Percentage (FMAP). The Recovery Act provides eligible states with an increased FMAP for 27 months from October 1, 2008, through 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).

<sup>54</sup>We chose these locations because they represented a mix of population sizes and unemployment rates and were consolidated city/county governments.

<sup>55</sup>The Recovery Act funds awarded are a combination of funds awarded directly to the locality and funds passed through the state.

According to Columbus officials, the Recovery Act funds have helped the capital fund budget to a great extent by allowing the consolidated government to continue implementing or accelerate projects that otherwise would have been delayed. For example, the government’s transit operator will be able to replace seven buses that had met or exceeded their recommended life. Columbus officials stated that most of the projects funded by the Recovery Act were one-time projects and therefore it was not necessary to develop a strategy for winding down their use of the funds. Columbus plans to continue funding infrastructure projects through its normal funding streams for transportation projects (state/federal) and the Local Option Sales Tax.

**Figure 10: Columbus Consolidated Government Profile and Recovery Act Funds**



Sources: (Left) U.S. Census Bureau data; U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; budget documents; and Art Explosion (map). (Right) Columbus officials.

Note: The population is from the latest available estimate, July 1, 2009. The unemployment rate is a preliminary estimate for June 2010 and has not been seasonally adjusted. The rate is a percentage of the labor force. Estimates are subject to revision. Percentages do not add to 100 due to rounding.

Columbus had a balanced fiscal year 2011 budget of about \$280 million. To balance its budget, Columbus officials delayed some projects, capital items, and pay increases.

According to officials, Columbus formed a cross-departmental team—comprised of a deputy city manager, the finance director, the internal auditor, and the heads of the departments that received funding—that provides regular oversight of Recovery Act funds. In addition, the finance department reviews Recovery Act expenditures, and the city’s internal auditor plans to audit each Recovery Act program at its conclusion. To date, the internal auditor has completed one report on the Workforce

Investment Act summer youth program. The auditor reviewed selected employee records to ensure that the supporting documentation was sufficient and selected reports sent to governing agencies for accuracy and completeness. The auditor did not have any findings or make any recommendations for the program.

Regarding the recipient reporting required by the Recovery Act, Columbus officials stated that each department and program manager is responsible for collecting and reporting the information. The cross-departmental team meets to discuss the reporting process, and each department provides a copy of the reports to the auditor and grant accountant. At the conclusion of each project, the auditor reviews the reports to ensure that they are accurate. Columbus officials stated that they have had some challenges regarding how to count the jobs resulting from the bus purchases.<sup>56</sup>

Unified Government of Athens-Clarke County

According to government officials, Athens-Clarke County had been awarded about \$13.3 million in Recovery Act funds as of August 6, 2010 (see fig. 11).<sup>57</sup> The largest award was a Clean Water State Revolving Loan Fund Program loan from GEFA totaling \$8 million.<sup>58</sup> Other funding came from programs such as the Edward Byrne Memorial Justice Assistance Grant Program, the Homelessness Prevention and Rapid Re-housing Program, and the EECBG Program. Athens-Clarke County officials stated that most of the funding received allowed them to fund some previously identified projects that had been delayed due to a lack of funding. The officials also stated that in identifying and applying for Recovery Act funds, they focused on grants with limited ongoing funding requirements. Because the three positions added using Recovery Act funds were temporary positions, they did not anticipate any future fiscal challenges related to Recovery Act funds being completely expended.

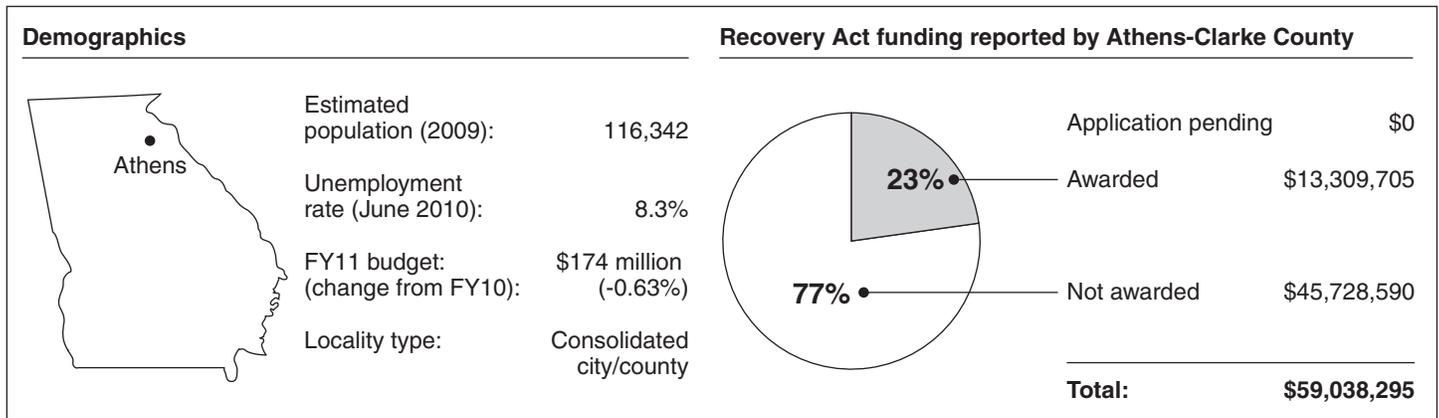
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<sup>56</sup>In September 2009, we reported that a number of transit agencies had expressed confusion about calculating the number of direct jobs resulting from Recovery Act funding, especially when using Recovery Act funds for purchasing equipment. See GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, [GAO-09-1016](#) (Washington, D.C.: Sep. 23, 2009).

<sup>57</sup>The Recovery Act funds awarded are a combination of funds awarded directly to the locality and funds passed through the state.

<sup>58</sup>Forty percent of the loan was a grant due to principal forgiveness.

**Figure 11: Unified Government of Athens-Clarke County Profile and Recovery Act Funding**



Sources: (Left) U.S. Census Bureau data; U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; budget documents; and Art Explosion (map). (Right) Athens-Clarke County officials.

Note: The population is from the latest available estimate, July 1, 2009. The unemployment rate is a preliminary estimate for June 2010 and has not been seasonally adjusted. The rate is a percentage of the labor force. Estimates are subject to revision.

Athens-Clarke County has a balanced total fiscal year 2011 budget of approximately \$174 million. To balance the budget, elected officials increased property taxes, approved 2 furlough days, froze pay for the second consecutive year, and increased the medical insurance contributions by staff and retirees. According to officials, Athens-Clarke County contracts with an external auditing firm, which reviews the government’s basic financial statements. As part of the required annual financial audit, the auditing firm will review Recovery Act funding activities. Athens-Clarke County also has an internal auditor whose mission is to audit the fiscal affairs and operations of various departments, but the auditor does not currently have plans to review Recovery Act funding specifically.

Athens-Clarke County officials stated that each department that received funds is responsible for the recipient reporting required by the Recovery Act. The Assistant Manager reviews the reports prior to submission to FederalReporting.gov or the prime recipient if Athens-Clarke County is a subrecipient of funds. Officials verify that the information is correctly reported; however, they do not use the data for public reports or other internal purposes.

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## Georgia's Comments on This Summary

We provided the Governor of Georgia with a draft of this appendix on August 16, 2010, and a representative from the Governor's office responded on August 18, 2010. The official agreed with our draft, stating that it accurately reflects the current status of the Recovery Act program in Georgia.

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## GAO Contacts

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## Staff Acknowledgments

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# Appendix VII: Illinois

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## Overview

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

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## What We Did

We conducted work on one of the programs in Illinois that was funded under the Recovery Act—the Public Housing Capital Fund—to follow up on issues that we had reported on in previous bimonthly reviews. For this program, we conducted interviews and examined relevant program documents. Additionally, we met with state-level auditors to determine what steps they were taking to oversee state agencies' implementation of the Recovery Act. We also met with officials from the Illinois Governor's Office to discuss the state's ongoing role in reviewing the quarterly recipient reports that state agencies receiving Recovery Act funds must submit to federal agencies through the FederalReporting.gov Web site.<sup>2</sup> Finally, we monitored the state's fiscal condition and spoke to officials from two rural communities—Chrisman and the Village of Steward—to discuss their use of Recovery Act funds and the effect of these funds on their budgets. (For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).)

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## What We Found

- **Public Housing Capital Fund.** Six public housing agencies in Illinois collectively received \$83.7 million in Public Housing Capital Fund competitive grant funds under the Recovery Act.<sup>3</sup> As of August 7, 2010, five of the recipient public housing agencies had obligated \$53.5 million of the \$83.7 million and had drawn down a cumulative total of \$23.8 million, or

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

<sup>2</sup>Under section 1512 of the Recovery Act, recipients of Recovery Act funds must submit quarterly reports that include employment and other data to the federal agencies through the FederalReporting.gov Web site. These reports are due on the 10th day of the month following the end of the reporting period and are available to the public on the Recovery.gov Web site.

<sup>3</sup>The U.S. Department of Housing and Urban Development's (HUD) Illinois State Office of Public Housing monitors all Illinois housing agencies for compliance with Recovery Act requirements, including obligation and expenditure deadlines.

44.4 percent of the obligated funds.<sup>4</sup> Similarly, 99 public housing agencies in Illinois collectively received \$221.5 million in Public Housing Capital Fund formula grants under the Recovery Act. As of August 7, 2010, the recipient agencies had obligated all of the \$221.5 million and drawn down a cumulative total of \$143.6 million, or 64.8 percent of the obligated funds. For this report we visited the Chicago Housing Authority (CHA), which continues to make progress on its Recovery Act competitive and formula grant projects. For example, as of July 1, 2010, CHA had expended 52 percent of its Recovery Act formula funds and completed work on 5 of 12 projects funded by the Recovery Act.

- **Oversight Activities.** Auditing responsibility within the state passed from the Illinois Office of Internal Audit (IOIA) within the Governor's Office to state agencies effective July 1, 2010.<sup>5</sup> Officials said that IOIA staff will finish the 20 audits the office planned or started prior to July 1. State officials expect that the Office of Accountability, also within the Governor's Office, will follow up on the implementation of IOIA audit recommendations as part of its existing role assisting agencies in implementing corrective action plans to address audit findings. In addition, the Office of the Auditor General issued the fiscal year 2009 statewide Single Audit, and the Inspectors General of the U.S. Departments of Education and Energy are currently conducting audits of

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<sup>4</sup>As of August 7, 2010, one housing agency had not obligated any of its competitive grant funds.

<sup>5</sup>According to Illinois officials, Illinois Executive Order 2003-10, *Executive Order to Consolidate Facilities Management, Internal Auditing and Staff Legal Functions*, consolidated the state's internal audit function under the Illinois Department of Central Management Services within the Governor's Office. 27 Ill. Reg. 6401 (Apr. 11, 2003). State officials further explained that Illinois Public Act 096-0795 mandated the return of the internal audit function to state agencies and the dissolution of IOIA, as the function would again reside at the agencies.

state programs that received larger amounts of Recovery Act funds.<sup>6</sup> We spoke to state and federal auditors about these audits for this review.

- **Recipient Reports.** The Governor's Office requires state agencies to submit employment and other data to the Illinois Federal Reporting Test site for review and verification before they submit these data to their respective federal agencies through the FederalReporting.gov Web site. IOIA used to be responsible for reviewing these reports; however, with the statutorily-mandated transfer of audit responsibility to state agencies, and the corresponding dissolution of IOIA, the Illinois Office of Accountability has taken responsibility for reviewing and verifying most state agencies' reports.
- **Illinois's Fiscal Condition.** Representatives of the Governor's Office emphasized the important role that Recovery Act funds have played in aiding the state's fiscal situation over the previous 2 fiscal years. However, Illinois's fiscal year 2011 budget does not include Recovery Act State Fiscal Stabilization Fund (SFSF) monies, which provided more than \$2 billion toward education in the state over the past 2 fiscal years. The Governor's Office had planned to address the phasing out of SFSF monies in fiscal year 2011 with a tax increase, but the Illinois General Assembly did not pass such an increase. Facing a balance of between \$5 billion and \$6 billion in unpaid bills from prior fiscal years, the state passed legislation that provides the governor with expanded authority to address the budget deficit, according to state officials.<sup>7</sup>
- **Rural Communities' Use of Recovery Act Funds.** Although the communities we spoke to applied for and were awarded Recovery Act funds, they ultimately delayed use of the funds. For example, an official

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<sup>6</sup>Single Audits are prepared to meet the requirements of the Single Audit Act of 1984, 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 requires that states, local governments, and nonprofit organizations expending more than \$500,000 in federal awards in a year 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 opinion on compliance with applicable program requirements for certain federal programs. See also Office of Management and Budget (OMB) Circular A-133 (revised June 27, 2003, and June 26, 2007).

<sup>7</sup>Ill. Pub. Act 096-0958, art. 1 (July 1, 2010).

from the Village of Steward, Illinois, told us that the village applied for \$2.5 million in Recovery Act funding through the U.S. Department of Agriculture's (USDA) Rural Development Water and Waste Program to establish a sewer system, but had to put the project on hold because residents were unwilling to pay costs associated with the project.

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## Housing Agencies in Illinois Continue to Make Progress on Recovery Act Projects as HUD Monitors Their Use of Funds

As previously highlighted, six public housing agencies in Illinois collectively received \$83.7 million in Public Housing Capital Fund competitive grant funds under the Recovery Act. HUD provided these funds to the agencies to improve the physical condition of their properties. As of August 7, 2010, five of the recipient public housing agencies had obligated \$53.5 million of the \$83.7 million and had drawn down a cumulative total of \$23.8 million, or 44.4 percent, of the obligated funds. Similarly, 99 public housing agencies in Illinois collectively received \$221.5 million in Public Housing Capital Fund formula grants under the Recovery Act. HUD also provided these funds to the agencies to improve the physical condition of their properties. As of August 7, 2010, the recipient agencies had obligated all of the \$221.5 million and had drawn down a cumulative total of \$143.6 million, or 64.8 percent, of the obligated funds.

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## The Chicago Housing Authority Continues to Make Progress on Recovery Act Projects

For this report we visited CHA to determine the status of both its competitive and formula grants under the Recovery Act. HUD awarded CHA a total of 27 competitive grants, 23 for energy-efficiency improvements (which CHA used to replace boilers and hot water heaters in several properties) and 4 for redevelopment (including the Ogden North project, described below). As of July 1, 2010, CHA had obligated approximately 38 percent of its total competitive grant funds. The housing agency expects to obligate 100 percent of its competitive grant funds by September 2010, as required under the Recovery Act. CHA had expended 32 percent of its total competitive grant funds as of July 1, 2010, including 50 percent or more of the funds for 20 projects. The housing agency expects to expend 60 percent of its competitive grant funds by September 2011, as required under the Recovery Act.

HUD awarded CHA a \$9.9 million competitive grant for the redevelopment of the housing agency's Ogden North property (see fig. 1).<sup>8</sup> CHA will use

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<sup>8</sup>Our fourth bimonthly report also contains an overview of the Ogden North project. See GAO, *Recovery Act: Status of States' and Localities' Uses of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

the grant in combination with other public and private funds to develop 60 new replacement public housing units and 77 non-public housing rental units, 123 for-sale homes, a community space, and a management and maintenance facility. CHA initiated the project in July 2010. As of July 1, 2010, CHA had obligated approximately 11 percent and expended approximately 5 percent of the grant funds, primarily for predevelopment work (including legal and site preparation work).

**Figure 1: Site of CHA’s Ogden North Development Project**



Source: GAO.

As of July 1, 2010, CHA had expended 52 percent of its Recovery Act formula funds and completed work on 5 of 12 Recovery Act funded projects. For the two projects we reviewed as part of this and prior bimonthly reports—Dearborn Homes and Kenmore Senior Apartments—CHA had expended 33 percent of the \$28.9 million and 34 percent of the \$16.8 million obligated to those projects, respectively. As of July 1, 2010, the Dearborn Homes project was 46 percent complete and on schedule to be fully completed by November 2010 (see fig. 2). Four of the eight floors in the Kenmore Senior Apartments building were past 50 percent complete as of July 1, 2010, and also on schedule to be fully completed by November 2010.<sup>9</sup>

<sup>9</sup>Our fourth bimonthly report of December 2009 contains an overview of the Dearborn Homes and Kenmore Senior Apartments projects. See [GAO-10-232SP](#).

Figure 2: Completed and In-progress Exterior Views of CHA's Dearborn Homes Development



Source: GAO.

CHA reported a total of 271.95 full-time equivalent (FTE) positions for its formula grants and 5.47 FTEs for its competitive grants for the quarter ending June 30, 2010. With respect to the three projects we reviewed, CHA reported 107.30 FTEs for Dearborn Homes, 38.09 FTEs for Kenmore Senior Apartments, and 2.12 FTEs for Ogden North.<sup>10</sup> On June 14, 2010, CHA reopened its waiting list for public housing units after more than a decade, in part as a result of funding available through the Recovery Act. Through a lottery process, CHA will select 40,000 families for the waiting list and those families will be placed in rental units as they become available.

Finally, as we reported in our May 2010 report, CHA officials said that Recovery Act related activities had not had an effect on the agency's ability to administer its regular Capital Fund program.<sup>11</sup> According to HUD data, CHA had obligated 100 percent of its 2008 regular capital funds by April 30, 2010, ahead of the June 2010 deadline. As of the same date, CHA

<sup>10</sup>These data are as of June 30, 2010.

<sup>11</sup>See 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).

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had obligated 21 percent of its 2009 regular capital funds. The deadline for obligating 100 percent of these funds is September 2011.

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**HUD Field Office Officials Cited Monitoring of Recovery Act Funds as One of HUD's Top Priorities**

According to officials from HUD's Illinois State Office of Public Housing, Recovery Act work is one of the agency's top priorities. In describing the types of activities staff engage in to oversee Recovery Act funds, field office officials told us that they had developed tracking sheets for all the competitive and formula grants awarded to housing agencies in the state. Field office officials contact each housing agency on a weekly basis by means of telephone, e-mail, and, when necessary, correspondence. The tracking sheets are updated and reviewed regularly to ensure all housing agencies meet Recovery Act deadlines, such as the September 2010 deadline for obligating competitive grant funds. In addition, under HUD's Formula Grant Monitoring Strategy, the field office was required to review the obligations of housing agencies that had obligated less than 90 percent of their Recovery Act formula funds by February 26, 2010. As of June 1, 2010, field office officials completed reviews of all nine Illinois public housing agencies that had not met this obligation goal. Although officials found no deficiencies, they said that their reviews raised questions at some housing agencies. For example, field office officials noted that it appeared that one housing agency had not demonstrated compliance with the Buy American provision in its original contract.<sup>12</sup> According to these officials, when the field office followed up on this finding, the housing agency was able to provide documentation demonstrating compliance. At another housing authority, field office officials questioned the award of seven contracts to only one contractor. According to these officials, the housing agency provided evidence showing that it had complied with competitive

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<sup>12</sup>Section 1605 of the Recovery Act required that "none of the funds appropriated or otherwise made available by [the] Act may be used for the construction, alteration, maintenance, or repair of a public building or a public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States." Federal agencies may, under certain circumstances, waive the Buy American requirement and the requirement is to be applied in a manner consistent with the United States obligations under international agreements. For more information, see HUD, *PIH Implementation Guidance for the Buy American Requirement of the American Recovery and Reinvestment Act of 2009 including Process for Applying for Exceptions*, PIH-2009-31 (HA) (Washington, D.C., Aug. 21, 2009).

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bidding requirements for these contracts.<sup>13</sup> Officials stated that HUD did not deobligate or recapture any formula grant funds due to deficiencies.

Field office officials told us that staff were assigned to Recovery Act monitoring duties based on the relative workload of other projects assigned at the time. The field office has not received additional resources or staff to assist with Recovery Act monitoring. The risks HUD considers in determining how resources are allocated to Recovery Act monitoring have been based on identified management issues, audit findings, or other concerns related to performance that were identified through on-site and desk reviews. Field office officials said that HUD headquarters has emphasized the importance of focusing resources on overseeing housing agencies implementation of the Recovery Act. Despite this focus, field office officials said that Recovery Act responsibilities had not negatively affected their ability to monitor and oversee the regular capital fund and other programs. Officials told us that they had been able to successfully assign or reassign duties among all field office staff to meet the needs of the monitoring and reporting of Recovery Act grants.

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## Auditors Are Finalizing Audits on Recovery Act Funded Programs as Illinois's Auditing Responsibilities Return to State Agencies

According to state officials, recent legislation transferred auditing responsibility within the state from IOIA to state agencies effective July 1, 2010. The legislation gave the Illinois Department of Central Management Services (CMS) within the Governor's Office audit responsibility for those agencies that do not have an internal audit function. However, state officials noted that it was not yet clear how CMS would execute this responsibility, as it does not have authority to audit state agencies without their consent. According to state officials, only two agencies that received Recovery Act funds do not have their own internal audit functions—the Illinois Arts Council and the Illinois Criminal Justice Information Authority (ICJIA). The Illinois Arts Council received a \$361,600 Recovery Act grant through the National Endowment for the Arts, while ICJIA was the recipient of a \$50.2 million Edward Byrne Memorial Justice Assistance Grant (JAG) from the U.S. Department of Justice.<sup>14</sup> State officials said that

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<sup>13</sup>Our May 2010 report includes a discussion of the difficulties this housing authority faced in soliciting bids and awarding contracts for Recovery Act funds. See [GAO-10-605SP](#).

<sup>14</sup>The Illinois Arts Council used the Recovery Act grant to fund the Illinois Arts Job Preservation Grant Program. According to state officials, all the funds have been expended. The JAG Program provides federal grants for state and local law enforcement and criminal justice assistance.

the Office of Accountability will continue to review ICJIA's quarterly recipient reports; however, it is unclear whether the agency will request an audit of its Recovery Act JAG program from CMS.<sup>15</sup>

Officials from the Governor's Office said that despite the statutorily-mandated transfer of audit responsibility to state agencies, IOIA is scheduled to complete work on 20 planned or ongoing audits (16 in state fiscal year 2010 and 4 in state fiscal year 2011). According to state officials, the audited programs include two of the largest Recovery Act funded programs in the state—the Unemployment Insurance Program and the Highway Planning and Construction Program.<sup>16</sup> Our review of completed IOIA audits as of July 1, 2010, showed that they were generally designed to evaluate the adequacy of the programs' internal accounting and administrative controls.<sup>17</sup> Some of the audits we reviewed had findings related to Recovery Act funds, including cash-management issues (for example, failure to minimize the time between drawdowns of federal funds and expenditure of those funds and to charge hours worked to the correct grant) and recipient reporting issues (for example, incorrect calculation of jobs funded with Recovery Act funds and lack of review of recipient reports). The audits also found some instances of insufficient internal controls for ensuring compliance with Recovery Act and other federal program requirements. For example, one agency did not have procedures in place to ensure that subrecipients separately record and account for Recovery Act activities, and another agency did not have processes in place to ensure the eligibility of program participants. IOIA issued several recommendations based on its findings. State officials expect that, as part of its existing role in assisting agencies with corrective action plans to address audit findings, the Office of Accountability will

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<sup>15</sup>In April 2009, the Department of Justice's Office of the Inspector General issued a report on the allocation of Recovery Act JAG funds in Illinois. See Department of Justice, Office of the Inspector General, *Edward Byrne Memorial Justice Assistance Grant Allocation of Recovery Act Funds to Local Municipalities in the State of Illinois* (Apr. 9, 2009).

<sup>16</sup>According to state documents, as of March 31, 2010, these programs were expected to receive \$3.8 billion and \$934.3 million in Recovery Act awards, respectively.

<sup>17</sup>We reviewed 12 of the 13 audits IOIA had completed as of July 1, 2010. We did not review 1 completed IOIA audit on the Women, Infants and Children (WIC) Special Supplemental Nutrition Program—Contingency. State officials indicated that the audit had no findings.

follow up these recommendations to determine whether they have been implemented.<sup>18</sup>

As we reported in our May 2010 report, the Illinois Office of the Auditor General conducts an annual audit (the Single Audit) of the state's financial statements and expenditures from federal awards, including Recovery Act awards.<sup>19</sup> According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Illinois's Single Audit reporting package for the year ending June 30, 2009, on August 12, 2010. This was over 4 months after the deadline specified by the Single Audit Act and over a year after the period the audit covered. The State Auditor General finalized this audit on July 28, 2010, and this was the first Single Audit for Illinois that included Recovery Act programs. It identified 92 significant internal control deficiencies related to compliance with Federal Program requirements, of which 50 were classified as material weaknesses. Two of these material weaknesses and significant deficiencies were directly related to agencies' use of Recovery Act funds. Specifically, state auditors found that the Illinois Department of Children and Family Services (DCFS) failed to separately identify and report Recovery Act expenditures for its Foster Care and Adoption Assistance programs to the Illinois Office of the Comptroller.<sup>20</sup> According to the report, DCFS agreed with the finding, and state audit officials said that the agency provided the necessary corrections to the Comptroller's Office. In addition, the Illinois Department of Commerce and Economic Opportunity (DCEO) failed to communicate Recovery Act information and requirements to subrecipients of Workforce Investment Act of 1998 grants, which could potentially result in inadequate administration of the funds

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<sup>18</sup>According to state officials, the Office of Accountability is also responsible for, among other things, obtaining clarifications to federal guidance related to the Recovery Act; establishing standardized policies and procedures for state agencies for tracking, reporting on, and monitoring Recovery Act funds; and providing technical assistance to state agencies on Recovery Act reporting requirements to ensure accurate and timely reporting. The Governor's Office expects to dissolve the Office of Accountability in February 2011.

<sup>19</sup>See [GAO-10-605SP](#).

<sup>20</sup>According to the 2009 Single Audit report, subrecipients of Recovery Act awards must (1) maintain records that identify the source and application of their awards and (2) provide identification of Recovery Act awards in their Schedule of Expenditures of Federal Awards (SEFA) and data collection forms. The Illinois Office of the Comptroller compiles and reviews the financial forms required for the SEFA before forwarding SEFA data to the Office of the Auditor General. The Office of the Auditor General uses data from the SEFA in scoping and conducting the state's Single Audit. See State of Illinois, Office of the Auditor General, *Single Audit Report For the Year Ended June 30, 2009* (July 28, 2010).

and misreporting among subrecipients.<sup>21</sup> According to the report, DCEO agreed with the recommendation and revised its procedures to include information on Recovery Act disbursements and reporting requirements to subrecipients.

In addition to the state auditing activities, federal Inspectors General are also reviewing the use of some Recovery Act funds in Illinois. The audits include reviews of programs discussed in our previous reports of April 2009, July 2009, September 2009, and May 2010, such as the \$2.1 billion in SFSF monies administered by the Illinois State Board of Education (ISBE), and the \$242.5 million Home Weatherization Assistance Program administered by DCEO.<sup>22</sup> An official from the Office of Inspector General within the U.S. Department of Education stated that staff have conducted interviews with officials from ISBE, the Illinois Board of Higher Education (IBHE), the Illinois Community College Board (ICCB), the Governor's Office, a university, and multiple local educational agencies (mostly school districts). The audit work is expected to be completed in the fall of 2010 and reporting dates are yet to be determined. The Office of the Inspector General within the U.S. Department of Energy is also currently determining the extent to which DCEO and one of its local agencies are effectively and efficiently administering the Weatherization Assistance Program in Illinois. This review is focusing on the Illinois Community and Economic Development Association (CEDA), the largest subrecipient of weatherization funds in Illinois (and one of the largest local agencies nationwide). CEDA received \$81 million to weatherize an estimated 12,500 homes throughout the state. A report is currently being drafted and is expected to be issued in the fall of 2010.

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<sup>21</sup>According to the 2009 Single Audit report, recipients of Recovery Act awards must (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award Number, the Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (2) require their subrecipients to provide similar identification on their SEFAs and data-collection forms.

<sup>22</sup>For past reports discussing SFSF see GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues is Essential* (Appendixes), [GAO-09-580](#) (Washington, D.C.: Apr. 23, 2009); GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses* (Appendixes), [GAO-09-830SP](#) (Washington, D.C.: July 8, 2009); 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); and [GAO-10-605SP](#). For past reports discussing the Weatherization Assistance Program see [GAO-09-830SP](#) and [GAO-10-605SP](#).

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## The Governor's Office Has Changed the Way It Monitors Recovery Act Recipient Reports

The Illinois Governor's Office has changed the way it monitors Recovery Act recipient reports in light of the July 1, 2010, transfer of audit responsibility to state agencies. As we described in our December 2009 report, the Governor's Office has required state agencies to submit employment and other data to the Illinois Federal Reporting Test site for review and verification before they submit these data to [FederalReporting.gov](http://FederalReporting.gov).<sup>23</sup> IOIA previously monitored these reports, and in its absence the Illinois Office of Accountability has assumed responsibility for reviewing and verifying these reports.<sup>24</sup> The Office of Accountability's review does not include recipient reports from three agencies receiving some of largest Recovery Act grants in the state: ISBE, the Illinois Housing Development Agency, and the Illinois Department of Transportation.<sup>25</sup> State officials said that these agencies each had an existing internal audit function with the necessary resources to review the reports and noted that not requiring the Office of Accountability to conduct a review would lighten its workload. They also pointed out that the state's tight budget situation and the dissolution of IOIA had resulted in significant reductions in the Office of Accountability's staff.

State officials indicated that they had not identified any major problems with the recipient reports they received from agencies for the quarter ending June 30, 2010. They believed that the reporting process was starting to "become routine," as federal reporting guidelines stayed the same and agencies had been reporting Recovery Act related data for several reporting periods.

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<sup>23</sup>Illinois is considered a decentralized reporting state because state agencies, not the state, are responsible for uploading their employment and other data into [FederalReporting.gov](http://FederalReporting.gov). For a discussion of the role the Governor's Office plays in reviewing state agencies' recipient reports, see [GAO-10-232SP](#).

<sup>24</sup>State officials said that they anticipate that the Office of Accountability will be disbanded in February 2011.

<sup>25</sup>Each of these agencies provided the Governor's Office with the following information for the quarter ending June 30, 2010: total Recovery Act expenditures, total number of Recovery Act jobs reported, and an explanation for any major changes in the number of jobs reported from the previous reporting quarter. In our sixth bimonthly report of May 2010, we discussed some of the challenges ISBE has faced in ensuring the accuracy of its recipient reports. See [GAO-10-605SP](#). We did not assess the reports ISBE, the Illinois Housing Development Agency, or the Illinois Department of Transportation submitted for the quarter ending June 30, 2010.

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## According to State Officials, Recovery Act Funds Have Been Critically Important to the State Budget

Representatives of the Governor's Office emphasized the crucial role that Recovery Act funds had played in helping the state through a difficult financial situation during state fiscal years 2009 and 2010. As we reported in our May 2010 report, the fiscal year 2011 budget does not include Recovery Act SFSF monies, which provided over \$2 billion toward education in fiscal years 2009 and 2010; however, recent federal legislation made additional funds for education available to the states.<sup>26</sup> As a result, according to the Governor's Office of Management and Budget, funding levels in fiscal year 2011 for General State Aid, early childhood programs, and special education will be maintained at fiscal year 2010 levels, and overall funding for elementary and secondary education will increase by an estimated \$104 million. However, the fiscal year 2011 budget reduces funds for higher education by \$105 million from the prior year, \$85 million of which is accounted for by Recovery Act funds in fiscal year 2010 that will not be available in 2011. Overall, according to the Governor's Office, the state's fiscal year 2011 budget is \$1.4 billion less than that of fiscal year 2010 and nearly \$3.0 billion less than that of fiscal year 2009.

The Governor's Office had planned to address the phasing out of SFSF monies in fiscal year 2011 with a 1-year, \$2.8 billion tax increase; however, the Illinois General Assembly did not approve such an increase. Facing a balance of between \$5 billion and \$6 billion in unpaid bills from prior fiscal years, on July 1, 2010, the state enacted legislation that, among other things, requires the State Treasurer and State Comptroller, at the direction of the Governor, to make transfers to the General Revenue Fund or the Common School Fund on or after July 1, 2010, and through January 9, 2011, out of special funds of the state, to the extent allowed by law.<sup>27</sup> Such transfers are expected to help the state manage cash flow deficits and maintain liquidity in the General Revenue Fund and the Common School Fund and are subject to certain restrictions. The same legislation also establishes an entity, the Railsplitter Tobacco Settlement Authority, which was authorized to purchase from the state the right to future revenue from the 1998 tobacco settlement in exchange for the net proceeds of bonds

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<sup>26</sup>See [GAO-10-605SP](#) and Pub. L. No. 111-226, § 101, 124 Stat. 2389 (Aug. 10, 2010). The legislation also provided for an extension of increased Federal Medical Assistance Percentage (FMAP) funding. As of August 13, 2010, Illinois had drawn down its entire share of SFSF Education funds and 99.8 percent of its SFSF Government Services funds.

<sup>27</sup>30 Ill. Comp. Stat. 105/5h.

issued by the new entity.<sup>28</sup> According to the Governor's Office, these two measures are expected to provide \$2 billion that the state can use to address the backlog of unpaid bills.

In addition to reviewing the state's fiscal year 2011 budget, we also met with officials from two rural communities to discuss their use of Recovery Act funds and the effect of these funds on their budgets. Although the communities we spoke to applied for and were awarded Recovery Act funds, they ultimately delayed use of the funds due to local financing concerns. For example, an official from the Village of Steward, Illinois, told us that the village applied for \$2.5 million in Recovery Act funding through the U.S. Department of Agriculture's (USDA) Rural Development Water and Waste Program to establish a sewer system for its residents.<sup>29</sup> The official said that the project would facilitate economic development in the area and that the village has been trying to secure funding for the project for nearly 10 years. Although USDA awarded Recovery Act funds to the village—a grant for 40 percent of the project's total cost and a loan for the remaining 60 percent of the cost (to be repaid at 2 percent interest over 48 years)—the official stated that the village has placed the project on hold for a year, as residents have raised concerns about the costs associated with financing the project. The official estimated that each household would spend roughly \$700 per year in the near-term on sewer rates to repay this loan. The town of Chrisman, Illinois, was also awarded a \$1.25 million loan (to be repaid at 2.5 percent interest over 20 years) for a sewer project through USDA's Rural Development Water and Waste Program, but the town also placed the project on hold due to similar concerns. According to officials in both localities, it is uncertain when and if these projects will be completed.

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<sup>28</sup>Ill. Pub. Act 096-0958, art. 3, §§ 3-1 to 3-16 (July 1, 2010). In 1998, 46 states, including Illinois, signed a Master Settlement Agreement as part of a resolution of the states' case against four major tobacco companies to recover smoking-related Medicaid expenses. The agreement stipulated that the tobacco companies pay the states settlement costs over a period of years. To raise revenues in the immediate term, some states have "securitized" these payments, issuing bonds backed by future payments owed to them under the agreement.

<sup>29</sup>Loans under USDA's Rural Development Water and Waste Program are to be used for the purpose of developing water and waste disposal (including solid waste disposal and storm drainage) systems in rural areas and towns with a population not in excess of 10,000. The funds are available to public entities such as municipalities, counties, special-purpose districts, Indian tribes, and corporations not operated for profit.

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**State Comments on  
This Summary**

We provided the Office of the Governor of Illinois with a draft of this appendix on August 18, 2010. The Director of Recovery Operations and Reporting responded for the Governor on August 19, 2010. The official provided technical suggestions that were incorporated, as appropriate.

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**GAO Contact**

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**Staff  
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In addition to the contact named above, Paul Schmidt, Assistant Director; Silvia Arbelaez-Ellis; Josh Bartzen; Dean Campbell; Cory Marzullo; and Rosemary Torres Lerma made major contributions to this report.

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# Appendix VIII: Iowa

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## Overview

The following summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Iowa.<sup>1</sup> The full report covering all of GAO's work in 16 states and the District of Columbia is available at <http://www.gao.gov/recovery>.

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## What We Did

Our work in Iowa examined six programs receiving Recovery Act funds—the State Energy Program (SEP), the Energy Efficiency and Conservation Block Grant (EECBG) program, the Weatherization Assistance Program, and three education programs: (1) Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA), as amended; (2) Individuals with Disabilities Education Act (IDEA), Part B, as amended; and (3) the State Fiscal Stabilization Fund (SFSF)—as well as state and local efforts to stabilize their budgets, monitor the use of Recovery Act funds, and report the number of jobs paid for by these funds. We selected the SEP and EECBG programs because the Department of Energy (DOE) has instructed the states to increase their efforts to obligate and spend the Recovery Act funds for these programs. We selected the weatherization program because community action agencies in Iowa are weatherizing large numbers of homes. Finally, we selected the three education programs because these continue to be the largest source of Recovery Act funds in Iowa. For descriptions and requirements of the programs we reviewed, see appendix XVIII of [GAO-10-1000SP](#).

To review the use of Recovery Act funds for the SEP and EECBG programs, we examined documents and met with officials of the Iowa Office of Energy Independence (OEI) in Des Moines, which is responsible for administering both programs. For the SEP program, we visited three grant recipients: the Des Moines Area Community College at Ankeny, the Iowa Association of Municipal Utilities, and the Sun Prairie/Vista Court Apartments. For the EECBG program, we visited two local governments that DOE supported directly: Iowa City and Warren County. For both SEP and EECBG, we discussed with officials how their agencies were using Recovery Act funds to support national energy goals, any concerns about complying with the Recovery Act's requirements, whether internal controls and monitoring systems were in place to ensure the effective and

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

efficient use of funds, and the extent to which program recipients collected data on energy savings and job creation.

To review the weatherization program, we examined documents and met with officials of Iowa's Division of Community Action Agencies (DCAA), within the Department of Human Rights, which is responsible for administering the weatherization program in Iowa. We also met with the Executive Director of the Southern Iowa Economic Development Association (SIEDA), a local community action agency responsible for weatherizing homes in seven southern Iowa counties.

To review the use of Recovery Act funds for education, we met with officials from the Iowa Department of Education and reviewed state grant applications, financial records, and monitoring plans to identify the state's policies and procedures for ensuring the appropriate expenditure of Recovery Act funds. To obtain officials' projections of the financial condition of Iowa schools in 2010 and 2011, we interviewed the Iowa Department of Education's Chief Financial Officer and officials from six local school districts that we had contacted for previous Recovery Act reports—Atlantic, Des Moines, Maple Valley, Marshalltown, Ottumwa, and Waterloo. We also visited the Des Moines Independent Community School District and the Marshalltown Community School District to review districts' controls over the expenditure of Recovery Act funds.<sup>2</sup> At each district we selected a judgmental sample of disbursements to review the use of funds and documentation of expenditures.<sup>3</sup> We also discussed our findings with local and state officials.

To review state and local efforts to use Recovery Act funds and stabilize their budgets, we analyzed state and local budget information and met with state and municipal officials. We visited two Iowa localities—Des Moines and Marshalltown—which we selected to provide a mix of large

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<sup>2</sup>We selected the Des Moines District because it is the largest K-12 school district in the state and receives the most federal Recovery Act dollars. Marshalltown, a midsized district, was selected because of financial control weaknesses identified in the district's 2008 Independent Auditor's Report.

<sup>3</sup>We judgmentally selected 40 Des Moines School District disbursements for February 2009 through March 2010 and 20 Marshalltown School District disbursements for February 2009 through April 2010. Among other things, when selecting disbursements for review, we considered large-dollar purchases; round number purchases such as \$20,000; payments to unusual payees, such as a local department store; and large purchases broken into several smaller payments.

and small communities and unemployment rates. We selected Des Moines because it is the largest city in Iowa and has an unemployment rate above the state's average—7.4 percent compared with a state average of 6.6 percent—and Marshalltown because its population is smaller compared with many other localities throughout the state, and its unemployment rate is 7.5 percent, above the state's average.

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## What We Found

- **State Energy Program (SEP).** As of July 20, 2010, OEI had obligated \$34.3 million, or 84.6 percent, of \$40.5 million in Recovery Act funds for SEP. Specifically, OEI awarded \$19.2 million in grants, which recipients plan to match with an additional \$48.5 million from other sources. OEI also obligated \$1.5 million to commission energy projects and is establishing a \$6.5 million loan fund to stimulate energy efficiency improvements by Iowa businesses and a \$1 million loan loss reserve to enhance financing credit for private sector energy efficiency projects. OEI has retained \$6.1 million for administrative expenses. OEI expects to obligate its remaining funds by September 30, 2010. OEI reimburses grant recipients for applicable costs only after major milestones are achieved and recipients submit receipts and other supporting documentation. To monitor the use of funds, OEI plans to visit each grant recipient annually and will make more frequent visits to recipients receiving the largest SEP awards and to those with little or no prior experience with government accounting requirements.
- **Energy Efficiency and Conservation Block Grants (EECBG) program.** Almost all (94 percent) of the \$21.1 million in Recovery Act funds allocated to recipients in Iowa for EECBG has been obligated. However, only about 6 percent of the funds have been spent, in part because of delays between when OEI received its portion of the funds and when it awarded grants. According to OEI officials, the program was new and officials waited for DOE to issue guidance on the program's federal requirements. In addition, some grant recipients spent few funds because they were developing plans, providing information to agencies involved in ensuring compliance with federal and state requirements, or waiting for decisions on requests for waivers from certain federal requirements. The DOE project officer for the grant to OEI said that he believes Iowa will meet the DOE goal to draw down 20 percent of grant funds by September 30, 2010. As projects have begun, DOE and OEI have implemented strategies for monitoring grant recipients' use of funds. These strategies involve reviewing the information recipients report and visiting grant recipient's projects. Moreover, grant funds are paid only after

recipients submit invoices and supporting documentation to DOE or OEI for payment.

- **Weatherization Assistance Program.** In a July 13, 2010, letter to DOE, DCAA certified that it had, among other things, completed weatherizing 2,178 homes—30.3 percent of its target of 7,196 homes—using Recovery Act funds. DCAA also certified that it had inspected at least 5 percent of the homes weatherized by each of the 17 local agencies that used Recovery Act funds. In response, DOE notified DCAA on July 26, 2010, that the department had released the remaining 50 percent of Iowa’s Recovery Act weatherization funds, or \$40.4 million. On August 17, 2010, DCAA notified SIEDA that it would release \$1.7 million in Recovery Act funds effective August 23, 2010, for weatherizing homes in seven southern Iowa counties. DCAA had delayed making these funds available until SIEDA had corrected numerous weaknesses in its oversight of weatherization contractors.
- **Education.** Between 2009 and 2011, Iowa will receive about \$666 million in Recovery Act funds from the U.S. Department of Education (Education) to support local school districts, institutions of higher learning, and selected public safety and assistance programs. These funds will be provided to the state through three Education programs: Title I, Part A, of the ESEA; IDEA, Part B; and SFSF.<sup>4</sup> As of June 30, 2010, Iowa reported that local school districts, institutions of higher learning and state government entities had spent or distributed about \$501 million in Recovery Act education funds—more than 75 percent of the Recovery Act education funds provided to the state. Iowa reported that these funds paid for more than 7,800 education-related positions across the state in the final quarter of the 2009-2010 school year (April 1 to June 30, 2010). Although Recovery Act funding for education in Iowa will be much less in the 2010-2011 school year, a state education official said that he was optimistic about the financial outlook for most local school districts in the state. Officials from six local districts stated that they expected to balance their budgets by taking a number of actions, including reducing staff, suspending new hiring, consolidating schools, raising local taxes, and drawing upon their reserve funds, including unspent Recovery Act funds received in school year 2009-2010.

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<sup>4</sup>The state received an additional \$15 million to fund education technology, IDEA Part C, school lunch equipment, homeless youth and a teacher quality partnership project.

Our review of expenditures at the Des Moines and Marshalltown school districts showed that Recovery Act funds were used to pay educators' salaries, purchase books to support curriculum, and purchase specialized equipment to upgrade services to students with disabilities. Our review of selected disbursements at these two local school districts showed that Recovery Act funds were generally spent and accounted for appropriately. However, we found and state officials agreed that these districts did not fully comply with requirements to obtain approval for IDEA equipment purchases of \$5,000 or more.

- **State and local governments' use of Recovery Act funds.** According to senior officials from the Iowa Department of Management, Recovery Act funds have enabled the state to continue avoiding tax increases and reduce the amount of funds drawn from the state's Cash Reserve Fund to balance the fiscal year 2011 budget. Anticipating the end of Recovery Act funds and other one-time sources of revenue, Iowa is implementing several plans to improve the efficiency of state operations and reorganize state agencies to reduce state expenditures. For example, as of June 30, 2010, about 2,100 eligible state employees had applied for retirement under the state's early retirement plan. Officials at the two localities we visited—Des Moines and Marshalltown—said that they have used Recovery Act funds for various programs, and that these funds have helped to stabilize their budgets. However, they also said that they plan to reduce expenditures or eliminate programs—such as Marshalltown's lead abatement program—once Recovery Act funds are depleted. Local officials also said that they encountered several problems applying for and administering funds from some Recovery Act competitive grants. These problems included finding staff to apply for the grants and difficulties complying with some of the statutory requirements, such as the Buy American and Davis-Bacon provisions.
- **State monitoring and internal controls.** Iowa's Office of the State Auditor and the Iowa Accountability and Transparency Board continue to monitor controls over Recovery Act funds. While the Office of the State Auditor did not identify any material weaknesses in its fiscal year

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2009 Audit report,<sup>5</sup> officials said that they identified some problems with internal controls, such as inadequate monitoring of subrecipients. In May 2010, the state provided training on subrecipient monitoring to state and local agencies receiving Recovery Act funds.

- **State and local recipient reporting.** Iowa created a centralized database that it uses to calculate the number of jobs created based on data provided by state and local agency officials. Through its centralized database, Iowa reported that 9,696 jobs were funded by the Recovery Act for the period April 1 to June 30, 2010, as of July 29, 2010. Iowa has also implemented internal controls to ensure the accuracy of jobs data, such as requiring state and local agency officials to certify that they reviewed and approved jobs data prior to submission.

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## Iowa Has Obligated Most of Its State Energy Program Funds, but Recipients Are Just Beginning to Spend Them

DOE obligated \$40.5 million in Recovery Act SEP funds to OEI for energy efficiency and renewable energy projects. Subsequently, in an April 2010 letter to the states, DOE set new interim milestones for each state to obligate at least 80 percent of its Recovery Act SEP funds by June 30, 2010, and spend at least 20 percent of its funds by September 30, 2010.<sup>6</sup> As shown in table 1, OEI had obligated \$34.3 million, or 84.6 percent, of its \$40.5 million as of July 20, 2010, and according to DOE's Recovery Act Web site, OEI had spent \$1 million as of July 30, 2010. To obligate its SEP funds, OEI awarded \$19.2 million in grants for the public sector (government and university), technology demonstration, training and information, and innovation projects. The largest SEP grant was \$1.1 million to Kirkwood Community College for three large wind turbines, while the smallest grant was \$1,800 to Whiting community schools for

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<sup>5</sup>The State Auditor issued the fiscal year 2009 Single Audit report on March 31, 2010. 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 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 controls 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.

<sup>6</sup>Recovery Act funds for loan programs are treated as obligated if OEI and the Iowa Finance Authority expect to sign an agreement by September 30, 2010, according to DOE's contracting officer for Iowa.

humidity sensors to reduce heating and cooling costs. Grant recipients intend to implement their projects by leveraging SEP funds with an additional \$48.5 million from other sources to increase the program impact on job creation and energy savings. OEI also obligated SEP funds to commission energy projects, create a loan fund to stimulate energy efficiency improvements by Iowa businesses, and create a loan loss reserve to enhance financing credit for residential and private sector energy efficiency projects. OEI expects to obligate the remaining \$6.2 million in SEP funds by September 30, 2010. Regarding SEP expenditures, OEI officials told us that expenditure data can lag more than a month from when costs are incurred because OEI reimburses recipients only after major milestones are achieved and recipients submit invoices and other supporting documentation.

**Table 1: Iowa’s Use of Recovery Act SEP Funds, as of July 20, 2010**

Category	Planned allocation	SEP funds obligated <sup>a</sup>	SEP project funding from other sources <sup>b</sup>
Public sector <sup>c</sup>	\$21,161,000	\$15,528,807	\$37,923,100
Technology demonstration <sup>d</sup>	4,160,000	2,554,000	8,254,000
Training and information	1,082,000	582,206	728,206
Innovation <sup>e</sup>	3,556,000	3,055,000	1,549,000
Private sector loans	4,500,000	6,500,000	0
Nonprofit sector loans	7,000	0	0
OEI administrative expenses <sup>f</sup>	6,080,000	6,081,000	0
<b>Total</b>	<b>\$40,546,000</b>	<b>\$34,301,013</b>	<b>\$48,454,306</b>

Source: Iowa Office of Energy Independence.

<sup>a</sup>DOE considers (1) loan program funds to be obligated because the Iowa Finance Authority has agreed to underwrite the program and (2) OEI administrative expenses to be obligated because the funding will primarily be used to pay for salaries of additional staff hired to implement the Recovery Act program. In some cases, funds obligated may exceed planned allocations.

<sup>b</sup>Iowa requires that SEP grant recipients provide at least a one-to-one matching of funds to increase the program impact on job creation and energy savings.

<sup>c</sup>Public sector funding supports energy efficiency and renewable energy projects for state buildings, cities, schools, community colleges, and universities, and for Iowa’s Building Energy Smart program.

<sup>d</sup>Technology demonstration funding supports new energy efficiency and renewable technologies for businesses, electric power utilities, nonprofit organizations, and community colleges, among others.

<sup>e</sup>Includes \$555,000 for grant awards as well as \$1.5 million for commissioning energy projects by verifying, among other things, that the design and specifications meet original project intent and the equipment purchased is as specified; \$1 million for establishing a loan loss reserve through the Iowa Finance Authority to leverage \$20 million for a residential and private sector energy efficiency financing program; and \$500,000 for benchmarking through Iowa’s Energy Center.

<sup>f</sup>OEI’s staff has grown from 4 to 34 to administer the Recovery Act’s SEP and EECBG programs, the SEP program that DOE funds through its regular appropriation, and Iowa’s energy programs.

OEI staff have focused on awarding Recovery Act SEP grant funds and negotiating the terms and conditions for each SEP funding agreement to ensure that recipients spend funds by DOE's April 2012 deadline.<sup>7</sup> Before SEP grant recipients can proceed with their projects, they must certify to OEI that they have complied with the National Environmental Policy Act (NEPA),<sup>8</sup> the National Historic Preservation Act, and the Recovery Act's Buy American and Davis-Bacon provisions, among other requirements. Regarding NEPA compliance, all but eight of the SEP grant projects are designed to improve the energy efficiency of existing buildings and transportation infrastructure or install small amounts of renewable energy generating capacity, thereby minimizing their impact on the environment and qualifying them for a categorical exclusion under NEPA. Of the eight SEP projects requiring a detailed NEPA review, five have been reviewed and approved by DOE and three are under review—of these, two projects are for wind turbines and one is for a solar system installation. OEI officials told us that DOE guidance has been useful for addressing Davis-Bacon prevailing wage, Buy American, and historic preservation requirements.

OEI has established several controls to ensure that SEP funds are effectively and efficiently spent. For example, OEI requires that grant recipients provide at least a one-to-one matching of SEP funds with funds from other sources. Matching funds are an Iowa, rather than a SEP, requirement that is designed to enhance project oversight because the grant recipient is responsible for more than half of the project's cost. In addition, OEI generally does not provide up-front funding.<sup>9</sup> Instead, OEI reimburses grant recipients for applicable costs only after major milestones are achieved and recipients submit receipts and other supporting documentation for incurred costs.

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<sup>7</sup>DOE's funding opportunity announcement stated that Recovery Act SEP grant funds are to be spent within 36 months after the grant's award date—April 20, 2009, for Iowa.

<sup>8</sup>NEPA requires that federal agencies assess the environmental impacts of proposed actions before making decisions. 42 U.S.C. §§ 4321-4370f. Projects deemed to have no significant impact on the environment because of their size, type of activity, and the agency's experience with similar projects can qualify for categorical exclusion determinations. Alternatively, if a project is expected to have a significant environmental impact, DOE would prepare either an environmental assessment or an environmental impact statement, which generally takes a few months to more than a year to complete.

<sup>9</sup>OEI has provided up-front SEP funding only to the Iowa Department of Administrative Services, which needed up-front capital to help with cash flow for its multi-million dollar project to improve the energy efficiency of several buildings in the state capitol complex.

OEI officials told us that they plan to visit each SEP project at least once per year, projects that receive grants of \$750,000 or more at least two times per year, and projects that receive grants of \$1 million or more at least four times per year. OEI also plans to give priority to monitoring recipients with little or no prior experience in complying with government accounting and reporting requirements. Recipients are considered to be higher risk if their management control systems have not been previously examined, as they have been for grant recipients with established accounting procedures, and if external audits of their financial systems have not been completed. OEI requires most SEP grant recipients to complete their construction activities by January 1, 2012, and all recipients to submit their final reports by March 31, 2012.

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## Most Funds from Iowa's Energy Efficiency and Conservation Block Grants Have Been Obligated but Little Has Been Spent

DOE allocated a total of about \$21.1 million in Recovery Act funds to recipients in Iowa for EECSBG. Of this total, DOE allocated about \$11.5 million directly to the 13 largest cities and 10 largest counties in the state according to a federal population formula; about \$46,600 to the Sac and Fox Tribe of the Mississippi in Iowa; and about \$9.6 million to OEI.<sup>10</sup> Following statutory requirements, DOE required OEI, in turn, to make at least 60 percent of the \$9.6 million it received available to local governments not eligible for grants directly from DOE because of their size. According to DOE, about 94 percent of the \$21.1 million allocated to recipients in Iowa had been obligated as of July 16, 2010. The remaining 6 percent of funds were programmed for Cedar Rapids, Dubuque, and Scott County, which have not received all of their DOE allocations. DOE officials told us that grant recipients were allowed to obtain a portion of their allocation to develop energy strategies and obtain the balance of funds after resubmitting plans for specific projects.

The two localities we visited—Iowa City and Warren County—received direct grants from DOE. With its direct grant of \$692,300, Iowa City is establishing (1) an energy office, (2) a public education campaign to promote existing energy audit programs for residences and businesses, (3) a municipal energy efficiency retrofit program to reduce energy costs in municipal buildings, and (4) an energy efficiency revolving loan fund for businesses to implement energy efficiency upgrades in their buildings. With its direct grant of \$171,200, Warren County has upgraded the heating

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<sup>10</sup>On August 4, 2010, DOE also awarded a competitive EECSBG grant for \$1 million to the City of West Union, Iowa.

and cooling system at a county nature center and plans to construct a wind turbine for the center's electricity needs.

OEI grants to Iowa entities were generally made several months later than the DOE direct formula grants. More specifically:

- OEI received its \$9.6 million award in September 2009. The office retained 10 percent, or about \$960,000, for program administration, as allowed under the program, and in March 2010 awarded over \$8.2 million in grants. About \$5.8 million went to cities and counties that were not large enough to be eligible for the direct grants from DOE. This total met the requirement that at least 60 percent of grant funds provided to state energy offices go to these smaller cities and counties. Subsequent awards increased the total amount of OEI awards to over \$8.6 million to 76 recipients.
- While DOE used a population-based formula to determine the amounts and recipients of the direct grants from DOE, it did not prescribe how the state energy offices were to distribute their grant funds. OEI decided to make the awards competitive and, in January 2010, requested proposals for use of EECBG grant funds.<sup>11</sup> According to OEI officials, the office delayed announcing its request for proposals until DOE provided guidance on federal requirements applicable to EECBG funding and OEI could assess whether grant proposals sufficiently addressed them. These requirements included those governing labor (e.g., the Davis-Bacon provisions of the Recovery Act); purchasing (e.g., the Buy American provisions of the Recovery Act); the treatment of environmental resources (e.g., NEPA); and historical sites (e.g., the National Historic Preservation Act). DOE issued program guidance on NEPA and the Buy American provisions in December 2009. The department issued program guidance on historic preservation in February 2010 and continues to issue additional program guidance.

OEI required that its EECBG grants be used cost-effectively, yielding continuous benefits over time in terms of energy and emission reductions, and that recipients provide matching funds equal to the amount of the grant award. OEI also required that projects complete on or before

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<sup>11</sup>In its January 2010 request for proposals, OEI stated that it was making about \$5.8 million (60 percent of its grant award) available for local governments that were not eligible for direct grants from DOE because of their smaller size. The remaining over \$2.8 million was to be available for all Iowa local governments and other entities such as state agencies.

September 2012 in order to be eligible for funding. OEI limited the types of projects eligible for funding, in part, to avoid the need for extensive NEPA reviews, which could affect the start date of projects. In this regard, OEI limited the size or output of certain projects, such as wind turbines and ground source heat pumps. A proposed project could exceed these limits if the applicant provided additional information on how it would obtain NEPA approval and an approval timeline.

OEI's EECBG grants are primarily being used to upgrade to energy-efficient lighting or install energy-efficient heating, ventilating, and air conditioning (HVAC) equipment or controls. The lighting upgrades were for street lights; traffic lights; or lights in buildings, parking lots, and garages. HVAC activities included replacing HVAC systems, furnaces, boilers, or building ventilation or control systems. Other local governments received grants from OEI to develop and implement a community energy plan or to fund activities such as adding insulation to buildings, installing energy-efficient windows and doors, training staff in energy efficiency building codes, and optimizing traffic flow.

The largest OEI grant was for \$1 million to the county of Washington community schools for insulation, a geothermal system, windows, and lighting. The smallest OEI grant was for \$3,405 to the city of Murray for various energy efficiency measures such as replacing an existing furnace with a more efficient one. The grants OEI made were generally smaller than the DOE direct grants. For example, the allocations for 11, or 44 percent, of the 25 DOE direct grant recipients were for \$500,000 or more, while only 3 OEI recipients received awards in that range. On the other hand, 41 of OEI's 76 recipients, or about 54 percent, received grants under \$50,000, and only 1 DOE grant was about that amount.

While almost all EECBG funds for Iowa have been obligated, spending has been slow. Some grant recipients have taken time to further refine their plans or, in the case of OEI, waited for additional DOE program guidance before distributing grant funds to spend.

- DOE data showed that about \$1.2 million, or about 6 percent, of EECBG funds provided to recipients within Iowa had been spent as of July 16, 2010. Of the 24 cities, counties, and Indian tribes allocated funds directly from DOE, 12 had not spent any funds. In contrast, 2 counties had spent all of their award funds, and the county of Warren had spent over half of its funds. OEI and its grant recipients had spent less, slightly over \$129,000, or about 1 percent of the funds awarded to them. DOE officials told us that spending has been slower than

anticipated but that many EECBG grantees are beginning to identify projects and complete plans for them. They said that the results of energy audits and engineering studies have shown that many grantees' original plans for energy projects are no longer feasible, and replacement activities have been common.

- Now that OEI has received DOE guidance on how to comply with program requirements, OEI officials said that projects are gearing up, with 5 of the 76 projects completed as of July 15, 2010. OEI officials said that they believed that the majority of funds will be spent in fiscal year 2011. The DOE project officer for the award told us that he expects that Iowa will meet the DOE goal to draw down at least 20 percent of funds by September 30, 2010.
- The city and county we visited that received direct grants from DOE had used a considerable portion of their grant funds. DOE reported that, as of July 16, 2010, Iowa City had spent \$280,000 of its \$692,300 grant. City officials told us that \$250,000 of these expenditures was a drawdown of funds for the revolving loan fund that the city established to help finance local businesses' energy efficiency activities. A city official said that the funds were moved into a city account to be available for loans under the revolving fund. As of late June 2010, no loans had been requested from the fund, and project officials were considering whether they should lower the minimum loan amount that could be obtained from the fund. The city had also created a small energy office to continue to support the mission to increase energy efficiency and reduce greenhouse gas emissions and spent small amounts of funds on some of its other initiatives. For example, city officials said that over \$9,800 had been spent on setting up and operating the energy office as of June 30, 2010, and over \$8,600 had been spent for software and energy audits to support the municipal retrofit activity.
- The county of Warren had spent \$116,849 of its \$171,200 grant. At the time of our visit, the county had installed a geothermal heating and cooling system to replace a less energy-efficient system at a local nature center and was waiting for a decision from DOE on its request for a waiver of the Buy American provisions of the Recovery Act. According to county officials, the waiver is being sought to use Recovery Act funds to procure a wind turbine for the center project from a Canadian manufacturer. County officials said that they received three bids on the wind turbine: two from U.S. manufacturers and one from the Canadian manufacturer. The officials stated that the Canadian wind turbine is much more efficient and will be less costly to

maintain. They also said that an American firm will build the supporting tower for the turbine.

DOE and OEI have similar approaches to monitoring their grants. Both review reports submitted by grantees, which DOE refers to as desktop reviews, and make site visits. Both award grants on a cost reimbursable basis and review invoices (and supporting documentation) submitted for payment. In March 2010, DOE issued a reference manual for monitoring Recovery Act funding for EECBG, SEP, and weatherization. The manual, which provides more detailed instructions to implement DOE's monitoring plan for these programs, requires that DOE personnel conduct both desktop and onsite monitoring of grantees, with the frequency based on the dollar amount of the grants and grantees' performance. According to the manual, desktop monitoring requires DOE to constantly review details of project planning, implementation, and outcome (such as overall energy efficiency impacts) captured in DOE data management/evaluation systems through regular reporting by grantees and DOE's project management teams. DOE project officers are to review the report submissions to determine progress toward goals and objectives, compare planned and actual activities, and determine whether grantees are meeting benchmarks and deliverables on schedule and within budget. According to DOE, the purpose of its onsite visits is to formally evaluate progress and identify issues concerning progress. Visits generally involve interviews of grantee staff and a review of project documents, and may include visits to work sites. DOE staff have begun to make site visits. According to DOE officials, as of July 23, 2010, department personnel visited five EECBG grantees, including Iowa City, between May 24 and May 27, 2010.

- In November 2009, OEI set out its monitoring strategy for the EECBG program, which applies only to the grants OEI awarded. The office does not monitor the grants DOE provided directly. OEI's monitoring is similar to DOE's—both use their reviews of grant recipients' reporting as the primary device to monitor project activity and both make onsite visits on a schedule based on the size of the award. OEI also plans to give priority to monitoring grantees with little or no prior experience in complying with government accounting and reporting requirements because the office believes these recipients' management control systems are uncertain and likely higher risk.
- OEI requires its grantees to report quarterly on progress and submit other project data on use of the funds. These data include quarterly status reports on funds received during the reporting period; the amount of Recovery Act funds obligated or expended; a detailed list of

all projects or activities for which Recovery Act funds were expended or obligated, including the name and description of the project or activity; and an estimate of the number of jobs created or retained by the project/activity.

According to OEI officials, the office plans to make at least one onsite visit for each grant per year. For grants from \$750,000 to \$1 million, it plans to make site visits at least once every 6 months. For recipients of grants of \$1 million or more, OIE plans to visit at least once every 3 months. If this schedule cannot be maintained for all grants, OEI will, at a minimum, review the agreement, all reports, submittals, and financial records on a grant, and contact the grantee by e-mail or telephone. As of July 23, 2010, OEI had made 13 site visits.

Under OEI's program, grant recipients incur project expenses and submit invoices for applicable project costs that are supported by receipts and related documentation for OEI's review. OEI staff are responsible for comparing the billings with the terms of the grant agreement and ensuring the charges and payments being made are within the agreement terms. OEI makes payments to grantees on a quarterly basis, which provides additional leverage to OEI to ensure that grantees meet requirements for their quarterly reporting on projects. According to OEI officials, the office can refuse to make these payments or even suspend the availability of grant funds if grantees do not comply with reporting or other requirements.

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## Iowa Has Access to All of Its Recovery Act Weatherization Funds and Approved a Local Agency's Management Reforms

In a July 13, 2010, letter to DOE, DCAA requested access to the remaining 50 percent of its Recovery Act weatherization funds, or \$40.4 million, and certified that it had, among other things, completed weatherizing 2,178 homes—30.3 percent of its target of 7,196 homes—using Recovery Act funds. DCAA also certified that it had inspected at least 5 percent of the homes weatherized by each of the 17 local agencies that used Recovery Act funds. In response, DOE notified DCAA on July 26, 2010, that the department had released the remaining 50 percent of Iowa's allotted Recovery Act funds. As shown in table 2, Iowa began using Recovery Act funds to weatherize homes in August 2009 once the U.S. Department of Labor had determined prevailing wage rates for weatherization workers. Since then, Iowa's monthly total of completed weatherized homes grew to 546 in July 2010 as DCAA used funding from the Recovery Act, DOE's regular weatherization appropriation, and the federal Low-Income Home Energy Assistance Program. As of July 30, 2010, Iowa had spent \$22.6

million of its Recovery Act weatherization funds, according to DOE's Recovery Act Web site.

**Table 2: Number of Homes Weatherized in Iowa, by Funding Source, August 2009 through July 2010**

Month	Homes weatherized using annual appropriated funds <sup>a</sup>	Homes weatherized using Recovery Act funds	Total
August 2009	264	1	265
September 2009	202	6	208
October 2009	184	59	243
November 2009	105	147	252
December 2009	73	156	229
January 2010	53	231	284
February 2010	40	258	298
March 2010	11	318	329
April 2010	23	400	423
May 2010	14	361	375
June 2010 <sup>b</sup>	8	241	249
July 2010 <sup>c</sup>	19	527	546
<b>Total</b>	<b>996</b>	<b>2,705</b>	<b>3,701</b>

Source: Iowa Division of Community Action Agencies.

Note: Iowa considers weatherization to be complete only after the local agency's inspector has conducted the final inspection and approved the work.

<sup>a</sup>Includes DOE's regular Weatherization Assistance Program appropriations and funding from the U.S. Department of Health and Human Services' Low-Income Home Energy Assistance Program. According to DCAA officials, Iowa has spent all of the \$8.6 million made available through DOE's fiscal year 2009 regular and supplemental appropriations. DOE allocated about \$3.9 million to Iowa for weatherization activities from its regular fiscal year 2010 appropriation.

<sup>b</sup>The number of weatherized homes is underreported for June and over reported for July because totals were reported early in June to meet Recovery Act quarterly reporting deadlines, according to a DCAA official.

As we reported in May 2010,<sup>12</sup> DCAA had found numerous management weaknesses in the oversight of weatherization contractors' work by SIEDA, one of the state's local agencies that implement the weatherization program. Although Recovery Act funds had not been used, DCAA believed that the identified weaknesses were sufficiently serious that it suspended Recovery Act funding to SIEDA in September 2009 and required SIEDA to

<sup>12</sup>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).

develop and implement an action plan to correct them. In response, SIEDA fired its weatherization coordinator and decertified its furnace and weatherization contractors. DCAA and SIEDA officials told us that SIEDA has also (1) hired and trained several new weatherization staff members, (2) revised its contracting procedures, and (3) developed a new list of general and furnace contractors to bid on weatherization work. On the basis of SIEDA's test of its new procedures for overseeing contractors' performance, DCAA notified SIEDA that it would release \$1.7 million in Recovery Act funds effective August 23, 2010, for weatherizing homes in seven southern Iowa counties.

## Recovery Act Education Funds in Iowa Primarily Fund Teachers' Salaries, and Controls over Expenditures at Two Local Districts Are Generally Working

Between 2009 and 2011, Iowa will receive approximately \$666 million in Recovery Act funds through three Education programs. As of June 30, 2010, Iowa's local school districts, institutions of higher learning, and other state government entities had expended about \$501 million as described below:

- **ESEA Title I, Part A.** As of June 30, 2010, Education had allocated to the Iowa Department of Education an estimated \$51.5 million in ESEA Title I, Part A, funds under the Recovery Act to help school districts educate disadvantaged youth. The Iowa Department of Education reported that school districts had spent a total of about \$16 million using federal funding formulas that target funds on the basis of such factors as schools with high concentrations of students from families living in poverty. In addition, Education awarded Iowa an \$18.7 million ESEA Title I School Improvement Grant. These funds are intended to help improve student achievement in the nation's persistently low-performing schools identified for improvement, corrective action, or restructuring. As of June 30, 2010, Iowa had disbursed only about \$36,000 of these funds, primarily for expenses associated with the review and approval of districts' applications for grants. The Iowa Department of Education will begin disbursing program funds to selected districts at the beginning of the 2010-2011 school year.
- **IDEA, Part B.** As of June 30, 2010, Education had allocated to the Iowa Department of Education an estimated \$126.2 million in IDEA, Part B, funds under the Recovery Act. IDEA, Part B, is the major federal statute supporting the provisions of early intervention and special education and related services for children and youth with disabilities. The Iowa Department of Education reported that local

school districts and area education agencies<sup>13</sup> had expended about \$101 million of these funds as of June 30, 2010.

- **SFSF.** Education allocated to Iowa a total of about \$472 million in SFSF funds: about \$386 million in education stabilization funds—generally financial aid to local school districts and institutions of higher learning—and about \$86 million in government services funds. Of the \$86 million in government services funds, Iowa used \$63 million for public assistance, public safety, and Medicaid programs. The remaining \$23 million will be used to support K-12 education in the coming school year. As of June 30, 2010, Iowa reported that local school districts, institutes of higher learning and state government entities had spent or distributed about \$384 million of the total \$472 million in SFSF funds.
- Iowa officials told us that Recovery Act funds made up for statewide funding shortfalls in education, which allowed local districts and the states' universities to retain general and special education instructors, make changes in course curriculum, or replace outdated instructional equipment. This past school year—July 2009 through June 2010—Iowa officials estimated that the Recovery Act provided about 6 percent of the state's per pupil K-12 funding and about 14 percent of the state's per pupil funding for institutions of higher learning. According to information on Iowa's Recovery Act Web site, the Recovery Act funded more than 7,800 educator and education-related administrative positions across the state for the period April 1 through June 30, 2010. Recovery Act state aid funding for the 2010-2011 school year will be about \$48 million, down from \$202 million in 2009-2010. However, according to a state education official, most districts in the state should not face significant financial difficulties in the year ahead. Officials at six local districts that we contacted told us they planned to balance their budgets by taking a number of different actions, including reducing staff, suspending new hiring, consolidating schools, raising local taxes, and drawing upon their reserve funds including unspent Recovery Act funds received in school year 2009-2010.
- Public Law 111-226, enacted on August 10, 2010, provides \$10 billion for the new Education Jobs Fund to retain and create education jobs

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<sup>13</sup>Iowa's 10 regional area education agencies, which were established by the Iowa Legislature in 1974 to provide equitable and economical educational opportunities for Iowa's children, partner with public and some private schools to provide education and instructional support services.

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nationwide.<sup>14</sup> 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. According to a state Education official, Iowa expects to receive about \$96 million from the Education Jobs Fund that will be distributed to districts across the state based on weighted student counts per the state's established aid formula.

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### Controls over Recovery Act Education Funds Are in Place, but Two Districts We Visited Did Not Fully Comply

To receive Recovery Act funds, Education required that states provide assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. The Iowa Department of Education had systems in place to monitor the state's 361 local school districts' compliance with federal requirements for education programs prior to receiving Recovery Act funds. These processes, including oversight and financial analyses at the state level as well as required financial statement reporting by local school districts, were extended to oversight of Recovery Act funds. In addition, specifically for the Recovery Act, districts must report quarterly on funds spent and related jobs information.

To assess whether controls were working as designed and verify that funds were spent in accordance with Recovery Act guidelines, we reviewed purchases and financial control activities at two judgmentally selected school districts—the Des Moines Independent Community School District, as of March 31, 2010, and Marshalltown Community School District, as of April 30, 2010. Specifically, we reviewed the use of funds and documentation of selected Recovery Act expenditures for SFSF, ESEA Title I, and IDEA Part B. We found the following at the time of our review:

- Both districts had controls, including written policies and established review procedures, to ensure Recovery Act funds were appropriately spent and expenditures were generally in accordance with established guidelines and requirements. The Des Moines School District had received \$17.8 million in Recovery Act funds and used those funds to retain general education, ESEA Title I, and special education teachers; purchase materials to implement a new mathematics learning series;

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<sup>14</sup>Pub. L. No. 111-226, § 101, 124 Stat. 2380 (Aug. 10, 2010). The legislation also provided for an extension of increased Federal Medical Assistance Percentage (FMAP) funding.

and purchase specialized equipment to support students with sight impairments. The Marshalltown School District had received \$2.8 million in Recovery Act funds and used those funds to retain educators across the district, purchase materials to implement a new literacy learning series, and upgrade district communication systems and related services.

- District officials acknowledged that, in some instances, they did not follow state or federal guidelines or made an erroneous accounting entry, although the districts were taking corrective actions to address these problems. Specifically, we identified equipment purchases for the IDEA, Part B program larger than \$5,000 that were not submitted to the state for approval, that state officials agreed was required by U.S. and Iowa Department of Education guidelines. The Des Moines School District purchased a Gemini Braille machine and a Braille notes machine for about \$25,000 without seeking review and approval from the state prior to purchase. Since April 2009, according to state officials, Iowa state policy has required local school districts to obtain prior approval from the state Department of Education to purchase equipment exceeding \$5,000.<sup>15</sup> Similarly, we found that the Marshalltown School District had not requested approval to purchase communication equipment and software at a cost of \$8,400. In both cases, administrators at the local district stated that they were unaware of the state requirement. As we completed our reviews, the districts were making changes in their procedures to ensure that they received state approval of IDEA equipment purchases greater than \$5,000. Furthermore, the state Department of Education emphasized to area education agencies and local districts the importance of obtaining state review of plans to purchase equipment for the IDEA, Part B program valued at \$5,000 or more. We also found two instances in which products or services were erroneously coded to the IDEA Part B program—one for a carbon monoxide detector that should have been charged to IDEA, Part C, and one for books that should have been charged to the ESEA Title I programs. In both instances, the dollar amounts were small and the districts initiated corrective action.

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<sup>15</sup>Moreover, Department of Education guidance states that, in general, local education agencies must obtain prior approval from the state before using IDEA funds to purchase equipment with a unit cost of \$5,000 or more.

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## State and Local Officials Said They Benefited from Recovery Act Funds but Will Need to Reduce or Eliminate Programs Once These Funds Are Spent

Senior Iowa Department of Management officials told us that Iowa will benefit from the use of Recovery Act funds received in fiscal year 2011 because these funds will enable the state to avoid tax increases and limit the amount of funds drawn from its Cash Reserve Fund to balance the state's fiscal year 2011 budget. The state's fiscal year 2011 budget is based on a revenue estimate of approximately \$5.44 billion. The Governor has signed the budget into law. During fiscal year 2010—ending June 30, 2010—Iowa had collected approximately \$5.5 billion in revenues for the state's General Fund. According to officials from Iowa's Legislative Services Agency, fiscal year 2010 General Fund revenues were approximately \$244 million above the projections of Iowa's Revenue Estimating Conference.<sup>16</sup> These officials added that the state should end fiscal year 2010 with excess revenue of approximately \$350 million.<sup>17</sup>

Senior Iowa Department of Management officials said that the Governor implemented plans for improving the efficiency of state operations to reduce state expenditures, in part to account for revenue shortfalls following the disbursement of the remaining Recovery Act funds and other one-time sources of revenue, such as state reserve funds. According to a June 2010 report issued by the Iowa departments of administrative services and management, the implementation of efficiency measures approved by the Governor and General Assembly will benefit Iowa taxpayers by \$298.8 million.<sup>18</sup> According to senior Iowa Department of Management officials we spoke with, most of the savings will be realized in fiscal year 2011. Furthermore, the state implemented a State Employee Retirement Incentive Program (SERIP) in February 2010.<sup>19</sup> Senior Iowa Department of Management officials said that, as of June 30, 2010, approximately 2,100 employees had participated in SERIP.

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<sup>16</sup>Fiscal year 2010 receipts will continue to be deposited and final net fiscal revenue growth will not be known until the end of September 2010.

<sup>17</sup>This figure, according to Iowa Legislative Service Agency officials, does not include adjustments for any appropriation reversions, or increases or decreases to unlimited appropriations.

<sup>18</sup>According to officials from Iowa's Legislative Services Agency, the Governor implemented some plans for improving the efficiency of state operations through Executive Order 20 (Dec. 16, 2009), and the General Assembly passed additional efficiency improvements and plans to reorganize state agencies, as detailed in Iowa Senate File 2088 (Feb. 1, 2010). For more information, see [GAO-10-605SP](#).

<sup>19</sup>According to senior Iowa Department of Management officials, SERIP is intended to reduce state personnel expenditures and help reduce the state's unemployment, provide greater diversity in state government, and expand employees' service capabilities.

We visited the cities of Des Moines and Marshalltown to discuss local governments' use of Recovery Act funds, including plans to adjust their budgets once they use available Recovery Act funds. (Table 3 provides some demographic information on these two localities.) Local government officials said that their cities and budgets benefited from the use of Recovery Act funds for various programs but that they planned to reduce expenditures or eliminate programs once Recovery Act funds are expended. Additionally, some local government officials indicated they faced difficulties when applying for and administering funds for Recovery Act competitive grant programs, such as a limited number of staff to apply for grants and difficulty in complying with Buy American and Davis-Bacon provisions.

**Table 3: Demographics of Localities Visited to Address Use of Recovery Act Funds**

Local government	Population <sup>a</sup>	Unemployment rate, June 2010 (percentage) <sup>b</sup>	Operating budget <sup>c</sup>
City of Des Moines	198,460	7.4	\$577,110,866
City of Marshalltown	25,645	7.5	\$25,794,881

Sources: GAO analyses of U.S. Census Bureau population data and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; City of Des Moines; and City of Marshalltown.

<sup>a</sup>Population data are from the latest available estimate, July 1, 2009.

<sup>b</sup>Unemployment rates are preliminary estimates for June 2010 and have not been seasonally adjusted. The state of Iowa had a nonseasonally adjusted unemployment rate of 6.6 percent during the same period. Rates are a percentage of the labor force. Estimates are subject to revisions.

<sup>c</sup>The time frame for the operating budgets of the localities we interviewed is July 1, 2010, through June 30, 2011.

## Des Moines

As of May 31, 2010, Des Moines had been awarded approximately \$18.6 million in Recovery Act funds from federal and state sources and expended approximately \$5.4 million for community development, public housing, and transportation enhancement, among other things (see table 4). Since our May 2010 report on the Recovery Act,<sup>20</sup> Des Moines officials said the city had completed resurfacing projects on two streets, including Fleur Drive, a major roadway in Des Moines, and continues to use Recovery Act funds awarded by OEI.<sup>21</sup> City officials also noted that they

<sup>20</sup>GAO-10-605SP.

<sup>21</sup>OEI awarded Des Moines funding from the EECSBG program to expand and update climate control systems in five city buildings, convert streetlights to use light-emitting diode technology, and purchase and install equipment at the Des Moines Metropolitan Wastewater Reclamation Authority facility.

received approval from DOE to use a revolving loan fund program, funded by Recovery Act EECBG funds, to purchase hybrid vehicles and charging stations for the city’s vehicle fleet. Des Moines officials said that Recovery Act funds will help improve the city’s budget and long-term fiscal stability by allowing Des Moines to use Recovery Act funds for several infrastructure projects, such as street repairs and extensions of pedestrian trails that would have been funded through other sources of revenue.

**Table 4: Select Sources of Recovery Act Funding to Des Moines**

Agency	Program	Use of funds	Amount awarded	Amount expended <sup>a</sup>
Iowa Department of Transportation	Transportation Enhancement	Constructing multipurpose trail extensions of a walkway along the Des Moines River	\$2,849,000	\$845,926
U.S. Department of Housing and Urban Development	Community Development Block Grant - Recovery	Expanding neighborhood infrastructure rehabilitation programs (e.g., street, curb, sidewalk repairs) and demolition programs for neighborhood redevelopment	1,152,886	76,073
U.S. Department of Housing and Urban Development	Recovery Act Public Housing Capital Fund	Modernizing Southview Manor to serve elderly residents eligible for public housing	1,455,108	1,309,598
U.S. Department of Justice	COPS Hiring Recovery Program (CHRP)	Creating nine additional police officer positions for 3 years, with an additional year funded by Des Moines, to support community policing efforts <sup>b</sup>	2,191,806	0
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant (JAG)	Improving forensic capabilities, upgrading technology, and funding equipment to improve officer safety	1,178,833 <sup>c</sup>	542,684

Source: City of Des Moines.

<sup>a</sup>Amount expended as of May 31, 2010.

<sup>b</sup>According to Des Moines officials, the city is expected to begin expending funds for the COPS Hiring Recovery Program in 2010.

<sup>c</sup>Local governments in the Des Moines metropolitan area, including Des Moines, the City of Altoona, and Polk County, received a joint award of \$1,502,161. Of that amount, Des Moines received \$1,178,833.

Des Moines officials said that while the city applied for but was not awarded funding from two Recovery Act competitive grants, it may apply for other Recovery Act grants.<sup>22</sup> City officials also said, however, that the city has had difficulties finding staff who have time to research and apply for Recovery Act grants and obtaining funding for matching requirements required by some Recovery Act grants programs.

Des Moines officials said that the city is continuing its partnership with other localities in the Des Moines metropolitan area to administer funds from the Edward Byrne Memorial Justice Assistance Grant (JAG) program and EECBG. The city is considering using EECBG funds to implement an energy assessment program, in coordination with private firms and nonprofit entities, to improve energy conservation or find alternative sources of electricity for use in Des Moines.

Once Des Moines uses all of its Recovery Act funds, city officials said that they plan to reduce expenditures for programs receiving these funds to levels established prior to the implementation of the Recovery Act. Des Moines officials also said that they were looking for other sources of revenue for the city's budget, such as increased sewer and storm water fees; however, officials said that under Iowa law, the city would need to obtain approval from the Iowa General Assembly to obtain new taxing authority or expand its current authority to tax properties.

Des Moines projected total revenues of about \$639.2 million for fiscal year 2010-2011, which is about a 12.9 percent decrease from total revenues of about \$733.6 million in fiscal year 2009-2010. In response, city officials plan to decrease expenditures by reducing citizen services, changing business and contracting practices, and eliminating 58 full-time equivalent positions during fiscal year 2010-2011.<sup>23</sup>

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<sup>22</sup>According to Des Moines officials, the city applied for but was not awarded (1) a Transit Investments for Greenhouse Gas and Energy Reduction grant from the Department of Transportation and (2) a Recovery Act Assistance to Firefighters Fire Station Construction Grant from the Federal Emergency Management Agency.

<sup>23</sup>A full-time equivalent is the number of hours that represent what a full-time employee would work over a given time period, such as a year or a pay period.

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Marshalltown

As of June 3, 2010, Marshalltown had been awarded at least \$3.52 million in Recovery Act funds from federal and state sources, and had expended at least \$1.11 million of this amount. Marshalltown officials said that Recovery Act funds were used, in part, to resurface a segment of Iowa Avenue, which is a major roadway in Marshalltown, acquire a bus for Marshalltown Municipal Transit, and purchase new radio equipment for law enforcement officials in Marshalltown and surrounding Marshall County.

Furthermore, according to city officials, Marshalltown was awarded about \$2.6 million in grants from the Lead-Based Paint Hazard Control Program to eliminate lead-based paint, replace leaded windows, and repaint residences eligible for renovations through the program (see table 5). Marshalltown officials noted that the city worked extensively with partners from surrounding counties, educational institutions, and other agencies to administer funds for this program.<sup>24</sup> City officials also reported that they coordinated with Marshall County to purchase radios for law enforcement through the Edward Byrne Memorial Justice Assistance Grant (JAG) program because Marshalltown and Marshall County have an integrated system of communications.

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<sup>24</sup>Marshalltown obtained and administered funding for the Lead-Based Paint Hazard Control Program in coordination with Hardin, Marshall, and Tama counties in Iowa. Additionally, Marshalltown coordinated with Iowa Valley Continuing Education and Marshalltown Community College to administer training, and signed an agreement with Primary Health Care to test children potentially affected by lead poisoning. Marshalltown also partnered with Friends of the Library and Habitat for Humanity to use their properties to temporarily relocate families affected by housing renovations.

**Table 5: Select Sources of Recovery Act Funding to Marshalltown**

Agency	Program	Use of funds	Amount awarded	Amount expended <sup>a</sup>
Iowa Department of Transportation	Highway Infrastructure Investment Funds	Resurfacing a segment of Iowa Avenue, a major roadway in Marshalltown, to improve driving quality and safety	\$449,377	\$449,377
Iowa Department of Transportation	Transit Capital Assistance Program	Purchasing one 30-foot bus for Marshalltown Municipal Transit in order to reduce the agency's maintenance costs for its bus fleet	328,666	0
U.S. Department of Housing and Urban Development	Lead-Based Paint Hazard Control Grant Program	Eliminating lead-based paint, replacing leaded windows and repainting residences, and housing citizens affected by renovations in temporary quarters	2,591,227 <sup>b</sup>	614,070
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant (JAG)	Purchasing portable radios for law enforcement purposes	155,546 <sup>c</sup>	49,872

Sources: City of Marshalltown (as of May 31, 2010), Recovery.gov (as of June 3, 2010).

<sup>a</sup>Amounts expended for the Highway Infrastructure Investment Funds, Transit Capital Assistance Program, and Edward Byrne Memorial Justice Assistance Grant (JAG) programs are updated as of May 31, 2010. Amounts expended for the Lead-Based Hazard Control Grant Program are updated as of June 3, 2010. All amounts rounded to the nearest dollar.

<sup>b</sup>Funds were shared among Marshalltown and other entities in Hardin, Marshall, and Tama counties in Iowa.

<sup>c</sup>Funds were shared between Marshalltown and Marshall County to purchase portable radios for law enforcement purposes.

Marshalltown officials said they encountered some difficulties in applying for and administering Recovery Act competitive grants. For instance, Marshalltown's efforts to renovate homes with Lead-Based Paint Hazard Control funds were initially slowed by issues concerning the Buy American and Davis-Bacon provisions, such as helping small contractors meet Davis-Bacon requirements.

According to Marshalltown officials, the city projects total revenues of about \$32.7 million for fiscal year 2011, a 14.2 percent decrease from total revenues of about \$38.1 million in fiscal year 2010.<sup>25</sup> Marshalltown officials noted that the city has experienced a decline in property values since 2009, leading to a reduction in the growth of property tax revenues. Additionally, city officials said that revenues from the city's local option sales tax have

<sup>25</sup>According to Marshalltown officials, the total revenues for fiscal years 2010 and 2011 do not include transfers from other city funds (e.g., capital improvement funds).

slowed since 2008, and city employees' wages have increased in recent years. Because the city does not have the authority to increase property tax rates above current levels,<sup>26</sup> it needed to reduce expenditures in several areas. For instance, the city eliminated its full-time city attorney position and delayed expenditures for training and equipment. However, Marshalltown officials also expect some positive economic growth from the recent establishment and expansion of new business facilities within the city, which could lead to job creation.

Owing to the current state of the economy, Marshalltown officials said that they anticipate the city will not have enough resources to maintain its lead abatement program following the depletion of Recovery Act funds; as a result, the program would likely be shut down. However, according to city officials, the depletion of such funds should otherwise not have a significant impact on Marshalltown's operating budget because they used most of the Recovery Act funds for one-time capital expenditures, such as the planned purchase of a new bus and portable radios for law enforcement. Marshalltown officials added that the city's budget and long-term fiscal stability benefited from the receipt of Recovery Act funds because the city was able to implement various capital projects that otherwise would have been delayed for several years.

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## Iowa's State Auditor and the Iowa Accountability and Transparency Board Continue to Monitor Recovery Act Funds

For fiscal year 2009, the State of Iowa issued a Comprehensive Annual Financial Report dated December 18, 2009 and a Single Audit report dated March 17, 2010. The Office of Auditor of State (Auditor's office) issued a qualified audit opinion on the state of Iowa's financial statements because the Auditor's office could not sufficiently audit the State's General Fund and other governmental activities due to a reduction in audit work caused by a significant (34 percent) reduction in its fiscal year 2010 appropriation. In the State's fiscal year 2009 Single Audit report, the Auditor's office did not identify any material weaknesses. Approximately 11 percent of the fiscal year 2010 budget reduction was restored for fiscal year 2011.

According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing single audit results, it received Iowa's single audit reporting package for the year ending June 30, 2009, on March 31, 2010. This was the first Single Audit for Iowa that included

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<sup>26</sup>According to Marshalltown officials, the property tax rate for the city's general fund levy is \$8.10 per \$1,000 valuation.

Recovery Act programs, and it included only 4 months of Recovery Act expenditures. Iowa's Single Audit report for fiscal year 2009 identified 58 significant internal control deficiencies related to compliance with Federal Program requirements, none of which were classified as material weaknesses. Some of these significant deficiencies occurred in programs that included Recovery Act funds.

- A state audit official told us that Iowa's single audit covered almost all Recovery Act funds received in fiscal year 2009 and that the office tested some recipient reports for fiscal year 2010. Furthermore, this official told us that the audit found that some departments receiving Recovery Act funds, such as the Department of Education, lacked formal written policies for reviewing and approving subrecipient reports. The official also found that although subrecipient reports are reviewed for reasonableness, specific procedures were not applied by the Department of Education to determine whether the financial amounts and number of jobs reported were supported by adequate documentation. The state auditor's office recommended that the Department of Education implement written policies and procedures to review section 1512 recipient reports submitted by school districts to determine allowability and completeness. In March 2010, the Iowa Department of Education submitted a Recovery Act Funds Monitoring Plan to the U.S. Department of Education.
- According to an Iowa Audit official, an embezzlement of funds at the Clinton, Iowa, school district totaling approximately \$500,000 was discovered in March 2010 when an accounting supervisor was replaced. According to state audit officials, Recovery Act funds were commingled with other school district revenues. Although the Iowa Office of the State Auditor and others investigated the misappropriation, they could not determine if Recovery Act funds were misused because the district's financial records were in poor condition.
- Iowa's Office of the State Auditor is preparing its fiscal year 2010 audit plan. It plans to audit almost all programs receiving Recovery Act funds. According to a state audit official, the office has not yet identified any significant fiscal year 2010 audit risks for Recovery Act programs.
- Iowa's Accountability and Transparency Board surveyed 82 programs and identified 6 high-priority programs—such as the Weatherization Assistance Program and SFSF—that it expects may have some difficulty in fully complying with the Recovery Act's accountability and

transparency requirements. These high-priority programs submitted comprehensive accountability plans for the board's review by December 2009. The board plans to establish an ongoing audit process, assess needs for additional oversight, and develop a method to confirm Recovery Act information reported on the state's Web site. Despite budget cuts and layoffs, the state is taking steps to achieve some of these goals, including the use of targeted site visits and recipient surveys.

- At the recommendation of State Audit and Department of Management officials, the Iowa Department of Public Health held additional training on subrecipient reporting for high-priority programs and other Recovery Act programs on May 3, 2010.

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## Iowa Reported on Jobs Funded Using Recovery Act Funds

We found that Iowa has established a centralized database and validation and certification processes to help ensure the accuracy of data, reported jobs, and other information related to the use of Recovery Act funds to the federal government, as described below:

- Iowa reported to the federal government on Recovery Act funds that the state received directly from federal agencies, including information on Recovery Act expenditures and the number of jobs funded by the Recovery Act. The Iowa Department of Management used a centralized database that it created with the Iowa Department of Administrative Services to report the state's Recovery Act information to [www.federalreporting.gov](http://www.federalreporting.gov). Through its centralized database, Iowa reported that 9,696 jobs were funded by the Recovery Act for the period April 1 to June 30, 2010 as of July 29, 2010. However, some local agencies, such as public housing and urban transit agencies, which receive their funding directly from federal agencies and not through the state, report Recovery Act information to [www.federalreporting.gov](http://www.federalreporting.gov) and not through the state's centralized reporting database.
- Beginning with the quarter ending March 31, 2010, state officials required departments to perform quarterly reconciliations of Recovery Act revenues and expenditures reported to the federal government with amounts reported to the state's centralized accounting system. These reconciliations, when summarized across the state agencies, resulted in increases to the state's reported Recovery Act revenues and expenditures. Some state agencies, such as the Board of Regents, do not report to the state's centralized accounting system and are not included in this reconciliation process.

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- For the July 2010 recipient reporting period, state officials said that their centralized reporting process worked well. As of July 30, 2010, 100 percent of the prime recipient reports submitted by Iowa were successfully validated by the Office of Management and Budget. A state official noted one issue where a subrecipient improperly reported on vendors; however, the subrecipient plans to file a corrected report. Overall, an Iowa state official noted, the system illustrates for the public how Recovery Act funds are spent and could be used to report the use of non-Recovery Act funds in the future. For example, the centralized Recovery Act reporting system has been expanded to facilitate reporting on Iowa's I-JOBS program, the state's infrastructure investment initiative.

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## State Comments on This Summary

We provided the Governor of Iowa with a draft of this appendix on August 12, 2010. We also provided relevant excerpts to state and local agencies that we visited. The Deputy Director of the Iowa Department of Economic Development responded for the Governor on August 16, 2010, and agreed with our findings. The Governor's office as well as state and local agency officials also offered clarifying and technical suggestions, which we have incorporated, as appropriate.

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## GAO Contact

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## Staff Acknowledgments

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# Appendix IX: Massachusetts

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## Overview

This appendix summarizes GAO's work on its most recent review of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Massachusetts. 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>.

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## What We Did

GAO's work in Massachusetts focused on (1) the commonwealth's use of Recovery Act funds for selected programs, (2) the approaches taken by Massachusetts agencies to ensure accountability for Recovery Act funds, and (3) impacts of these funds. We reviewed several specific programs funded under the Recovery Act in Massachusetts related to education, highways, transit systems, and public housing. We selected the programs we reviewed because all have significant funds awarded, as discussed below. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).

In conducting our, we contacted state agencies and some localities responsible for implementing the programs. We contacted the state education office and the Springfield local educational agency. We followed up on ongoing Recovery Act projects at the Massachusetts Department of Transportation and Massachusetts Bay Transportation Authority, which included a review of quality assurance procedures for Recovery Act projects. We contacted the Boston Housing Authority, which received Public Housing Capital Fund formula and competitive grant awards.

We also continued to track the use of Recovery Act funds for state and local fiscal stabilization and the oversight of funds. We contacted state officials at the state's central management agency addressing fiscal issues and handling of Recovery Act funds, as well as officials at state oversight agencies. We also met with officials from the City of Boston to discuss its use of Recovery Act funds, including funding from the Energy Efficiency and Conservation Block Grant, and the city's fiscal condition. Finally, we contacted oversight officials in both Massachusetts and Boston to receive an update on their continuing review and audit of various Recovery Act programs.

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

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## What We Found

- **Recovery Act education programs.** Massachusetts has been awarded over \$1 billion in Recovery Act funds through three major education programs, the largest of which is the State Fiscal Stabilization Fund (SFSF) with an allocation of close to \$994 million. These funds were awarded, in part, to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential services. As of July 16, 2010, the commonwealth had drawn down 80 percent of its SFSF funds. Massachusetts has also made progress on its SFSF oversight efforts by selecting a public accounting firm to conduct SFSF supplemental reviews of 15 local educational agencies (LEA).
- **Highway infrastructure investment.** Massachusetts has begun construction on 78 of 84 Recovery Act highway projects for which funding was obligated prior to the March 2, 2010, obligation deadline. As of August 2, 2010, 9 of the 84 projects have completed construction. Massachusetts continues to lag behind the national average on its reimbursement rate. According to a state official, approximately \$30 million have been deobligated from highway contracts as a result of contracts being awarded below state cost estimates. A state official stated that they plan to have all deobligated funds obligated to other projects by the September 30, 2010, deadline—including one noteworthy project to rehabilitate River Road in Tewksbury, which was washed out in the March 2010 flooding. State officials report that some deobligated suballocated funds may be obligated to other projects outside of their initially intended region.
- **Transit Capital Assistance funds.** Massachusetts and its urbanized areas have expended \$85.6 million of its initial Recovery Act Transit Capital Assistance apportionment on several projects, including some that are nearing completion. An additional \$59.7 million was transferred from the Federal Highway Administration, which included \$24.8 million that originated from funds that were initially apportioned to suballocated regions in the state. These funds will go back to suballocated regions for additional projects at regional transit agencies, including a parking garage at the Wonderland Station in Revere, emergency repairs on the Massachusetts Bay Transportation Authority's (MBTA) Red Line subway, and vehicle and equipment purchases and terminal improvements for the Cape Cod Regional Transit Authority. At the request of the U.S. Department of Transportation, Massachusetts will recalculate its planned transit expenditures to include additional state funds allocated to MBTA which will help the commonwealth meet the September 30, 2010, maintenance-of-effort deadline for transit expenditures. Finally, our

review of MBTA's quality assurance procedures revealed that it uses a construction management firm to perform daily oversight of several of its Recovery Act-funded projects and MBTA has procedures in place to independently verify the firm's performance.

- **Public Housing Capital Fund.** Public housing agencies in Massachusetts received about \$82 million in Public Housing Capital Fund formula grants and about \$73 million in Public Housing Capital Fund competitive grants. All 68 housing agencies that received formula grants obligated all of their grant funds by the required deadline of March 17, 2010, and 63 housing agencies had drawn down a cumulative total of about \$41 million as of August 7, 2010. Of the seven housing agencies that also received about \$73 million in Public Housing Capital Fund competitive grants, five agencies had drawn down a cumulative total of \$6 million as of August 7, 2010. The Boston Housing Authority (BHA) received a \$33.3 million formula grant and over half of the \$73 million in competitive grant funds (about \$40 million) for Massachusetts. For example, BHA received about \$22 million in competitive funds to begin rebuilding its Old Colony development in South Boston as an energy-efficient and green community. The U.S. Department of Housing and Urban Development (HUD) regional office in Massachusetts has conducted quality reviews of Public Housing Capital grant funds and is assisting public housing agencies with meeting Recovery Act requirements.
- **Massachusetts state government's and City of Boston's use of Recovery Act funds.** The Commonwealth of Massachusetts continues to experience budget pressures, although state officials report that tax revenue should trend higher during the current fiscal year. Recovery Act funds continue to support the commonwealth's operating budget for fiscal year 2011, but less than in the previous 2 fiscal years. Also, officials report they are preparing for when Recovery Act funding will no longer be available, mostly through a combination of spending reductions and availability of state "rainy-day" funds. Boston officials told us that while Recovery Act funds have strengthened the city's economy and Boston has experienced some revenue growth in the last year, the city's costs are increasing and layoffs are expected in fiscal year 2011. City officials expressed concern for the fiscal challenges ahead, and they are taking steps to try to mitigate the impact of the loss of Recovery Act funds.
- **Oversight and accountability efforts.** The Massachusetts Office of the State Auditor has several audits under way focused on programs funded by the Recovery Act, including audits of various local housing

authorities, state and community colleges, regional transit authorities, and the Massachusetts Department of Transportation. The state Inspector General has concentrated its Recovery Act efforts on prevention initiatives, as well as on monitoring, reviewing, and investigating a variety of Recovery Act-funded programs. Officials from Boston's City Auditor's office told us that their independent auditor will conduct Boston's Single Audit for fiscal year 2010 (ended June 30), which will include an audit of 10 of the city's Recovery Act-funded projects.

- **Recipient reporting.** The Massachusetts Recovery and Reinvestment Office (MRRO) has redesigned Massachusetts's Recovery Act Web site to facilitate users' ability to track, as well as map, Recovery Act jobs and dollars by ZIP code, town, county, and congressional district. The redesigned Web site also includes a link to Recovery Act data reported by nonstate entities, such as housing agencies and regional transit agencies. The MRRO has begun to use Recovery Act data to monitor spending across state agencies and provide increased oversight to state agencies that have slower rates of Recovery Act spending and obligation.

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## Massachusetts Has Used Recovery Act Funds to Stabilize Education and Has Begun Audits of Local Educational Agencies as Part of Its Oversight Plan

Massachusetts has been awarded over \$1 billion in Recovery Act funding through three major education programs, the largest of which is the State Fiscal Stabilization Fund (SFSF)<sup>2</sup> with an allocation of close to \$994 million.<sup>3</sup> These SFSF funds were awarded, in part, to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential services.<sup>4</sup> Massachusetts also received about \$164 million to be used to help educate disadvantaged youth under Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA) and about \$291 million to be used to support special education and related services under the Individuals with Disabilities Education Act, as amended, (IDEA) Part B.<sup>5</sup> As of July 16, 2010, the commonwealth had drawn down 80 percent of its SFSF funds and about 40 percent of the other funds. See figure 1 for more information on selected funds awarded to Massachusetts.

In addition, 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.<sup>6</sup> The fund will generally support education jobs in the 2010 to 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.

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<sup>2</sup>There are two types of SFSF funds—education stabilization funds and government services funds.

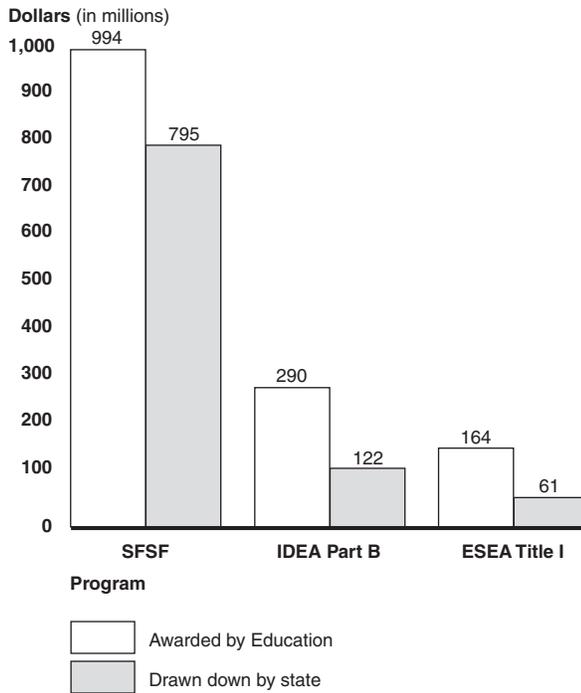
<sup>3</sup>Massachusetts also received additional Recovery Act funding to support a range of educational activities and services.

<sup>4</sup>The education stabilization funds were awarded in two phases.

<sup>5</sup>Moreover, state educational agencies (SEA) may reserve additional administrative funds to help defray the costs of meeting the additional data collection requirements under the Recovery Act for ESEA Title I, Part A and the grants to states under IDEA Part B. For ESEA Title I, Part A, the maximum additional amount an SEA may reserve is 0.5 percent of the state's fiscal year 2009 Title I, Part A Recovery Act allocation, or \$1 million, whichever is less. Similarly, for IDEA Part B grants to states, the maximum additional amount an SEA may reserve is 0.1 percent of the state's fiscal year 2009 IDEA Part B allocation, or \$500,000, whichever is less. The additional amount a state may reserve also depends on whether the SEA requests and receives a waiver of certain requirements.

<sup>6</sup>Pub. L. No. 111-226, § 101, 124 Stat. 2389 (Aug. 10, 2010).

**Figure 1: Allocations and Drawdowns for the Three Recovery Act Education Programs as of July 16, 2010**



Source: GAO analysis of Education data.

Massachusetts has made progress on its SFSF oversight efforts. Among other things, the commonwealth has finalized plans to conduct SFSF supplemental audits of select LEAs to verify reported expenditures, identify ineligible expenses, and assess the consistency of reported data.<sup>7</sup> In July 2010, the state selected a public accounting firm using \$100,000 in SFSF-Government Services funds. Under the supervision of the state education department’s Internal Audit Unit, the accounting firm is expected to conduct these reviews using agreed-upon procedures during August and September 2010. In cases in which the reviews discover ineligible uses of funds and reporting errors, LEAs will be required to develop corrective action plans that may include such things as substitution of eligible expenses for ineligible ones and amendments to previously submitted reports.

<sup>7</sup>In Massachusetts, the Executive Office of Education and the Department of Elementary and Secondary Education work together to coordinate oversight efforts.

The SEA provided the U.S. Department of Education (Education) with an updated SFSF monitoring schedule in early July that reflected its coordination with the Massachusetts Office of the Inspector General. One significant change in the revised plan is that the supplemental audits will focus on fiscal year 2010, not fiscal year 2009, SFSF expenditures. A state official told us this change was made because the Inspector General is currently conducting selected reviews of SFSF fiscal year 2009 funds for many of the same LEAs that had initially been selected for supplemental audits. Another change in the plan is the specific LEAs selected for review. The final list includes the recipients of the 10 largest recipients of SFSF funds in fiscal year 2010, while the original list included the 10 largest from fiscal year 2009. Another five LEAs were selected based on previous audit findings, as planned.

As of August 9, 2010, Massachusetts reported that the SFSF education stabilization funds supported 3,838 jobs, defined in terms of full-time equivalents (FTE), during the recipient reporting period (quarter) ending June 30, 2010.<sup>8</sup> These SFSF-funded jobs supported public elementary, secondary, and postsecondary education and, as applicable, early childhood education programs and services. These jobs have included administrators, teachers, paraprofessionals, and staff members in school districts across Massachusetts, as well as administrators, faculty members, and staff members at the state and community colleges and the University of Massachusetts campuses.

While SEA officials we contacted told us they found the process of reporting jobs to be manageable, MRRO, which is responsible for the commonwealth's central reporting of jobs, found that the process was complicated by changes to guidance regarding whether to report FTEs not captured in previous quarters in the reporting period ending June 30, 2010. In April 2010, LEAs received \$172 million of the second phase of SFSF funds. Despite the midyear disbursement date, the funds could be applied to salaries incurred anytime in fiscal year 2010. Education officials initially instructed the state to report all FTEs from these previous quarters in the current quarter. However, in early July 2010, Education sent an e-mail to all states explaining that the Recovery Accountability and Transparency Board had changed its interpretation of OMB's December 18, 2009, guidance, and Education was now instructing SEA officials that FTEs

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<sup>8</sup>An FTE is a full-time equivalent, which is calculated as the total hours worked divided by the number of hours in a full-time schedule.

should only be reported in the actual quarter they were worked. As a result, Massachusetts officials reported only those FTEs worked in the April 1 to June 30, 2010, recipient reporting quarter, and those FTEs that were reallocated to cover expenses from previous quarters have not yet been reported. Education's new guidance also indicated that OMB is developing a process to make corrections to data reported in previous quarters, and that it is through this process that recipients will report those FTEs generated when funds were reallocated to cover salary expenses from previous quarters. SEA officials told us that the data system used to collect job information from LEAs was flexible enough for them to provide data in compliance with the revised guidance.

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## Massachusetts Has Begun Construction on the Majority of Its Recovery Act Highway Projects and Has Developed Projects for Deobligated Funds

Work has begun on 78 of 84 of the Massachusetts Recovery Act highway projects for which funding was obligated prior to the March 2, 2010, deadline, according to data provided by the Massachusetts Department of Transportation (MassDOT). As of August 2, 2010, 9 of the 84 projects have completed construction.<sup>9</sup> The rate by which the Federal Highway Administration (FHWA) has reimbursed Massachusetts Recovery Act highway projects (an indicator of the portion of highway work completed) has increased from 13 percent on May 3, 2010, to 29 percent on August 2, 2010, although it is still below the national average of 44 percent (see table 1). According to FHWA officials, as a result of the time-consuming work in planning these Recovery Act projects, Massachusetts has been delayed in requesting obligation of its annual highway apportionment (for non-Recovery Act projects) and will make the majority of its requests for this fiscal year's obligation in the fourth quarter. As of August 12, 2010, Massachusetts had asked FHWA to obligate only 52 percent of these funds.<sup>10</sup>

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<sup>9</sup>Projects may have completed the construction phase, but they may not be financially closed out as a result of project close-out paperwork. In addition, as of August 2, 2010, the state has 5 Recovery Act highway projects that have completed construction except for minor finishing touches.

<sup>10</sup>In federal fiscal year 2010, Massachusetts was apportioned \$551 million in annual highway formula funds.

**Table 1: Massachusetts Recovery Act Federal Aid Highway Amounts and Projects as of August 2, 2010**

Total available apportionment	Amount transferred to Federal Transit Administration	Total amount reimbursed	Number of projects	Number of projects with construction complete
\$438 million	\$59.7 million	\$104 million	88	9

Source: GAO analysis of FHWA data.

According to the MassDOT Economic Stimulus Coordinator, Massachusetts has had FHWA deobligate approximately \$30 million in Recovery Act highway funds, as a result of contracts being awarded below state cost estimates. The MassDOT Economic Stimulus Coordinator said that they plan to have FHWA obligate all of the deobligated Recovery Act funds by September 30, 2010, to additional projects and they have developed a list of eight highway projects they will recommend for funding. One noteworthy project on this list is the River Road project in Tewksbury. River Road was washed out as a result of the March 2010 flooding in Massachusetts. The MassDOT Economic Stimulus Coordinator noted that the state and regional planning organization had previously identified the drainage repair and road realignment for River Road as a ready-to-go project on their transportation improvement plan. However, there were no funds available. According to the MassDOT Economic Stimulus Coordinator, the March floods made this project a necessity, and the timing of available deobligated Recovery Act highway funds made the project possible.

**Some Suballocated Funds May Be Obligated Outside of Their Initially Intended Region**

Massachusetts had approximately \$131 million of its \$438 million Recovery Act highway apportionment dedicated to use in suballocated regions.<sup>11</sup> As a result of contract savings on the initial round of highway projects in suballocated regions, as of August 2, 2010, Massachusetts has approximately \$3.5 million in deobligated funds to be applied to these regions. The MassDOT Economic Stimulus Coordinator noted that they were initially uncertain about how to apply deobligated funds in suballocated regions, but they subsequently received instructions from FHWA. According to FHWA officials, funds deobligated from a suballocated region should be used to fund additional projects in a

<sup>11</sup>The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use.

suballocated region that meets the same population criteria as the region for which they were initially intended.<sup>12</sup>

A senior planning official at MassDOT said that the commonwealth may need to move some of these deobligated funds between suballocated regions. As of August 9, 2010, Massachusetts had two suballocated regions with approximately \$770,000 in deobligated suballocated Recovery Act funds, although that is less than 1 percent of the commonwealth's total suballocated apportionment. According to this senior planning official, in order to maintain spending levels within the initially intended suballocated region, they will try to obligate these funds to projects through line-item modifications.<sup>13</sup> If this solution is not possible, the commonwealth would look to transfer the deobligated suballocated funds to a Recovery Act project in a suballocated region meeting the same population criteria. According to FHWA officials, if the commonwealth cannot have all deobligated funds obligated to projects within the suballocated regions for which they were initially intended, FHWA will allow flexibility to ensure the best utilization of deobligated Recovery Act funds. However, FHWA officials expect the commonwealth to have all deobligated funds obligated to projects within the suballocated regions for which they were initially allocated.

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### Massachusetts Meets Multiple Reporting Requirements and Continues to Develop Its Office for Performance Management and Innovation

MassDOT continues to report its Recovery Act highway project recipient reporting numbers through the centralized state reporting system to [Federalreporting.gov](http://Federalreporting.gov), as part of the Recovery Act's Section 1512 requirements. As of August 2, 2010, for the April through June 2010 round of reporting, the commonwealth reported 380 Recovery Act highway FTEs. The MassDOT Economic Stimulus Coordinator said that, although they are becoming more comfortable with the commonwealth's centralized approach to the quarterly recipient reporting process, MassDOT has the burden of duplicative Recovery Act reporting

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<sup>12</sup>According to FHWA officials, deobligated funds are only used in regions meeting the specific criteria for the suballocated region.

<sup>13</sup>According to a MassDOT official, through line-item modifications for projects funded with both statewide and suballocated Recovery Act funds, total project costs may be shifted between the two sources of funding by deobligating a portion of the statewide funds dedicated to a project and increasing the suballocated funds dedicated to the same project. This allows MassDOT to maintain Recovery Act spending levels within the same suballocated region.

requirements—to the Office of Management and Budget (OMB) and to FHWA’s Recovery Act Data System.<sup>14</sup>

As we reported in the May 2010 bimonthly report, MassDOT continues to make plans to develop an Office of Performance Management and Innovation that will serve to establish program goals, measure program performance, and report publicly on progress to improve the effectiveness of transportation design and construction, service delivery, and policy decision making. According to the MassDOT Economic Stimulus Coordinator, at this point, there are no plans to assess the broader economic impact of Recovery Act highway projects, but through the Office of Performance Management and Innovation, MassDOT plans to develop performance measures that will help the agency interpret the economic impact of its capital investments and operations activities, in general. FHWA continues to assist MassDOT with developing its plans for the Office of Performance Management and Innovation. FHWA division officials said that in July 2010 they hosted a CEO Roundtable with MassDOT that included input from other states’ departments of transportation and focused on lessons learned related to the use of performance management to manage their agencies.

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## While Some Transit Capital Assistance Projects Are Nearing Completion Some Projects Funded with Money Transferred from Recovery Act Highway Funds Are Just Getting Under Way

Massachusetts and its urbanized areas have expended \$85.6 million of its initial Recovery Act Transit Capital Assistance apportionment on several projects, including some projects, that are nearing completion.<sup>15</sup> According to the Federal Transit Administration (FTA) data, of the 16 projects funded with the initial apportionment, 1 project has been completed, 6 projects are more than 50 percent complete, and 9 are less than 50 percent

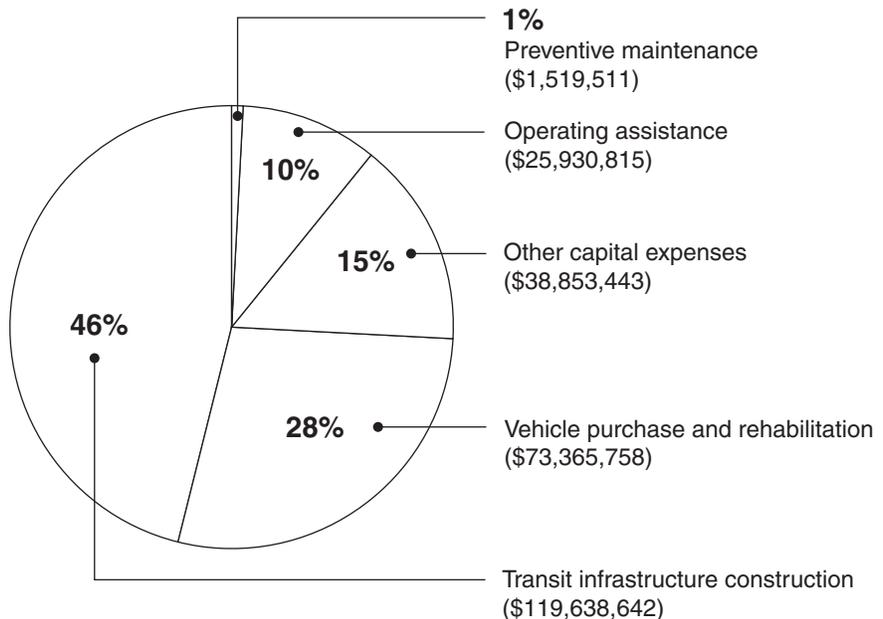
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<sup>14</sup>Transportation funding recipients must also report certain information to the Department of Transportation under section 1201(c)(1) of division A of the Recovery Act.

<sup>15</sup>The Recovery Act appropriated \$8.4 billion to fund public transit throughout the country through existing Federal Transit Administration (FTA) grant programs, including the Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program. Under the Transit Capital Assistance Program’s urbanized area formula grant program, Recovery Act funds were apportioned to large and medium urbanized areas—which in some cases include a metropolitan area that spans multiple states—throughout the country according to existing program formulas. Massachusetts’s initial Recovery Act Transit Capital Assistance apportionment of \$290 million includes funds apportioned to other states because some urbanized areas cross state boundaries. For example, the Providence, RI-MA urbanized area includes the Rhode Island Public Transit Authority and two transit agencies located in southeastern Massachusetts—the Greater Attleboro Taunton Regional Transit Authority and the Southeast Regional Transit Authority.

complete.<sup>16</sup> As illustrated in figure 2, the largest portion of the initial Transit Capital Assistance apportionment was obligated for transit infrastructure construction and vehicle purchases and rehabilitation. According to Recovery.gov, as of August 2, 2010, MBTA reported funding 370 FTEs attributed to Recovery Act funds during the most recent quarter, ending June 30, 2010.

**Figure 2: Massachusetts Transit Capital Assistance Program Recovery Act Obligations by Project Type as of August 3, 2010<sup>a</sup>**



Source: GAO analysis of Federal Transit Administration data.

Note: “Transit infrastructure construction” includes engineering and design, acquisition, construction, and rehabilitation and renovation activities. “Other capital expenses” includes items such as leases, training, finance costs, mobility management project administration, and other capital projects.

<sup>a</sup>Data include projects funded with Massachusetts’s initial Transit Capital Assistance Program Recovery Act apportionment and do not reflect projects funded with money subsequently transferred from FHWA.

Several additional projects funded with money transferred from FHWA are just beginning to get under way. As discussed in our previous report,

<sup>16</sup>In this instance, “projects” refers to several activities bundled under a single application. FTA encourages transit agencies to combine several projects into one application to expedite the approval process and provide flexibility to grant recipients to move excess funds from one project to another.

Massachusetts requested that FHWA transfer \$59.7 million of Massachusetts's federal-aid highway apportionment to FTA, enabling transit agencies across Massachusetts to use Recovery Act funds for their operating costs, as well as many of their planned capital expenditures.<sup>17</sup> According to an FTA official we spoke with, all of the funds transferred from FHWA have been obligated as of August 3, 2010, and according to FTA data we reviewed, 87 percent of these transferred funds have been obligated for transit infrastructure construction projects. For example, the Southeastern Regional Transit Authority will use transferred funds they received to construct a new terminal on a blighted inner city site in Fall River. This project was delayed because the site was owned by a local utility company and there were substantial environmental permitting challenges to resolve before the land could be purchased for the new terminal. Currently, the transit agency is operating services out of a trailer. In some cases, these additional funds allowed transit agencies to avoid cutting services. For example, additional funds received by the Montachusett Area Regional Transit Authority will allow it to continue operations on its urban "in-town" transportation service in the cities of Fitchburg, Leominster, and Gardner, facilitating access to jobs, training, education, and medical appointments for the citizens of economically depressed areas of north-central Massachusetts.

Of the \$59.7 million that was transferred from FHWA to FTA, \$24.8 million originated from funds that were initially apportioned to suballocated regions. According to MassDOT data we reviewed, these funds were transferred for three transit projects within suballocated regions and include \$22.7 million for a parking garage at the Wonderland Station in Revere, \$1.7 million to fund emergency repairs on the MBTA's Red Line subway, and \$348,846 to fund additional vehicle and equipment purchases and terminal improvements for the Cape Cod Regional Transit Authority.

Massachusetts will recalculate its planned transit expenditures to include additional state funds allocated to MBTA, which will make it easier for the commonwealth to meet the maintenance-of-effort (MOE) requirement for transit expenditures. As part of its review of state MOE certifications, the U.S. Department of Transportation (USDOT) discovered that MassDOT did not include a portion of the state sales tax dedicated to MBTA in its

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<sup>17</sup>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), MA-11.

calculation of planned state funding for transit programs. According to a USDOT official, because this is a dedicated revenue stream for the purpose of providing funding to transit, MassDOT should have included this funding in its calculation for the commonwealth's 1201(a) certified MOE amount for transit.<sup>18</sup> As a result of its review, USDOT recommended that the commonwealth recertify its MOE to include state funds allocated to MBTA in its transit expenditure calculation. According to the MassDOT Economic Stimulus Coordinator, although this amount will increase the commonwealth's overall spending requirement, the large amount of state funds allocated to MBTA will enable the commonwealth to meet its MOE expenditure requirement for transit spending by the September 30, 2010, deadline. According to a USDOT official, the commonwealth most recently updated its transit expenditure report in February 2010, and USDOT plans to ask states to update their expenditure information again in the fall of 2010 in response to an earlier GAO recommendation that USDOT gather timely information on the progress states are making in meeting the MOE requirement.<sup>19</sup>

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### MBTA Has Procedures to Independently Verify the Performance of Construction Management Firms

As we reported previously, MBTA is using a construction management/project management (CM/PM) firm to supplement their internal project management staffing resources in order to handle the influx of Recovery Act funded projects.<sup>20</sup> This CM/PM firm provides a variety of project and construction management support services and is largely responsible for the day-to-day oversight of several of MBTA's Recovery Act projects. According to CM/PM firm officials we spoke with and documentation from the firm we reviewed, the CM/PM firm is responsible for daily on-site project monitoring and for preparing a variety of oversight documents, including daily inspection reports, weekly staffing reports, and weekly resident engineer status reports. These reports capture the conditions, equipment usage, number of workers, and status of work performed each day. With the exception of the invoices submitted by the CM/PM firm, all quality assurance documentation is available to MBTA

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<sup>18</sup>Under section 1201(a) of the act, states were required to certify that they will maintain the level of spending that they had planned to expend between the date of enactment, February 17, 2009, and September 30, 2010.

<sup>19</sup>GAO, *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](#) (Washington, D.C.: May 26, 2010), 242.

<sup>20</sup>[GAO-10-605SP](#), MA-12.

project managers through the firm's online media asset management system. According to MBTA officials, this allows busy MBTA project managers to monitor project status on an ongoing basis to ensure that expenditures are kept within contract limits and project performance goals are met.

In addition to reviewing project documentation submitted by the CM/PM firm, MBTA takes steps to independently verify the firm's performance through on-site surveillance and invoicing procedures that ensure compliance with contract specifications. In addition to the oversight provided by the CM/PM firm, MBTA verifies the firm's performance by staffing an MBTA supervisor and trade foremen to the job site each day to provide daily supervision of the workforce and ensure that the project timelines are met. According to our review of MBTA invoicing procedures and an examination of invoice transactions related to one of MBTA's Recovery Act projects, invoices submitted by the firm were reviewed by multiple MBTA officials, including the project manager and a contract administration auditor who reconciled expenses with contract specifications.

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## Local Housing Agencies in Massachusetts Have Implemented Formula-Funded Projects, and Some Have Begun Spending Competitive Grant Funds

Public housing agencies in Massachusetts received about \$82 million in Public Housing Capital Fund formula grants and had expended about \$41 million as of August 7, 2010. Additionally, seven public housing agencies received about \$73 million in Public Housing Capital Fund competitive grants, six agencies had obligated \$13 million of these funds, and five agencies had expended \$6 million as of August 7, 2010.

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## Local Housing Agencies Obligated All Formula Funds and Started Spending to Improve Some Housing Developments

Of the 253 public housing agencies in Massachusetts, 68 collectively received \$81.9 million in Public Housing Capital Fund formula grants under the Recovery Act as of August 7, 2010. HUD provided these grants directly to housing agencies to improve the physical condition of their properties and for management improvements. As of August 7, 2010, the Massachusetts public housing agencies had obligated 100 percent of the \$81.9 million. Additionally, 63 of these agencies had drawn down or

expended 50 percent of the obligated funds, as of August 7, 2010. According to Recovery Act requirements, public housing agencies are required to expend 60 percent of obligated funds by March 17, 2011. HUD officials said that they are on track to meet this deadline.

The Boston Housing Authority (BHA) received the largest Public Housing Capital Fund formula grant allocation in Massachusetts for projects involving such things as bathroom and plumbing replacements, boiler replacements, roof replacements, and adding security to elevators and lobbies. We contacted BHA regarding its Public Housing Capital Fund formula grants for the Walnut Park Project and the Mary Ellen McCormack Project, which have repair work currently in progress. BHA officials told us they are on time and on budget for these projects. The Walnut Park project involves repair work to the building, a 20-story concrete structure built in 1971, and the estimated cost is approximately \$1 million. Agency officials are using contractors to do repair work at the Walnut Park site. The work at the Mary Ellen McCormack project has been ongoing since February 2009 and involves completely modernizing the bathrooms of 152 units at an estimated cost of \$3,976,000. As of June 1, 2010, BHA has expended a total of \$208,828 on these two projects.

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### Some Public Housing Agencies in Massachusetts Have Begun Spending Competitive Grant Funds

HUD awarded 15 competitive grants to seven housing agencies in Massachusetts. Housing agencies across the country could apply for these funds to support specific priority investments in four categories.<sup>21</sup> As of August 7, 2010, six of these housing agencies had obligated about \$13 million of the \$73 million awarded, and five recipient agencies had drawn down a cumulative total of \$6 million from the obligated funds. We selected BHA to visit because it received both Public Housing Capital Fund formula grants and competitive grants.

Although HUD expects all public housing agencies in Massachusetts to meet the September 2010 deadline for obligating their competitive grant funds, BHA told us that they experienced challenges related to mixed financing, accelerated time frames, and complexity of the permitting process relative to demolition and rebuilding of housing. According to BHA officials, mixed financing requires additional work because officials

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<sup>21</sup>The four categories include: (1) improvements addressing the needs of the elderly and/or persons with disabilities, (2) public housing transformation, (3) gap financing for projects that are stalled due to financing issues, and (4) creation of energy-efficient, green communities.

must not only identify supplemental sources of funding for these projects, they must also find developers to plan the site according to specific federal criteria. Furthermore, Recovery Act funds must be obligated and spent in a very tight time frame, while the housing agency is also conducting its other work. Additionally, BHA officials noted that there are challenges associated with the complexity of the permitting process. For example, they must get approval for the demolition of the old buildings, which means they must obtain a “land use” approval before they begin the demolition, and additional permits to begin construction of the site.

Another challenge faced by some public housing agencies has been the specific Recovery Act provision requiring them to use only American iron, steel, and manufactured goods in certain construction and repair projects. BHA officials told us that they had overcome the challenges posed by the purchasing requirements of the Buy American provision by requesting waivers. One BHA official we interviewed explained that many appliances are made outside of the United States and there is often a need to get a waiver for them. This issue is not a problem for smaller projects because, under HUD policy, the Buy American requirement is inapplicable where the size of the contract funded with Recovery grant assistance is less than \$100,000.<sup>22</sup> With respect to mixed-finance projects, the Buy American requirement does not apply to a public housing agency that uses a private developer for the project and merely serves as a lender of funds having no ownership interest in the project.

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### Old Colony Competitive Grant Will Help Boston Housing Authority Replace Distressed Housing with Energy-Efficient, Green Community

BHA received \$22,196,000 in Public Housing Capital Fund competitive funds to begin rebuilding its Old Colony development to create an energy-efficient and green community in South Boston. Built in 1940, BHA describes the 845-unit development as the most physically distressed site in its federal portfolio, with outdated structures and inefficient systems that have an annual energy and water cost of over \$4,000 per unit. Ultimately, BHA proposes to redevelop the entire Old Colony site, but this first phase will be funded as a stand-alone initiative with Public Housing Capital Fund competitive funds along with other public and private funds.<sup>23</sup> The BHA has selected the developer, completed the design, and

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<sup>22</sup>U.S. Department of Housing and Urban Development, Office of Public and Indian Housing, PIH Notice 2009-31.

<sup>23</sup>BHA proposes to obtain additional funding from other sources, such as the Commonwealth of Massachusetts Affordable Housing Trust Fund and Community Based Housing Fund, Low Income Housing Tax Credit funds, and City of Boston funds.

begun the relocation of current residents of the Old Colony housing units to be demolished, according to its planned schedule. See figure 3 for graphics depicting the current site and proposed site.

Figure 3: Images of the Old Colony Development (Current and Proposed)



Source: Boston Housing Authority.

Although the scope of this project has increased from its original 96-unit proposal to 116 units, the budget and timeline have not changed since the project was approved. However, BHA has negotiated certain terms of the grant award with HUD in order to meet the grant award requirements. For example, BHA obtained a waiver from HUD from certain specific green energy criteria. BHA officials have said that they plan to use alternatives that will be equally energy-efficient as those listed in the Enterprise Green Criteria used in HUD's Notice of Funding Availability. Additionally, because of the complexity of the Old Colony project financing arrangements, BHA was concerned that they may not be able to obligate the entire award amount by the September 2010 deadline. As a result, BHA sought to be allowed to use an alternative obligation date, using the developer agreement date in place of the financing closing date. HUD has agreed that, upon review and approval of the developer agreement and financing documents, BHA would be allowed to use the developer agreement date.

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**Massachusetts Has Identified Projected Near-Term and Long-Term Impact of Recovery Act-Funded Projects**

BHA officials have stated that the Recovery Act has provided funds to jump start capital, maintenance, and energy-efficiency upgrades across BHA, as well as to improve services for elder residents. Additionally, Recovery Act-funded initiatives have employed hundreds of people, putting local companies to work doing heating and electrical upgrades, repairs to buildings, and a wide range of capital improvements. To determine the extent to which Recovery Act funds have helped the local economy, the City of Boston has conducted an analysis of both near-term and long-term economic impacts of Recovery Act-funded projects. This analysis describes the near-term impact in terms of jobs created and income generated by retained jobs, new expenditures, and construction activities. In addition, the city has identified long-term economic impacts of Recovery Act-funded projects. These are considered sustainability benefits, and are measured over time in terms of energy-cost savings, emissions reductions, water preservation, travel-time savings, safety, and accelerated development value for some of Boston's Recovery Act investments. Examples of these sustainability benefits of BHA investments include modernization of multifamily residential buildings, roof replacements, new hot water heater systems, and new construction of energy-efficient, green residential properties. According to the city's analysis, there is a strong return on investment with an aggregate benefit-cost ratio of 9.2—meaning that benefits are 9.2 times larger than costs—over a discounted payback period of 2 years. BHA officials continue to rely on the current system for reporting hours to meet the Section 1512 job-reporting requirements, with contractors reporting and certifying the number of labor hours used in Recovery Act work.

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**HUD Has Conducted Reviews on Public Housing Formula Grants and Assisted Public Housing Agencies in Meeting Recovery Act Requirements**

HUD officials in the Boston regional office have completed reviews on housing agencies that had obligated less than 90 percent of their formula grant funds as of February 26, 2010, and have begun the process of reviewing obligations for competitive grants. Of the 16 formula grant reviews HUD conducted for Massachusetts public housing agencies, officials identified four cases in which they found that additional technical assistance would be needed. For example, according to HUD's quality-review records, one public housing agency could not provide documents to support that the refrigerator contract was executed on or before the deadline of March 17, 2010. In another example, HUD's quality-review records indicate that the public housing agency awarded a contract without competition, and the public housing agency must justify this to HUD or face recapture of funds.

Officials explained that smaller housing agencies need more assistance because they sometimes lacked the capacity that the larger housing agencies have. Larger housing agencies, such as those in Boston and Cambridge, have financial experts, attorneys, and other specialized staff that aid in the understanding of Recovery Act requirements. HUD officials also told us that they have spent a lot of time working with the smaller housing agencies to help them understand the Recovery Act procurement requirements. As a result of these efforts, officials expect that the next round of quality reviews will have fewer procurement issues.

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## Massachusetts Redesigns Its Recovery Act Data Web Site and Begins to Use Data for High-Level Management of State Agencies' Use of Recovery Act Funds

In May 2010, the Massachusetts Recovery and Reinvestment Office (MRRO) redesigned the Massachusetts Recovery Web site to facilitate users' ability to track jobs and Recovery Act dollars by ZIP code, town, county, and congressional district for all Recovery Act projects implemented through state agencies. The MRRO manages the Massachusetts Recovery Web site, which serves as the primary communication and reporting tool to ensure greater transparency for the commonwealth's implementation of Recovery Act programs.<sup>24</sup> The Massachusetts Recovery Web site offers users the ability to view Recovery Act jobs on a quarterly basis through the FTE numbers calculated using OMB's FTE calculation and by headcount, or the total number of individuals paid with Recovery Act funds. The MRRO has chosen to provide both the headcount value as well as the FTE numbers because headcount numbers indicate the number of individuals employed with Recovery Act dollars.

Recovery Act jobs and dollars spent may also be viewed via the new Web site's mapping feature. This feature allows users to view FTEs, headcount, and awarded and expended amounts mapped by ZIP code, town, county, or congressional district. As part of an effort to report on the Recovery Act's total impact on the commonwealth, the Massachusetts Recovery Web site has a link to Recovery.gov data for all Recovery Act awards in Massachusetts.<sup>25</sup> This includes data from state and nonstate agencies. MRRO officials only have access to nonstate entity data, such as housing agencies and most regional transit agencies, through the Recovery.gov

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<sup>24</sup>The MRRO was established as the commonwealth's office to collect spending and jobs data for all Recovery Act projects managed through state agencies. The MRRO also takes steps to ensure the completeness and accuracy of data and project descriptions submitted by state agencies and other prime recipients as part of the recipient reporting process.

<sup>25</sup>Recovery.gov is the official Web site for Recovery Act funds.

Web site. According to MRRO officials, they plan to keep these data separate from state agency data on the Massachusetts Recovery Web site, as they cannot guarantee the quality of the nonstate entity data. MRRO officials noted that further Web site changes may be coming after they conduct a usability test based on how the media, public, and legislators use the site.

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### The MRRO Uses Recovery Act Expenditure Data as a Management Tool for State Agencies

The MRRO currently uses Recovery Act data to monitor spending across state agencies and develops management priority lists based on weekly spending, which the MRRO uses to track whether state agencies are spending Recovery Act funds at an appropriate rate. According to the MRRO Deputy Director, they established benchmarks, which are modified over time for the rates at which they would like to see state agencies spend Recovery Act funds. Using the benchmarks, they categorize state agencies and provide increased oversight to those with slower spending and obligations. Each week, the MRRO reviews the list and asks slow-spending agencies to identify and explain why they fall into this category.<sup>26</sup> The MRRO Director and Deputy Director stated that this level and frequency of monitoring and feedback are new features for many state agencies. According to these MRRO officials, some state agencies had an initial adjustment period to this quick turnaround time for reporting data, receiving feedback, and then offering follow-up progress on improving spending and obligation rates. These MRRO officials stated that, based on the data-collection efforts, state agencies now provide forecasts on their spending related to Recovery Act projects. However, according to the MRRO Director, Recovery Act data are not currently being used for long-term, state-level management or economic development planning purposes.

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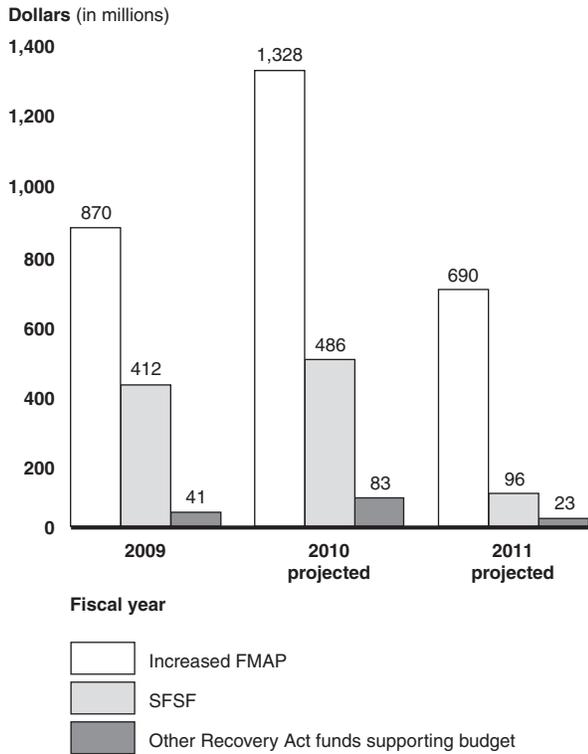
<sup>26</sup>The benchmark for being categorized as slow-spending was less 15 percent of funds expended as of July 2010.

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## Recovery Act Funding Continues to Help Support the Governments of Massachusetts and Boston, Though Fiscal Challenges Remain

The commonwealth continues to experience spending and revenue pressures, although recent trends point to higher revenue figures for the current fiscal year. Spending pressures continue from caseload driven programs such as Medicaid and Transitional Aid to Families with Dependent Children. Total revenue collections were slightly higher than budgeted for the fiscal year that ended on June 30, 2010, but projected revenue figures had been reduced since the start of the fiscal year. According to a senior budget official, the commonwealth expects tax revenue (which includes income, sales, and corporate taxes) to trend higher during fiscal year 2011 based upon revenue collections during the last several months of fiscal year 2010, as well as expectations of economists that state officials consult. For state fiscal year 2011, Recovery Act funding will again help support the commonwealth's operating budget; however, the amount used to support the budget is less than during fiscal years 2009 and 2010. SFSF and increased Federal Medical Assistance Percentage (FMAP) remain the largest sources of Recovery Act funding to support the state budget (see fig. 4).

**Figure 4: Recovery Act Funds Used to Support State Budget, by State Fiscal Years**



Source: GAO analysis of information provided by Massachusetts officials.

Note: Dollar amounts shown under increased FMAP do not include funds from the recent bill which extended some increased FMAP funding through June 30, 2011.

The commonwealth continues to prepare for when Recovery Act funding will no longer be available through a combination of spending reductions and availability of state “rainy-day” funds. According to a senior budget official, the commonwealth will continue to hold down spending during fiscal year 2011 by, for example, instituting an agency cap on the number of FTE staff positions, having agencies finalize their spending commitments earlier in the year, and more closely scrutinizing transfers between budget accounts.<sup>27</sup> Also, for fiscal year 2011, unrestricted, general government local aid was reduced by 4 percent. Furthermore, the final fiscal year 2011 budget included use of roughly \$200 million of the state’s

<sup>27</sup>According to a senior official, during fiscal year 2011 the commonwealth plans to reduce the number of staff supported by the operating budget by as many as 1,000 FTEs.

rainy-day fund.<sup>28</sup> Officials estimate that the commonwealth will have a balance of \$556 million in its rainy day fund at the end of fiscal year 2011 to contribute to closing a likely \$1.3 billion gap as they prepare for fiscal year 2012. A senior budget official noted that Massachusetts is better prepared than most states for the end of Recovery Act funding because of its healthy rainy-day fund balance.

Most Recovery Act funds expected to come to Massachusetts have already been received. As of August 20, 2010, Recovery Act funding anticipated to go to or through state government totals \$6.0 billion, with \$4.4 billion drawn down from the U.S. Treasury. According to a state official, recent Recovery Act funding streams include a \$15 million grant for the state’s education department for a statewide longitudinal study of education performance, as well as funds for Broadband use. Also, Massachusetts was awarded a grant for \$250 million in the second phase of Education’s “Race to the Top” competitive grant program.

In addition to speaking to state officials, we again visited with officials from the City of Boston to review its use of Recovery Act funds (see table 2).<sup>29</sup>

**Table 2: Boston—Characteristics of City Government for Fiscal Year 2011**

Fiscal year	Population	Unemployment rate (percentage)	Operating budget	FTE government employees
2011	645,169	9.0	\$2.33 billion	17,549 <sup>a</sup>

Sources: U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS) data; and Boston budget documents, fiscal year 2011.

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.

<sup>a</sup>This is an estimate by Boston officials of full time equivalent (FTE) positions, including externally funded FTE’s, as of January 1, 2011. This estimate does not include grant-funded employees of the Boston Public Health Commission.

<sup>28</sup>This figure includes a rainy-day fund withdrawal of \$106 million and the omission of an annual deposit into the fund.

<sup>29</sup>The Recovery Act funds for Boston referred to in this section cover funds which are administered by the city government and not the full scope of Recovery Act funds that benefit Boston’s residents, such as unemployment insurance and Medicaid.

Boston officials told us that they have used Recovery Act funds to strengthen the city's economy, improve housing, expand youth opportunities, and increase public safety and public health. As an example, two additional Recovery Act grants received by Boston in recent months include over \$12 million in Recovery Act public health funding directed toward initiatives for the prevention of obesity and tobacco use.<sup>30</sup> Though Recovery Act funds will not prevent layoffs in fiscal year 2011 altogether, city officials stated that these funds will allow Boston to avoid layoffs of critical employees in both the school and police departments.

In the last 5 months, city officials have made very few grant applications and their focus has been on implementing and managing Recovery Act resources, one of which is the Energy Efficiency and Conservation Block Grant (EECBG).<sup>31</sup> According to Boston officials, the strategy for implementing the city's \$6.5 million EECBG award focuses, in part, on providing residents and small businesses with the financial resources needed to make homes and workplaces more energy-efficient. In mid July 2010, as part of its EECBG initiative, Boston officials told us they entered into a \$1.8 million contract with a vendor to perform weatherization work on existing residential homes of residents with 60 to 120 percent of state median income.<sup>32</sup> Officials said they also contracted with various utilities using \$990,000 of Recovery Act funds to leverage existing utility-sponsored energy-efficiency programs and that this will provide participating small businesses with up to 30 percent of the cost of selected energy-efficiency improvements. City officials' stated goal of their EECBG initiative is to reduce Boston's greenhouse gas emissions by 40,000 metric tons annually.

City officials reported that Boston experienced some growth in revenue in the last fiscal year, and are expecting in fiscal year 2011 a 4.3 percent increase in property tax revenues, a 4.9 percent increase in licenses and permits revenues, as well as a full year of additional revenues from

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<sup>30</sup>These initiatives are the Communities Putting Prevention to Work Obesity Prevention project and Communities Putting Prevention to Work Tobacco Prevention & Control project. See appendix XVIII of [GAO-10-1000SP](#) for more information on the Communities Putting Prevention to Work initiative.

<sup>31</sup>The EECBG, which is administered by the Department of Energy, provides Recovery Act funds through competitive and formula grants to local and state governments for projects to improve energy-efficiency and reduce energy use. For more information on the EECBG, see appendix XVIII of [GAO-10-1000SP](#).

<sup>32</sup>According to city officials, Boston's Weatherization Assistance Program funds weatherization work targeted to residents with 0 to 60 percent median income.

Boston's new Meals Tax and its increased Hotel Tax. However, officials expressed concern for the fiscal challenges ahead. State aid revenues have again dropped, with net state aid decreasing by 9 percent for fiscal year 2011. In addition, Boston's costs are increasing in fiscal year 2011—pensions and debt service will increase 2.9 percent, while health insurance costs are increasing by 6.4 percent. Two percent of the fiscal year 2011 budget, \$45 million, comes from the city's reserves, and according to officials, this use of reserves is not sustainable. Officials anticipate approximately 230 layoffs in fiscal year 2011 from a variety of city departments and the Boston public schools. With the end of the Recovery Act funds, city officials told us they foresee additional cuts in state aid and future public school closings. Officials told us they are taking steps to try to mitigate the impact of the loss of Recovery Act funds by controlling hiring, taking advantage of natural employment attrition, evaluating their city's available assets, and looking for ways to consolidate city infrastructure. As an example, officials anticipate they will consolidate some of the public schools in Boston that are operating under capacity. City officials are also working on a plan to adjust for the loss in fiscal year 2012 of approximately \$20 million in Recovery Act funding that currently supports school department operations.

## Oversight Officials Continue to Review and Audit a Variety of Recovery Act Programs

The Massachusetts Office of the State Auditor (OSA) has several audits under way focused on programs funded by the Recovery Act, including audits of various local housing authorities, state and community colleges, regional transit authorities, and MassDOT. Recently completed OSA audits of weatherization programs, block grants, and a local housing authority that received Recovery Act funding did not identify or report findings. The OSA audit of the WIA Youth Program found that in three cases, the actual number of youths being reported as participating in the program was overstated, that the calculation of job numbers needed to be monitored more closely, and that compliance with participation levels needed to be reviewed.<sup>33</sup> In response to OSA's findings, the responsible state agency agreed to implement OSA's suggested improvements regarding monitoring controls. The OSA has completed a statewide Recovery Act expenditure analysis and is using this analysis as part of its audit planning. According to data from the Federal Audit Clearinghouse, which is responsible for

<sup>33</sup>Massachusetts Office of the State Auditor, *Review of Career Center of Lowell*, 2010-0003-3R1 (June 16, 2010); *Review of South Coastal Career Centers*, 2010-0003-3R2 (June 16, 2010); and *Review of Brockton Area Workforce Investment Board*, 2010-0003-3R3 (June 16, 2010).

receiving and distributing Single Audit results, it received Massachusetts's Single Audit reporting package for the year ending June 30, 2009, on May 3, 2010. Although this was about a month after the deadline specified by the Single Audit Act, the First Deputy Auditor has stated that the commonwealth is on track to meet the 2010 audit's deadline. The 2009 audit—the first Single Audit for Massachusetts that included Recovery Act programs—identified significant deficiencies related to controls over programs that received Recovery Act funds, including SFSF and Medicaid.<sup>34</sup> OSA, together with an independent auditor, has begun work on the state's 2010 fiscal year Single Audit.

The Massachusetts Office of the Inspector General (OIG) has a broad mandate to detect and prevent fraud, waste, and abuse in government spending. It has concentrated its Recovery Act efforts on prevention initiatives, as well as on monitoring, reviewing, and investigating programs. While the OIG is prohibited from discussing the specifics of its ongoing work, its general areas of Recovery Act project review include the following:

- Reviews of procurement activity by MBTA, recipients of Edward Byrne Memorial Justice Assistance Grant (JAG) funds, and recipients of fiscal year 2009 SFSF funding.
- Fraud risk assessment reviews of the Weatherization Assistance Program and the Lead Hazard and Neighborhood Stabilization Program.
- A compliance review of EECBG recipients and assistance to the state Department of Energy Resources to develop EECBG oversight capacity.
- Investigations in coordination with two federal inspector general offices regarding fraud complaints, as well as addressing complaints relating to HUD, Department of Labor, and Department of Justice grants.

The OIG continues to provide procurement, fraud prevention, and risk assessment training to state, municipal, and not-for-profit groups. Also, the

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<sup>34</sup>Massachusetts 2009 Single Audit identified a total of 35 significant internal control deficiencies related to compliance with Recovery Act and non-Recovery Act federal program requirements, of which 7 were classified as material weaknesses.

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OIG, as well as the OSA, are members of Massachusetts's STOP Fraud Task Force which coordinates the Recovery Act-related efforts of many of the state's oversight authorities and develops fraud policy for state agencies and state vendors.

Officials from Boston's City Auditor's office told us that they awarded a contract to an independent auditor to conduct Boston's Single Audit for fiscal year 2010. According to officials, the Single Audit will include an audit of 10 of the city's Recovery Act-funded projects. Officials stated that the independent auditor is also developing a computerized worksheet in which Recovery Act fund recipients will submit their reporting data in a standardized format that will be centrally stored at the City Auditor's office. According to city officials, this will make the managing of subrecipients and the reporting process easier and more efficient. Officials plan to offer training on this new worksheet and have it operational by the September reporting period. This system will eventually centralize the reporting of all of Boston's grants, not just those with Recovery Act funding.

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## State Comments on This Summary

We provided a draft of this appendix to the Governor of Massachusetts, the Massachusetts OSA, and the Massachusetts OIG, and provided excerpts of the draft to other entities including the City of Boston, BHA, and MBTA. The Governor's office that oversees Recovery Act implementation, in general, agreed with our draft report. State and local officials provided clarifying and technical comments, which we incorporated where appropriate.

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## GAO Contacts

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## Staff Acknowledgments

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# Appendix X: Michigan

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## Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> 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>.

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## 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

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

Audit Act<sup>2</sup> for seven Michigan departments and a component unit of the state.<sup>3</sup> 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.

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## What We Found

- **Energy Efficiency and Conservation Block Grants.** The U.S. Department of Energy (DOE) awarded a total of \$76.6 million in EECEBG 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 EECEBG, 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 EECEBG funds that localities received directly from DOE. We spoke with officials from two local communities that received EECEBG funds directly from DOE, who told us that they rely on existing internal controls and systems to safeguard EECEBG funds. DELEG directs most

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<sup>2</sup>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.

<sup>3</sup>The Michigan Public Educational Facilities Authority is a separately audited component unit of the state.

of its EECEBG 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 EECEBG 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.<sup>4</sup> 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 EECSBG 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 EECSBG 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 EECSBG 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.<sup>5</sup> Of the \$19.6 million allocated to the state, DELEG awarded 89 percent (\$17.4 million) to 131 subgrantees, through a

<sup>4</sup>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).

<sup>5</sup>The total allocation for Michigan includes \$1.4 million to 12 direct grantees which are tribal governments.

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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.

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### 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.<sup>6</sup>

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

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<sup>6</sup>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.

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

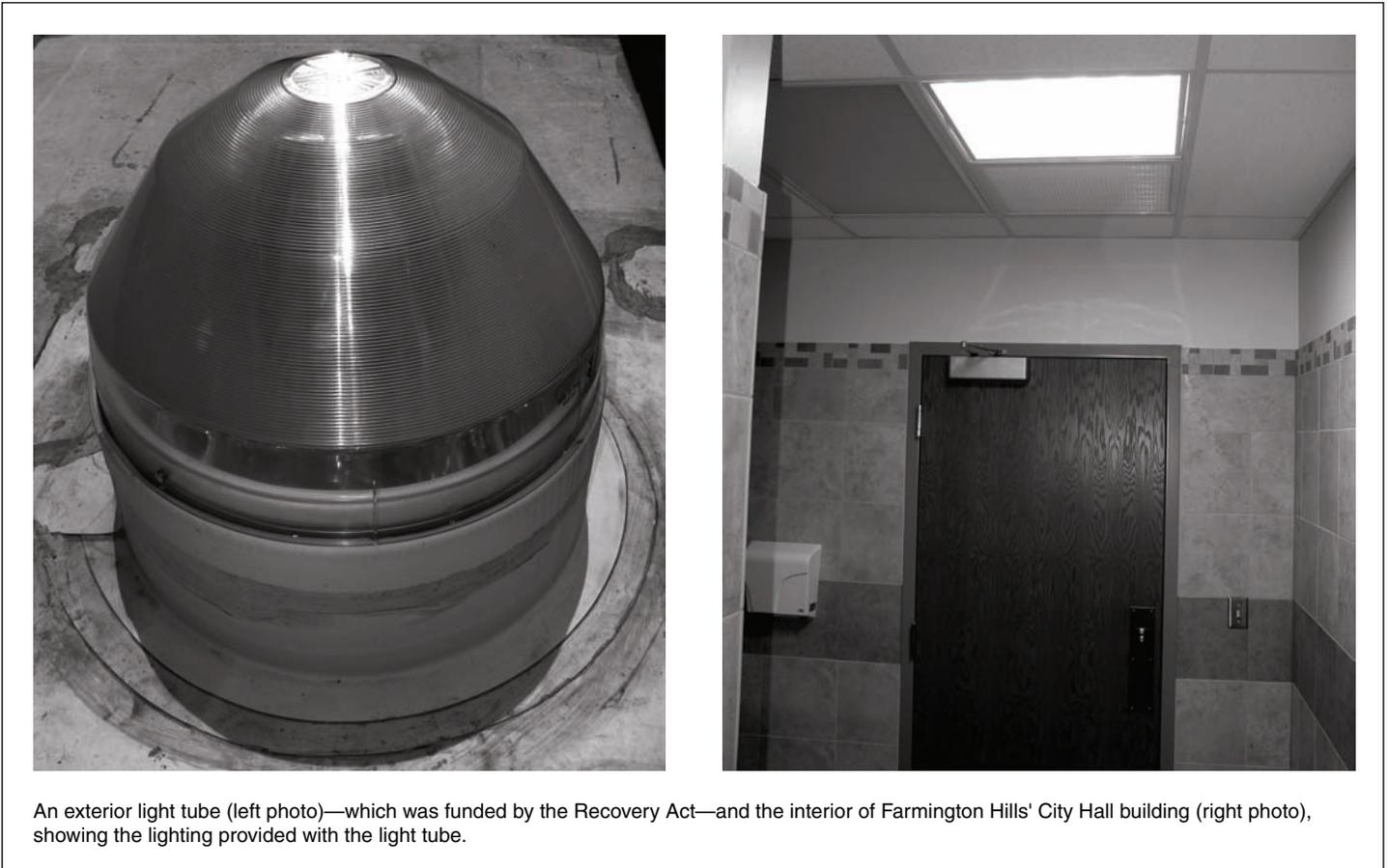
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### EECBG Grants Are Being Used to Fund High-Visibility Projects across the State

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**



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.

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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.<sup>7</sup> 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.<sup>8</sup>

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.

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<sup>7</sup>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.

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

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## 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.<sup>9</sup> 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.<sup>10</sup> 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](#)).

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## 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,<sup>11</sup> 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.<sup>12</sup> The only issue state agencies experienced was that the large volumes of traffic on the

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<sup>9</sup>Recovery Act, div. A, title XV, § 1512(c).

<sup>10</sup>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.

<sup>11</sup>The state's administration will change with upcoming elections because Michigan's governor is term limited.

<sup>12</sup>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.

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### One Community Experienced Challenges with Recipient Reporting

In July 2010, we met with the Farmington Hills city official responsible for completing and submitting the EECEBG 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<sup>13</sup> 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.

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<sup>13</sup>Recipients of EECEBG 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.

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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.<sup>14</sup> 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.<sup>15</sup> 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

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<sup>14</sup>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.

<sup>15</sup>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,<sup>16</sup> 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.

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<sup>16</sup>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.

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**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<sup>17</sup>—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.

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**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.<sup>18</sup>

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<sup>17</sup>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.

<sup>18</sup>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.<sup>19</sup> 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.<sup>20</sup> 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.<sup>21</sup> 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

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<sup>19</sup>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.

<sup>20</sup>In comparison, Michigan’s audited consolidated financial statements for the two fiscal years ended September 30, 2009 report total expenses of \$88.3 billion.

<sup>21</sup>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<sup>22</sup> 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.

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<sup>22</sup>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<sup>23</sup> questioned costs and \$4.4 billion<sup>24</sup> of known and likely<sup>25</sup> 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.<sup>26</sup> 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.<sup>27</sup> 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.

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<sup>23</sup>The OAG defined known questioned costs as questioned costs that are specifically identified by the auditor.

<sup>24</sup>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.

<sup>25</sup>The OAG defined likely questioned costs as the auditor's estimate, based on the known questioned costs, of total questioned costs.

<sup>26</sup>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).

<sup>27</sup>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*.

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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.<sup>28</sup>

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

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<sup>28</sup>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.

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

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### 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.

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## 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.<sup>29</sup> 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

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<sup>29</sup>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.<sup>30</sup> 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.

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## 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 led 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.<sup>31</sup> 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.<sup>32</sup> Recovery Act funding has been used for various programs including Medicaid, education, workforce training, and transportation.

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<sup>30</sup>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).

<sup>31</sup>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.

<sup>32</sup>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.

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## 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.<sup>33</sup> 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.<sup>34</sup> 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.<sup>35</sup> 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.<sup>36</sup> 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

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<sup>33</sup>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.

<sup>34</sup>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.

<sup>35</sup>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.

<sup>36</sup>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.<sup>37</sup> 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.<sup>38</sup> 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.<sup>39</sup> 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.<sup>40</sup> Officials also told us that the method by which LEAs would receive the funding has yet to be determined.

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<sup>37</sup>2010 Mich. Pub. Acts 75.

<sup>38</sup>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.

<sup>39</sup>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.

<sup>40</sup>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.

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## 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.<sup>41</sup> 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.<sup>42</sup>

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## 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.

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<sup>41</sup>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.

<sup>42</sup>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

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state shared revenue—its largest sources of income.<sup>43</sup> 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.

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## 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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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Robert Owens, Assistant Director; Ranya Elias, analyst-in-charge; Patrick Frey; Henry Malone; Giao N. Nguyen; Laura Pacheco; Tejdev Sandhu; Regina Santucci; and Amy Sweet made major contributions to this report.

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<sup>43</sup>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.

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# Appendix XI: Mississippi

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## Overview

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

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## What We Did

We obtained information on four programs funded under the Recovery Act—Public Housing Capital Fund Formula Grants, Public Housing Capital Fund Competitive Grants, the Tax Credit Assistance Program (TCAP), and the Grants to States for Low-income Housing Projects in Lieu of Low-income Housing Credits Program under Section 1602 of division B of the Recovery Act (Section 1602 Program). Our work focused primarily on the status of program funding and the use of funds. As part of our review of public housing, we visited three public housing authorities, located in Meridian, Gulfport, and Picayune. Our work with TCAP and the Section 1602 Program included visits to the Mississippi Home Corporation located in Jackson and two housing projects, one in Pickens and the other in Pascagoula. For descriptions and requirements of the covered programs, see appendix XVIII of [GAO-10-1000SP](#).

Our work in Mississippi also included meeting with Tupelo city officials to determine the amount of Recovery Act funds the city had received or will receive directly from federal agencies and to learn how those funds are being used. We chose to visit Tupelo because its unemployment rate was above the state's average and it is one of the largest cities in Mississippi.

Finally, we updated information we previously reported on Mississippi's fiscal condition and on the efforts that the state has undertaken to ensure accountability of the Recovery Act funds that it has received.

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## What We Found

- **Public housing.** The Meridian Housing Authority (MHA) received an \$8.5 million Recovery Act Public Housing Capital Fund Competitive Grant. MHA plans to use this grant to help renovate a 113-unit public housing development. As of August 7, 2010, MHA had obligated \$520,356 and drawn down \$335,134 of the obligated funds. Also as of August 7, the Mississippi Regional Housing Authority Number VIII

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

(MRHA-8), which is located in Gulfport, Mississippi, had received a \$3,783,351 Recovery Act Public Housing Capital Fund Formula Grant and had expended a total of \$1,168,969. MRHA-8 is using the funds to remodel the office space at one housing development, re-roof 73 housing authority buildings, and conduct various renovations in 140 individual housing units. The Picayune Housing Authority (PHA) received a total of \$697,630 in Recovery Act funds from the Public Housing Capital Fund Formula Grant, and as of August 7, 2010, it had expended the full amount. PHA used the funds to renovate the bathrooms and kitchens in 22 units, as well as to replace the heating, ventilation, and air conditioning systems in another 92 units.

- **TCAP and the Section 1602 Program** The Recovery Act established two funding programs that provide capital investments in Low-income Housing Tax Credit (LIHTC) projects: (1) TCAP administered by the U.S. Department of Housing and Urban Development (HUD) and (2) the Section 1602 Program administered by the U.S. Department of Treasury (Treasury)<sup>2</sup>. Before the credit market was disrupted in 2008, the LIHTC program provided substantial financing in the form of third-party investor equity for affordable rental housing units<sup>3</sup>. As the demand for tax credits declined, so did the prices investors were willing to pay for them, which created funding gaps in projects that had received tax credit allocations in 2007 and 2008. TCAP and the Section 1602 Program were designed to fill financing gaps in planned tax credit projects and jump-start stalled projects.

HUD awarded the Mississippi Home Corporation (MHC) \$21,881,803 in TCAP Recovery Act funding, and Treasury awarded MHC \$29,664,458 in Section 1602 Program funds. In turn, MHC awarded all TCAP and Section 1602 Program funds to 32 projects, with 15 receiving TCAP funds, 4 receiving Section 1602 Program funds, and 13 receiving a combination of TCAP and Section 1602 Program funds. According to HUD data, as of August 1, 2010, MHC had disbursed \$4,606,010 or 21 percent of the awarded TCAP funds. In addition, according to HUD

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<sup>2</sup>State housing finance agencies allocate low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low income tenants. Once awarded tax credits, owners attempt to sell them to investors to obtain funding for their projects. Investors can then claim tax credits for 10 years if the property continues to comply with program requirements.

<sup>3</sup>Many affordable housing tax credit projects rely on LIHTCs together with other forms of subsidies such as HOME Investment Partnerships Program funds (HOME), Community Development Block Grant (CDBG) funds, and state funds.

data, as of July 31, 2010, MHC had not disbursed any Section 1602 Program funds.

MHC officials indicated that they are not concerned about disbursing seventy-five percent of TCAP funds by the February 2011 deadline. However, because of delays, MHC officials told us that project owners receiving Section 1602 Program funds may not meet the requirement of spending thirty percent of eligible project costs by the December 31, 2010 deadline. If a project owner fails to meet this deadline, then MHC must stop disbursing any additional Section 1602 Program funds to the project owner. MHC expects that it will not begin disbursing Section 1602 Program funds to projects until mid- to late-August.

- **Tupelo's use of Recovery Act funds.** Tupelo received six Recovery Act grants which totaled \$6,355,279. According to city officials, funds provided by the Recovery Act benefited the city. However, the officials told us that the city did not apply for some funds that would have helped the city meet its critical needs. Although officials identified water and sewer line improvements as a critical city need, Tupelo did not apply for Recovery Act funds for such improvements that were available through the Mississippi Clean Water and Drinking Water State Revolving Funds. According to a city official, the city chose not to apply for the funds because the city did not have 1) shovel-ready projects that met the objectives of the fund or 2) the resources to devote to quickly developing a project.
- **State fiscal condition.** Mississippi continues to experience significant fiscal challenges due to a decline in state revenues. Tax revenue collections for fiscal year 2010 were \$404 million, or 8.2 percent below expectations. The Governor stated that while preparing the fiscal year 2011 budget was a difficult process because of declining revenue, fiscal year 2012 will be even more challenging because federal stimulus funding will have ended.
- **Accountability.** The Mississippi Office of the State Auditor (OSA) and the Department of Finance and Administration (DFA) have contracted with national accounting firms to monitor and oversee Recovery Act funds. Through April 2010, BKD, the firm contracted by OSA, has tested 80 grants received by 34 grant recipients and reported a total of 101 instances where recipients did not comply with Recovery Act requirements. The greatest lack of compliance was with quarterly recipient reporting. KPMG, the firm contracted by DFA, is assessing selected state agencies for their compliance with Recovery Act provisions. As of June 30, 2010, KPMG had completed site visits at 12

state agencies and reviewed approximately 39 different grants. Similarly to BKD, KPMG found compliance problems with recipient reporting requirements.

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## Obligation of Mississippi's Sole Public Housing Competitive Grant Begins as the State's Formula Grants Continue to Be Expended

HUD awarded Recovery Act Public Housing Capital Fund competitive grant dollars meant to improve the physical condition of housing authority properties to only one of Mississippi's 52 public housing agencies—MHA. MHA received approximately \$8.5 million and as of August 7, 2010, had obligated \$520,356. Also as of August 7, MHA had drawn down \$335,134 of the obligated funds.

According to officials, MHA will use its Recovery Act competitive grant to help renovate a 113-unit public housing development, known as Frankberry Court. Each unit in this public housing development, which was originally constructed in 1939, will receive a number of improvements, including central heat and air conditioning units, new energy efficient windows, entry doors, roofs, and vinyl siding, as well as new baths and kitchens; energy star appliances; interior paint; and tile or carpeted floors. The existing on-site clubhouse will also be refurbished to accommodate tenant community services and a resident business center. Figure 1 shows the Frankberry Court development as it stands today, prior to renovation, as well as a newly built "affordable housing" development in Meridian that was constructed by the same developer and that serves as the model for the Frankberry Court renovation.

**Figure 1: Frankberry Court Development, Prior to Renovation, and Model “Affordable Homes” in Meridian, Mississippi by the Same Developer**



Exterior of Frankberry Court Development housing units, prior to renovation (left), and exterior of housing units by the same developer (right) that are serving as the model for Frankberry Court.



Exterior of Frankberry Court Community Center, prior to renovation (left), and exterior of the community center by the same developer (right) that is part of the development serving as a model for Frankberry Court.

Source: GAO.

MHA officials told us that the scope and estimated cost of the Frankberry project has remained consistent since MHA filed its Recovery Act competitive grant application. However, the timeline has slipped due to a delay in financing. Because the Recovery Act requires that housing agencies obligate competitive grant funds within one year of the funds

becoming available to them, MHA officials originally hoped to complete this task by January 1, 2010, well in advance of their September 23, 2010 deadline. Although MHA still plans to obligate its funds in advance of the mandated deadline, it does not plan to do so until September 9, 2010. The nearly \$11.9 million project will be partially financed through the sale of \$5.5 million in bonds and \$2.8 million in tax credits. The proceeds from the bonds will then provide a construction loan that MHA will eventually pay using \$4.9 million in Recovery Act funding and \$648,910 in low-income housing tax credit equity. As of August 4, 2010, MHA had a letter of agreement from a bank to both purchase the bonds and provide the construction loan and a letter from an equity fund agreeing to purchase the low-income housing tax credits. Officials at the HUD Mississippi Field Office stated that MHA might face some challenges due to today's weak economy, especially since the equity fund is to purchase tax credits in four installments based upon the progression of the project.

MHA officials expect that they will meet the requirement to expend 60 percent of their Recovery Act funds within 2 years of the date that the funds became available for obligation. The officials told us that 20 percent of their project funds will be automatically expended once HUD provides final project approval in late August and Recovery Act funds are transferred to an escrow account as collateral for the project's bond issue. The remaining project funds will then be drawn down monthly and invested as collateral for the bonds. Currently, officials believe they will meet the 60 percent expenditure deadline by April 2011, which is well in advance of their mandated September 23, 2011, deadline. Officials also added that they will continue to assess their progress in obligating and expending Recovery Act funds during weekly telephone conversations with their project staff and with HUD representatives at the Mississippi Field Office.

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**Housing Authorities  
Expend Recovery Act  
Public Housing Capital  
Fund Formula Grants for a  
Variety of Projects**

Collectively, HUD provided Mississippi's 52 public housing agencies with approximately \$32.4 million in Recovery Act Public Housing Capital Fund formula grants. Similar to Public Housing Capital Fund Competitive Grants, HUD provides formula grant funds to housing authorities to improve the physical condition of their properties. As of August 7, 2010, the recipient public housing agencies had not only obligated the total \$32.4 million, but had also drawn down a cumulative total of about \$23.7 million of the obligated funds.

We visited two housing authorities that received Recovery Act Public Housing Capital Fund formula grants—MRHA-8 located in Gulfport, Mississippi and PHA in Picayune, Mississippi—both of which we previously visited and reported on in July and December 2009<sup>4</sup>. Based on its 2008 formula, HUD allocated \$3,783,351 in Recovery Act funds to MRHA-8 and as of August 7, 2010, the housing authority had expended a total of \$1,168,969. The projects and their value are shown in table 1. Officials told us that the remaining \$453,450 of Recovery Act funding has been obligated to help cover replacement decking for the Dan Stepney re-roofing project, architectural and engineering services, and administrative expenses. The administrative expenses include salaries for three years for an assistant and an on-site inspector, as well as the cost for three years of the authority’s telephone, fuel, training, travel, and insurance costs. HUD also provided PHA with \$697,630 in Recovery Act funds, which as of August 7, 2010, had been completely expended.

**Table 1: Projects MRHA-8 Funded with Its Public Housing Capital Formula Grant**

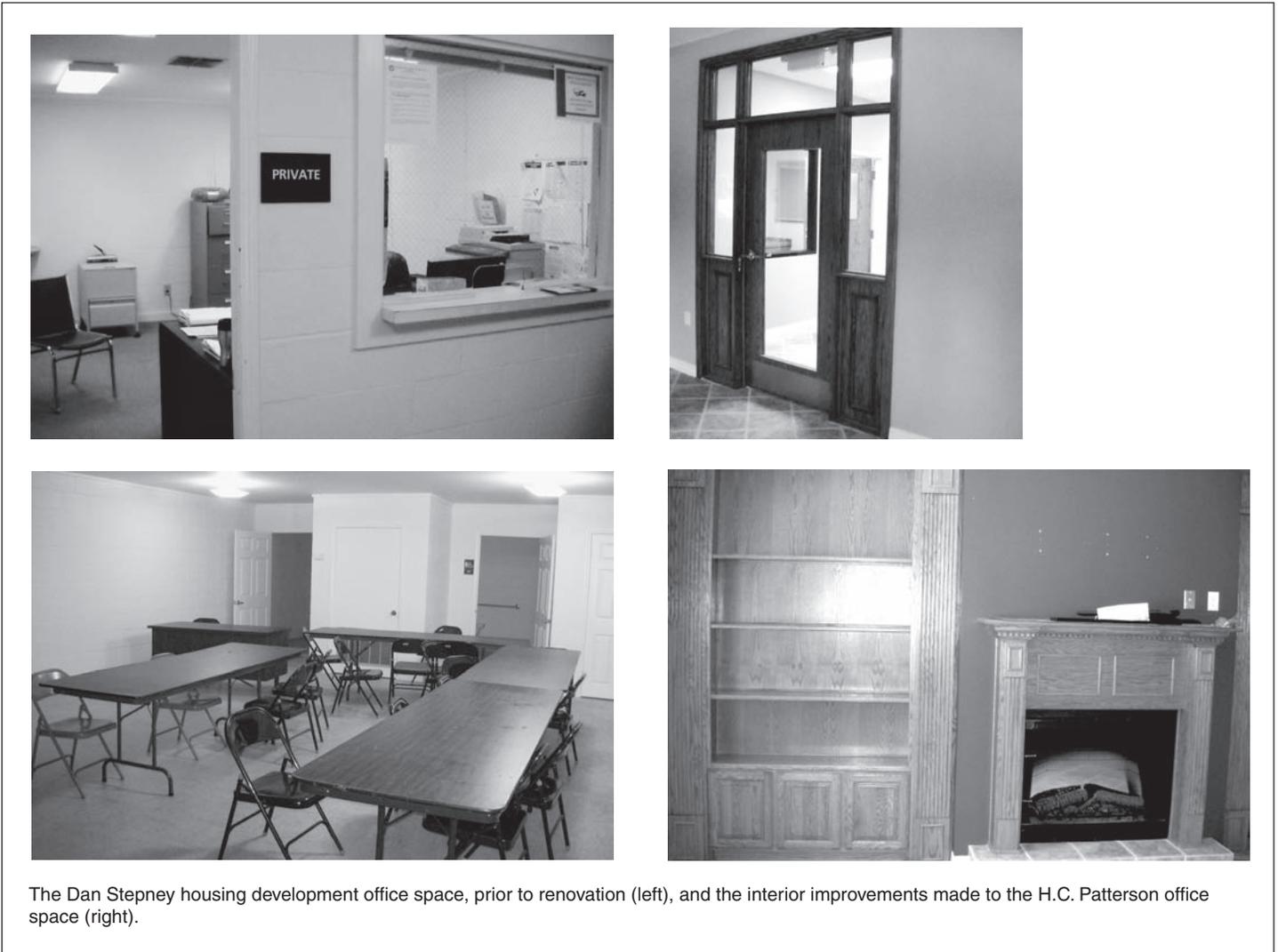
Housing development	Work funded by the Recovery Act	Contract award amount
H.C. Patterson	Office Remodel	\$228,600
Pecan Circle	Re-roof 38 buildings and install solar-powered attic fans	305,000
	Kitchen and Bath Renovation of 72 units	1,135,516
Dan Stepney	Re-roof 35 buildings and install solar-powered attic fans	287,785
	Miscellaneous Renovation of 68 units	1,373,000
<b>Total</b>		<b>\$3,329,901</b>

Source: MRHA-8.

The renovation of the office and community common area at the H.C. Patterson Housing Development in Poplarville, Mississippi is part of the MRHA-890 HUD-approved five year plan. The renovation includes the installation of a gas log fireplace, oak moldings, and oak built-in shelving, as well as ceramic tile floors. Figure 2 shows the improvements being financed with Recovery Act funds in comparison to the interior of another development’s office space that has yet to undergo renovation.

<sup>4</sup>GAO, *Recovery Act: States’ and Localities’ Current and Planned Uses of Funds While Facing Fiscal Stresses (Appendixes)*, GAO-09-830SP (Washington, D.C.: May 26, 2010); and *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Appendixes)*, GAO-10-232SP (Washington, D.C.: December 10, 2009).

**Figure 2: Columbia, Mississippi's Dan Stepney Housing Development Office, Prior to Renovation, and the Recovery Act-Financed Interior Improvements at the Poplarville H.C. Patterson Housing Development Office**



The Dan Stepney housing development office space, prior to renovation (left), and the interior improvements made to the H.C. Patterson office space (right).

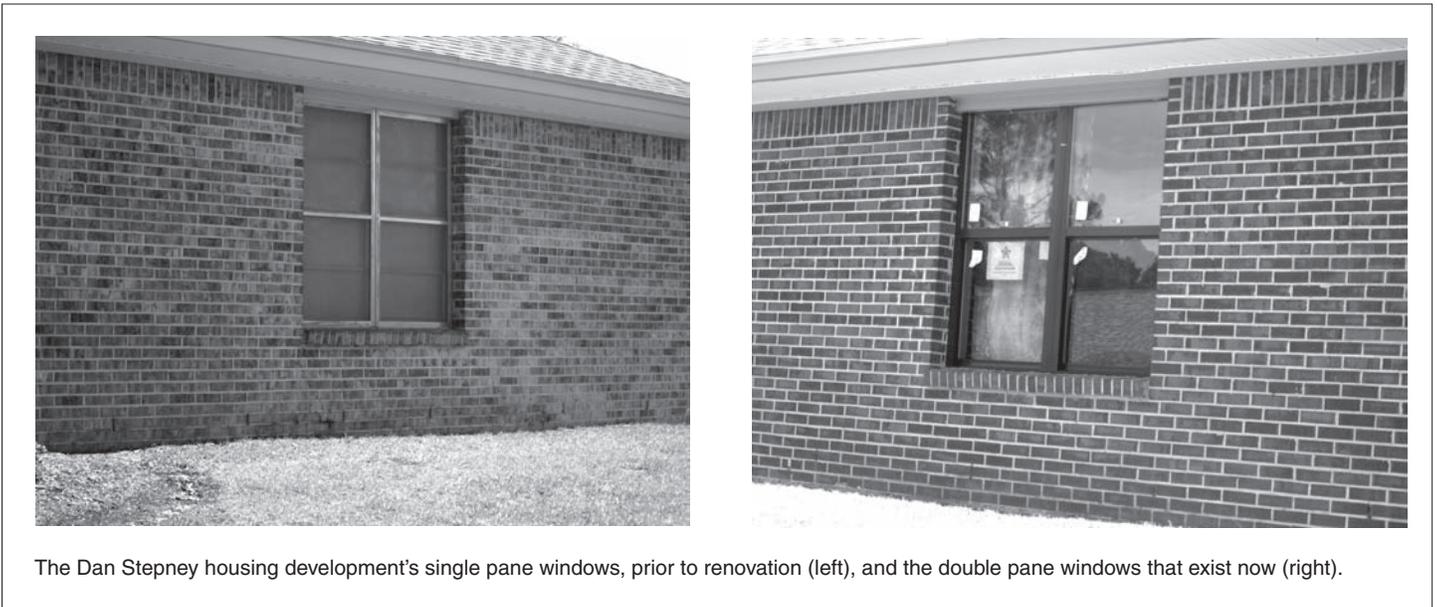
Source: GAO.

Although MRHA-8 planned to complete the H.C. Patterson renovation by April 2010, the contract administrator for this project told us that MRHA-8 now plans to close the contract without all work being completed. The contract administrator told us that the contractor not only performed substandard work but also failed to complete some work entirely. He also said that MRHA-8 officials plan to charge the contractor an amount equal to the cost of having another contractor repair the substandard work and

complete the unfinished work, as well as require the contractor to pay liquidated damages. According to the contract administrator, MRHA-8 will then decide whether to use its own staff to complete the project, hire another contractor to complete it, or implement another remedy that is allowed under procurement rules.

MRHA-8 is also making miscellaneous renovations to all 68 units of its Dan Stepney Housing Development in Columbia, Mississippi. These renovations include the replacement of single pane windows with energy efficient double pane windows; installation of solar-assisted hot water heaters; new cabinets, energy efficient refrigerators, and stoves in each unit's kitchen; and new bathtubs, water saving toilets, vanities, mirrors, lights, fans, and receptacles in each unit's bathroom. Figure 3 shows the windows at the Dan Stepney Housing Development as they existed before renovation and the windows after replacement.

**Figure 3: Dan Stepney Housing Development's Window Replacement**

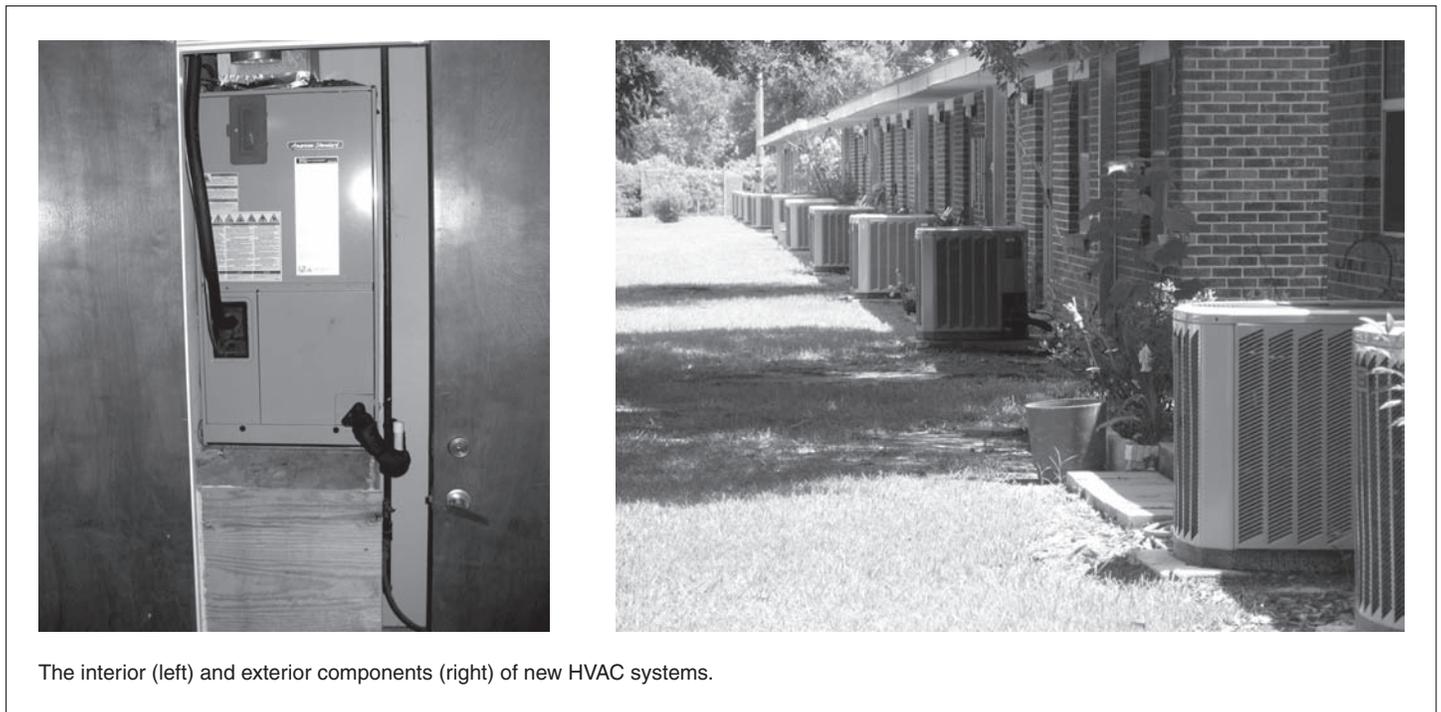


Source: GAO.

As we previously reported, PHA officials used Recovery Act funds to renovate bathrooms and kitchens in 22 units, as well as to replace the heating, ventilation, and air conditioning (HVAC) systems in another 92

units<sup>5</sup>. The interior and exterior components of these 92 new HVAC systems are shown in Figure 4.

**Figure 4: New HVAC Systems Financed with a Public Housing Capital Fund Formula Grant and Installed at a Picayune, Mississippi Housing Development**



Source: GAO.

### Field Office Believes Recovery Act Funds Have Improved Monitoring Efforts

The HUD Mississippi field office Director told us that Recovery Act funds have enabled HUD headquarters to provide her office with the financial resources needed to conduct both remote and on-site reviews. In particular, the field office conducted “quick look” reviews of five Mississippi housing authorities that had obligated less than 90 percent of their Recovery Act formula funds as of February 26, 2010. The field office found deficiencies at only one of the housing authorities reviewed, the Brookhaven Housing Authority. Field office officials told us that its policy

<sup>5</sup>Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Appendixes) [GAO-10-232SP](#).

committee considered Brookhaven's use of funds for a security contract to be an improper use of funds. In addition, the officials said that Brookhaven replaced existing funding for the contract with Recovery Act funds, an action known as supplanting, which the Recovery Act does not allow. At this time, HUD plans to recapture \$153,787.64 in funding.

The field office Director also explained that her office both assists and provides guidance to housing authorities in their preparation of recipient reports required by the Recovery Act. The director told us that the field office reminds the housing authorities of upcoming deadlines, keeps track of the housing authorities that have reported, and provides support for technical problems. However, while the field office will question officials at a public housing authority if the officials observe discrepancies in the authorities' reported jobs data, the field office does not review the integrity of the data as all data quality reviews are conducted at HUD headquarters.

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### Housing Authorities Confirm Jobs Data in Different Ways

We spoke with officials from two housing authorities about their method of confirming the jobs data that they report. A PHA official told us that she asks PHA's on-site modification coordinator to verify the accuracy of the number of jobs that contractors report as created and retained. The coordinator compares the employees on the contractor's weekly time sheet with the information documented in the coordinator's daily on-site reports. An MRHA-8 official explained that he accepts the jobs data that his contractors certify and report to him in writing. In addition, officials from MRHA-8's contracting office verify this information by checking it against the contractor's certified payroll.

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## TCAP and Section 1602 Program Provide Needed Project Financing but Create Financial Burden for Mississippi Home Corporation

The Recovery Act established two funding programs that provide capital investments in LIHTC projects: (1) TCAP administered by HUD and (2) the Section 1602 Program administered by Treasury<sup>6</sup>. Before the credit market was disrupted in 2008, the LIHTC program provided substantial financing in the form of third-party investor equity for affordable rental housing units. As the demand for tax credits declined, so did the prices investors were willing to pay for them, which created funding gaps in projects that had received tax credit allocations in 2007 and 2008. TCAP and the Section 1602 Program were designed to fill financing gaps in planned tax credit projects and jump-start stalled projects.

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## Housing Finance Agencies and Project Owners Must Meet Disbursement and Expenditure Guidelines

Under the Recovery Act, housing finance agencies (HFAs) responsible for administering TCAP projects must disburse 75 percent of the funds that they receive by February 2011; project owners must expend the TCAP funds that they receive by February 2012. The Recovery Act requires that all Section 1602 Program awards be made by December 2010, or the HFA must return the unawarded funds to Treasury. Treasury's deadline for HFAs to disburse all Section 1602 Program funds is December 31, 2011. However, Treasury requires that individual project owners spend 30 percent of their eligible project costs by December 31, 2010 in order to continue receiving Section 1602 Program funds in 2011<sup>7</sup>.

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## MHC Concerned that Projects Funded by the Section 1602 Program May Have Difficulty Meeting Spending Deadline

HUD awarded the MHC \$21,881,803 in TCAP Recovery Act funds and Treasury awarded MHC \$29,664,458 in Section 1602 Program funds. In turn, MHC awarded all TCAP and Section 1602 Program funds to 32 projects, with 15 receiving TCAP funds, 4 receiving Section 1602 Program funds, and 13 receiving a combination of TCAP and Section 1602 Program funds. According to HUD data, as of August 1, 2010, MHC had disbursed \$4,606,010 or 21 percent of the awarded TCAP funds. In addition, according to HUD data, as of July 31, 2010, MHC had not disbursed any Section 1602 Program funds.

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<sup>6</sup>State housing finance agencies allocate low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low income tenants. Once awarded tax credits, owners attempt to sell them to investors to obtain funding for their projects. Investors can then claim tax credits for 10 years if the property continues to comply with program requirements.

<sup>7</sup>Project owners must spend 30 percent of the project's adjustable basis for land and depreciable property by December 31, 2010.

MHC officials indicated that they are not concerned about disbursing seventy-five percent of TCAP funds by the February 2011 deadline. However, because of delays, MHC officials told us that project owners receiving Section 1602 Program funds may not meet the requirement of spending thirty percent of eligible project costs by the December 31, 2010 deadline. If a project owner fails to meet this deadline, then MHC must stop disbursing any additional 1602 Program funds to the project owner. MHC expects that it will not begin disbursing Section 1602 Program funds to projects until mid- to late-August. MHC noted several reasons for this delay. First, MHC officials told us that MHC's board delayed its request for Section 1602 Program funds to Treasury until February 2010, while the board assessed program risks related to Treasury's requirements for recapture of funds. This included an assessment of the requirement that makes MHC responsible for returning Section 1602 Program funds to Treasury if a project owner fails to complete the project or meet LIHTC requirements<sup>8</sup>. Further, MHC explained that delays in the approval of legal documents by investors and lenders prevented MHC from disbursing funds to the projects and delayed most Section 1602 Program development loan closings until mid-to late August.

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### Additional TCAP and Section 1602 Program Responsibilities Create Burden for MHC

For the TCAP and Section 1602 Program, HUD and Treasury require state Housing Finance Agencies (HFA) to exercise more management of projects than the agencies exercise under the standard LIHTC program. Normally IRS requires HFAs to review LIHTC projects at least annually to determine project owner compliance with rent and income limits and with tenant qualifications. Additionally, every three years the Agency must conduct on-site inspections of all LIHTC buildings, which includes inspecting at least 20 percent of the LIHTC units and the resident files associated with those units. Under the TCAP and Section 1602 programs, however, HFAs are obligated to perform asset management, which imposes ongoing responsibilities on the HFAs for the long-term viability of each project. For example, an HFA's asset management may include monitoring current financial and physical aspects of project operations, such as conducting analyses or approving operating budgets, developing cash flow trends, and monitoring reserve accounts, as well as performing physical inspections. Asset management activities will also examine long-

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<sup>8</sup>GAO reported previously on the risks and responsibilities of recapture for HFAs under the TCAP and Section 1602 programs. See GAO, *States' and Localities Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](#) (Washington, D.C.: May. 26, 2010).

term issues related to plans for addressing a project's capital needs and changes in market conditions, as well as recommending and implementing plans to correct troubled projects. In addition, HFAs will ensure compliance with LIHTC requirements as part of its asset management activities. Further, HFAs are responsible for returning TCAP and Section 1602 Program funds to HUD and Treasury, respectively, if a project fails to comply with LIHTC requirements<sup>9</sup>.

MHC told us that they are taking a number of actions to meet the asset management requirements of the TCAP and the Section 1602 Program. Foremost, MHC requires program owners of all TCAP and Section 1602 Program funded projects to have investors. MHC is required to repay funds to HUD and Treasury in accordance with their respective guidelines if a project owner fails to meet LIHTC requirements during the 15-year compliance period. MHC believes that its risk of repayment is further reduced because investors often provide additional oversight and monitoring to ensure that LIHTC requirements are met.

In addition to requiring the involvement of investors, MHC is hiring additional staff, consultants and purchasing equipment, vehicles, and storage space. MHC will hire additional employees to carry out asset management tasks, and it is increasing its use of environmental consultants and lawyers to handle the additional environmental and legal reviews required by TCAP and the Section 1602 Program. MHC has also modified existing software and purchased scanners to handle the added paperwork generated by the programs. Last of all, MHC plans to purchase additional vehicles so that it can increase the number of site visits to projects and to purchase additional space to store program documents.

MHC projects that these asset management activities will cost \$500,000 in the first year and an additional \$1,000,000 over the next 5 years. However, MHC has not increased fees charged to project owners because it believes that project owners are already burdened in a depressed market, and adding fees would only serve to further hinder recovery of the LIHTC

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<sup>9</sup>In contrast, under the conventional LIHTC program, HFAs are not liable for recapturing funds if a project owner fails to comply with LIHTC requirements. Rather, their obligation is to report any noncompliance to the IRS, and the IRS takes any further actions with respect to recapture. GAO reported previously on the risks and responsibilities of recapture for HFAs under the TCAP and Section 1602 Program. See [GAO-10-604, States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability](#), (Washington, D.C.: May. 26, 2010).

market. However, MHC officials told us that it was necessary to adjust the fiscal year 2010 and 2011 budgets because of increased costs. For example MHC told us that it does not plan on funding any Habitat for Humanity loans, which it has funded in the past.

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### Paying Prevailing Wage Rates May Create Burden for Project Owners

According to MHC officials, project owners consider the Recovery Act's requirement that laborers and mechanics working on TCAP projects be paid prevailing wages to be burdensome. Some developers told us that the prevailing wage standards can add to overall costs in certain markets. For example, the project owner of one project that we visited told us that the requirement to pay prevailing wages increased the project's overall cost by 15 to 20 percent.

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### Low Income Housing Tax Credit Program in Mississippi Attracting Fewer Investors and Projects Experience Financing Gaps

According to MHC officials, investors look at every project in Mississippi as rural and expect that project income will be very low or non-existent. As a result, investors scrutinize the financials on Mississippi projects. MHC officials said that in a market that is still stabilizing, a state like Mississippi is slow to rebound and investor interest is low.

Until the Recovery Act provided TCAP and Section 1602 Program funding, project owners said many projects were stalled. To restart the projects, project owners sought funds from several sources. Some projects that we reviewed included financing provided by investors, construction loans, the Section 1602 Program, TCAP, or both the Section 1602 Program and TCAP. Often all funding sources had to be pulled together simultaneously, because if one source of funding was not in place, it was difficult to acquire other sources. In particular, investors wanted the assurance that Section 1602 Program funding provided, as well as the increased equity that the funds brought to the project. For example, one project owner told us that TCAP provided the gap financing to proceed with the project. He said that without TCAP financing he would have been unable to complete the project.

Another project's owner told us that the current market conditions forced some syndicators out of business. The project owner said that within the last 3 years, the original syndicator for this project defaulted, which forced him to seek additional investors. He told us that he would not have been able to attract additional investment without the Section 1602 Program because investors want to be sure before committing funds that the funding from all sources will be sufficient to complete the project.

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## Recipient Reporting Requirements Apply Only to TCAP and Not Section 1602

Section 1512 of the Recovery Act describes recipient reporting requirements, including the requirement to estimate the number of jobs created and retained; but the requirements apply only to programs under division A of the Recovery Act, which includes TCAP. The Section 1602 Program is under division B of the Recovery Act, and, therefore, not subject to section 1512 requirements. Section 1512 requires recipients to file quarterly reports on the number of full-time equivalent jobs created or retained by funds spent through programs funded by division A of the Recovery Act during that quarter. Jobs are to be counted in accordance with methodology provided by the Office of Management and Budget (OMB).

In contrast, Treasury collects its own project information through quarterly performance reports submitted to Treasury by HFAs. HFAs are required to make only one report of jobs created or retained by Section 1602 Program funds. HFAs submit estimated information on the number of full-time equivalent jobs to be created or retained by the entire project with the first quarterly report for each project. The number of jobs reported to Treasury need not be reduced to reflect parts of the project not funded under the Section 1602 program.

MHC officials told us that MHC is responsible for recipient reporting for projects that receive TCAP funds. However, through June 2010, the officials said that they had not disbursed any TCAP funds and, therefore, had not reported that any jobs were created or retained with TCAP funds. The officials also told us that they anticipate that they will disburse TCAP funds during the next quarter and report jobs for the first time in the September 2010 quarterly report. MHC officials told us that they will rely on project owners to report accurate jobs information, but they plan to cross check the number of jobs reported with the payroll information that project owners must provide to ensure prevailing wages are paid to laborers.

HUD issued general guidance on how to report the jobs for TCAP projects that are partially funded with Recovery Act funds and MHC provided the guidance to the project owners. In one instance, MHC also contacted HUD for guidance on how to report jobs for projects that were completed prior to receiving TCAP funds. In addition, a project owner told us that MHC is to provide job reporting guidance when he closes on his TCAP funding.

MHC is also responsible for reporting the jobs that are created and retained when a project is financed with Section 1602 Program funds. MHC said it had not disbursed any Section 1602 Program funds as of the

end of June 2010, and it had not reported that any jobs had been created or retained. MHC officials told us that they expect to disburse Section 1602 Program funds during the next quarter, and the officials indicated that jobs reported will be based on data provided by project owners. Although Treasury guidance requires that HFAs report to Treasury on awards of Section 1602 Program funds made to project owners, the guidance does not discuss how to compute full-time equivalent positions for job reporting. MHC also said that it cannot rely on OMB guidance regarding the calculation of full-time equivalent positions because OMB guidance does not apply to Treasury's Section 1602 Program. Further, Treasury's guidance does not require HFAs to prorate the number of jobs created or retained by a project when the project is only partially funded by the Section 1602 Program.

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## Recovery Act Funds Benefit the City of Tupelo

We visited the City of Tupelo to assess the impact of Recovery Act funding on a local government. Tupelo is located in northeastern Mississippi and is the seventh largest city in the state in terms of population. According to a 2008 U.S. Census Bureau estimate, the city's population was 35,270, which was a slight increase over the 2000 population estimate of 34,211. According to the last complete census, about 70 percent of Tupelo's citizens are white and about 29 percent are African-American, with the remaining 1 percent made up of various other races. The 2008 census data also showed that the city's median household income was \$39,528, which is lower than the U.S. median household income of \$52,175.

According to city officials, the city's leading industry is furniture manufacturing. However, the recession prompted a number of manufacturers to relocate operations overseas in order to save costs. City officials told us that the local furniture industry is now showing signs of improvement and a number of manufacturers that had left may be returning to the area, causing officials to be optimistic that the local economy will soon improve. Additionally, on June 17, 2010, Toyota announced plans to resume construction of a vehicle manufacturing plant located near Tupelo whose construction had been postponed due to economic conditions. The facility will employ approximately 2,000 people and, according to city officials, will also create more than 3,000 indirect jobs.

City officials told us that the city first began to feel the impact of the recession in 2008. Between 2008 and 2009, as shown in table 2, the unemployment rate rose and sales tax revenues, which are a major source of the city's operating funds, dropped almost 6 percent.

**Table 2: Tupelo Unemployment Rates and Tax Revenues**

Fiscal year	Unemployment rate	Percentage change	Sales tax revenues	Percentage of increase/ (decrease) in revenues
2007	6.4	Not applicable	\$16,776,574	Not applicable
2008	7.4	1.0	\$17,049,934	1.63
2009	11.3	3.9	\$16,089,272	(5.63)
2010	12.3 <sup>a</sup>	1.0	\$16,439,272 <sup>b</sup>	2.18

Source: Department of Labor (unemployment data); City of Tupelo (sales tax data).

<sup>a</sup>Preliminary.

<sup>b</sup>Projected.

However, despite the recession and its impact on the city’s manufacturing base, city officials have kept Tupelo’s financial condition stable. The city develops its budget on a “pay-as-you-go” basis. That is, the city bases its expenditures on the revenues that it expects to collect without drawing on the city’s rainy day fund unless absolutely necessary. City officials review revenues monthly, and, if warranted, adjust revenue projections, which can precipitate adjustments to the expenditure budget. One indication of the city’s financial strength is the high bond rating of Aa3 that Moody’s Investor Service has given Tupelo’s General Obligation Bonds<sup>10</sup>.

**Recovery Act Dollars Helped Tupelo Meet Some Needs**

Tupelo received six Recovery Act grants, which totaled \$6,355,279. The funding agencies for the grants were the U.S. Department of Transportation (DOT), the U.S. Department of Justice (DOJ), the Environmental Protection Agency (EPA), the U.S. Department of Energy (DOE), and the U.S. Army Corps of Engineers. Table 3 presents the Recovery Act grants that the City of Tupelo received from the various federal agencies, the amount of each grant, and the specific purpose for which each grant was used.

<sup>10</sup>A bond rating represents a credit risk evaluation and an Aa3 investment grade is indicative of bonds judged to be high quality by all standards.

**Table 3: City of Tupelo Recovery Act Award Summary**

Recipient Entity	Funding agency	Funding program	Award amount	Use of funds
City of Tupelo	DOT	Highway Infrastructure Investment Grant	\$1,227,688.00	Construction of a new bridge
City of Tupelo	DOJ	Justice Assistance Grant	\$91,005.00	Purchase of law enforcement equipment
City of Tupelo	EPA	Clean Water State Revolving Fund	\$503,875.00	Construction of replacement sewer lines
City of Tupelo	DOE	Energy Efficiency and Conservation Block Grant	\$146,000.00	Retrofitting the lighting system at a local baseball field with a higher efficiency system
		Energy Efficiency and Conservation Block Grant	\$35,200.00	Replacement of the city's existing computer servers with high-efficiency servers
City of Tupelo	U.S. Army Corps of Engineers	Civil Program Financing-Operation and Maintenance	\$4,351,511.00	Major drainage improvements

Source: City of Tupelo.

## Tupelo Did Not Apply for Some Available Recovery Act Funds

Although the Recovery Act provided funds for needed projects, city officials identified infrastructure improvements as their city's most critical need. The officials told us water and sewer lines and drainage lines need to be improved, work is needed on a number of city roads and bridges, and the city has blighted areas that it wants to improve where abandoned and structurally deteriorating buildings attract criminal activity.

Although water and sewer line improvements were identified as a critical city need, officials decided not to apply for Recovery Act funds that were available for such improvements through the Mississippi Clean Water and Drinking Water State Revolving Funds. According to the City of Tupelo's grant administrator, the city chose not to apply for the funds for two main reasons—(1) the city did not have shovel-ready projects that met the objectives of the fund and (2) it did not have the resources to quickly devote to developing a project. At the time that the Mississippi Department of Environmental Quality requested proposals for Recovery Act projects, the city's Water & Light Department was in the process of finishing up a major wastewater treatment project, carrying out day-to-day departmental work, and completing some smaller special projects. In addition, the department was devoting all available planning personnel to negotiating, engineering, and acquiring easements on the Toyota water and sewer project, which crossed city and county lines and required an extraordinary amount of personnel. With all of these projects under way, the city lacked

the resources to quickly develop another project in time to apply for the funding.

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**Energy Efficiency and Conservation Block Grant Improves City Park and Computer System**

As part of our visit to Tupelo we looked at the execution of one grant in particular. Tupelo received a Department of Energy Efficiency and Conservation Block Grant (EECBG) that totaled \$181,200. As shown in table 3, the grant provided funding for two projects. The first provided \$146,000 for the city to retrofit field lighting at a public sports field which is located in one of the city's most heavily used parks. The new lighting system is expected to be highly efficient and will reduce energy usage by removing halide lights and replacing them with a photometric system which automatically adjusts the field lights based on existing environmental light levels. The second grant provided \$35,200 for the city to replace its existing computer server technology with high-efficiency virtual servers that reduce power consumption while increasing server capacity. City officials report that both projects are now complete and that 99.5 percent of the funds provided by the grant were obligated and expended. Because the lighting project was completed under budget, the city is returning the remaining \$959.75 to DOE.

City officials indicated that their Recovery Act reporting for the EECBG was consistent with the guidance provided by OMB. Four people from the city government provided routine oversight for each disbursement of the EECBG grant money by reviewing each transaction. Officials also stated they complied with Recovery Act provisions applicable to EECBG, such as the requirement to pay laborers and mechanics employed on Recovery Act projects the prevailing wage for the area and the requirement to purchase iron and steel for Recovery Act projects from American sources.

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**Concerns over Recovery Act Compliance Limit Applications for Funds**

City of Tupelo officials explained that the Recovery Act funding created a dilemma for the city. Officials knew that the funds could benefit the city, but felt the long-term cost could outweigh the short-term benefit. For example, the Recovery Act requires that laborers and mechanics employed by contractors and subcontractors on projects funded by Recovery Act

funds be paid prevailing wages<sup>11</sup>. City officials felt this provision could create compliance hardships that could lead to increased indirect costs, such as higher wages paid to workers after the Recovery Act expires or the need to pay increased wages for work performed on non-Recovery Act projects. Such increases could raise the costs of local employers and the municipality. These concerns made the city reluctant to apply for a number of associated Recovery Act grants. Additionally, the city avoided becoming dependent on Recovery Act funding by selecting infrastructure-related, “stand-alone” projects with minimal or no ongoing costs that would obligate long-term financial support above and beyond what the city could adequately fund. For example, the city did not apply for DOJ grants for Community Oriented Police Services, which would have allowed the city to hire additional police officers, because it did not want the financial burden of the requirement to retain those police officers for at least one additional year after the Recovery Act grant expired. Instead the city applied for Justice Assistance Grants which enabled the city to purchase needed equipment.

Additionally, the city’s grant administrator characterized the administrative cost associated with Recovery Act grants as high. For example, the city spent approximately \$300,000 of a \$2.5 million grant it received for a bridge project on administrative costs, including environmental studies needed because the project was near wetlands. Furthermore, the grant administrator told us that it takes 2 weeks, or about 80 hours, to complete the recipient report required by section 1512 of the Recovery Act each quarter, as well as the other reports required by the grantor agencies.

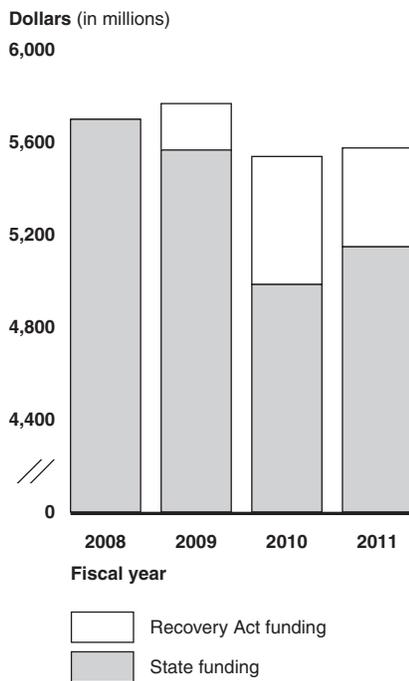
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<sup>11</sup>The Recovery Act, requires all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the federal government with Recovery Act funds be paid wages at rates that are not less than those paid on local projects of a similar character as determined by the Secretary of Labor. Recovery Act div. A, § 1606, 123 Stat. 303.

## Recovery Act Funds Helped Mississippi Address Decline in State Revenues

As shown in figure 5, from fiscal year 2008 through fiscal year 2011 the Mississippi state budget is projected to decline from \$5,709 billion to \$5,148 billion or more than \$561 million. The primary reason for the decrease is a decline in state revenues. However, as figure 5 shows, the use of Recovery Act funds helped offset the decline in state funding.

**Figure 5: State Funding, Fiscal Years 2008 to 2011**



Source: Mississippi Department of Finance and Administration.

Note: Recovery Act funding includes State Fiscal Stabilization Fund monies and Increased Federal Medical Assistance Percentage Funds.

During fiscal year 2009 and fiscal year 2010 the state used more than \$201 million and \$553 million in Recovery Act funds, respectively, to help reduce the impact of declining state revenues. Likewise, the state plans to use more than \$428 million in Recovery Act funds to offset revenue shortfalls in fiscal year 2011.

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In addition to Recovery Act funds, Mississippi also used its rainy day funds to reduce the impact of declining tax revenues<sup>12</sup>. To help close out and balance the fiscal year 2009 budget, the state transferred almost \$20 million of rainy day funds to the state general fund. Similarly, the state transferred \$65.2 million of rainy day funds to the budget contingency fund to help cover a projected shortfall in the fiscal year 2010 general fund budget<sup>13</sup>. An additional \$80 million in rainy day funds was transferred to cover projected shortfalls in the fiscal year 2011 budget, leaving about \$80 million in rainy day funds for each of the fiscal years 2012 and 2013.

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**Mississippi Expects Budget Problems Will Increase without Recovery Act Funds**

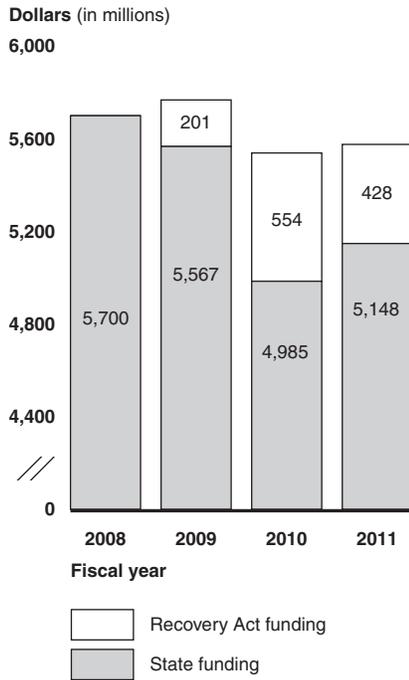
While Mississippi experienced serious budget problems in 2010, the Governor expects future budget years will be even more difficult as the infusion of Recovery Act funds comes to an end and state revenues lag. As shown in figure 6, Mississippi incurred a revenue shortfall of \$404 million for fiscal year 2010, which is 8.2 percent less than expected. Because state law requires a balanced budget, the Governor reduced spending for general fund and nonexempt agencies five times during fiscal year 2010 for a total of \$466 million. However, because revenue collections were not as bad as initially feared when these budget cuts were imposed, initial projections are that the state is starting fiscal year 2011 with a surplus of approximately \$50 million.

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<sup>12</sup>The Mississippi rainy day fund, normally called the Working Cash-Stabilization Reserve Fund, is intended, among other uses, to cover any projected deficits that may occur in the general fund at the end of a fiscal year as a result of revenue shortfalls. Miss. Code § 27-103-203.

<sup>13</sup>The Budget Contingency Fund was created in 2001 by the legislature to identify nonrecurring funding—such as funds received from a legal judgment—that the legislature could use in the budget process. The sources of funds deposited in the budget contingency fund can differ from special fund transfers to the general fund that are identified as nonrecurring.

**Figure 6: Aggregate Revenue Shortfall for Fiscal Year 2010**



Source: Mississippi Department of Finance and Administration.

According to the Governor, this surplus will be crucial in preparing the fiscal year 2012 budget and spending for future years, which he expects to be as financially difficult as fiscal years 2010 and 2009. The Governor stated that while preparing the fiscal year 2011 budget was a difficult process because of declining revenue, fiscal year 2012 will be even more challenging because federal stimulus funding will end. The funds from the close of the current year can be used to help balance the budget in the difficult years to come as Mississippi copes with the budget cliff created as the infusion of Recovery Act funds ends and as the state weathers the effects of the recession. According to the National Governors Association, the most difficult budget years for a state occur two years after the national recession is declared over.

## Mississippi Monitoring and Oversight Activities

To ensure accountability and oversight over federal funds received by Mississippi, the OSA conducts on an annual basis a “Single Audit” that reports on internal controls over financial reporting and compliance with pertinent laws and regulations. According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing single

audit results, it received Mississippi's single audit reporting package for the year ending June 30, 2009, on March 30, 2010. This was the first Single Audit for Mississippi that includes Recovery Act programs, and it included only 4 months of Recovery Act expenditures. Mississippi's Single Audit report for fiscal year 2009 identified 12 significant internal control deficiencies related to compliance with Federal Program requirements, of which 2 were classified as material weaknesses.

The two material weaknesses occurred in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) which is administered by the Mississippi Department of Health (MDH) and receives Recovery Act funding. OSA determined controls over a time study that MDH uses to allocate salaries and fringe benefits to its various programs, including the WIC program, were inadequate to ensure that the amounts entered were accurate and reliable. OSA also determined the MDH internal controls were not adequate to ensure that only obligations occurring during the funding period of the WIC grant are charged to the program.

In addition to normal oversight of federally funded programs, Mississippi has undertaken several efforts to hold state recipients accountable for the Recovery Act funds that they receive. National accounting firms, under the auspices of the OSA and DFA, are carrying out two of these efforts. OSA has contracted with the firm BKD to conduct monitoring and oversight of Recovery Act funds. According to state officials, BKD is expected to audit such entities as local governments, not-for-profit organizations, community health centers, and school districts. DFA has contracted with KPMG, to monitor the internal controls of state agencies receiving Recovery Act funds.

BKD has submitted two reports to OSA that detail the results of their monitoring efforts between January and April 2010. During this 4-month period, BKD tested 80 grants received by 34 grant recipients and reported a total of 101 instances where recipients did not comply with Recovery Act requirements. In each instance, BKD gave recipients specific recommendations for correcting existing errors in reporting and other documentation, along with recommendations for revisions to their internal control processes in order to improve future compliance.

The on-site monitoring visits found the greatest lack of compliance with recipient reporting<sup>14</sup>. Of the 101 compliance requirement findings, 30 were related to recipient reporting. BKD found that state agencies were not providing clear and consistent guidance on the recipient reporting requirements to grant subrecipients. According to BKD, agency guidance ranged from sophisticated Web-based input mechanisms to very informal guidance provided via e-mail. BKD reported that grant subrecipients expressed frustration over the reporting process, but all grant recipients appeared to be exerting their best efforts to provide accurate reporting information. In addition, BKD reported that there was some confusion on how to properly report the number of jobs created and/or retained.

BKD monitors also found a number of problems related to other Recovery Act requirements. For example, BKD reported that the majority of entities visited were not aware that they should check to determine if vendors were suspended or debarred from doing business with the federal government. BKD also reported entities entered into contracts that did not contain the appropriate Buy American language and/or provide evidence that all required materials were compliant with the Buy American provisions of the Recovery Act. Additionally, the entities did not obtain the necessary waivers when the Buy American provision was not satisfied.

DFA, with assistance from KPMG, began or completed 12 agency site visits and reviewed approximately 39 different grants between February 8, 2010, and June 30, 2010. Examples of observations that KPMG reported after site visits include the observations that documentation supporting recipient reports was not always provided to agencies for review and some agencies misunderstood recipient reporting requirements. KPMG also reported other monitoring and compliance issues, which included observing that an agency's documented policies and procedures were not inclusive of Recovery Act specific processes and that agencies did not verify that vendors were not suspended or debarred from doing business with the federal government.

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<sup>14</sup>Section 1512 of the Recovery Act requires that each recipient who receives funds from a federal agency during a calendar quarter submit a report to that agency for the quarter that includes, among other information, the amount of funds received, the projects and activities for which the funds were expended or obligated, the completion status of each project or activity and estimates of the number of jobs created and the number of jobs retained by the project or activity. Recovery Act div. A § 1512, 123 Stat. 115, 287-288. We refer to the reports required by section 1512 as recipient reports.

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## Mississippi Initiated Several Noteworthy Efforts to Comply with Recovery Act Requirements

Mississippi has initiated several efforts to improve the state's response to the Recovery Act's transparency and accountability requirements. Both OSA and DFA have provided training sessions for prime recipients to explain how to respond to the act's requirements. In addition, OSA regularly communicates Recovery Act information to recipients through its Technical Assistance newsletter and has established a task force of governmental and non-governmental experts to assist recipients in complying with Recovery Act requirements. These experts include attorneys, engineers, project managers, educators, and accountants who are available to answer inquiries from Recovery Act recipients at no cost to the recipients or to the state.

In addition to having KPMG monitor state agencies' compliance with Recovery Act requirements, DFA has identified leading practices utilized by agencies in meeting these requirements. For example, DFA told us that one state agency contacted other states to share knowledge and identify best practices for implementing federal mandates and requirements, and another agency created a template for subrecipients that allowed them to summarize key program data for use in preparing their recipient reports.

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## State Comments on This Summary

We provided the Governor of Mississippi with a draft of this appendix on August 9, 2010. The General Counsel to the Governor, who serves as the stimulus coordinator, responded for the Governor on August 17, 2010. The official provided technical suggestions that were incorporated, as appropriate.

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## Staff Acknowledgments

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# Appendix XII: New Jersey

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## Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in New Jersey. 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>.

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## What We Did

We reviewed two specific programs funded through the Recovery Act: the Energy Efficiency and Conservation Block Grant (EECBG) program and the Public Housing Capital Fund. We selected the EECBG program because it was a program newly funded by the Recovery Act and selected the Public Housing Capital Fund to follow up on the status of projects reviewed in prior reports. (For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).) For both of these programs, we reviewed documentation on program requirements and interviewed federal, state, and local government officials, as appropriate, about the use of funds, challenges in implementation, and oversight and monitoring strategies. In particular, for the EECBG program, we discussed these issues with officials of three localities that were direct recipients of EECBG formula funds—the County of Morris (Morris County), the City of Jersey City (Jersey City), and Woodbridge Township. We selected these localities based on the level of funding received, expenditures incurred, and type of local government. We also conducted a site visit to the Newark Housing Authority to follow up on the status of its Public Housing Capital Fund competitive and formula grants reviewed in prior reports.

In addition to the two program-specific reviews, we also continued to review state efforts to oversee and monitor the use of Recovery Act funds through interviews with officials from the state's accountability community, including the Office of the State Auditor and the Office of the State Comptroller. We also interviewed state and local budget officials about their use of Recovery Act funds, the impact of these funds on state and local budgets, and strategies for addressing the phasing out of Recovery Act funds. We selected one locality, Jersey City, to gain a deeper understanding about the use and impact of Recovery Act funds. This locality was selected based on its population, unemployment rate, and level and type of Recovery Act funds received. Finally, we reviewed

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

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information New Jersey recipients reported on [www.recovery.gov](http://www.recovery.gov) (Recovery.gov) and interviewed officials from the Office of the Governor, as well as EECBG and housing recipients about their recipient reporting experiences.

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## What We Found

- **EECBG.** The U.S. Department of Energy (DOE) allocated \$75.5 million in EECBG formula funds to New Jersey. Approximately \$14.4 million was awarded to the New Jersey Board of Public Utilities (NJBPU), the state regulatory authority responsible for administering the state's clean energy programs, and \$61.1 million was directly awarded to 65 municipalities and 10 counties in the state. NJBPU is allocating 71 percent of its funds, or \$10.2 million, to provide energy rebates to the 512 localities that did not qualify for EECBG formula funds. State and local officials with whom we spoke stated that vague and changing DOE guidance, as well as adhering to state and local requirements, has contributed to delays in implementing EECBG projects and expending funds. For example, according to Jersey City officials, two contracts were awarded that later had to be terminated because the contractors did not meet the city's required energy-efficiency standards. Although the state and localities have processes in place to routinely monitor and oversee EECBG funds, localities have not yet begun assessing the impact of the EECBG funds.
- **Public Housing Capital Fund.** New Jersey public housing agencies continue to make progress in implementing their Recovery Act Public Housing Capital Fund projects. Of the 80 public housing agencies in New Jersey, 7 collectively received a total of \$27 million in Public Housing Capital Fund competitive grants. Public housing agencies in New Jersey are primarily using these funds for the creation of energy-efficient, green communities. Public housing agencies are required to obligate 100 percent of these funds by September 2010. As of August 7, 2010, \$5 million, or 18 percent, of these funds had been obligated. Public housing agencies are also required to expend 60 percent of their Public Housing Capital Fund formula grants by March 17, 2011. As of August 7, 2010, 80 public housing agencies had drawn down about 62 percent of the \$104 million in funds received. To ensure that public housing agencies continue to meet obligation and expenditure deadlines, the U.S. Department of Housing and Urban Development (HUD) field office is conducting outreach through regular e-mail and phone communication, conducting remote reviews of all competitive grant recipients, and more closely monitoring formula fund grant recipients with low expenditure rates as deadlines approach.

- **Accountability.** The New Jersey Office of the State Auditor, Office of the State Comptroller, and the New Jersey Recovery Accountability Task Force continue to monitor the state's Recovery Act funds. For example, the Office of the State Comptroller plans to audit program compliance and internal controls governing the administration and monitoring of both the fiscal and programmatic components of the EECBG grant in four localities. New Jersey's Single Audit report for fiscal year 2009 identified 45 significant internal control deficiencies related to compliance with federal program requirements, of which 38 were material. Some of these deficiencies included Recovery Act funds.
- **Budget.** New Jersey has received approximately \$5.8 billion in Recovery Act funds as of July 21, 2010, and used these funds, in part, to increase and restore the state's portion of education aid to local educational agencies and to fill budget shortfalls. New Jersey enacted a \$29.4 billion budget for fiscal year 2011 after closing a \$10.7 billion budget shortfall, primarily through the elimination or reduction of projected growth and reductions to the base budget. For example, the state deferred pension payments, cut funding from property tax rebates, and eliminated the special municipal aid program. Jersey City officials stated that the city has primarily used its \$14 million in Recovery Act funds for nonrecurring projects. For example, the city used its Community Services Block Grant funds to provide nutrition services to low-income residents, among other things.
- **Recipient Reporting.** New Jersey recipients reported funding over 22,000 full-time equivalents (FTE) with Recovery Act funds during the fourth quarterly reporting period, which covers the period April 1, 2010, to June 30, 2010. According to the New Jersey Office of the Governor, the recipient reporting process went smoothly for the fourth reporting period. However, EECBG recipients we met with did not use Office of Management and Budget (OMB) guidance to calculate FTEs. For example, an official from one locality stated that FTEs were calculated based on the total number of people that had been paid with EECBG funds, without taking into consideration the number of hours each employee had worked or prorating the FTEs based on the number of hours attributed to the Recovery Act. As a result, the total number of FTEs may have been overstated.

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## New Jersey Has Experienced Delays in Implementing EECBG Projects and Expending Funds

New Jersey received \$75.5 million in EECBG formula funds from DOE to develop, promote, implement, and manage energy-efficiency and conservation projects and programs. Approximately \$14.4 million was awarded to NJBPU, the state regulatory authority responsible for administering the state's clean energy programs, and \$61.1 million was directly awarded to 75 local government entities—65 municipalities and 10 counties in the state.<sup>2</sup> Twelve of the 75 localities received grants over \$1 million, accounting for a total of \$35.7 million, or almost 60 percent of the grant funds allocated to localities. State agencies are required to allocate at least 60 percent of their formula funds to make subgrants to local government entities that were not eligible to receive formula funds directly from DOE. NJBPU is allocating 71 percent of its formula allocation, or \$10.2 million, to provide up to \$20,000 in energy rebates to 512 local government entities to supplement local government costs of those energy-efficiency improvements not already covered by existing state incentive programs.<sup>3</sup> The remaining 29 percent, or \$4.2 million, will be allocated to the State's Office of Energy Savings to implement energy conservation measures at a state developmental center in New Lisbon.

The three localities in our review—Morris County, Jersey City, and Woodbridge Township—collectively received about \$7.5 million in direct EECBG formula funds. These localities plan to undertake a variety of activities with these funds. For example, Morris County plans to undertake a greenhouse gas inventory of county government buildings and vehicle operations for the purpose of reducing greenhouse gas emissions by 10 percent by 2015. Morris County and Jersey City both plan to use part of their grant funds to perform energy audits of local government buildings, whereas Woodbridge Township is using state funds to conduct energy audits and plans to use part of its EECBG funds to pay for energy-efficient retrofits to municipal buildings based on the results of the energy audits. Table 1 summarizes the activities the state and the three localities we met with plan to undertake with their EECBG funds.

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<sup>2</sup>DOE established weighted formulas for allocating grants to states, units of local government, and Indian tribes and used population data and other criteria, such as energy consumption, to allocate funds under the formulas.

<sup>3</sup>New Jersey's Clean Energy Program provides financial incentives through various programs for residential, commercial, and municipal customers to promote increased energy efficiency and the use of renewable sources of energy. Localities applying for energy rebates can use the EECBG funds to cover portions of the costs not covered by NJBPU's Direct Install, Pay for Performance, or SmartStart Buildings programs.

**Table 1: New Jersey’s and Localities’ Planned EECBG Activities and Funding Allocation**

Dollars (in millions)

<b>New Jersey’s planned EECBG activities and funding allocation</b>		
NJBPU	Provide rebates to 512 eligible local governments to supplement existing clean energy programs	\$10.2
NJBPU	Install energy conservation measures, including energy-efficient lighting, sensors, chillers and insulation, at the state’s 35-building New Lisbon campus comprising 400,000 square feet of space	\$4.2 <sup>a</sup>
		<b>Total: \$14.4</b>
<b>Localities’ planned EECBG activities and funding allocation</b>		
Morris County	<ul style="list-style-type: none"> <li>• Develop energy master plan</li> <li>• Undertake an energy benchmarking and greenhouse gas inventory of county government buildings and vehicle operations</li> <li>• Conduct energy audits</li> <li>• Provide energy retrofits to county buildings</li> <li>• Upgrade lighting and building management systems</li> <li>• Provide energy training for county employees</li> <li>• Purchase hybrid vehicles for county vanpool</li> <li>• Develop a mass transit awareness campaign</li> <li>• Install smart vehicle routing system software for recycling routes</li> <li>• Develop and implement recycling marketing strategy</li> </ul>	\$4.2
Jersey City	<ul style="list-style-type: none"> <li>• Conduct energy audits of city buildings</li> <li>• Replenish revolving loan fund for small businesses to improve energy-efficiency and conservation</li> <li>• Purchase solar trash cans</li> <li>• Install energy-efficient street lighting</li> <li>• Upgrade police communications center by developing a green roof to assist in storm water management and the cooling of the building</li> </ul>	\$2.3
Woodbridge Township	<ul style="list-style-type: none"> <li>• Calculate carbon footprint and prepare a climate action plan<sup>b</sup></li> <li>• Provide energy-efficient retrofits to municipal buildings</li> <li>• Install energy-efficient street lighting<sup>c</sup></li> </ul>	\$0.9
<b>Total</b>		<b>\$7.5<sup>d</sup></b>

Sources: NJBPU, Morris County, Jersey City, and Woodbridge Township.

<sup>a</sup>NJBPU also plans to use \$6 million in Recovery Act State Energy Program funds for this project.

<sup>b</sup>The climate action plan included three potential initiatives for reducing energy consumption: wind power, a buy local campaign, and guidelines for green redevelopment, including initiatives to attract green technology and service providers. The wind power study has since been modified to a study of an energy cluster at the green technology park.

<sup>c</sup>Woodbridge Township is no longer using EECBG funds for this activity because the local utility company is installing energy-efficient streetlights. The township plans to use the funds for the energy retrofits.

<sup>d</sup>Total may not add up due to rounding.

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## NJBPU and Localities Have Experienced Delays in Implementing EECBG Projects

State officials with whom we spoke told us that vague and changing DOE program guidance contributed to delays in implementing EECBG projects, including the energy rebates project. For example, according to NJBPU officials, the program guidance they received from DOE was, at times, duplicative and unclear. At other times, DOE guidance was reversed after the state had put in place procedures to implement the guidance. For example, according to NJBPU, early DOE guidance on Davis-Bacon provisions was reversed after the state had put in procedures to implement the initial guidance. According to NJBPU officials, 14 of the 512 eligible localities have applied for an energy rebate as of August 31, 2010, and the state has not yet obligated any funds for its energy conservation project. The DOE project officer responsible for overseeing some of New Jersey's grant recipients agreed that DOE guidance provided to recipients has been overwhelming and sufficient guidance on the various reporting requirements was not provided to recipients in a timely manner. As a result, recipients were not comfortable moving forward with projects.

Local officials also stated that long DOE project approval processes, as well as adhering to state and local requirements, led to delays in implementing EECBG projects and expending funds. For example:

- A Morris County official stated that the county submitted its EECBG application package to DOE in June 2009 and was awarded the EECBG grant about a month later. However, the county did not receive final approval from DOE on its planned EECBG activities until March 2010, at which time county departments with approved activities were notified to begin work on their projects. As of July 1, 2010, Morris County had obligated \$106,000 of its \$4.2 million in EECBG funds, and two construction projects for lighting upgrades were out for bid.
- According to Woodbridge Township officials, state requirements contributed to delays in implementing EECBG projects. Specifically, Woodbridge Township officials told us that state procurement procedures delayed the energy retrofits project. The township plans to use funds from one of the state's clean energy programs and EECBG funds to complete energy retrofits at 10 of its municipal buildings. Since the township was using state funds for the energy retrofits, it had to first conduct energy audits at each of the buildings using a state-approved firm. According to Woodbridge Township officials, the state required the township to issue a request for proposal to each of the state-approved firms and, once a firm was selected, have the contract reviewed by NJBPU, as well as the state's contract reviewer. Once the initial energy audit was completed, Woodbridge Township staff identified errors in the audit, which required some aspects of the audit

to be redone by NJBPU. The township's energy audit was therefore not completed until December 2009, at which time the township was able to proceed with the state's retrofit program. However, the township did not receive its EECBG award until June 2010, 6 months after it anticipated receiving the grant. The township has expended about \$200,000 of its approximately \$900,000 in EECBG funds, primarily for planning purposes.

- Jersey City officials stated that local requirements have contributed to delays of some EECBG projects. In particular, Jersey City awarded two contracts for the police communications center upgrades that later had to be terminated because the contractors did not meet the energy-efficiency standards the city required, according to officials. As of July 1, 2010, Jersey City had expended about \$800,000 of its EECBG funds, but expects to obligate all of its \$2.3 million in funds by September 2010. Jersey City officials stated that they have felt pressure from DOE to spend funds more quickly but maintained that internal procedures and reviews are necessary to ensure that grant funds are properly administered. According to the DOE project officer, DOE has pressured recipients to spend funds more quickly, which could result in grant recipients having to pay back funds if contracts are awarded that are not in compliance with Recovery Act requirements.<sup>4</sup> According to an August 2010 DOE Inspector General report, DOE has developed plans to obligate Recovery Act funds, including EECBG funds, to meet federal statutory deadlines.<sup>5</sup> However, the report identified several challenges to meeting the obligation deadlines, including the inability of recipients to meet terms and conditions placed on awards to meet federal statutory requirements, which could result in the cancellation of awards or cause delays in spending. The Inspector General has also previously reported that any effort to disburse massive additional funding and to expeditiously initiate and complete projects increases the risk of fraud, waste, and abuse.<sup>6</sup>

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<sup>4</sup>Recipients of EECBG formula funds must obligate the funds within 18 months of receiving the EECBG award and expend the funds within 36 months of receiving the award.

<sup>5</sup>U.S. Department of Energy, Office of Inspector General, Office of Audit Services, *Special Report: Review of the Department of Energy's Plan for Obligating Remaining Recovery Act Contract and Grant Funding*, OAS-RA-10-15 (Aug. 4, 2010).

<sup>6</sup>U.S. Department of Energy, Office of Inspector General, Office of Audit Services, *Special Report: Selected Department of Energy Program Efforts to Implement the American Recovery and Reinvestment Act*, OAS-RA-10-03 (Dec. 7, 2009).

Although NJBPU officials stated that changing and duplicative DOE guidance led to delays in implementing EECBG projects, officials also stated that DOE has amended program guidance in response to feedback provided, has made extensive Web libraries and knowledge bases available to states, and has hosted many Web-based seminars to help states understand their EECBG program responsibilities. Officials from all of the localities we met with also stated that they have been satisfied with the level of support and communication provided by their DOE project officer.

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### NJBPU and Localities Have Plans in Place to Routinely Monitor and Oversee EECBG Funds

Although the state and localities have not yet conducted any monitoring of EECBG grant projects, officials of NJBPU and the localities we met with all plan to conduct routine oversight and monitoring of EECBG funds. For example, NJBPU is in the process of developing standard operating procedures—including both quality control and quality assurance checklists—that will be used as part of its monitoring efforts, which will incorporate random contract file reviews and project site inspections. In addition to the checklists, the state also plans to track the energy rebate projects separately from its clean energy programs using its existing Information Management System (IMS). According to NJBPU officials, the IMS addresses data quality verification through automated checks, checks file formats for conformance and the inclusion of mandatory data, and has built-in validation checks to flag outstanding items. The contract manager for the state’s clean energy program will conduct manual reviews of the files, and the system administrator can generate reports to identify anomalies. State officials told us that they do not believe they will have any challenges or obstacles with regard to management controls and monitoring of EECBG projects. Although the rebates activity will likely be more vulnerable to management control issues due to the potentially high volume of applications, officials believe that the IMS is capable of handling the extra workload.

The localities we visited also have plans to conduct routine oversight of EECBG grant funds, including collecting information to monitor project expenditures and performing on-site reviews. For example, Morris County plans to use a DOE data collection form to oversee project expenditures to ensure the activities stay within planned budgets and project objectives have been met. In addition, the county plans to complete progress reports and review and approve invoices to verify hours worked prior to releasing funds for each of its ten planned EECBG activities. The Morris County Treasurer’s Office has also set up a separate account to track and conduct quarterly audits of EECBG fund activities. Woodbridge Township plans to

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separately track EECBG funds, revenues, and appropriations. Additionally, Woodbridge Township officials told us that the person responsible for fulfilling the purpose of the grant is directly responsible for overseeing the expenses charged to the grant and for ensuring that vendors are completing contracts on time, efficiently, and in compliance with Davis-Bacon and Buy American provisions. Although Jersey City has not yet developed a written monitoring plan for the use of EECBG funds, all written guidance from DOE has been disseminated to project managers and monitors in the field who will perform routine oversight of EECBG expenditures and conduct on-site reviews once the projects are under way. However, officials from Jersey City stated they do not have processes in place to ensure compliance with Davis-Bacon wage provisions.

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### NJBPU and Localities Have Not Yet Reported on Outcomes of EECBG Projects

Recipients of EECBG formula funds are required to report quarterly to DOE through its Performance and Accountability for Grants Energy (PAGE) system on jobs created and retained; programmatic measures, such as program obligations and expenditures; and applicable critical measures that will allow DOE to assess the impact of project activities on energy savings, energy cost savings, renewable energy generation, and emissions reductions. In addition, recipients of grant funds greater than \$2 million are required to report to DOE on a monthly basis on a subset of the quarterly metrics described above.

State and local officials we met with submitted their required quarterly and monthly reports to DOE and stated that they have identified critical measures to assess the impact of their EECBG projects. However, officials stated they have not yet begun to assess the impact of EECBG funds because projects are just getting under way. For example, officials from NJBPU stated that they have programmed applicable DOE critical metrics in the IMS and plan to track and measure project-related information on energy savings and carbon dioxide emissions monthly and annually. The system can also perform impact studies on the back end (i.e., a year later) to assess the impact of the EECBG program on energy-efficiency and conservation. Officials from Woodbridge Township stated that they plan to use the climate action plan they are developing to measure, monitor, and evaluate the township's energy goals. The plan is currently in draft form and outcomes will be measured once projects are implemented. Similarly, Morris County plans to use its benchmarking study to assess emissions reductions and also expects to see reductions in utility costs as a result of its energy retrofit projects. Jersey City also plans to measure fossil fuel emissions on a monthly basis to assess progress in reducing the city's carbon footprint. Although local officials we visited identified measures to

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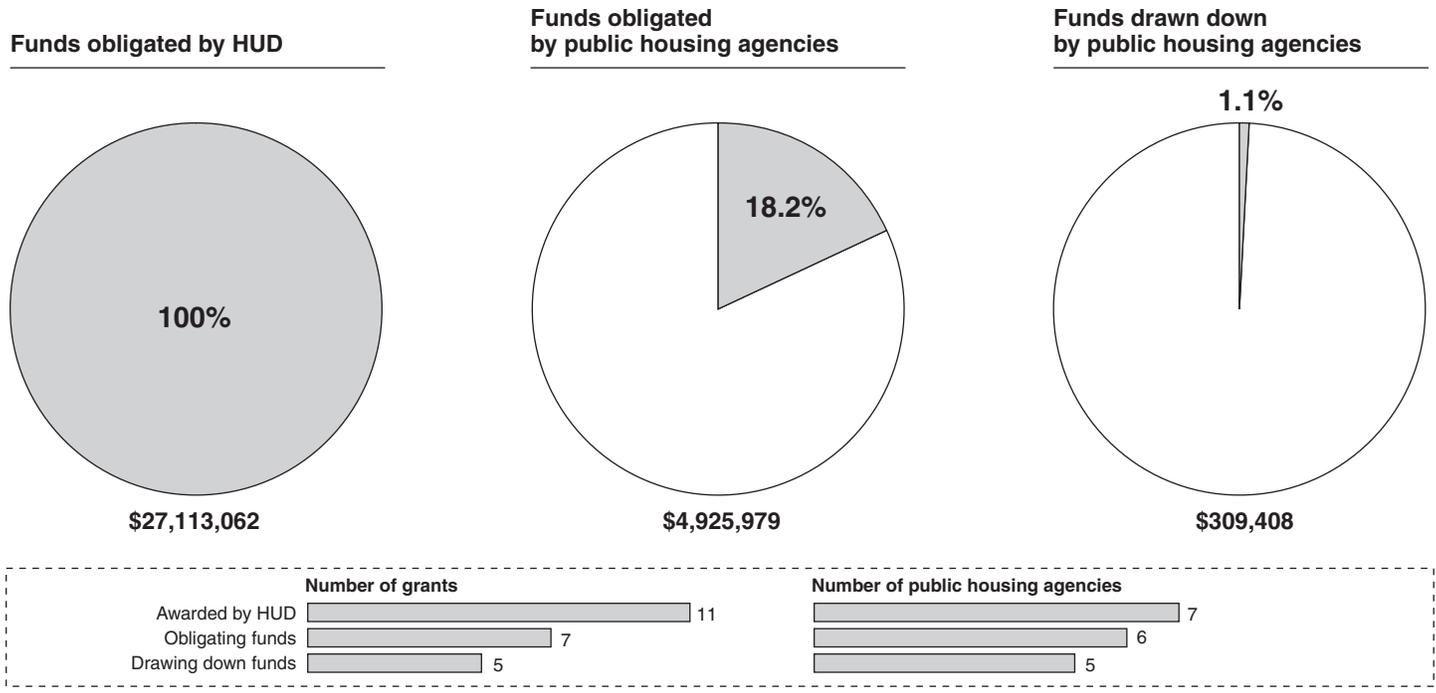
assess the outcomes of their EECBG projects, an official from Morris County stated that it was unclear where and how to report this information to DOE. The official stated that updates would likely be provided through the quarterly PAGE report. The official further stated that the number of Web sites to which the county must report is overwhelming and understanding the various reporting requirements would require one full-time staff member.

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## New Jersey Public Housing Agencies Continue to Make Progress Implementing Public Housing Capital Fund Projects

Of the 80 public housing agencies in New Jersey, 7 collectively received \$27 million in Public Housing Capital Fund competitive grants (competitive grants) under the Recovery Act. These grant funds were provided to the agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofitting. As of August 7, 2010, the recipient public housing agencies had obligated about \$5 million or 18 percent of the \$27 million. Also, five of the recipient agencies had drawn down a cumulative total of about \$309,000 or 1 percent from the obligated funds, as of August 7, 2010 (see fig. 1).

**Figure 1: Percentage of Public Housing Capital Fund Competitive Grants Allocated by HUD that Have Been Obligated and Drawn Down in New Jersey, as of August 7, 2010**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

### Public Housing Agencies Received Competitive Grants Primarily to Create Green Communities

In September 2009, HUD awarded competitive grants to states in four categories: (1) improvements addressing the needs of the elderly or persons with disabilities, (2) public housing transformation, (3) gap financing for projects that are stalled due to financing issues, and (4) creation of energy-efficient communities, both for substantial rehabilitation or new construction and for moderate rehabilitation. In New Jersey, 9 of the 11 grants were awarded for creating energy-efficient, green communities. For example, the Newark Housing Authority (Newark) received the largest competitive grant of about \$11 million for energy-efficient improvements.<sup>7</sup> The Housing Authority of the City of Camden received two grant awards for projects in two separate categories,

<sup>7</sup>In addition to Newark, five public housing agencies received eight competitive grants for creating energy-efficient communities. These public housing agencies included the Elizabeth Housing Authority, the Jersey City Housing Authority, the Bayonne Housing Authority, the Vineland Housing Authority, and the Brick Housing Authority.

including one \$10 million grant to finance a project that was stalled due to financial issues and a \$1 million grant to address the needs of the elderly or persons with disabilities.

Newark is using the entirety of its \$11 million competitive grant to finance energy-efficient components, such as integrating water conserving fixtures and efficient lighting, for the renovation of the Baxter Park South community. According to the project's budget, the first phase includes about \$40 million in mixed financing from private and public funds. The Newark official responsible for managing the grant told us the first phase involves replacing the seven existing buildings with two mid-rise four-story buildings and an adjacent triangular green space. The official said that the complex will include 90 rental housing units for both public and tax credit eligible households, a leasing office, and commercial space. According to the Newark official, there have been no modifications to the project plan and the project is on schedule to be completed by the fall of 2012. At the time of our interview on June 29, 2010, Newark was demolishing the pre-existing buildings in preparation for construction (see fig. 2).

**Figure 2: Demolition of Buildings at Baxter Park South**



Source: Newark Housing Authority.

Note: Funds from the competitive grant were not used during the demolition of buildings at Baxter Park South.

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**Public Housing Agencies  
Are Working toward  
Meeting the September  
2010 Obligation Deadlines  
for Competitive Grants**

Public housing agencies are required to have 100 percent of their competitive grants obligated by September 2010.<sup>8</sup> New Jersey's public housing agencies had obligated about \$5 million or 18 percent of the \$27 million in competitive grants as of August 7, 2010. Of the 11 grants awarded, 5 were 100 percent obligated, 4 grants had no funds obligated, and 2 others were less than 10 percent obligated. Despite the low obligation rates, officials from the HUD field office told us that they anticipate all of the public housing agencies will meet the September 2010 deadlines because most of the award amounts were small and, therefore, manageable by public housing agency staff. In addition, they said that because the projects selected were already in public housing agencies' required 5-year capital plans, several preliminary project planning steps had already occurred and the projects were ready to proceed.

Although HUD field office officials told us that they anticipate all of the public housing agencies will meet the September 2010 deadlines, they told us that they are concerned that Newark has not yet secured all the funding it needs for the construction of Baxter Park South, which must occur before they can obligate the competitive grant for the energy-efficient components. Specifically, Newark is relying on a 4 percent low-income housing tax credit to pay for about \$10 million of the \$40 million cost for the first phase of the project. The 4 percent tax credit is contingent on the state selling tax-exempt bonds, and according to HUD field office officials, the state's financial situation has so far prevented the housing agency from securing the tax credit. However, HUD officials said that they were hopeful that the new state fiscal year would result in the tax credit being available to Newark. The New Jersey Housing and Mortgage Finance Agency sent the commitment letter for the tax exempt bonds, which will carry the right to use the tax credits, to the developer of the Baxter Park

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<sup>8</sup>The actual obligation deadlines vary during September 2010 depending on the category for which the competitive grant was awarded. Competitive grants for public housing transformation must be obligated by September 8, 2010. Competitive grants for energy-efficient, green communities involving substantial rehabilitation or new construction must be obligated by September 22, 2010. Competitive grants for gap financing and for moderate green rehabilitation must be obligated by September 23, 2010, and competitive grants used for addressing the needs of the elderly must be obligated by September 27, 2010.

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South project on August 5, 2010.<sup>9</sup> A Newark official told us that after they submit their final paperwork to HUD, which they anticipate doing on or before September 18, 2010, HUD considers the grant to be 100 percent obligated and the obligation deadline will be met. As of August 7, 2010, \$45,000, or less than 1 percent, of the total grant had been obligated.

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**Public Housing Agencies  
Continue to Expend Public  
Housing Capital Fund  
Formula Grants to  
Rehabilitate Housing Units**

New Jersey's 80 public housing agencies collectively received \$104 million in Public Housing Capital Fund formula grants (formula grants) under the Recovery Act. These grant funds were provided to the agencies to improve the physical condition of their properties; develop, finance, and modernize public housing developments; and improve management. As we previously reported, all public housing agencies met the 1-year obligation deadline to have 100 percent of their formula grants obligated by March 17, 2010.<sup>10</sup> Public housing agencies are further required to expend at least 60 percent of their formula funds by March 17, 2011. As of August 7, 2010, 80 of the public housing agencies had drawn down a cumulative total of about \$64 million, or 62 percent. Of the 80 public housing agencies, 62 had already met the March 2011 requirement to have least 60 percent of their formula funds expended and 28 of those housing agencies had already expended all of their funds.

We previously reported that public housing agencies in New Jersey are using their formula grants for a number of activities such as rehabilitating units; repairing sidewalks and doors; replacing aging exteriors, roofs, and boilers; and installing intercom and fire alarm systems.<sup>11</sup> For example, Newark planned to use its \$27 million formula grant for 14 projects, which included rehabilitating 422 vacant housing units.<sup>12</sup> Newark officials

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<sup>9</sup>The New Jersey Housing and Mortgage Finance Agency is responsible for the administration of the federal low-income housing tax credit on behalf of the U.S. Internal Revenue Service. Investors purchase these tax credits and the revenue from the sale raises equity for New Jersey's affordable housing market. There are two tax credits available to public housing agencies. One is a 9 percent tax credit, which is administered on a competitive basis; the other is a 4 percent tax credit, which is administered on a noncompetitive basis, and is awarded to projects automatically if they meet certain eligibility requirements.

<sup>10</sup>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).

<sup>11</sup>GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (Appendixes)*, [GAO-09-830SP](#) (Washington, D.C.: July 8, 2009).

<sup>12</sup>[GAO-09-830SP](#).

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provided us with an update of their formula grant projects. Specifically, they told us that bids for contracts for the 14 projects were lower than state cost estimates, which enabled them to increase the amount of funding allotted to each project and rehabilitate an additional 71 vacant housing units. Figure 3 shows an example of the rehabilitation done at one of Newark's vacant housing units. Of the \$27 million in formula grants that Newark was awarded, it has expended about \$10 million, or 36 percent, of its funds. Newark officials said they fully expect to meet the deadline to have 60 percent of their funds expended by March 17, 2011.

Figure 3: Newark Housing Authority Rehabilitations with Recovery Act Funds, Before and After



Source: Newark Housing Authority.

Note: These photos illustrate rehabilitation of a kitchen and the hot water heating system at a building managed by the Newark Housing Authority.

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## HUD Provides Assistance and Oversight to Public Housing Agencies to Ensure They Meet All of Their Public Housing Capital Fund Deadlines

HUD officials told us that they provide public housing agencies with ongoing communication and assistance to ensure that public housing agencies meet their deadlines to obligate and expend their Public Housing Capital Fund grants. These officials told us that they provide information and answer questions through e-mail and phone conversations. For example, a Newark official told us that they receive ongoing e-mail communication and on-site visits from the HUD field office about both their competitive grant for the Baxter Park South project and their formula grant projects.

Additionally, HUD field offices are required to monitor competitive and formula grants based on guidance developed by HUD headquarters. For competitive grant recipients, HUD field offices are required to conduct remote reviews of all recipients by August 20, 2010, using a checklist to review the grant status to highlight any deficiencies. As of July 20, 2010, HUD field office officials told us they had conducted 1 of the 11 grant reviews and they did not find any deficiencies. They also said that they did not foresee any challenges to meeting the deadline for completing the remaining grant reviews.<sup>13</sup> For formula grant recipients, HUD field offices were required to conduct reviews of public housing agencies that had obligated less than 90 percent of their funds as of March 1, 2010. HUD field office officials provided us with the reviews their staff conducted of the 19 public housing agencies that met this criterion. The reviewers found each of the public housing agencies to be “on track.” A HUD official told us that all of the public housing agencies reviewed subsequently met the March 17, 2010, obligation deadline. In addition to the monitoring strategy for formula grants developed by HUD headquarters, HUD field office officials told us they are closely monitoring the public housing agencies that have expended 50 percent or less of their formula grant funds and are conducting follow-up phone calls with these agencies. As of July 20, 2010, a HUD field office official said that there were 19 housing agencies that met this criterion.

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<sup>13</sup>According to a senior HUD official, all of the remote reviews were completed by August 20, 2010.

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## New Jersey's Accountability Community Continues to Monitor and Oversee Recovery Act Funds

The Office of the State Auditor, Office of the State Comptroller, and the New Jersey Recovery Accountability Task Force continue to monitor and oversee Recovery Act funds in New Jersey. As we previously reported, the Office of the State Auditor issued its audit report on eligibility issues related to the Weatherization Assistance Program in March 2010.<sup>14</sup> The office continues to audit other aspects of the weatherization program, including the administration of contracts and program expenditures, and may also include homes that have received weatherization services in the scope of its review. The Office of the State Auditor issued a report on the Trenton Board of Education on July 13, 2010, which included a review of controls over Recovery Act funds for the Wired for Learning program.<sup>15</sup> The audit found that controls were in place for this program. In addition, the Office of the State Auditor issued a report on August 9, 2010, on the Division of Criminal Justice within the Department of Law and Public Safety.<sup>16</sup> The audit included the state's Edward Byrne Memorial Justice Assistance Grant program funds provided under the Recovery Act.<sup>17</sup> The audit concluded that costs charged to Recovery Act projects were allowable and separately accounted for in the state's accounting system and that adequate controls are in place to assure the effective cash management and accurate and timely reporting of Recovery Act funds. Other programs and agencies that received Recovery Act funds that are currently being audited by the Office of the State Auditor include bridge maintenance contracts and the cash management system at the Department of Human Services, which includes the state's Federal Medical Assistance Percentage (FMAP) funds. These audits are expected to conclude during the late summer and early fall.<sup>18</sup>

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<sup>14</sup>GAO-10-605SP.

<sup>15</sup>New Jersey Office of Legislative Services, Office of the State Auditor, *Trenton Board of Education, July 1, 2007 to February 28, 2010* (Trenton, N.J., 2010).

<sup>16</sup>New Jersey Office of Legislative Services, Office of the State Auditor, *Department of Law and Public Safety, Division of Criminal Justice and Office of the State Medical Examiner, July 1, 2007 to April 30, 2010* (Trenton, N.J., 2010).

<sup>17</sup>A total of \$34.6 million in Recovery Act grants were awarded to the Division of Criminal Justice in fiscal year 2009, of which \$29.8 million were awarded for the Edward Byrne Memorial Justice Assistance Grant program.

<sup>18</sup>In addition to these ongoing audits, the Office of the State Auditor also initiated audits at the New Jersey Department of Agriculture, which is using Recovery Act funds to purchase school equipment; South Woods State Prison, which received Recovery Act public safety funds; and of the New Jersey Department of Education's formula for allocating funds to school districts.

Since it issued its audit report on the administration and monitoring of Workforce Investment Act of 1998 Youth Program Recovery Act funds in April 2010, the Office of the State Comptroller has initiated audits of Recovery Act EECBG and day care funds. The State Comptroller had planned to audit program compliance and internal controls governing the administration and monitoring of both the fiscal and programmatic components of the EECBG grant in four localities that received formula funds. However, the Office of the State Comptroller suspended the audit in May 2010 for 4 to 6 months due to lack of program expenditures and plans to restart the audit once additional funds have been spent. The day care audit was initiated in July 2010 and will examine internal controls over eligibility, payments, and health and safety. Finally, New Jersey's Recovery Accountability Task Force, which has primary responsibility for oversight of the state's Recovery Act funds, continues to hold monthly meetings to discuss issues related to the oversight of Recovery Act funds. For example, the task force uses the New Jersey Office of Management and Budget's (NJOMB) weekly grant award report to discuss the status of Recovery Act expenditures in the state and asks state agencies to discuss reasons for low expenditure rates.

In addition to the audit activities of the State Auditor and State Comptroller, New Jersey uses the state's Single Audit to ensure that state agencies receiving federal funds are in compliance with the federal requirements of those funds.<sup>19</sup> The audit also identifies internal control deficiencies that could impact state agencies' compliance with federal laws, regulations, contracts, and grants applicable to federal programs. According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received New Jersey's Single Audit reporting package for the year ending June 30, 2009, on April 27, 2010. This was almost 1 month after the deadline specified by the Single Audit Act and almost 10 months after the period the audit covered. This was the first Single Audit for New Jersey that includes Recovery Act programs and it identified 45 significant internal control

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<sup>19</sup>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 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). If an entity expends federal awards under only one federal program and when federal laws, regulations, or grant agreements do not require a financial statement audit of the entity, the entity may elect to have an audit of that program.

deficiencies over compliance, of which 38 were material weaknesses.<sup>20</sup> This is a decrease over the Single Audit report for fiscal year 2008, which identified 48 significant internal control deficiencies over compliance, of which 42 were material weaknesses. Some of the internal control deficiencies identified in the Single Audit report for fiscal year 2009 include Recovery Act funds. For example, for the Weatherization Assistance Program, the Single Audit report identified that the Department of Community Affairs did not have adequate policies or controls in place to ensure that its federal financial report is properly completed, supported by adequate documentation, and reviewed by a supervisor prior to submission. As a result, the state understated its unliquidated obligations for this program for two consecutive quarters. In response to this finding, the Department of Community Affairs stated that the reconciliation process using the department's underlying financial records was strengthened during fiscal years 2009 and 2010 and that the weatherization program now has an accurate mechanism to ensure that federal financial reports are prepared based on reconciled totals. The department amended and resubmitted the erroneous financial reports identified in the Single Audit report for fiscal year 2009 to the U.S. Department of Health and Human Services.

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<sup>20</sup>KPMG, *State of New Jersey Single Audit Report, Year Ended June 30, 2009, Independent Auditors' Report on Schedule of Expenditures of Federal Awards* (Princeton, N.J., Apr. 16, 2010). The Single Audit did not include an opinion on the state's compliance with the requirements of its Medicaid programs, including Recovery Act programs, because the auditors did not have sufficient documentation supporting the compliance of the state regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

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## New Jersey Used Recovery Act Funds to Fill Budget Shortfalls in Fiscal Year 2010, but the State Faces Continued Fiscal Challenges in Fiscal Year 2011

New Jersey has received approximately \$5.8 billion in Recovery Act funding as of July 21, 2010. NJOMB officials noted that the largest increases in Recovery Act funds since our May 2010 report have come from increased FMAP and Temporary Assistance for Needy Families Emergency funds. The state also received Recovery Act funding for energy programs for the first time in June 2010. For example, New Jersey received \$8 million for the energy-efficient appliance rebate program and \$14 million for the EECBG program.

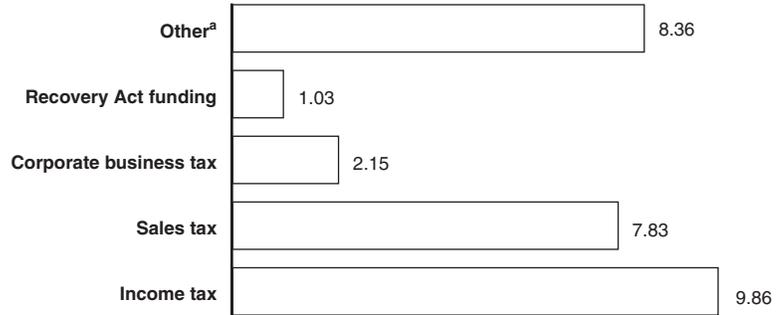
Recovery Act funds directly affected New Jersey's stability in fiscal year 2010. For example, New Jersey included \$1.2 billion in State Fiscal Stabilization Funds (SFSF) monies in its 2010 budget, along with about \$1 billion in increased FMAP funds. New Jersey used the SFSF funds to help restore and increase the state's portion of education aid to local educational agencies and to fill budget shortfalls. However, the state disbursed all of its SFSF funds in fiscal year 2010. New Jersey enacted a \$29.4 billion budget for fiscal year 2011 on July 1, 2010, after closing a \$10.7 billion shortfall. The fiscal year 2011 appropriation is \$626 million less than the previous year. Income taxes account for the largest source of the state's revenues, whereas aid to school districts accounts for over a third of the state's expenditures. About \$1 billion in increased FMAP funds are included in the fiscal year 2011 budget, including Recovery Act funds.<sup>21</sup> Figure 4 illustrates the state's major revenue sources and expenditures.

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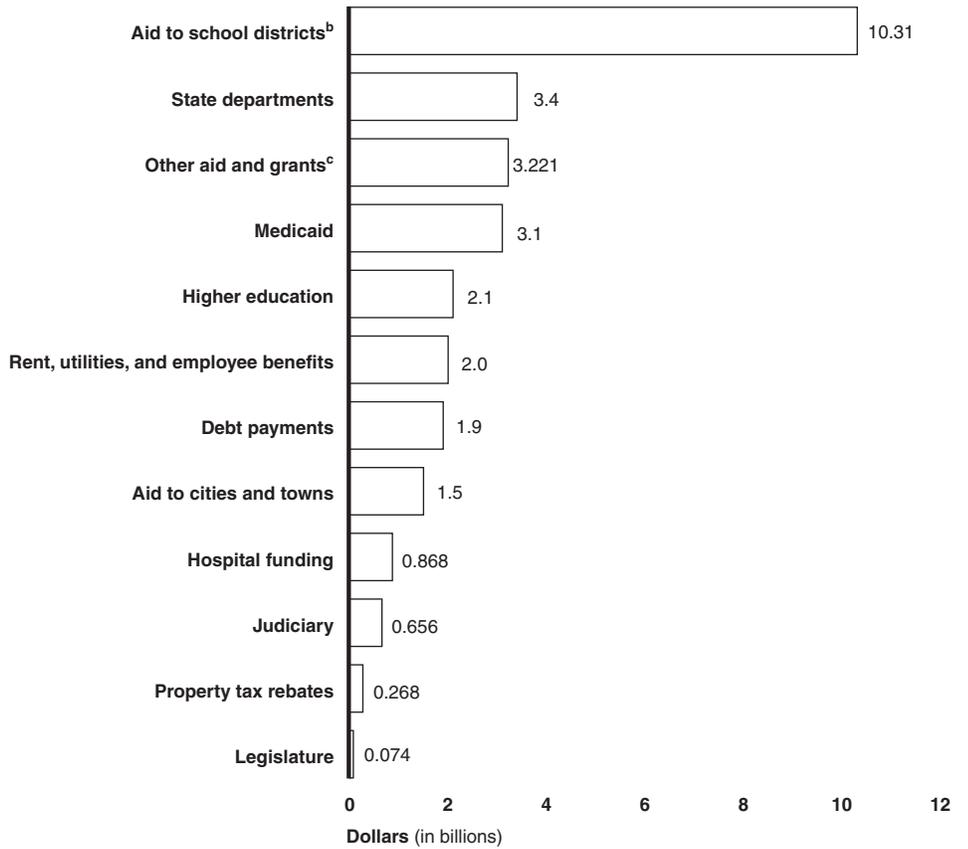
<sup>21</sup>The Recovery Act initially provided eligible states with an increased FMAP for 27 months from October 1, 2008, to December 31, 2010. Recovery Act, div. B, title V, § 5001, Pub. L. No. 111-5, 123 Stat. at 496. On August 10, 2010, federal legislation was enacted amending the Recovery Act and 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).

**Figure 4: New Jersey’s Major Revenue Sources and Expenditures, Fiscal Year 2011 Budget**

**Major revenue sources**



**Major expenditures**



Source: New Jersey Fiscal Year 2011 Budget.

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Note: Total major revenues do not equal \$29.4 billion because there was a drawdown of the opening fund balance of \$200 million to cover the shortfall of revenue versus spending. The opening fund balance is estimated at \$505 million and the closing estimate is \$303 million.

<sup>a</sup>Includes gas, cigarette, real estate transfer, motor vehicle registrations and licensing fees, casino taxes, and other fees.

<sup>b</sup>Includes debt payments on schools.

<sup>c</sup>Includes health, human services, economic development, arts, transit, welfare, and other programs.

New Jersey took a number of actions to close the budget shortfall primarily by eliminating and reducing projected growth and reducing the base budget. For example, the state deferred over \$3 billion in pension payments; cut \$848 million in funding from property tax rebates; and did not provide state funds for fiscal year 2011 in place of the SFSF funding school districts received in 2010, meaning that total aid to New Jersey's school districts will decrease by about \$829 million. NJOMB officials stated that New Jersey school districts are now feeling the effects of steep cuts in their budgets. The state also eliminated the \$334 million special municipal aid program, which provided funds to municipalities with structural deficits, and replaced it with a new transitional aid program. The transitional aid program was funded at a lower level and will be provided to localities using a competitive process. The criteria for this program have not yet been established. Finally, the 2011 budget transferred funds from a variety of programs to help close the budget gap. For example, the budget transferred about \$42.5 million out of the \$453 million budgeted for NJBPU's clean energy programs to pay for state utility costs.

**Recovery Act Funds Allowed Jersey City to Meet Immediate Needs and Pay for One-Time Projects, but the City Faces Fiscal Challenges in Fiscal Year 2011**

Jersey City is New Jersey’s second largest city with an estimated population of 242,503 residents and an unemployment rate of 11.5 percent, which is above the statewide level of 9.5 percent.<sup>22</sup> As of June 30, 2010, Jersey City officials stated that the city received about \$14 million in Recovery Act formula funds for a variety of nonrecurring projects.<sup>23</sup> These projects include an emergency shelter, homelessness prevention, and energy-efficiency programs. Table 2 summarizes the Recovery Act grants the city received. In addition to the projects listed below, the city plans to apply for and partner with the New Jersey City University and the Jersey City Economic Redevelopment Corporation for a competitive green job grant, to train youth, adults, and dislocated workers in green industries and related occupations such as hybrid/electric auto technicians, weatherization specialists, wind and energy auditors, and solar panel installers.

**Table 2: Amount and Types of Recovery Act Grants Awarded to Jersey City**

Jersey City projects	Recovery Act funds
Department of Housing and Urban Development—emergency shelter grants and homelessness prevention	\$2,676,991
Department of Energy, EECBG—various energy projects, including energy upgrades to municipal buildings and street light improvements	2,329,500
Department of Housing and Urban Development—neighborhood stabilization	2,153,431
Department of Justice, Edward Byrne Memorial Justice Assistance Grant—police overtime	1,834,580
Department of Housing and Urban Development, Community Development Block Grant—site improvements to housing projects, ADA compliance, sidewalk replacement, and vacant property demolition	1,749,827
Department of Labor, Workforce Investment Act—training for adults and dislocated workers and youth activity programs	1,743,716
Department of Health and Human Services, Community Services Block Grant—provide employment, financial education, housing, health care, and nutrition services	1,596,740
<b>Total Recovery Act funds</b>	<b>\$14,084,785</b>

Sources: Jersey City and Recovery.gov.

Note: Recovery Act fund total does not include \$7.8 million directly allocated to the Jersey City Housing Authority and \$4.5 million in highway funds suballocated from the New Jersey Department of Transportation.

<sup>22</sup>Population data are from the latest available U.S. Census Bureau estimate as of July 1, 2009. Unemployment rates are preliminary estimates from the U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics for June 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

<sup>23</sup>The Recovery Act fund total does not include \$7.8 million directly allocated to the Jersey City Housing Authority and \$4.5 million in highway funds suballocated from the New Jersey Department of Transportation.

While the Recovery Act funds did not affect the city's budget, the funds allowed the city to meet immediate needs and complete priority projects. For example, the city used the Edward Byrne Memorial Justice Assistance Grant to pay for police overtime costs, while the Community Services Block Grant funds were used to provide employment, financial education, housing, health care, and nutrition services to low-income residents. The EECBG funds will allow the city to make energy-efficient upgrades to municipal buildings and street and traffic lights, among other things. In addition, the Community Development Block Grant (CDBG) was used to begin four projects to (1) improve sites for a 63-unit mixed-income rental housing project; (2) install curb cuts for Americans with Disabilities Act compliance citywide; (3) replace sidewalks in low- and moderate-income areas throughout the city; and (4) demolish vacant properties to create mixed-income or low- to moderate-income housing.<sup>24</sup> When the Recovery Act funds are phased out, officials stated that only this block grant program will continue.

Jersey City officials said that the poor economy and the fiscal condition of the state have adversely impacted the city's budget and finances. For example, because the state budget eliminated the special municipal aid program and cut funding to the state's Consolidated Municipal Property Tax Relief Aid (CMPTRA) program, Jersey City officials stated that the city will face major reductions in funding.<sup>25</sup> Jersey City received \$14 million in special municipal aid from the state in fiscal year 2010, and in fiscal year 2011, the city is anticipating zero dollars. Officials also anticipate further reductions in CMPTRA, which was recently reduced by \$13.5 million. As a result of cuts in state funding, as well as revenues being lower than projected, the city faces an \$80 million shortfall in fiscal year 2011. However, according to officials, the city is required by statute to have a balanced budget. To address the projected shortfall, Jersey City officials told us they laid off 300 seasonal and provisional employees in February 2010 out of the city's approximately 2,000 staff, which saved about \$2 million. In addition, with the exception of police and firefighters, city

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<sup>24</sup>The HUD Office of the Inspector General issued an audit report of Jersey City's CDBG funds received under the Recovery Act in February 2010. The audit found that the city generally had adequate controls and staff capacity to administer its CDBG funds, but needed to strengthen its controls to ensure that it would be able to effectively administer the funds and comply with applicable requirements. The city generally disagreed with the findings.

<sup>25</sup>CMPTRA is a formula grant program through which the state annually provides localities with funds to help offset property tax losses.

employees took 12 unpaid furlough days between December 2009 and June 2010. The city also plans to lay off permanent employees in fiscal year 2011 and have 12 unpaid furlough days to address a portion of the 2011 budget shortfall. Although the city's 2010 fiscal year ended on June 30, 2010, the city council adopted a temporary budget of \$168.1 million for fiscal year 2011 until the budget is introduced and approved, allocating \$106.6 million for operating expenses and \$61.5 million for debt service. Jersey City officials stated that the city is restricted by statute from allocating more than 26.25 percent of its \$476 million fiscal year 2010 budgetary appropriations for the 2011 temporary budget.<sup>26</sup> Officials stated that an estimate for the fiscal year 2011 budget has not yet been determined and the final fiscal year 2011 budget will not be adopted until next year.

## New Jersey Reported Over 22,000 Jobs for the Fourth Recipient Report, but EECBG Recipients We Met With Did Not Use OMB Guidance to Calculate and Report FTEs

According to Recovery.gov, as of July 30, 2010, New Jersey recipients reported funding 22,885 FTEs with Recovery Act funds during the fourth quarterly reporting period, which covers the period April 1, 2010, to June 30, 2010. The New Jersey Department of Education reported the largest number of FTEs, accounting for 77 percent of the total FTEs reported. According to the Governor's Policy Advisor on the Recovery Act, recipient reporting in the fourth quarterly reporting period went very smoothly, with all state agencies reporting on time. The official stated that the biggest challenge reported by state agencies was ensuring that the data entered into Federalreporting.gov was captured by the reporting deadline. According to the official, many agencies wait until the deadline to report their data, which causes a backlog in Federalreporting.gov.

OMB guidance requires recipients to calculate FTEs by adding up the total number of hours worked in the quarter using Recovery Act funds and dividing it by the total number of hours in a full-time schedule for that quarter.<sup>27</sup> However, the local EECBG recipients we met with—Morris County, Jersey City, and Woodbridge Township—did not use OMB guidance to calculate FTEs. For example, an official from one locality told us that four FTEs were reported for the quarter based on the total number of people that had been paid with EECBG funds for the quarter without

<sup>26</sup>N.J. Stat. Ann. § 40A:4-19.

<sup>27</sup>OMB Memorandum, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting Job Estimates*, M-10-08 (Dec. 18, 2009).

taking into consideration the number of hours each employee had worked or prorating the FTEs according to the number of hours attributed to the Recovery Act. As a result, the total number of FTEs reported may have been overstated. Officials from another locality we met with stated that they used an estimate developed by the Council on Economic Advisors to determine the total FTEs worked for the quarter. Specifically, officials calculated FTEs using the assumption that for every \$92,000 in direct federal spending, one job is created for 1 year. The FTEs were attributed to three consultants that had been working on the project part time. According to the consultants, they are not paid on an hourly basis and, therefore, chose to use the spending estimate to calculate FTEs. DOE also requires EECBG recipients to report FTE information through the PAGE quarterly report, using the same formula to calculate FTEs as defined in OMB guidance. In addition, recipients are required to report on the number of jobs attributed to nonfederal funding sources. Given that EECBG recipients did not use OMB guidance to calculate FTEs reported on Recovery.gov, it is likely that recipients also did not use DOE guidance to calculate and report FTEs in PAGE.

EECBG recipients we met with stated that while they were aware of the OMB guidance, they did not use the guidance to calculate FTEs because the FTEs reported to date are mostly for consulting services. Officials from the localities stated that once projects are under way and contracts are awarded, they will use the OMB guidance to calculate and report FTEs. Officials from two of the localities stated that they have not yet determined how they will verify the accuracy of the jobs information submitted, but stated that they would likely review certified payrolls. An official from the third locality stated that there are currently no quality review steps in place to ensure the accuracy of the jobs data reported.

Lastly, the Newark Housing Authority reported 16 FTEs for its formula grant in the fourth quarter recipient reporting period, down from the 20 FTEs reported in the January to March 2010 reporting period, according to Recovery.gov. A senior housing official attributed the decrease to challenges in obtaining city permits in a timely manner and a state-imposed wage increase for unskilled labor. The official stated that the housing agency applied for a waiver from the wage increase, which it did not receive. According to the official, the wage increase will have a significant impact on moving forward with public housing projects because fewer people can be hired at the higher wage. A Newark housing official also told us that no jobs will be reported for the competitive grant until the agency meets its financial closing, at which time construction can begin. To verify the accuracy of the jobs information provided to them by

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contractors, officials stated they collect payrolls and conduct random spot-checking at job sites to ensure they are correct. Officials stated that recipient reporting has become easier each round and they have not experienced any issues during this most recent round.

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## State Comments on This Summary

We provided the Governor of New Jersey with a draft of this appendix on August 9, 2010. On behalf of and in concert with the Governor's Deputy Chief of Staff, who serves as co-chair for the Governor's Recovery Accountability Task Force, the Governor's Policy Advisor for Recovery Act matters responded for the Governor on August 12, 2010. The official provided technical comments that were incorporated, as appropriate.

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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Diana Glod, Assistant Director; Nancy Lueke, analyst-in-charge; Kisha Clark; Anne Doré; Alexander Lawrence Jr.; and Tarunkant Mithani made major contributions to this report.

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# Appendix XIII: New York

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## Overview

This appendix summarizes GAO's work on the seventh bimonthly review of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in New York. The full report on all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery/>.

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## What We Did

We reviewed six programs funded by the Recovery Act—three education programs and three energy programs. The three education programs we reviewed were (1) the State Fiscal Stabilization Fund (SFSF); (2) Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA); and (3) the Individuals with Disabilities Education Act, as amended (IDEA), Part B. All three of these programs are administered by the U.S. Department of Education (Education). The three energy programs we reviewed were the State Energy Program (SEP), the Energy Efficiency and Conservation Block Grant (EECBG), and the Weatherization Assistance Program (Weatherization). All three of these programs are administered by the U.S. Department of Energy (DOE). These programs were selected primarily because they are receiving significant amounts of Recovery Act funds, recently began disbursing funds to states, or both. We focused on how funds were being used, how safeguards were being implemented, and how results were being assessed. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).

Our work in New York also included understanding the state's fiscal condition, visiting one locality—the Town of Brookhaven—to gain insight into its use of Recovery Act funds, and obtaining an update on the fiscal condition of one of the localities we visited for our December 2009 report—Steuben County.<sup>2</sup> We chose the local governments in order to visit a range of communities based on locality type, population size, and unemployment rates. Specifically, we visited the Town of Brookhaven because it is a suburban town and its unemployment rate is below the

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

<sup>2</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: December 2009).

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state's rate.<sup>3</sup> We followed up with Steuben County because it is a rural county with an unemployment rate above the state's rate. Finally, we reviewed the work being done by the accountability community to oversee the use of Recovery Act funds.

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## What We Found

Funds from the programs we reviewed have helped New York prevent reductions in education and health care funding and improve the energy efficiency of public buildings and private residences. Recovery Act funds are also stimulating infrastructure development and expanding existing programs. The following summarizes findings for the areas we examined.

- **Education programs.** Education allocated \$4.98 billion in SFSF, ESEA Title I, Part A, and IDEA, Part B funds to New York, of which the state has made \$3.9 billion available to local educational agencies (LEA). As of July 16, 2010, New York had drawn down about 48 percent of available funds. In examining the efforts of the Syracuse City School District (SCSD) and the New York State Education Department (NYSED) to safeguard this funding, we found that SCSD reduced its local spending on IDEA, Part B for the 2009-2010 school year despite being ineligible to do so. After we alerted SCSD officials to this maintenance-of-effort (MOE) issue, SCSD restored its local spending to the correct level. We also found that SCSD generally followed its procurement procedures in a sample of Recovery Act transactions. In addition, NYSED is continuing its monitoring of 30 high-risk LEAs.
- **SEP.** On July 2, 2009, DOE approved New York's plan for SEP and allocated it \$123.1 million in Recovery Act funds. The New York State Energy and Research Development Authority (NYSERDA)—the agency that administers SEP in New York—also elected to use \$2.5 million from EECBG to augment one of its SEP programs.<sup>4</sup> As of June 30, 2010, NYSERDA had obligated \$109.2 million of its total allocation and had expended \$3.2 million to fund SEP activities under the

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<sup>3</sup>The U.S. Department of Labor's Bureau of Labor Statistics reported an 8.2 percent unemployment rate for New York State for June 2010. This rate is preliminary and has not been seasonally adjusted.

<sup>4</sup>NYSERDA is a public benefit corporation created in 1975. Its goal is to help New York meet its energy goals by reducing energy consumption, promoting the use of renewable energy sources, and protecting the environment. Currently, NYSERDA is primarily funded by state rate payers through a systems benefit charge.

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Recovery Act. NYSERDA is distributing most of these funds to subrecipients in the state to pay for energy efficiency and renewable energy projects ranging from the retrofitting of street lights with more energy-efficient bulbs to the installation of solar photovoltaic systems in homes and businesses. NYSERDA is generally using its established procedures to track and monitor these projects with an increased emphasis on reporting and impact evaluation requirements.

- **EECBG.** New York was allocated over \$175 million in formula-based Recovery Act EECBG funds. Some of the allocations went directly to local recipients, while those for smaller recipients went through the state. In New York, the funds for smaller recipients went through NYSERDA. We examined how NYSERDA and two direct-recipient localities—Orange County and the Town of Brookhaven—planned to use their EECBG funds, as well as their monitoring and reporting efforts. NYSERDA, Orange County, and the Town of Brookhaven received about \$30 million, about \$3.5 million, and about \$4 million, respectively. As of June 15, 2010, NYSERDA reported that it had obligated 100 percent of its funds. As of June 30, 2010, Orange County reported that it had obligated about \$19,000 (about 0.5 percent of its funds), and the Town of Brookhaven reported that it had obligated about \$49,000 (about 1.2 percent of its funds). However, we found that both of these recipients initially underreported their obligations by over \$500,000 combined but later corrected their reports. The recipients plan to use the funds for a variety of projects to improve the energy efficiency of public buildings and private homes and plan to evaluate program outcomes by tracking energy-savings metrics over time.
- **Weatherization.** DOE allocated \$394.7 million in Recovery Act funds to New York in March 2009 for Weatherization. In New York, these funds are administered by the Division of Housing and Community Renewal (DHCR). Through June 30, 2010, New York had weatherized almost 4,000 units—nearly three times the number it reported as of March 31, 2010, and about 8.5 percent of its goal of 45,000 units. DHCR officials said they believe this increase was the result of more multifamily projects working their way through the production process. These officials also believe similar jumps in production numbers will occur in future reporting periods because work on over 14,100 units was currently under way and energy audits—which are required before weatherization can begin—of over 19,200 additional units had been completed. Once work on these over 33,300 units is finished, New York will have completed about 82.7 percent of the units

needed to meet its goal. DHCR officials believe the state will meet its goal by March 31, 2012.

- **Accountability.** The Stimulus Oversight Panel and Office of the State Comptroller (OSC) continue to actively monitor Recovery Act funds.<sup>5</sup> Since our May report, the New York State Inspector General (NYSIG) has completed a review of the Recovery Act Clean Water and Drinking Water State Revolving Funds (SRF). It has also continued to investigate complaints received through the Stimulus Complaint intakes. According to a NYSIG official, NYSIG has received approximately 25 allegations of waste, fraud, or abuse related to Recovery Act funds, predominately in the area of Weatherization. NYSIG expects to report on a number of substantiated claims in September. OSC's Local Government and School Accountability Division has completed its audits of transportation procurement procedures in 51 municipalities, with no significant findings, and has begun looking at how transportation claims are audited and paid for by local governments. OSC's Division of State Government Accountability has begun an audit of the Metropolitan Transportation Authority (MTA) that will examine, among other items, the systems and controls in place to ensure that Recovery Act funds are used for the proper purpose and to monitor waste, fraud, and abuse.
- **State and localities' use of Recovery Act funds.** According to state budget officials, the receipt of Recovery Act funds has greatly affected the state's fiscal stability as it has prevented cuts in education and health care funding and helped the state address budget gaps over 3 fiscal years. The localities we visited plan to or are using Recovery Act funds for financing Medicaid, energy programs, and community development, among other things.

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<sup>5</sup>In July 2009, the Governor created a Stimulus Oversight Panel chaired by the New York State Inspector General (NYSIG) with the state Division of Human Rights Commissioner, Metropolitan Transportation Authority (MTA) Inspector General (IG), and Medicaid IG as members. The panel meets on a biweekly basis to examine the use of Recovery Act funds by each of the 22 New York State agencies designated to receive them, to develop coordination with other state and federal law enforcement partners responsible for the oversight of Recovery Act funds, to discuss the progress of investigations whose allegations were received through the Stimulus Complaint intakes, and to initiate proactive reviews when deemed necessary. State program departments and agencies also have internal audit departments that review Recovery Act funds, and localities and transit or housing authorities play a role in managing some Recovery Act funds that do not pass through state offices.

## New York Has Drawn Down Recovery Act Education Funds at an Increased Rate; NYSED's Monitoring of High-Risk LEAs Did Not Identify a MOE Compliance Issue

For this report, we examined the efforts of SCSD and NYSED to ensure appropriate use of the funding for three Recovery Act education programs—SFSF; ESEA Title I, Part A; and IDEA, Part B—the largest Recovery Act-funded education programs in New York. As the fifth largest LEA in New York, SCSD has about 21,000 students in 33 schools. It has a total operating budget of approximately \$425 million and employs more than 4,000 staff. We chose to review SCSD because of its size, large Recovery Act award, and multiple findings by independent auditors in past reports regarding its use of federal funds and internal controls.<sup>6</sup> SCSD officials estimated that the district was allocated approximately \$34.4 million in SFSF, ESEA Title I, and IDEA, Part B Recovery Act funds. The school district planned to use these funds over 2 years with about 61 percent of these funds planned for use in the 2009-2010 school year and about 39 percent in the 2010-2011 school year. The district planned to use approximately 96 percent of the \$34.4 million for salaries. SCSD officials said that as of June 30, 2010, approximately 284 full-time equivalents (FTE) have been retained using Recovery Act funds. Overall, NYSED officials reported that Recovery Act education funds saved or created approximately 30,000 FTEs throughout the state in the quarterly reporting round that ended June 30, 2010.

## In 3 Months, New York Almost Doubled Its Draw Down Rate of Recovery Act SFSF; ESEA Title I, Part A; and IDEA, Part B Funds, although Its Average Rate Still Lags behind that of Other States in Our Study

Education allocated \$4.98 billion to NYSED for the three Recovery Act education programs we reviewed. Of this funding, NYSED has made approximately \$3.9 billion available to LEAs, and as of July 16, 2010, New York had drawn down about \$1.9 billion, or about 48 percent of the total amount, up from 27 percent of the total amount as of April 16, 2010. However, the state continues to draw down these funds more slowly than other states because of administrative delays, as previously reported.<sup>7</sup> As of July 16, 2010, New York's 48 percent draw down rate was lower than the

<sup>6</sup>The Office of the New York State Comptroller reported on a number of internal control problems in November 2009 in *Syracuse City School District, Internal Controls Over Selected Financial Operations*. In addition, in 2010, NYSED determined the LEA to be one of its high-risk LEAs based on a number of indicators related to fiscal condition, timeliness of reporting, and results of external audits. The SCSD Single Audit for school year 2008-2009 found deficiencies in the controls over purchasing and accounting related to some federal grant funds, among other things. SCSD has taken multiple actions to address these findings, including the recent purchase of a new accounting software system.

<sup>7</sup>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).

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average rate of 64 percent among the 16 states and the District of Columbia included in our review.

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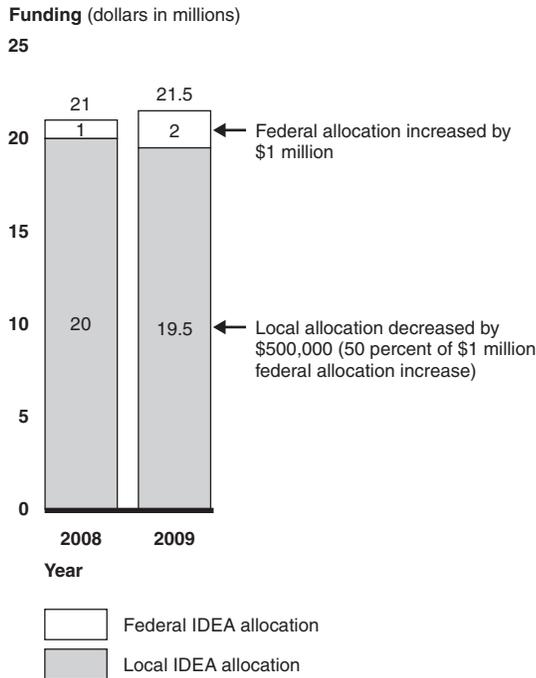
**SCSD Reduced Its Local Spending on Special Education, despite Being Ineligible to Do So, but Subsequently Corrected Its Error**

IDEA requires that an LEA maintain local funding for special education at the previous year's level, referred to as MOE, except under certain circumstances. To be eligible to reduce its IDEA funding, an LEA must meet the requirements of IDEA, including meeting certain performance indicators defined by the state educational agency.<sup>8</sup> (See fig. 1 for an illustration of this concept).

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<sup>8</sup>IDEA allows an LEA that has received an increase in federal funds to reduce its local MOE by 50 percent of the amount of the increase, as long as it spends the amount saved on activities authorized under ESEA. In addition, an LEA is eligible to reduce its MOE if the reduction is attributable to certain circumstances, such as a decrease in the enrollment of students with disabilities.

**Figure 1: Hypothetical Example of an Eligible LEA Reducing Its MOE by the Maximum Allowable Amount**



Source: GAO analysis.

SCSD officials told us in March 2010 that they reduced the district’s local spending on special education in the 2009-2010 school year. However, we determined, and SCSD officials subsequently agreed, that SCSD was not eligible for the MOE reduction in the 2009-2010 school year because it was not meeting performance indicators related to graduation and dropout rates among disabled students and it had a significantly high percentage of students with disabilities being suspended for more than 10 days, among other indicators. After we notified SCSD officials that the district was ineligible to reduce its MOE, SCSD restored its local IDEA spending to meet MOE requirements.

In March 2010, GAO also notified NYSED of the issue, and as a result, NYSED’s IDEA program office asked the SCSD officials to return the funds to SCSD’s special education budget. NYSED officials said that SCSD

should have known of its ineligibility, because the NYSED officials had corresponded multiple times with SCSD on the subject.<sup>9</sup>

NYSED monitors MOE by requiring an LEA's annual application for IDEA funds to include the local funding amount of special education for the previous 2 years and an estimate of the local spending on special education for the application year. The application requires each district to certify that its MOE requirements are met or to provide an explanation for why it is eligible to reduce its MOE. Because of a reporting error on the SCSD 2009-2010 application, NYSED was unaware that the LEA reduced its MOE. In June 2009, SCSD submitted an application to NYSED for federal IDEA funds that we found to contain incorrect information through our review of local budget documents. While SCSD's application to NYSED for IDEA funds reported an increase of \$125,793 in local spending from the 2008-2009 through 2009-2010 school years, it had actually reduced its local spending by about \$2.3 million.<sup>10</sup> When we notified SCSD officials during our visit in March 2010 of the error and SCSD's ineligibility to reduce its MOE by approximately \$2.3 million, they attributed the error to miscommunication among staff in the special education and finance offices and a misunderstanding of the eligibility rules for reducing MOE.

NYSED officials said that if GAO had not discovered the error, it would have likely been discovered in the annual Single Audit that occurs after the

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<sup>9</sup>On May 15, 2009, prior to SCSD's submission of its IDEA application on June 22, 2009, NYSED issued a letter to SCSD detailing the potential IDEA award allocation for the 2009-2010 school year. In bold and underlined text, it described that SCSD was not eligible for a reduction in its MOE. The IDEA application itself also explains eligibility for MOE reduction. In addition, on June 29, 2009, NYSED issued another letter to SCSD explaining its status on state performance plan performance indicators and the resulting consequences.

<sup>10</sup>GAO did not attempt to verify the accuracy of the data source used to calculate the local spending on special education. Previous audits, as mentioned above, found internal control flaws in the SCSD financial accounting system, including a lack of controls over revenues, accounts receivable, and accounts payable.

award year ends.<sup>11</sup> If the error had not been detected until then, NYSED officials said it is possible that they then would have had to take steps to recover the funds or withhold them from SCSD's next federal IDEA allocation and redistribute them to other recipients. We have previously reported that the reduction of MOE by LEAs in all states could affect future spending on special education because, when an LEA is allowed to reduce local MOE in one year, it lowers the level of local spending that the LEA must maintain in subsequent years for the special education population.<sup>12</sup>

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### SCSD Generally Followed Its Procedures for Purchasing Goods and Services with Recovery Act Funds

During our site visit, to assess the extent to which SCSD followed its procedures, we reviewed a nonstatistical sample of 26 expenditures of Recovery Act funds for goods, services, and salaries under the SFSF; ESEA Title I, Part A; and IDEA, Part B programs and interviewed finance and program officials regarding use of Recovery Act education funds, procurement procedures, and inventory controls. As of December 22, 2009, SCSD had expended approximately \$4.8 million in Recovery Act funds for these three programs.<sup>13</sup> We reviewed a selective sample of transactions, which totaled \$122,733. Forty-three percent of this amount represented salary expenses. Our review of these transactions found that

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<sup>11</sup>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 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. The Office of Management and Budget (OMB) Circular A-133 compliance supplement requires auditors to review compliance with matching, level of effort, and earmarking for IDEA, Part B programs.

<sup>12</sup>[GAO-10-232SP](#).

<sup>13</sup>We reviewed Recovery Act expenditures up to December 22, 2009, because that was the cutoff for the latest request for reimbursement by SCSD to NYSED. The objective of this was to compare the total of Recovery Act SFSF; ESEA Title I, Part A; and IDEA, Part B disbursements provided by SCSD to the total of reimbursements the district requested from NYSED to ensure that we had a complete list of transactions from which to draw a sample.

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SCSD officials had generally followed its procedures for review and approval of these expenditures.

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### **NYSED Continues Recovery Act Monitoring of 30 LEAs**

NYSED's Office of Audit Services continues to perform site visits to high-risk LEAs, with a goal of visiting 30 of 68 LEAs that it identified as high risk, as we reported in May 2010.<sup>14</sup> The objectives of the audits include reviewing the use of Recovery Act funds, determining whether a reasonable internal control system exists, and checking for compliance with specific federal requirements over the use of federal funds. As of July 30, 2010, NYSED has published reports on 4 more LEAs selected for site visits, bringing the total to 8.<sup>15</sup> NYSED published a report on SCSD in June 2010, but did not review SCSD's MOE compliance. NYSED officials told us that the major findings among the LEAs as of June 16, 2010, were as follows:

- Unique accounting codes for Recovery Act funds were needed to ensure accountability.
- Time and effort certifications were incomplete.<sup>16</sup>
- LEAs were typically unaware of federal cash management regulations and lacked a process for ensuring compliance with them.
- LEA quarterly reporting under Recovery Act section 1512 had been relatively accurate with some minor discrepancies.

To respond to the federal cash management findings, NYSED has held presentations for six groups of LEA officials across the state to educate them on developing processes for complying with the requirements.

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<sup>14</sup>[GAO-10-605SP](#).

<sup>15</sup>NYSED's Office of Audit Services has published these reports on its Web site at [http://www.oms.nysed.gov/oas/Audit\\_Report/SchoolDistricts/SchoolDistricts.html](http://www.oms.nysed.gov/oas/Audit_Report/SchoolDistricts/SchoolDistricts.html). The school districts reviewed include Saratoga Springs City, Saranac Central, Malone Central, Hamburg Central, Eden Central, Brentwood Union Free, Syracuse City, and Connetquot Central.

<sup>16</sup>OMB Circular A-87 (codified at 2 C.F.R. Part 225) establishes principles and standards for state and local governments in determining allowable costs for federal awards, including grants, and requires grantees to support salaries and wages charged to grant funds by payrolls, time and effort certifications, or other supporting documentation.

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## New York's Recovery Act SEP Is Funding Energy Efficiency and Renewable Energy Projects

The Recovery Act appropriated \$3.1 billion to SEP to be administered by DOE and spent over a 3-year period by the states, U.S. territories, and the District of Columbia. SEP provides funds through formula grants to achieve national energy goals such as increasing energy efficiency and decreasing energy costs. Created in 1996, SEP has typically received under \$50 million per year. As such, the Recovery Act provided a substantial increase in funding for this program.

Upon DOE's approval of New York's plan for SEP on July 2, 2009, New York was allocated \$123.1 million in Recovery Act SEP funds. NYSERDA—the agency that administers SEP in New York—also elected to use \$2.5 million from EECBG to augment one of its SEP programs. Through June 30, 2010, NYSERDA has obligated \$109.2 million of its total allocation and has expended \$3.2 million to fund SEP activities under the Recovery Act. NYSERDA officials were confident that NYSERDA would meet DOE's deadline for obligating these Recovery Act funds, which is January 2, 2011 (18 months from the day the State Plan was approved).

NYSERDA chose to use the Recovery Act SEP funding to develop four new programs instead of expanding funding for established programs. Officials felt this strategy would minimize the budgetary impact on their existing programs once Recovery Act funding is expended. The four Recovery Act SEP-funded programs in New York are described in table 1.

**Table 1: NYSERDA Recovery Act SEP Programs**

Dollars in millions	
Program description	Amount allocated
<i>Energy Efficiency Program:</i> Provides funding to promote energy efficiency among municipalities, schools, hospitals, public colleges and universities, and non-profit organizations.	\$82.6
<i>Renewable Energy Program:</i> Provides financial support to encourage the development of alternative renewable energy sources within the state, such as solar photovoltaic, solar thermal, wind, and biomass systems.	\$31.0
<i>Clean Fleet Program:</i> Provides financial support to accelerate the introduction of light, medium, and heavy-duty alternative fuel vehicles and other advanced vehicle technologies into local community fleets.	\$4.6
<i>New York Energy Codes Program:</i> Provides technical assistance to local code officials to achieve a high level of compliance with the Energy Conservation Construction Code of New York. NYSERDA’s goal is to have the state reach 90 percent compliance with this code within 10 years. NYSERDA is coordinating this effort with the New York Department of State, which has administrative oversight of building codes in New York.	\$4.8 <sup>a</sup>
<b>Total</b>	<b>\$123.1<sup>b</sup></b>

Sources: NYSERDA officials and documentation.

<sup>a</sup>In addition to the \$4.8 million in Recovery Act SEP funds allocated to the New York Energy Codes Program, NYSERDA also allocated \$2.5 million in Recovery Act EECBG funds to augment the services provided through this program.

<sup>b</sup>The totals for each program include administrative costs. In total, NYSERDA allocated \$3,788,751 (3.07 percent) for Recovery Act SEP administrative costs. Numbers in table do not add to total because of rounding.

NYSERDA issued program opportunity notices (PON) and a series of requests for proposals (RFP) to implement its Recovery Act SEP programs. First, NYSERDA issued a PON to fund energy conservation studies. According to officials, through this PON, NYSERDA awarded \$5 million to fund 216 energy conservation studies, many of which formed the basis for proposals submitted in response to subsequent RFPs issued by NYSERDA to select projects to fund using Recovery Act SEP funds.

We spoke to NYSERDA officials, who shared the following information about the awarding of Recovery Act SEP funds. NYSERDA elected to award the implementation funding for the Energy Efficiency, Renewable Energy, and Clean Fleet programs through one RFP but in several evaluation and funding “rounds” rather than all at once. The first round closed on August 24, 2009, and awarded \$24.9 million to 87 projects. Another \$40.1 million was awarded to 118 projects selected in Round 2, which closed on November 27, 2009. The third round for funding requests closed on April 7, 2010, and awarded 44 projects \$9 million. To ensure that the funds were distributed statewide, NYSERDA divided the state into seven regions and separately evaluated and awarded funding requests from each region. NYSERDA issued another PON for a separate component of the Renewable Energy Program and selected five

contractors that were awarded \$10 million to install solar photovoltaic systems in homes and businesses throughout the state. Other Renewable Energy Program funding will be provided to the Long Island Power Authority to help finance infrastructure improvements needed to facilitate the purchase of electricity produced from solar energy and incorporate it into the power grid. The New York Energy Codes Program funds were awarded through two RFPs, with five awards made in total.

Officials further explained the following details. With the exception of the funding for the Long Island Power Authority under the Renewable Energy Program, the grants and contracts were awarded through a competitive evaluation process. A panel that included both outside experts and NYSERDA staff reviewed, evaluated, and ranked each application. Then, a multidisciplinary, NYSERDA-staffed committee reviewed the rankings and made a recommendation on which projects to fund to NYSERDA's senior management. Once funds are awarded, NYSERDA enters into a contract with each subrecipient.

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**NYSERDA Plans to Use Established Procedures to Track and Monitor SEP Funds with an Increased Emphasis on Evaluating and Reporting Impact**

NYSERDA officials did not anticipate any special problems with tracking and monitoring Recovery Act funds. The officials told us that they are using existing procedures and internal controls to oversee Recovery Act funds. For example, the staff who manage the contracts are separate from those who approve payments under the contracts, and NYSERDA conducts site visits on a regular basis to monitor each project. In addition, NYSERDA has hired an independent firm to assist it in managing, overseeing, and monitoring its Recovery Act programs and to aid in recipient reporting.

NYSERDA plans to measure predicted energy savings from these projects. For example, its initial estimate of annual energy savings resulting from the \$74 million awarded to date under the Energy Efficiency, Renewable Energy, and Clean Fleet Programs is \$18.7 million. It plans to use measures such as energy saved and the resultant energy cost savings, the capacity of renewable energy installed, and the reduction of greenhouse gas emissions to evaluate the projects. According to officials, each contract requires subrecipients to comply with NYSERDA's methodology for evaluating the impact of individual projects. NYSERDA is paying for the cost of the evaluation process using Recovery Act funds and will be responsible for its implementation and oversight.

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NYSERDA is also participating in DOE's national evaluation of the Recovery Act SEP. DOE has issued a best practices guide to evaluate the program, and NYSERDA is following this guide as well as its normal processes.

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**SEP Reporting and  
Accountability Activities  
Are under Way**

For the reporting period ending June 30, 2010, NYSERDA reported that Recovery Act SEP funds had funded 46.5 FTEs. NYSERDA officials said that they established a procedure to manage the reporting process and did not feel that the Recovery Act reporting requirements presented any problems. An internal audit by NYSERDA determined that the authority had good internal controls in place to provide oversight to the reporting process.

The Recovery Act programs will be included in both NYSERDA's annual financial audit and in the state's Single Audit. An official with NYSERDA's Internal Audit division indicated that he does not have any specific plans to audit Recovery Act SEP funds at this time. He may conduct a review in the future, however, depending on the results of his annual risk assessment. Currently, he is conducting an audit of a program that is being funded with Recovery Act funds that are not part of SEP—NYSERDA's Energy Efficient Appliance Rebate Program.<sup>17</sup>

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<sup>17</sup>Under the Recovery Act, NYSERDA was allocated \$18.7 million to provide cash rebates to New York residents who purchase high-efficiency appliances.

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## Recipients Plan to Use Recovery Act EECBG Funds to Improve the Energy Efficiency of Public and Private Buildings in New York; Reporting Challenges Exist

EECBG, which was funded for the first time by the Recovery Act,<sup>18</sup> provides funds through competitive and formula grants to cities, counties, states, territories, and Indian tribes to develop and implement projects to improve energy efficiency and reduce energy use and fossil fuel emissions in their communities. The Recovery Act provided \$3.2 billion for EECBG. Of that total, approximately \$2.7 billion was awarded on a formula basis and up to \$454 million will be awarded on a competitive basis. Our Recovery Act EECBG work in New York focused on the formula-driven funds.

As of August 20, 2010, New York had been allocated over \$175 million in formula-based Recovery Act EECBG funds. Some of the allocations went directly to local recipients, while those for smaller recipients went through the state. In New York, the funds for smaller recipients went through NYSERDA. We examined how NYSERDA and two direct-recipient localities—Orange County and the Town of Brookhaven—planned to use their EECBG funds, as well as their monitoring and reporting efforts. We selected Orange County and the Town of Brookhaven because, at the time we made our selection, they were the county and municipality (other than New York City) that received the most funds and had already begun to outlay funds. We did not select New York City because another oversight entity is conducting work there.

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## A Lack of Understanding of the Term “Obligate” Led Two Localities to Initially Underreport the Amount of Funds Obligated, but They Later Corrected Their Reports

Of the over \$175 million in Recovery Act EECBG funds allocated to New York as of August 20, 2010, the three entities we visited received over \$37 million (about 21 percent) of these funds. NYSERDA was awarded almost \$30 million, while the Town of Brookhaven was awarded over \$4 million and Orange County was awarded over \$3.5 million.

DOE required grantees to obligate all funds within 18 months of the effective date of the award and encouraged grantees to have at least 90 percent of their funds under contract and obligated by June 25, 2010.<sup>19</sup> NYSERDA was the only entity we examined that met the June 25, 2010,

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<sup>18</sup>The EECBG program was authorized in Title V, Subtitle E, of the Energy Independence and Security Act that was signed into law on December 19, 2007.

<sup>19</sup>According to DOE guidance, “obligation” in this context means the binding commitment of Recovery Act funds by the recipient to other entities for the execution of projects. This figure is inclusive of funds already spent (i.e. outlays) and commitments outstanding but not invoiced or otherwise liquidated.

goal. As of June 15, 2010, NYSERDA reported that it had obligated 100 percent of its funds. As of June 30, 2010, Orange County reported that it had obligated \$18,813.76 (about 0.5 percent of its funds), and the Town of Brookhaven reported that it had obligated \$48,999.59 (about 1.2 percent of its funds). However, we found that these two localities initially underreported their obligations by over \$500,000 combined. For example, in our meeting with Orange County, an official said that \$200,000 had been obligated for its energy audits contract, but in its second quarter 2010 report to DOE, the county initially only reported that \$18,813.76 of its Recovery Act EECBG funds had been obligated. The Town of Brookhaven had a similar issue. In Brookhaven, an official reported that the town had entered into a contract for the Parks Administration building (for which \$383,878 in Recovery Act EECBG funds has been allocated), but in its second quarter 2010 report to DOE, the town initially only reported that \$48,999.59 of its Recovery Act EECBG funds had been obligated. When we raised this issue with officials from both the county and the town, we were told that the officials had misunderstood the definition of “obligate” thinking that the term applied to funds that had already been expended but not also those that were under contract. An official from each entity told us that they subsequently corrected and resubmitted their reports to DOE.

**Recipients Plan to Use Most Recovery Act EECBG Funds to Improve the Energy Efficiency of Public Buildings and Private Residences**

NYSERDA is using the majority—about 81 percent—of its Recovery Act EECBG funds for a competitive grant program for small municipalities (i.e., those that did not receive direct funding) to perform activities similar to those that were funded under the EECBG program for large municipalities. NYSERDA’s Recovery Act EECBG projects are described in table 2.

**Table 2: NYSERDA Recovery Act EECBG Projects**

<b>Project description</b>	<b>Amount allocated</b>
<i>Project Implementation Funding for Small Municipalities:</i> Allocated funds for a competitive grant program for small municipalities in New York. The eligible activities for funding under this grant program mirror those of EECBG direct funding for large municipalities.	\$24,069,789
<i>Advanced Code Compliance:</i> Added to SEP to assist municipalities with meeting advanced energy code compliance.	2,500,000
<i>Evaluation and Implementation Contractors:</i> Allocated for evaluation and implementation contractors.	2,274,918
<i>Administrative costs</i>	915,893
<b>Total</b>	<b>\$29,760,600</b>

Source: NYSERDA officials.

Orange County is using its funds for building energy audits and retrofits of public buildings and for a financial incentive program for municipalities and school districts in the county. These efforts are described in table 3.

**Table 3: Orange County Recovery Act EECBG Projects**

<b>Project description</b>	<b>Amount allocated</b>
<i>Performance Audit:</i> Allocated for energy audits of 10 county buildings and facilities. The audits will be used to develop a list of projects for each site that could be undertaken to improve the energy efficiency of those sites. The selection of these sites was based, primarily, on those facilities with the largest utility bills with some exceptions. For example, the waste treatment plant was not included.	\$200,000
<i>Building Retrofit:</i> Allocated for undertaking various improvements recommended in the energy audits of the 10 sites conducted under the performance audit project. Specific improvements will be selected based on feasibility and payback in terms of energy savings.	2,717,399
<i>Municipal Incentives Financing:</i> Allocated for a competitive grant program for local governments and school districts in the county to fund various activities, such as energy audits, feasibility studies, Property Assessed Clean Energy (PACE) programs, and training. These funds cannot be used for capital improvements or projects.	430,000
<i>Administrative costs</i>	169,301
<b>Total</b>	<b>\$3,516,700</b>

Source: Orange County officials.

The Town of Brookhaven is using its funds for at least one public building and two financial incentive programs for residents—one called Green Homes for energy audits and retrofits to private homes and one called Go Solar for solar photovoltaic or solar thermal (hot water) generation panels on private homes. Both programs have a revolving loan component that requires the homeowner to contribute about 30 percent of the project’s cost. For the Green Homes project, this loan is to be paid through an interest-free benefit assessment applied to the homeowner’s tax bill. The town’s projects are described in table 4.

**Table 4: Town of Brookhaven Recovery Act EECBG Projects**

<b>Project description</b>	<b>Amount allocated</b>
<i>New Parks Administration Building:</i> Allocated for energy efficiency features in the new Parks Administration building that the town plans to start building in fall 2010.	\$383,878
<i>Old Town Hall:</i> Allocated for an energy efficiency rehabilitation of the old Town Hall. However, that project is on hold at least until next year and may be canceled. If that happens, the town would reallocate the funds among the other three projects.	479,822
<i>Go Solar:</i> Allocated for the installation of solar panels on 50 to 100 single family homes. To select participants, the town conducted a lottery in which it drew names for about 150 homes. The town has assigned the first 34 homes to contractors, which are analyzing the homes for favorable solar applications. The town requires each home to have an energy audit (at the homeowner’s expense) and some level of energy efficiency before it can qualify for solar installation. If the energy audit does not show that the home has the required level of efficiency, the homeowner can choose to stay in the program by bringing the home into compliance at his/her own cost. There is a \$50,000 cap per household for this program.	1,535,220
<i>Green Homes:</i> Allocated for energy audits of and retrofits to 250 to 300 single family homes. The participants were selected on a first come, first served basis. The town received about 335 applications overall, and 256 of these were postmarked on the first available date. The town Ethics Commissioner and an independent auditing firm selected the participants from these applicants. Contractors will perform energy audits and retrofits. There is a \$10,000 cap per household for this program.	1,535,220
<i>Administrative costs</i>	207,060
<b>Total</b>	<b>\$4,141,200</b>

Source: Town of Brookhaven officials.

**None of the Recipients Reviewed Reported Internal Controls Challenges regarding Recovery Act EECBG Funds, but One Recipient May Have a Conflict of Interest Issue regarding Management and Oversight of Its Recovery Act EECBG Funds.**

None of the three recipients we reviewed reported challenges regarding their internal controls and processes to monitor the use of Recovery Act EECBG funds. However, we found that in the Town of Brookhaven, there may be a conflict of interest issue regarding management and oversight of its EECBG funds. The town’s Senior Auditor initially managed the programs funded by Recovery Act EECBG funds and now advises the staff managing these programs. In addition, he is responsible for reporting to DOE and OMB and oversees the creation and gathering of information for these reports. Professional standards for internal auditors that have been set forth by the Institute of Internal Auditors (IIA) state that “internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.”<sup>20</sup> A practice advisory to the IIA’s standards states that “internal auditors are not to accept responsibility for non-audit functions or duties that are subject to periodic internal audit assessments. If they have this

<sup>20</sup>IIA, *International Standards for the Professional Practice of Internal Auditing*, 1120, Individual Objectivity. IIA defines conflict of interest as “any relationship that is, or appears to be, not in the best interest of the organization.”

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responsibility, then they are not functioning as internal auditors.”<sup>21</sup> In addition, the practice advisory states that “when the internal audit activity, chief audit executive (CAE), or individual internal auditor is responsible for, or management is considering assigning, an operational responsibility that the internal audit activity might audit, the internal auditor’s independence and objectivity may be impaired.” As we have previously reported, having responsibility for both managing and auditing an activity creates an inherent conflict of interest that potentially weakens the integrity of the organization’s oversight.<sup>22</sup>

When we raised this issue with the Town of Brookhaven, an official said that the town considers the activities performed by the Senior Auditor to be consistent with the functioning of its Finance Department and the requirements of the programs. The official also stated that the town and the professionals in the Finance Department are aware of the need for proper internal controls and have established levels of approval and review that assure such controls. The official said that, if the town did an internal audit of any Recovery Act programs, the town’s Supervisor, Board, Audit Committee, or Commissioner of Finance would have to initiate the audit and the Senior Auditor would have to recuse himself from participating in the audit.

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### Recipients Plan to Monitor Program Outcome Metrics, but Do Not Have Plans to Undertake Program Audits of Recovery Act EECBG Activities

All three of the recipients we reviewed have plans to monitor the outcomes of the projects funded with Recovery Act EECBG funds. According to officials, for NYSERDA’s Project Implementation Funding for Small Municipalities, a standard component of the contract requires subrecipients to comply with NYSERDA’s methodology for evaluating the impact of individual projects. NYSERDA’s Energy Analysis department will also conduct an additional third-party independent evaluation of its metrics.

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<sup>21</sup>IIA Practice Advisory 1130.A2-1, *Internal Audit’s Responsibility for Other (Non-audit) Functions*.

<sup>22</sup>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.: September 2009).

Orange County plans to track outcome metrics related to national energy goals, such as reducing fossil fuel emissions, throughout the payback period of the projects. It is using a contractor to develop the process for monitoring the metrics.

The Town of Brookhaven is collecting information that would allow for longer-term monitoring of the impact of its Green Homes and Go Solar Programs on energy savings and emissions of four greenhouse gases. Both programs will employ baseline and exit audits of participants' homes, in conjunction with audits of their electric, natural gas, and oil bills, to verify projected outcomes. Each homeowner participating in the program has agreed to provide utility bills for 1 year prior to and 5 years after the project, which the town will use to monitor changes in homes' energy efficiency, environmental impact, and expected payback cycles. The town emphasized, though, that it may not have the resources needed to conduct the longer-term monitoring itself and is seeking to partner with a local university to conduct the analysis.

NYSERDA's Internal Audit department may conduct a program audit of NYSERDA's Recovery Act EECBG activities. Neither Orange County nor Brookhaven planned to undertake program audits of their Recovery Act EECBG activities, but the use of funds may be audited through their annual financial audits or federal Single Audits.

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**Although the Recipients Reported Excellent Working Relationships with Their DOE Project Officers, Two Recipients Had Difficulties in Implementing Reporting Guidance**

EECBG recipients must submit quarterly reports on jobs, expenditures, and a variety of other programmatic information through [www.federalreporting.gov](http://www.federalreporting.gov) and DOE's PAGE system. In addition, recipients of grants greater than \$2 million must report to DOE on a subset of key metrics on a monthly basis.

Each of the entities we reviewed praised DOE's collaboration and was generally positive about DOE's guidance, yet our review revealed that officials in both Orange County and the Town of Brookhaven did not fully understand some of the guidance. For example, as previously detailed, it appears that both Orange County and Brookhaven did not report obligations in accordance with the guidance. In addition, Orange County underreported the number of jobs created or retained because it did not report all FTEs funded with Recovery Act funds as required by OMB. Under OMB's December 18, 2009, guidance, recipients should report all

jobs funded with Recovery Act funds; recipients are not required to make subjective judgments on whether jobs were created or retained as a result of the Recovery Act.<sup>23</sup> Although a county official reported that a contractor is conducting work under a Recovery Act contract, the county initially did not report any FTEs in its most recent quarterly report to OMB. The official said that she did not think the contractor had any documented jobs created or saved and sought clarification from DOE on how to report the FTEs. DOE instructed the county to report based on all of the hours worked by the contractor and its subcontractors that are paid with Recovery Act funds. The county will correct its report.

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## New York's Use of Recovery Act Weatherization Funds Has Increased Significantly since March 2010

The Recovery Act appropriated \$5 billion for Weatherization, which DOE is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent by March 31, 2012. This program enables low-income families to reduce their utility bills by making long-term energy-efficient improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.

According to OSC data, through June 30, 2010, just over 12 months after DOE approved New York's weatherization assistance plan, DHCR had obligated \$259.3 million of its total allocation of \$394.7 million in Recovery Act Weatherization funds. At that time, OSC also reported that DHCR had disbursed \$87.3 million to fund weatherization activities under the Recovery Act. Actual production numbers reported by DHCR as of June 30, 2010, showed a sharp increase from those reported as of March 31, 2010, as shown in table 5.

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<sup>23</sup>OMB, Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non Reporting Recipients, and Reporting of Job Estimates* (Washington, D.C., Dec. 18, 2009).

**Table 5: Comparison of Production Numbers in the New York State Weatherization Program from March 31, 2010 through June 30, 2010**

	Production as of March 31, 2010	Production as of June 30, 2010	Percentage increase	Percentage of goal
Units weatherized	1,309	3,843	193.6%	8.5%
Units with work in progress	10,546	14,134	34.0	
Units with completed energy audits	14,008	19,232	37.3	
<b>Total</b>	<b>25,863</b>	<b>37,209</b>		

Sources: DHCR officials and documentation.

DHCR officials stated that they believe the increases shown in table 5 are partly a result of multifamily projects working their way through the production process. Multifamily projects, which account for over half of the estimated number of units to be weatherized in New York using Recovery Act funds, take longer to get under way and complete than single family homes for a variety of reasons. These include more complicated energy audits and, in many cases, the requirement for owner participation in the cost of the project, which must be negotiated before work can begin. Further, according to state officials, units in a multifamily project cannot be counted as completed until all work on each unit is finished and the project has been inspected and accepted by the local weatherization agency. DHCR officials believe similar jumps in production numbers will occur in future reporting periods. Once the 33,366 units in progress or with completed energy audits are completed, New York will have completed 82.7 percent of the units needed to meet its goal of weatherizing 45,000 units using Recovery Act funds. DHCR officials were confident that New York would meet its goal by March 31, 2012.

**Weatherization in New York Has Been Closely Monitored by Outside Agencies**

The use of Recovery Act funds in Weatherization continues to be reviewed by independent auditors. For example, in June 2010, DOE issued a report on its monitoring of the program in New York and reported no findings. Meanwhile, NYSIG has conducted reviews related to the Recovery Act Weatherization program. It has also investigated complaints received through the Stimulus Complaint intakes—some of which, according to a NYSIG official, relate to allegations of collusion at the local agency level of the Recovery Act Weatherization program. NYSIG expects to report on a number of substantiated claims in September 2010. In addition, New York’s Single Audit for this year will include Weatherization. Because of the high level of oversight of the Recovery Act Weatherization program by outside agencies, DHCR’s own internal audit efforts have been directed toward other programs within the agency that have received Recovery Act

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funds. For example, DHCR has initiated a compliance review of the use of Recovery Act funds in the Tax Credit Assistance Program.

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### DHCR Reported that the Most Recent Recipient Reporting Process Went Smoothly

For the reporting period ending June 30, 2010, DHCR reported that Recovery Act Weatherization funds had created 765 FTEs. DHCR officials said that the reporting process went fairly smoothly, since this was the first quarter in which DOE, OMB, or both had not significantly changed the rules for producing the reports. DHCR conducted an internal audit of the recipient reporting process that determined that adequate internal controls were in place to provide oversight of the reporting process.

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### New York's Accountability Community Has Completed a Number of Recovery Act Audits; NYSIG Expects to Report on Substantiated Recovery Act Complaints in September 2010

In New York, the Stimulus Oversight Panel,<sup>24</sup> Economic Recovery and Reinvestment Cabinet (headed by the Governor's office), and OSC are primarily responsible for statewide oversight of Recovery Act funds.<sup>25</sup> In addition, an estimated 90 percent to 95 percent of the state's Recovery Act funding will be part of the state's Single Audit. To date, these oversight entities have completed audits of a number of Recovery Act programs and reviewed crosscutting Recovery Act issues, such as civil rights compliance and recipient reporting.<sup>26</sup> Since we last reported in May 2010,<sup>27</sup> the Stimulus Oversight Panel and OSC have continued to actively monitor Recovery Act activities.

The Stimulus Oversight Panel has continued to hold biweekly meetings with the state agencies that received Recovery Act funds. Through June 2010, a NYSIG official reported that 14 of the 22 agencies that received funds had appeared before the panel. The individual panel members are also undertaking activities in their areas of expertise. For example, the

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<sup>24</sup>The NYSIG, the state Division of Human Rights Commissioner, MTA IG, and Medicaid IG constitute the Stimulus Oversight Panel.

<sup>25</sup>OSC is responsible for tracking and monitoring the progress of Recovery Act funding and ensuring that the funding meets established internal controls. OSC also must review and approve all contracts over \$50,000; OSC does not have pre-approval authority over contracts awarded by local governments.

<sup>26</sup>The following programs have been audited: Weatherization Assistance Program, Community Services Block Grants, Highway Infrastructure Investment Program, Unemployment Insurance, Workforce Investment Act of 1998 (WIA) Adult Program, WIA Youth Activities, WIA Dislocated Workers, and Medical Assistance Program (Medicaid).

<sup>27</sup>[GAO-10-605SP](#).

Medicaid Inspector General has planned several reviews and NYSIG has conducted reviews related to Weatherization and the Clean Water and Drinking Water SRFs. Related to the SRFs, according to a NYSIG official, NYSIG has visited six Recovery Act funded projects throughout the state and found the SRFs to be well managed by Environmental Facilities Corporation (EFC). NYSIG also found that responsibility rests with the locality, not the relevant state agencies, to oversee the entire bidding process and, because few rural localities have encountered such large-scale water projects, they may be more susceptible to waste, fraud, and abuse. According to a NYSIG official, NYSIG has worked with EFC to promote greater oversight of the local projects, particularly in the bidding process, and has provided anti-fraud awareness training and materials. NYSIG has also continued to investigate complaints received through the Stimulus Complaint intakes. According to a NYSIG official, NYSIG has received approximately 25 allegations of waste, fraud, or abuse related to Recovery Act funds, and although a good number have proven unsubstantiated, NYSIG expects to report on a number of substantiated claims in September.

Since our last report in May 2010, OSC's Division of Local Government and School Accountability has completed its audits of procurement procedures for Recovery Act-related highway projects. In total, OSC completed five audits of transportation procurements that covered 51 municipalities. OSC did not have any significant findings from those audits. OSC is now in the process of looking at how transportation claims are audited and paid for by local governments. OSC issued its first report on this, which covered 10 municipalities in the capital region (around Albany), in August 2010 and found that each local government had systems in place and followed adequate claims processing procedures. In addition, with limited exceptions, OSC found that Recovery Act payments were made according to contract and project bid specifications, and related expenditures were reasonable, accurate, and supported. OSC is planning to conduct another audit of this type of 8 to 10 units of local government probably in western New York (either Buffalo or Rochester). OSC plans to start this audit in late summer.

OSC's Division of State Government Accountability is undertaking an audit of one of the two agencies it has deemed most at risk—the MTA. This audit will examine the systems and controls in place to ensure that Recovery Act funds are used for the proper purpose and to monitor waste, fraud, and abuse; performance; and the process for certifying internal controls for the Division of Budget. OSC had originally planned to concurrently undertake a similar audit of NYSED, the other agency to be

deemed most at risk, and nine other agencies within the next year. However, these have been deferred. An OSC official said that the division's top priority now is to do work that will save money for the state, because the state is in a perilous financial situation.

According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received New York's Single Audit reporting package for the year ending March 31, 2009, on December 23, 2009. This was the first Single Audit for New York that includes Recovery Act programs and it identified 39 significant internal control deficiencies related to compliance with federal program requirements, of which 32 were classified as material weaknesses. As we reported in May, some of these material weaknesses and significant deficiencies occurred in programs that included Recovery Act funds.

**Recovery Act Funds Have Allowed Localities to Address Infrastructure Needs and Pursue Energy Efficiency Opportunities; However, the State and Its Localities Continue to Face Budget Pressures**

Recovery Act funds have helped New York stabilize state finances to a great extent and have prevented reductions in education and health care funding, according to state budget officials. New York State used about \$10.6 billion in Recovery Act SFSF funds and funds made available as a result of the increased Medicaid FMAP to address budget gaps across 3 fiscal years.<sup>28, 29</sup> Budget officials confirmed that the state’s fiscal challenges remain the same as those identified in our May report. State officials forecast a \$8 billion budget gap for fiscal year 2011-2012 and report that the state will address the phasing out of Recovery Act funds this fall when next year’s budget is developed.

We visited the Town of Brookhaven and followed up with Steuben County to add to our understanding of New York’s localities’ use of Recovery Act funds, current fiscal conditions, and preparation for phasing out of Recovery Act funds.<sup>30</sup> (See table 6 for locality background information.)

**Table 6: Background on Selected Local Governments**

Local government	Population	Type of local government	Unemployment rate	Fiscal year 2010 operating budget
Town of Brookhaven	490,416	Town	6.9	\$151.2 million
Steuben County	96,552	County	9.0	183.3 million

Sources: U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics data. Operating budget detail obtained from the Town of Brookhaven 2010 Adopted Budget and Steuben County’s 2010 Adopted Budget Summary.

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.

<sup>28</sup>New York State operates on an April 1 through March 31 fiscal year.

<sup>29</sup>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).

<sup>30</sup>The Town of Brookhaven and Steuben County are not responsible for the operations of their school districts. The Town of Brookhaven is also not responsible for administering its Medicaid Program, which is managed by Suffolk County.

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**Town of Brookhaven**

The Town of Brookhaven has received a total of \$9.9 million in Recovery Act funds. It has also been allocated \$46.5 million in Recovery Zone Bonds (\$18.6 million for Recovery Zone Economic Development Bonds and \$27.9 million for Recovery Zone Facility Bonds).<sup>31</sup> The town expects to use \$5.2 million of the Recovery Act funds to construct a new energy-efficient wastewater treatment plant. It also received \$4.1 million in EECBG funds and \$609,000 in Community Development Block Grant funds that it is using for rehabilitation of homes and construction of curbs and sidewalks.<sup>32</sup> In addition, there are 10 proposed projects to be financed by Recovery Zone Economic Development Bonds; the four largest proposed projects are a building purchase for \$4.2 million; sewer lines for \$3.5 million; and two different sidewalk projects for \$1.6 million and \$1.2 million, respectively. Brookhaven officials stated that as of July 21, 2010, additional projects financed by the \$2.1 million in Recovery Zone Economic Development Bonds remain under consideration. Officials reported that the issuance of Recovery Zone Facility Bonds is controlled by the town's Industrial Development Agency and that agency is currently reviewing funding proposals.

Brookhaven officials reported that the town applied to the Recovery Act Retrofit Ramp-Up program as part of a consortium with the Community Development Corporation of Long Island and seven other communities. Officials stated that although the \$20 million application was denied, the consortium may receive funds from NYSERDA to fund a portion of this program. Finally, town officials noted that there are currently no Recovery Act grant awards awaiting decision and one official stated that all of the town's Recovery Act grants were received through formula, not competitive, grants.

The town's revenues have decreased during the economic downturn because of reductions in mortgage tax revenues, landfill fees, and non-property tax revenues. An official reported that, similar to other localities, Brookhaven is under budgetary pressure. To deal with the downturn and anticipated impact of state budget actions, town officials reported that

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<sup>31</sup>Recovery Zone Economic Development Bonds are a type of direct payment Build America Bond (BAB) created under the Recovery Act and administered by the Internal Revenue Service. Direct payment BABs allow issuers the option of receiving a federal payment instead of allowing a federal tax exemption on the interest payments.

<sup>32</sup>For more information on the Town of Brookhaven's EECBG funding, see the EECBG section of this appendix.

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Brookhaven applied \$13 million of reserves toward its fiscal year 2010 budget and implemented austerity measures to stabilize expenditures.<sup>33</sup> The town plans to use approximately 5 percent of the EECBG funds to cover program administrative expenses and believes any future administrative costs will depend on continued reporting requirements. Because only a small portion of these funds is being used for administrative costs, officials said that Recovery Act funds have minimally affected the town's fiscal stability.

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## Steuben County

Since our December 2009 report,<sup>34</sup> Steuben County has received a total of two Recovery Act competitive grants and received additional Recovery Act funds for several programs in its fiscal year 2010 operating budget.<sup>35</sup> The additional Recovery Act funding received since our December 2009 report includes \$76,726 for a state energy program grant; \$4.2 million in Medicaid; and \$53,034 for foster care, food stamps, and adoption. Medicaid and highway infrastructure investment continue to be the county's largest amount of Recovery Act funds awarded. As of July 14, 2010, the county had received about \$8 million in Recovery Act funds. Steuben County officials reported applying six times for five competitive grants—one grant had two application rounds. Of these, the county was awarded two grants, denied three, and awaits the disposition of another.

Steuben County, along with five other counties in the region, partnered with the Southern Tier East and Southern Tier Central Planning Development Boards to develop a proposal for the Broadband Technology Opportunities Program funded by the Recovery Act. This application, currently awaiting decision, requested approximately \$24 million in funds and will benefit organizations such as hospitals, public safety entities (e.g., police and fire stations), school districts, colleges, and municipal organizations. County officials stated that the six counties will contribute \$6 million in matching funds. Steuben County committed \$1.2 million in matching funds for the 130 miles of fiber that will be installed in the county. In addition, a county official confirmed that the development boards secured a partnership with Corning, Inc., to supply slightly over \$1 million in fiber optic cabling.

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<sup>33</sup>The Town of Brookhaven operates on a January 1 to December 31 fiscal year.

<sup>34</sup>[GAO-10-232SP](#).

<sup>35</sup>Steuben County operates on a January 1 to December 31 fiscal year.

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Steuben County officials reported that Recovery Act funds have moderately affected the county's fiscal stability. However, officials added that with slight declines in sales tax receipts, potentially severe cuts pending from the state, and an increase in retirement costs, the county's fiscal situation could decline. Furthermore, with the increased Medicaid funds expiring, the county will need to fill approximately a \$2.9 million gap annually starting in fiscal year 2011. County officials are developing a plan to address the phasing out of Recovery Act funds. Part of this plan will include a staff reduction of 6 to 11 percent, a tax increase, and use of reserve funds. Officials stated that they hope to ease any staff reductions through retirement incentives and increase efficiencies through the consolidation of services.

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## State Comments on This Summary

We provided the Governor of New York with a draft of this appendix on August 18, 2010. A representative from the Governor's office responded on August 23, 2010. We also provided various state agencies and local officials with the opportunity to comment. In general, they agreed with our draft and provided some clarifying and technical suggestions that were incorporated as appropriate.

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## GAO Contacts

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## Staff Acknowledgments

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# Appendix XIV: North Carolina

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## Overview

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

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## What We Did

Our work in North Carolina focused on gathering information about 2 programs funded under the Recovery Act—the Early Head Start Program and the Public Housing Capital Fund. We also reviewed the use of Recovery Act funds for budget stabilization in one local community and at the state level, and monitoring and reporting within the accountability community. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).

- For the Early Head Start program, we visited two grantees—Guilford Child Development (GCD) and Johnston-Lee-Harnett Community Action, Incorporated (JLHCA). We selected GCD, which is expanding an existing Early Head Start program, because it received the largest amount of Early Head Start Recovery Act funds in North Carolina and the largest amount of Recovery Act funds for the renovation or construction of facilities. We selected JLHCA because it was using Early Head Start Recovery funds to implement a new Early Head Start program. During our visits, we spoke with senior program and fiscal officials about how they were spending their Early Head Start Recovery Act funds. We also reviewed a selection of each program's Early Head Start files to assess how the grantees documented enrollment, eligibility, and certain required health screenings.
- For the Public Housing Capital Fund we visited two public housing agencies—Charlotte Housing Authority (CHA) and Beaufort Housing Authority (BHA)—to determine how funds were being used. We selected CHA because it received the largest capital grant allocation. We selected BHA because it received one of the smallest grant allocations in North Carolina. We interviewed the housing officials and performed testing of expenditures and examined accounting records and external audit documentation. Additionally, we interviewed Department of Housing and Urban Development (HUD) officials in Greensboro, North Carolina, regarding their oversight of Recovery Act

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

funds and their procedures for assisting and monitoring public housing agencies in administering these funds.

- We interviewed state budget officials in North Carolina's Office of State Budget and Management (OSBM) to gather information about the state's use of Recovery Act funds and fiscal condition, including challenges to future economic recovery. We selected the City of Wilmington for a local budget review in order to assess the impact Recovery Act funds are having at the local government level. Located in the southeastern section of the state, Wilmington is one of the largest cities in North Carolina and its unemployment rate is below the state's average. We asked both state and local officials to discuss: (1) the amount of Recovery Act funds its entity is expected to receive, (2) how the funds are being used and their potential impacts, and (3) whether the officials have plans for when Recovery Act funds are no longer available.
- To obtain an update on the monitoring of Recovery Act funds by North Carolina's accountability community since our last report, we interviewed senior administrators with the North Carolina Office of the State Auditor (OSA), Office of Economic Recovery and Investment (OERI), and OSBM's Office of Internal Audit (OIA).

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## What We Found

- **Early Head Start.** Nineteen Early Head Start grantees in North Carolina received about \$24.2 million in Early Head Start Recovery Act expansion funds for the first year of a 2-year grant period. Overall, while both grantees are spending their Recovery Act funds, we found that they were at risk of not spending their entire first-year grants by the end of fiscal year 2010, as required. GCD's senior officials reported that they would have an estimated \$336,882 of unspent funds this year due to delays with construction and hiring. Senior officials for JLHCA reported that a delay in receiving the grant award would leave them with about \$75,000 to \$100,000 of unspent personnel funds. Officials representing both grantees reported that they will request that OHS approve a carryover of the unspent funds into fiscal year 2011. Despite the delays, GCD and JLHCA officials reported having created jobs with their Early Head Start Recovery Act funds for the reporting period April 1, 2010, to June 30, 2010.
- **Public Housing Capital Fund.** We found internal control weaknesses related to procurement practices using Recovery Act funds at both PHAs we visited. We also found that one of the two PHAs we visited did not maintain proper documentation of its use of

Recovery Act funds. Specifically, at CHA we found that officials did not follow their procedures for reconciling and approving monthly purchase card transactions, including documenting reviews of statements by approving officials and providing training to card holders. We also found that BHA did not maintain proper documentation of its use of Recovery Act funds. Although BHA received a Recovery Act public housing capital fund formula grant of approximately \$201,000, we were unable to determine how those funds were used. BHA officials did not provide a general ledger or properly track the use of Recovery Act funds. In our review of the documentation supporting the external audit, we found significant departures from auditing standards. In addition, we found that the BHA board's oversight practices did not meet its own standards.

- **State and local budget stabilization.** As state officials begin to work on the 2011-2013 biannual budget, state budget officials project nearly a \$3 billion budget shortfall that will likely have to be dealt with through budget cuts or revenue enhancements. Wilmington officials told us that \$8.1 million in Recovery Act grants it received provided much needed extra funding for some city projects and services, but did not affect many other departments that had budget reductions. Wilmington officials raised property taxes and used the city's fund balance to balance its budget.
- **Accountability.** We learned that in addition to Single Audits, North Carolina's oversight entities—OSA, OERI and OIA—conduct a range of work to ensure recipients' compliance with applicable laws and regulations. For example, since our May 2010 report, OSA completed a review related to the North Carolina Department of Environment and Natural Resource's compliance with Davis-Bacon provisions of the Recovery Act. OERI officials reported working with state agencies to implement their corrective action plans in response to OSA findings in reports issued in 2010 as well as monitoring compliance among the state's recipients and subrecipients of Recovery Act funds with Recovery Act and OERI requirements related to procurement. Finally, since our May 2010 report, OIA issued a report on several state agencies' compliance with state and federal regulations applicable to the Recovery Act State Fiscal Stabilization Fund (SFSF) and issued risk assessments of Recovery Act programs in three agencies.

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## North Carolina Grantees are Spending Early Head Start Recovery Act Expansion Funds, but Also Report Spending and Implementation Delays

The Office of Head Start (OHS), a part of the U.S. Department of Health and Human Services' (HHS) Administration for Children and Families awarded 19 Early Head Start grantees in North Carolina about \$24.2 million in Early Head Start expansion funds provided under the Recovery Act for the first year of a 2-year grant period.<sup>2</sup> For the second year of funding, OHS has committed an estimated \$19.4 million in Recovery Act funds to North Carolina's 19 grantees receiving Recovery Act funds.<sup>3</sup> The Recovery Act appropriated these funds for the costs to expand the number of families served by Early Head Start. The allowable expenditures include salaries for new staff, renovation and construction of facilities, and training and technical assistance for new and existing Early Head Start staff. For the 2-year period, Recovery Act funds are to support Early Head Start services for up to 1,556 infants, toddlers, and pregnant women in the state.

In June 2010, we visited two grantees—Guilford Child Development (GCD) and Johnston-Lee-Harnett Community Action, Incorporated (JLHCA)—to review Early Head Start Recovery Act spending. At both programs, we spoke with senior program and fiscal officials responsible for the implementation of the Early Head Start expansion activities. We also reviewed each program's Early Head Start files to assess how the grantees documented enrollment, eligibility, and certain required health screenings.<sup>4</sup> We selected GCD, which is expanding an existing Early Head Start program, because it received the largest amount of Early Head Start Recovery Act funds in North Carolina and the largest amount of Recovery Act funds for the renovation or construction of facilities. We selected JLHCA because it was using Early Head Start Recovery Act funds to implement a new Early Head Start program.

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<sup>2</sup>Recovery Act, 123 Stat.178-79 (2009). For grantees in North Carolina, the first year of their Early Head Start expansion grant awards generally began on December 1, 2010, and ends on September 29, 2010. The second year of funding begins on September 30, 2010, and ends September 29, 2011.

<sup>3</sup>This amount represents an estimate since an OHS review of first-year spending and future needs may modify the second-year funding amounts for individual grantees.

<sup>4</sup>We randomly chose our sample from files on all children the grantees reported were enrolled in the Early Head Start program funded under the Recovery Act in the month of April 2010. For GCD, we reviewed 23 of 80 files. For JLHCA, we reviewed 10 of 31 files. For documentation of health screenings, we limited our review to documentation of sensory (vision and hearing), motor, and developmental screenings.

Overall, officials representing both grantees told us that they were spending their first-year Recovery Act funds to expand Early Head Start services through the renovation or construction of new facilities, hiring staff, and training the newly hired staff. However, at the time of our visits, neither grantee anticipated spending their entire first year Early Head Start Recovery Act grant award by the end of fiscal year 2010, as required by OHS. Both grantees also identified other challenges in implementing their Early Head Start programs funded under the Recovery Act programs. Finally, both grantees reported having created jobs for the April 1 through June 30, 2010, recipient reporting period.

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**Construction Challenges  
Delay Guilford Child  
Development's  
Implementation of Center-  
Based Program**

GCD received about \$3.2 million in Early Head Start Recovery Act funds for its first year. HHS designated these funds for GCD to provide services to an additional 104 infants, toddlers, and pregnant women in Guilford County, which includes the cities of High Point and Greensboro.<sup>5</sup> GCD officials told us they used these funds to renovate one child care center, build another child care center, and provide professional development training and salaries for staff, and for other purposes. At the time of our visit, GCD officials reported that work was incomplete for both centers. The Bristol center, designated for 32 children in the Greensboro area, should open by September 2010, according to GCD officials. Construction of the Arlington center should serve 48 children, also in the Greensboro area. Program officials told us that the Arlington Center has faced significant delays and is not scheduled to open until September 2011. GCD officials attributed some of the delays in the Arlington center to problems in securing the original sites identified in the spending proposal submitted to OHS and the process for receiving approvals for the change in facility location from OHS.<sup>6</sup> Regional OHS officials confirmed that the delay for the Arlington center was due to GCD's challenges in securing sites and attributed the delay in the OHS approval process to having to wait for GCD's contractors to provide documentation needed by OHS to complete the review and grant approval.

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<sup>5</sup>Of these 104 slots, 80 are for infants and toddlers and 24 are for pregnant women participating in GCD's nurse partnership program.

<sup>6</sup>According to a GCD official, the organization's attempts to acquire two facilities prior to selecting the Arlington center failed. These officials told us that a local school board with approval authority over the first center GCD sought to purchase voted against selling the facility and concerns over the terms of a lease contributed to the failure of acquiring the second facility.

GCD officials also reported to us that while waiting for the two Recovery Act-funded centers to open, they implemented a temporary home-based program for children receiving services<sup>7</sup>. They also told us they have delayed hiring staff for the Arlington center. According to these officials, the lower costs associated with the home-based program and unspent personnel and benefits funds primarily due to the construction delays may leave \$336,882 of unspent funds at the end of fiscal year 2010.<sup>8</sup> These officials told us that they are seeking approval from OHS to use these unspent funds to cover additional construction costs on the Bristol center and “green” improvements, such as solar panels and energy efficient windows, to both the Bristol and Arlington centers. Alternatively, GCD officials said that if they do not receive approval to reallocate the funds so that they can spend all of the fiscal year 2010 funds, they will request approval from OHS to carry over the funds into fiscal year 2011. In July 2010, regional OHS officials told us that staff in OHS’s headquarters would make decisions about procedures for carryover requests related to the Recovery Act funds but that such procedures had not yet been determined.

GCD officials reported that the temporary home-based program for infants and toddlers is new for their organization, and while they have operated other home-based programs, implementation of the new program has presented some challenges. These senior program and fiscal officials said they anticipated using the home-based option for the Bristol center for 5 months, instead of the estimated 7 months, until the center opens in September 2010. As previously mentioned, the Arlington center is not scheduled to open until the end of the grant period—September 2011. As a result, any children waiting to use the Arlington center will spend the

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<sup>7</sup>Providing services through a home-based program is an approved service delivery method for the Early Head Start program. 45 C.F.R. § 1306.33. According to an OHS tip sheet about Early Head Start, the home-based service delivery method involves Early Head Start staff visiting a family’s home every week to support child development and to nurture the parent-child relationship. Twice a month, the program offers opportunities for parents and children to come together as a group for additional learning, discussion, and social activity.

<sup>8</sup>At the time of our review in June 2010, the estimated amount of unspent funds was \$344,142 which included salary costs for a nurse for the component of GCD’s program for pregnant women. GCD officials said that they were recruiting pregnant women but could not start the program until they hired a nurse. These officials reported challenges in meeting the salary demands of experienced nurses in the area. In July 2010, a GCD official reported having hired a nurse and said that the nurse would begin providing services in August 2010. A GCD official said that the costs associated with hiring this nurse would reduce the amount of unspent funds they reported at the time of our visit by about \$7,320.

entire Recovery Act grant period receiving home-based services rather than the intended center-based services.<sup>9</sup> GCD officials said the primary challenge they faced in using the home-based program for such a length of time is that families in the communities it serves are not interested in home-based child care services. These officials attributed the lack of interest to the requirement that parents be present in the home for weekly visits, which is difficult for working families. As a result, GCD officials told us, some families have opted to remain on a waiting list until the centers open, but other families have dropped out of the program.

GCD also faced challenges developing timely policies and procedures for the home-based program and consistently including documentation related to enrollment and health screenings in its files. GCD officials told us that their organization's governing board did not approve formal policies and procedures on such issues as documenting or determining attendance for its home-based program until June 2010, several months after the program had been operating. Prior to the formalization of these policies, GCD said its staff used different methods for documenting attendance during the weekly home visits. Further, while we observed that all of the files we reviewed had verification, with two staff signatures, of income eligibility, the inclusion of clear documentation in the files to show date of enrollment and some of the required health screenings was inconsistent among the files we reviewed<sup>10</sup>. For example, we did not see clear documentation noting enrollment dates (with which to compare to the monthly enrollment data) in any of the files we reviewed. Rather, GCD officials said that the date a family completed an enrollment packet comprised of selected health and parental agreement documents<sup>11</sup> and the inclusion of these documents in three colored folders represented

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<sup>9</sup>Regional OHS officials told us that OHS approved of GCD's use of the home-based option for the Recovery Act program because, in part, the grantee has had experience in providing home-based services.

<sup>10</sup>Grantees must maintain on file documentation that children enrolled received health screening for developmental, sensory, and behavioral concerns within 45 days of entering the program and that income eligibility was verified. 45 C.F.R. §1304.20(b)(1) and 1305.4(e). OHS also requires grantees to submit enrollment reports on a monthly basis, and auditors compare on-site enrollment data with these reports during program audits.

<sup>11</sup>GCD officials reported that the inclusion of the following documents constituted enrollment: arrival and departure agreements; attendance agreement; health history (filled out by parents); nutrition assessment; Sudden Infant Death Syndrome (SIDS) policy and oral health certification; Child & Adult Care Food Program (CACFP) form; screening consent and records; and signed notice of privacy practices.

enrollment.<sup>12</sup> However, given the range of documents needed to establish an enrollment date, we did not attempt to assess the completeness of the files or whether or not an enrollment date could be determined. In 7 of the 23 files we reviewed, we did not see documentation of at least one of the three required health screenings within the 45-day time period. We also observed inconsistencies in the inclusion of documents related specifically to home visits, such as a home visitation agreement, in the files we reviewed.<sup>13</sup> GCD officials said that some home visitors retain the home visitation agreements in their offices while others include the forms in the child's file. GCD officials acknowledged the inconsistencies in the inclusion of documents in the files and told us that while they had met the requirements, they had already begun to implement more consistent administrative practices for documentation related to their home-based program.

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<sup>12</sup>Enrollment is defined by regulation as official acceptance of a family by a program and completion of all procedures necessary for a child and family to begin receiving services. 45 C.F.R. §1305.2(b). GCD officials said that enrollment is, in part, designated by three colored folders that contain documents related to income eligibility (a red folder), required health screenings (a yellow folder), and education-related information (a blue folder), which are all necessary for enrollment. They told us that children who were terminated from the program do not have all three folders in their file.

<sup>13</sup>Grantees are required to offer parents opportunities to develop and implement individualized family partnership agreements that describe family goals, responsibilities, timetables and strategies for achieving these goals as well as progress in achieving them. 45 C.F.R. §1304.40(a)(2). In home-based program options, this agreement must include the above information as well as the specific roles of parents in home visits and group socialization activities. The GCD home visitation agreement we reviewed included such topics as attendance, frequency of home visits, procedures for absences, and participation in social activities.

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Johnston-Lee-Harnett  
Community Action,  
Incorporated Reports  
Challenges in  
Implementation of New  
Early Head Start Program

JLHCA received about \$1.5 million in Early Head Start Recovery Act funds for its first year of funding. HHS designated these funds for JLHCA to create a new Early Head Start program that would serve 80 infants, toddlers, and pregnant women in Johnston, Lee, and Harnett counties.<sup>14</sup> According to officials, JLHCA used these funds to lease and renovate three day care centers,<sup>15</sup> for staff professional development such as curriculum and skills training, and for salaries and resource materials. JLHCA did not receive Recovery Act funds specifically for construction and renovation of facilities.<sup>16</sup> Therefore, JLHCA officials told us that they were using \$443,200 from their Recovery Act start-up budget to renovate one center in each of the three counties the organization serves, an allowable use of the funds. At the time of our visit, JLHCA had been delivering Early Head Start services in Johnston County since April 2010 and in Lee County since May 2010. It was awaiting the completion of roof repairs and kitchen renovations in a center in Harnett County, which opened in August 2010. Regional OHS officials with knowledge of JLHCA's implementation progress attributed delays in Harnett County to JLHCA having had limited experience with providing services in the county. At the time of our visit, JLHCA was not yet providing Early Head Start services to children in Harnett County and officials attributed the delay to the slow process for obtaining facility permits, and receiving their grant award later than expected. JLHCA officials said that while they had expected to receive notification of their grant in October 2009, the organization did not receive grant award notification from OHS until the end of December 2009. Additionally, while their budget included salaries for staff from December to February, the officials did not begin hiring staff for all centers until March 2010. These officials reported that, due to the delay in the grant award, an estimated \$75,000 to \$100,000 in personnel, benefits, and indirect costs for the 3-month period could go unspent by the end of the fiscal year. JLHCA officials told us that they were seeking approval from OHS to transfer these funds from their operating account into their supplies account so that they could use the funds for such items as diapers and formula or to make improvements to the playground areas of the

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<sup>14</sup>According to JLHCA officials, 60 of the 80 slots are reserved for infants and toddlers and 20 of the slots are reserved for pregnant women.

<sup>15</sup>JLHCA officials also said that they purchased a facility in Lee County using their non-federal funds. They are using funds from their Recovery Act start-up budget to lease the facilities used for Early Head Start services in Johnston and Harnett counties.

<sup>16</sup>OHS provided some grantees, such as Guilford Child Development, with Recovery Act funds specifically for the purpose of construction of facilities in addition to their start-up funds.

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Recovery Act-funded centers. JLHCA officials reported that they will also apply for OHS approval to carry over the funds into fiscal year 2011.

In addition to the delays in receipt of the grant award and opening of one of its facilities, JLHCA officials also reported challenges in recruiting pregnant women for their Early Head Start program and expressed concerns over sustaining the program once Recovery Act funds end. JLHCA officials told us that while there is a waiting list for children, the organization has been slow in meeting its funded slots for pregnant women due to a lack of familiarity with and interest in the program among this population. As a result, at the time of our interview JLHCA had recruited 8 pregnant women for its funded 20 slots for this portion of its Early Head Start Recovery Act program. Although JLHCA is spending 29 percent of its first year grant on the lease and renovation of the three facilities, we found that JLHCA did not have a plan in place for sustaining its Early Head Start program once Recovery Act funds end in 2011. JLHCA officials said that without additional Recovery Act funds or local or state funding they would have to close the three Early Head Start programs. While officials reported to us several alternatives for retaining the facilities—such as using the facilities for Head Start or for-profit child care centers—they did not provide alternatives for maintaining the services for infants and toddlers created with Recovery Act funds.

Our file review did not reveal any deficiencies in how JLHCA documents enrollment, income eligibility, and the three required health screenings we reviewed.

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### Grantees Report Job Creation with Early Head Start Recovery Act Funds

GCD and JLHCA senior program and fiscal officials reported having funded jobs with their first year Early Head Start Recovery Act funds. GCD officials said that for the April 1, 2010, to June 30, 2010, reporting cycle, they reported 9.86 new full-time equivalents. These positions include 7 teachers, a center director, a nurse home visitor, and a family advocate. GCD also reported 1.5 full-time equivalents for construction on its Bristol center. JLHCA officials said that they reported 5 new full-time equivalents. They told us that these positions include 1 center director, 3 teachers, 1 family service worker, and 1 custodian.<sup>17</sup> GCD and JLHCA officials also

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<sup>17</sup>A JLHCA official reported that, in total, the organization has funded 18 jobs since receiving Early Head Start Recovery Act funds.

said that they did not experience any problems with the recipient reporting process.

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## Internal Control and Oversight Weaknesses Increase Risk of Mismanagement of Recovery Act Public Housing Funds

North Carolina's 99 public housing agencies (PHA) received approximately \$83.4 million from the Recovery Act public housing capital formula grant—the federal government provides these funds directly to local PHAs. HUD oversight of these programs is carried out by its field offices. We visited 2 PHAs in North Carolina—Beaufort Housing Authority (BHA) and Charlotte Housing Authority (CHA)—to determine how they were planning to use these funds. At each PHA, we interviewed officials about procurement practices with respect to Recovery Act funds and performed expenditure testing. The testing included a review of accounting records and the sufficiency of supporting documentation, including invoices. We also attempted to review the appropriateness of the expenditures at BHA based on the grant agreements and applicable laws and regulations. We selected CHA because it received the largest Recovery Act capital fund grant allocation—about \$7.5 million—in North Carolina and BHA because it received one of the smallest allocations—about \$201,000. We also interviewed HUD officials about their procedures for assisting and monitoring PHAs management and use of the funds. As of August 2010, BHA had drawn down its entire award. As of August 7, 2010 CHA had obligated its entire \$7.5 million award.<sup>18</sup>

Housing authority officials at both PHAs told us they planned to use Recovery Act funds for a variety of housing rehabilitation projects and security enhancements. During our initial visit in October 2009 to CHA, officials told us they planned to use Recovery Act funds to rehabilitate 609 units by replacing 522 water heaters and appliances and improve security by installing site-security poles and Internet cameras at 22 sites. During our October 2009 visit, BHA officials told us they rehabilitated 4 units and a community center with the Recovery Act funds they were allocated.

We found internal control weaknesses related to procurement practices using Recovery Act funds at both of the PHAs we visited. We also found

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<sup>18</sup>An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. Drawdowns occur after a grant award has been made and the recipient requests the transfer of funds to a grantee's account for its immediate cash program needs.

that one of the two PHAs we visited did not maintain proper documentation of its use of Recovery Act funds. In addition, the HUD Office of Inspector General (OIG) has found that a third PHA in North Carolina failed to comply with procurement and financial management requirements in its administration of Recovery Act funds. As a result, the HUD OIG concluded the third PHA could not provide assurance that it properly awarded more than \$2.4 million for contracts or that it had the capacity to administer funds in accordance with the grant and Recovery Act requirements.

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### Charlotte Housing Authority Internal Controls Could Be Strengthened to Prevent Abuse

CHA procurement office officials told us they had designed strong internal controls to prevent and detect fraud, waste, and abuse from occurring in the PHA's credit card program. However, we identified internal control weaknesses that left Recovery Act and other federal funds vulnerable to fraud, waste, and abuse.

According to CHA officials, CHA has put in place several requirements to ensure proper use of purchase cards by CHA employees. For example, CHA officials said that each month cardholders are responsible for reconciling their monthly purchase card statement with a purchase order that should have been approved prior to the purchases being made. Cardholders must also ensure individual transactions are charged to the applicable grant account, according to CHA officials. Cardholders are required to submit their reconciled statement with all supporting documentation to the purchase card administrator office for approval. CHA cardholders are also required to meet in person with a procurement official for a review of the purchase card statement and supporting documentation. During this review, each transaction on the statement is to be matched to original receipts and an item-by-item match is made with an approved purchase order, according to CHA officials. CHA officials also reported that CHA's policies and procedures state that it is the responsibility of the approving official to review the transactions of those purchase card holders who directly report to them and report irregularities to the procurement office.

However, during our review of the purchase card documentation, we did not find any evidence that transactions had been reviewed by approving officials, and therefore could not verify that the reviews had been conducted. CHA's Acting Chief Operating Officer agreed that there is a need for approving officials to document their review of purchase card transactions. In addition, one of the purchase card administrators told us all cardholders and approving officials are required to take a purchase

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card training course before they receive a purchase card. However, one purchase card holder stated she had not received purchase card training and no one told her what she could or could not buy with the card.

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**Beaufort Housing  
Authority Officials  
Provided False  
Information to GAO  
Auditors**

BHA received a Recovery Act public housing capital fund formula grant of approximately \$201,000. We interviewed BHA senior officials and staff and examined BHA bank records to determine how the PHA used Recovery Act funds. However, because BHA officials did not provide a general ledger or properly track the use of Recovery Act funds, we were unable to determine how those funds were used. BHA officials also failed to provide us sufficient documentation related to the 4 housing units and one community center they claimed were rehabilitated with Recovery Act funds. Additionally, BHA officials provided documents to us during our review that we later learned were false. As a result, we have serious concerns about the possibility that Recovery Act funds were misused and have referred this matter to the HUD OIG.

When we met with BHA officials, we were told that approximately \$191,000 of the grant funds had been paid to one contractor to perform renovation work on four housing units and a community center. We were also told the contract for this work was awarded after a competition in which BHA officials solicited bids from several contractors. As support for these assertions, BHA officials provided us with solicitations purportedly sent by BHA to seven contractors. However, upon further inquiry we learned that the solicitations were fictitious: we learned they were never sent out but were created for the purpose of misleading GAO auditors into believing that they were evidence of a competition.

The bank records of BHA also contain information that raises serious concerns about misuse of Recovery Act funds. For example, on two occasions after Recovery Act funds were deposited into the BHA account, the Executive Director of BHA prepared and signed several checks made payable to her, which appear to be diversions of BHA funds for personal use. We are working with the HUD OIG to assist in a full investigation of this matter.<sup>19</sup>

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<sup>19</sup>The Executive Director was subsequently dismissed by the BHA board. On January 2010 she was charged in Carteret County District Court of the State of North Carolina with embezzlement of BHA funds and corporate malfeasance. The case is currently pending.

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## Insufficient Oversight May Have Contributed to Weak Control Environment

BHA's annual external audit, its Board of Commissioners, and HUD are the key components of the oversight structure for BHA's fiscal management. However, in our review of the documentation supporting the external audit we found significant departures from auditing standards. We also found that the board's oversight practices did not meet its own standards. For its part, HUD field office conducted on-site reviews of BHA in 2006, 2007, 2009, and 2010. Some of those reviews identified deficiencies in management.

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## Departures from Professional Standards Identified in Review of External Audits

Due to the significant internal control weaknesses we identified in BHA's disbursement of and procurement processes over Recovery Act funds discussed above, we reviewed the audit reports and supporting documentation for BHA's fiscal year 2006, 2007, and 2008 financial statement audits. During those years, BHA received federal funds and two of the auditor reports identified internal control issues similar to the issues we identified in our review of Recovery Act funds. Our review of the prior years' audit reports and supporting audit documentation identified substantive issues in the quality of the audit documentation and the extent to which the documentation satisfactorily complied with applicable audit standards.<sup>20</sup> These departures from auditing standards significantly weakened the ability of BHA's Board of Commissioners, and ultimately HUD, to ensure that the BHA maintained an effective control environment to reduce the risk of fraud, waste, or abuse over the expenditure of federal funds, including Recovery Act funds. We identified six areas of concern, that in our opinion, BHA's external auditor departed from generally accepted government auditing standards (GAGAS)<sup>21</sup> and standards promulgated by the American Institute of Certified Public Accountants (AICPA)<sup>22</sup>:

- Insufficient Evidence to Support Closing of Prior Year Findings
- Insufficient Evidence to Support Adequate Consideration of Fraud
- Insufficient Audit Documentation

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<sup>20</sup>The fiscal year 2006, 2007, and 2008 BHA financial statement audits were all performed by the same auditor.

<sup>21</sup>Generally accepted government auditing standards are issued by the Comptroller General of the United States and are published in a guide, commonly referred to as the "Yellow Book." The citation for this guide is GAO, *Government Auditing Standards*, [GAO-07-731G](#) (Washington, D.C.: July 2007).

<sup>22</sup>As a Certified Public Accountant, the auditor must comply with AICPA standards.

- Lack of Supervisory Review
- Inadequate Analytical Procedures
- Insufficient Disbursement Testing to Support Auditor's Conclusions

The fiscal year 2006, 2007, and 2008 BHA financial statement audits were performed by the same auditor. On August 18, 2010, we formally transmitted the results of our review of the work of BHA's external auditor to the North Carolina State Auditor for consideration of further action. We discuss the six areas in which we identified concerns in greater detail below.

- **Insufficient Evidence to Support Closing of Prior Year Findings.** We found that all of the fiscal year 2006 findings were reported as closed without explanation in BHA's 2007 audit report. Based upon our subsequent review of the auditor's fiscal year 2007 audit documentation, we concluded that there was insufficient evidence to support the closing of the fiscal year 2006 audit findings in several instances.<sup>23</sup> For example, we found insufficient evidence in the fiscal year 2007 audit documentation to support the closing of the fiscal year 2006 audit finding related to the violation of procurement policy. According to BHA officials, contracts over \$100,000 should be performed by a sealed bid process. In his fiscal year 2006 audit report, the auditor stated that he found no evidence that this sealed bid process was followed for a capital fund improvement contract. However, the auditor reported this finding as closed in the fiscal year 2007 audit report, based on management's response that "the Authority realizes the significance of following the provisions of the procurement policy and is committed to doing so in the future" and the auditor's conclusion that there were no contracts over \$100,000 in fiscal year 2007. No evidence was in the audit documentation to support the auditor's conclusion.

Further, we question the closing of another finding related to the incomplete and inaccurate tenant file documentation without sufficient evidence. Tenant file documentation for public housing should include income verification, apartment inspection, rent calculation, security deposit information, a signed lease, and certain forms required by HUD. The auditor, in the fiscal year 2006 audit report, recommended that BHA should (1) make certain personnel

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<sup>23</sup>GAGAS paragraph 4.09 states that auditors should evaluate whether the audit entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements.

responsible for the tenant files receive adequate training, (2) hire a specialist to review all the tenant files to make appropriate corrections, and (3) develop a system to ensure accurate information for the future. Our review of the fiscal year 2007 audit documentation found the recommendation was closed because BHA hired a new employee who would be responsible for tenant files. However, BHA had not trained or scheduled training or hired a specialist to perform on-site file reviews and training. Notably, in the fiscal year 2008 audit report, inadequate tenant documentation was again identified as a finding with the recommendation that management ensure those responsible for tenant applications be adequately trained. The auditor, in the fiscal year 2008 audit report, further recommended that BHA contract with a consultant or other public housing authority to provide initial training.

- **Insufficient Evidence to Support Adequate Consideration of Fraud.** We found insufficient evidence to support adequate consideration of fraud in the audit. During our May 2009 visit, the BHA Executive Director at that time told us that she was hired to replace the former BHA Executive Director, who had resigned and was subsequently charged in July 2006 with embezzlement of BHA property.<sup>24</sup> The AICPA Statements on Auditing Standards, AU Section 316, *Consideration of Fraud in a Financial Statement Audit*, require the auditor to obtain information needed to identify risks of material misstatement due to fraud by: (1) inquiring of management and others within the entity about the risks of fraud; (2) considering the results of the analytical procedures performed in planning the audit; (3) considering fraud risk factors; and (4) considering certain other information. Among other things, the auditor should inquire whether management has knowledge of any fraud or suspected fraud affecting the entity and the monitoring of programs and controls which have been established to mitigate specific fraud risks the entity has identified, or that otherwise help to prevent, deter, and detect fraud. Auditing standards also require auditors to perform audit procedures in response to identified risks of material misstatements due to fraud, and the auditor's responses to address identified risks of material misstatement due to fraud may include changing the nature, timing, and extent of audit procedures. Further, the auditor is required to document a description of the auditor's responses to those identified

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<sup>24</sup>The former Executive Director pled guilty on May 6, 2008, to one count of employee larceny and 16 counts of embezzlement.

risks. In addition, the auditor should also design audit procedures to further address the risk of management override of controls and then document the results of the procedures that were performed.

The audit documentation prepared by BHA's external auditor during the fiscal year 2008 audit showed he interviewed the BHA Executive Director at that time about fraud. His interview notes stated she was unaware of any instances of fraud and everything was in order because it all ultimately comes to her. The auditor's documentation also reported that the then BHA Executive Director said everyone was aware of the embezzlement by the previous Executive Director. The audit documentation indicated the auditor interviewed another employee, the then assistant to the Executive Director.<sup>25</sup> The interview notes stated that the then assistant was not aware of any instances of fraud and did not suspect any fraud. According to his fraud risk inquiries form, which lists the names of these two individuals he interviewed about fraud, there is no evidence that the auditor interviewed the Board of Commissioners about the risks of fraud and whether they had an active role in the oversight of BHA's assessment of the risks of fraud and the programs and controls established to mitigate those risks. Further, this documentation did not contain any identified fraud risks associated with his discussions. In our opinion, due to the auditor's knowledge of the past embezzlement at the BHA, his professional skepticism as an auditor should have been heightened to, at a minimum, perform procedures to address the risk of management's override of controls.

- **Insufficient Audit Documentation.** In general, the audit documentation was not sufficient to enable an experienced auditor, having no previous connection to the audit, to understand the work performed, the audit evidence obtained, and the conclusions reached. Under AICPA standards and GAGAS paragraph 4.19,<sup>26</sup> auditors must prepare audit documentation in connection with each audit in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached. Furthermore, the AICPA Statement on Auditing Standards, AU Section 339.18, states that auditors should

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<sup>25</sup>This employee later became the Manager of Administration.

<sup>26</sup>[GAO-07-731G](#).

record who performed the audit procedures and when such work was completed.

In addition to the lack of supervisory review, discussed below, most of the audit documentation that we reviewed for the audits of both fiscal year 2007 and fiscal year 2008 was missing at least one of the following key elements of an audit document: the preparer of the document, the date the work was performed, or the conclusion reached. Further, none of the audit documentation that we reviewed indicated the auditor's purpose in preparing the document, and few documents indicated the source of the work, making it difficult to determine why the work was performed or the origin of the audit evidence. Without this documentation, the nature, timing, extent, and results of audit procedures performed cannot be determined, as required by GAGAS.

- **Lack of Supervisory Review.** In the audit documentation that we reviewed for audits of both fiscal year 2007 and 2008, there was no evidence of supervisory review. According to GAGAS paragraph 4.20,<sup>27</sup> auditors should document, before the audit report is issued, evidence of supervisory review of the work performed that supports findings, conclusions, and recommendations contained in the audit report. The external auditor did not document his justification or rationalization for this departure from GAGAS, nor did he document how the alternative audit procedure he performed was sufficient to achieve the intent of a supervisory review of the audit documentation.
- **Inadequate Analytical Procedures.** The external auditor employed inadequate analytical procedures for the fiscal year 2008 audit. According to AICPA standards, AU section 329, the objective of analytical procedures, used in the overall review stage of the audit, is to assist the auditor in assessing the conclusions reached and in the evaluation of the overall financial statement presentation. This review includes considering any unusual or unexpected balances that were not previously identified. Results of an overall review may indicate that additional evidence may be needed. However, the audit documentation we reviewed did not include any record of management's response to the unusual or unexpected balances or an assessment of the adequacy of such a response. Further, the audit documentation did not include an assessment that additional evidence was needed or additional audit procedures were considered.

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<sup>27</sup>[GAO-07-731G](#).

The external auditor issued a concluding letter, dated June 10, 2009, regarding the audit of the BHA fiscal year 2008 financial statements addressed to the BHA Board of Commissioners. In this letter, he stated that when comparing the fiscal year ended September 30, 2008, actual expenditures to those in the approved budget, there was an unfavorable variance of \$35,561 (that is, actual expenditures exceeded the budgeted expenditures by \$35,561). According to the audit documentation, this was a significant variance with respect to the magnitude of BHA's budgeted expenditures. Furthermore, the auditor noted that he found significant unfavorable variances in the expense categories of administration, ordinary maintenance, and general expense. However, the audit documentation we reviewed did not include any record of management's response to the unusual or unexpected balances or an assessment of the adequacy of such a response. Further, the audit documentation did not include an assessment that more evidence was needed or additional audit procedures were considered.

- **Insufficient Disbursement Testing to Support Auditor's Conclusions.** During our review of the internal control testing of disbursements performed as part of the fiscal year 2008 audit, we found insufficient support for conclusions reached by the external auditor on vendor payment testing which consisted of 2 payroll and 25 non-payroll transactions. The external auditor's testing document indicated that there were no exceptions; and the external auditor, therefore, concluded that vendor payments appeared proper and consistent with the processes established by BHA.

The external auditor did not note any exceptions when tracing the vendor payment sample items to the checks. However, according to BHA's policy, two signatures are required on all checks, and the Executive Director was the only person signing checks. The external auditor told us he did not verify signatures on checks because most banks do not return checks or copies of checks with monthly bank statements. Instead, he told us that he relies on the banks for performing that control. We informed the external auditor that this was not the case at BHA where checks were returned with monthly bank statements. We also identified another audit document that showed the external auditor reviewed bank reconciliations and specifically noted his concern that the Executive Director was not only performing all of the steps in the disbursement process, but she was also performing bank reconciliations. One of the payroll disbursements the external auditor tested was a paycheck signed only by the

Executive Director and issued to the Executive Director; which we believe should have elevated the auditor's concern regarding potential irregularities. There was no record in the audit documentation that indicated that the auditor modified his approach for these circumstances.

Further, in a fiscal year 2008 internal control test to determine that the amounts paid employees were in agreement with the approved budget, the external auditor documented his conclusion that employees were being paid appropriately in accordance with the approved budget. However, his test showed that the Executive Director's actual salary payments were \$2,645 more than the annual budget for her salary and the maintenance employee's actual salary payments were \$1,200 more than the annual budget for his salary. In the audit documentation that we reviewed, the external auditor noted these discrepancies and stated that due to the insignificant amounts and the possibility of an extra pay period in the year, he chose not to further pursue these discrepancies.

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**BHA's Former Board Failed to Ensure Its Financial Policies were Implemented, but the New Board Has Taken Steps to Improve Its Oversight**

BHA's former board did not properly oversee and manage the affairs of BHA to ensure compliance with the board's own policies concerning financial management. For example, the board failed to enforce its own resolution requiring 2 signatures on all non-payroll checks, making it easier for the Executive Director to make improper purchases and payments. All of the BHA board members in place during the time the alleged embezzlement took place have resigned and been replaced.

Members of BHA's new board with whom we spoke told us they are taking actions to enhance the board's oversight activities. For example, the new board has revised BHA's by-laws, designed and implemented additional internal controls, and produced a new employee handbook with an emphasis on a proper code of conduct for housing authority employees. The new board has also approved internal control enhancements to tenant accounts receivable, bank reconciliations, credit card statement review and approval processes, travel reimbursement, and check and bank drafts approvals. Our review of 2010 board minutes found the current board appears to be routinely conducting fiduciary oversight as part of its regular board meetings.

While these actions can help safeguard BHA's use of federal funds, the board faces ongoing challenges including recruiting and hiring a well qualified executive director. Because of BHA's poor financial condition, the interim executive director told us that he has agreed to stay in the

position without compensation until a new director can be hired.<sup>28</sup> The Board Chairman told us that the former executive director was bonded for \$50,000 and, pending an indictment or conviction, the board will receive the proceeds by this fall, which will enable it to hire a new executive director.

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**HUD Received Additional Funds to Monitor Recovery Act Funds; On-Site Reviews Conducted at BHA in Successive Years**

HUD's Greensboro field office is responsible for oversight and monitoring of North Carolina's PHAs to ensure that federal funds are being used for their intended purpose. HUD's field office officials told us their office focuses its monitoring activities on about 15 high risk PHAs in North Carolina identified by the annual risk analysis. They also told us the office does not have sufficient resources, including staff, to conduct on-site monitoring of all PHAs in North Carolina. However, HUD field office officials told us the office received additional travel funds for oversight and monitoring of Recovery Act public housing funds. The field office director told us his office conducted remote reviews of all Recovery Act funds and visits to 21 public housing agencies receiving Recovery Act funds.<sup>29</sup> He also stated that while his office received additional travel funds for monitoring and oversight during the early days of the Recovery Act, the Greensboro office has requested still more funds for monitoring and oversight of Recovery Act funds. HUD officials reported that they conducted one on-site review of BHA in 2006, one on-site review and one remote review in 2007, and an asset management on-site review in 2009. According to these same officials, they also have conducted an on-site review at BHA in 2010.

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<sup>28</sup>The interim executive director is a board member and he is not interested in the permanent executive director position.

<sup>29</sup>Remote reviews include examination of contracts when 25 percent of grants have been drawn down, procurement policies and amendments, grant initiations, annual financial statements, and work items included in the 5 year plan.

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## North Carolina Continues to Rely on Recovery Act Funding in the Face of Budget Challenges, But Sees Signs of Economic Recovery

As of August 24, 2010, North Carolina had received \$6.9 billion in Recovery Act funding. State budget officials said that the Recovery Act funds directly affected North Carolina's fiscal stability. In addition to uses of the funds we detailed in previous reports, the state will use \$13 million from the Recovery Act's Workforce Initiative grant towards its JobsNOW 12 in 6 Program, which allows the Community College System to create at least 12 occupational training opportunities for state residents that can be completed in 6 months or less. The state's Workforce Development Boards will also use \$56 million from the Recovery Act's Workforce Initiative grant to set up programs across the state to provide job training support for adults, disadvantaged youth, and dislocated workers. The officials also told us the state will spend \$24 million from the State Veterans Home Construction Grant Program toward the construction of two Veteran nursing homes in the state.

On June 30, the North Carolina General Assembly passed and the state's governor signed the 2011 fiscal year budget; the first time in 7 years that the state has passed its budget on time. Overall, the newly enacted budget reduces state spending by 3.3 percent more than the legislature projected last year when it approved a 2 year budget for the 2009-2011 budget period.<sup>30</sup> While state officials tell us there are signs the state is working its way out of its economic downturn, state officials still took steps to constrain costs. For example, under the 2011 budget, state employees will not receive a raise for the second consecutive year.

State budget officials also told us the enacted budget assumed that approximately \$519 million in Federal Medical Assistance Percentages (FMAP) funds will be available, but the state will receive less than officials anticipated when they developed the state's budget. Specifically, in June, the Governor requested that the state legislature prepare a contingency budget in the event the increased FMAP was not continued. The suggested adjustments to address the end of the increased Recovery Act FMAP funds are outlined in Table 1. However, in August 2010, Congress passed and the President signed a 6 month extension of increased FMAP

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<sup>30</sup>North Carolina's legislature operates on a bi-annual budgeting calendar. At the conclusion of the first year of funding for the two-year period, legislators review and revise planned spending for the upcoming year of the budget cycle.

funding for states<sup>31</sup>. According to the budget officials, the state will receive an estimated \$320.3 million in FMAP funds. A senior budget official said the only adjustment the state has made, as of September 1, is that the state will not hold retirement contributions but will have them sent to the state agencies' retirement systems. The state's budget director noted that given the current level of economic uncertainty and knowing North Carolina faces continued budget challenges in fiscal year 2011-2012, the state budget office is still requiring all agencies to establish an internal one percent Management Flexibility Reduction budget reserve as outlined in a July 2010 statewide memorandum.

**Table 1: Suggested Budgetary Adjustments to Address Potential Loss of Increased FMAP Funds, in priority order**

Suggested budgetary adjustments	Dollars in Millions
Transfer from the disaster relief reserve <sup>a</sup>	\$30
Transfer for unclaimed lottery prize money and excess receipts <sup>b</sup>	35
Use of interest from all other funds <sup>c</sup>	50
Use of balance in general fund availability <sup>d</sup>	23
Reduction of Medicaid provider rates <sup>e</sup>	27
Use of Funds from the savings reserve funds <sup>f</sup>	38
Reduction in retirement system contribution <sup>g</sup>	139
One percent (1%) management flexibility reduction <sup>h</sup>	178
<b>Total</b>	<b>\$519</b>

Source: GAO analysis of data provided by NC state budget officials.

Note: Total does not add due to rounding.

<sup>a</sup>The Disaster Relief Reserve is a budgetary reserve established by the North Carolina General Assembly to provide necessary and appropriate relief and assistance from the effects of natural disasters.

<sup>b</sup>The unclaimed lottery prizes are unclaimed prize revenues that would otherwise have been used by the Education Lottery Commission to enhance lottery prizes. Excess lottery receipts are lottery revenues collected in June 2010 that would otherwise have been transferred into the Education Lottery Fund to support specified Education programs.

<sup>c</sup>Interest from all other funds is interest earned from all non-General Fund governmental and proprietary funds.

<sup>d</sup>Balance of General Fund availability is the 2010--2011 available General Fund revenue that remains unappropriated by the 2010 NC General Assembly.

<sup>31</sup> 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).

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<sup>e</sup>The Secretary of the NC Department of Health and Human Services shall reduce reimbursement rates paid to service providers in the Medicaid program (with certain exceptions as specified by the NC General Assembly).

<sup>f</sup>The Savings Reserve Fund of the “Rainy Day Fund” is a statutory reserve fund to address unanticipated events and circumstances in case of emergencies. Although this fund has been used to address the recent economic downturn, there is a balance remaining in this Fund.

<sup>g</sup>The state retirement system employer contribution rate (%of covered salaries) was reduced from 10.51% to 9.15% for the 2010-2011 fiscal year.

<sup>h</sup>A one percent annualized flexibility reduction is authorized as cuts made at the discretion of the agency head with the understanding that the agencies are encouraged to implement all administrative and other operating deficiencies, including the reduction of vacant positions which do not affect public safety or staffing ratios at State institutions, prior to the dismissal of employees.

Although North Carolina continued to experience significant fiscal challenges during the fiscal year ended June 30, 2010, senior budget officials told us the state avoided tapping into its “rainy day” funds. These officials also told us they are seeing gradual increases in property tax revenues. As state budget officials begin work on the state’s 2011-2013 bi-annual budget, they have projected a \$3 billion budget shortfall that will likely have to be addressed through further budget cuts or revenue enhancements.

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## Recovery Act Funds Benefited Wilmington, but Did Not Prevent Budget Cuts to Some Programs and Services

Wilmington officials reported they received Recovery Act awards totaling over \$8.1 million for public safety, human services, energy, and transportation programs and activities. Wilmington applied for and received nearly \$2.3 million, or 28 percent, of its Recovery Act funds through the competitive grants process. Various federal agencies awarded the remaining funds through their formula grants process. Located in southeastern coastal North Carolina, Wilmington is the state’s eighth largest city with an estimated 101,350 residents, an increase of approximately 33 percent since 2000. Wilmington’s total operating budget for fiscal year 2011 is about \$140 million and its June 2010 unemployment rate was 8.6 percent, which is below the statewide level of 10.1 percent.

According to Wilmington officials, the combination of the city’s commitment to maintain core, critical public safety services, the required increases in expenditures, and the projected reductions in revenue necessitated a 0.0375 cents per \$100 valuation in its property tax, effective July 1, 2010, in order to balance its budget. Further, in addition to initiating some cutbacks in programs and services, the city also used about \$320,000 of its fund balance to help balance its budget. Wilmington officials chose not to initiate layoffs but froze all hiring, including not staffing 60 vacant positions. According to Wilmington officials, the hiring freeze was still in effect in June 2010 and future hiring will be done on a case-by-case basis.

Wilmington officials told us that the Recovery Act funds relieved some budgetary reductions and most likely helped avert layoffs. However, the officials noted that the additional administrative, accountability, and reporting responsibilities required by the Recovery Act significantly stretched staff capacity.

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### Wilmington Used Recovery Funds to Support a Variety of New and Existing Priorities

The City of Wilmington received competitive and formula grants to help fund various priorities. For example, the COPS Hiring Recovery Program<sup>32</sup> enabled the city to hire 13 police officers who focus on community policing activities. Since receipt of these funds, 10 of the 13 officers have completed their necessary field training and are now serving in communities across Wilmington. Using additional Community Development Block Grant<sup>33</sup> funding under the Recovery Act, Wilmington officials committed funds to renovate a former jail for use as transitional housing for homeless ex-offenders re-entering the community. The project is scheduled to start construction in September 2010. The city plans to use its \$1.2 million Energy Efficiency and Conservation Block Grant<sup>34</sup> from the U.S. Department of Energy (DOE) to develop and carry out various strategic energy studies with the goal of identifying feasible and cost effective improvement measures. Wilmington successfully competed for additional Recovery Act funds through DOE's Local Energy Assurance

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<sup>32</sup>The COPS Hiring Recovery Program (CHRP) is a competitive grant program designed to address the full-time sworn officer needs of state, local, and tribal law enforcement agencies nationwide. CHRP provides funding directly to law enforcement agencies to hire new and/or rehire career law enforcement officers in an effort to create and preserve jobs and to increase their community policing capacity and crime prevention efforts.

<sup>33</sup>The Community Development Block Grant (CDBG) program enables local governments to undertake a wide range of activities intended to create suitable living environments, provide decent affordable housing and create economic opportunities, primarily for persons of low and moderate income.

<sup>34</sup>The Recovery Act's Energy Efficiency and Conservation Block Grant (EECBG) Program seeks to deploy the cheapest, cleanest, and most reliable energy technologies across the country. It is intended to assist U.S. cities, counties, states, territories, and Indian tribes to develop, promote, implement, and manage energy efficiency and conservation projects and programs designed to, among other efforts, reduce fossil fuel emissions and improve energy efficiency in the transportation, building, and other appropriate sectors.

Planning grant (LEAP)<sup>35</sup> and will receive \$200,000 to hire a Sustainability Manager for the city. Along with managing the city's energy assurance activities, the Sustainability Manager will complete a comprehensive planning exercise to sustain a permanent capacity for emergency energy planning. The Sustainability Manager will also lead the city's energy demand reduction efforts by seeking a number of innovations to minimize the city's dependence on oil. In addition, under the Edward Byrne Memorial Justice Assistance Grant (JAG) program<sup>36</sup> the city entered into a partnership with the New Hanover County Sheriffs Department and used the funds to obtain needed public safety resources and equipment such as law enforcement vehicles, crime lab supplies, and tasers. City officials also plan to use nearly half of its \$8.1 million Recovery Act funding on a bike and pedestrian trail called the Cross City Trail. The asphalt trail will be a 20-mile off-road, multi-use path linking key city resources and providing access to shopping, recreational, cultural, and educational destinations. The officials noted that the Cross City Trail supports their initiatives to provide alternative modes of transportation and continue to become a more environmentally sustainable community. According to city officials, the \$4 million funding from the Recovery Act will enable the city to have the trail 75 percent complete by 2011 versus the anticipated completion date of 2030.

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### City Officials Developed Plans for End of Recovery Act Funding

According to city officials, Wilmington will use the majority of its Recovery Act funds for one-time capital and construction related expenditures. The officials told us that each program or category of Recovery Act funding received by the city requires specific plans for the eventual elimination of available Recovery Act funding. The officials said that the plans clearly reflect program managers' understanding that all

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<sup>35</sup>LEAP aims to facilitate recovery from disruptions to the energy supply and enhance reliability and quicker repairs following power outages. This initiative also aims to create jobs at the local level and allow cities to have well-developed, standardized energy assurance and resiliency plans that they can rely on during energy emergencies and supply disruptions. City governments will address energy supply disruptions risks and vulnerabilities in their plans to lessen the devastating impact that such incidents have on their economy and the health and safety of citizens.

<sup>36</sup>The JAG program, administered by the Bureau of Justice Assistance (BJA), is the leading source of federal justice funding to state and local jurisdictions. The JAG program provides states, tribes, and local governments with funding to support a range of program areas, including law enforcement, prosecution and court, prevention and education, corrections, community corrections, drug treatment and enforcement, planning, evaluation, and technology improvement, and crime victim and witness initiatives.

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Recovery Act funded programs and services are temporary or “nonrecurring” expenditures. For example, Wilmington’s Police Department hired 13 officers under the COPS Hiring Recovery Program. The department plans to assimilate the newly hired officers onto the force as openings occur through attrition. The officials also told us that the Cross-City Trail will be maintained by the city through general funds.

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## Reporting and Accountability: North Carolina Recovery Act Accountability Community

North Carolina has several entities that provide oversight to ensure the state’s recipients are held accountable for the Recovery Act funds they receive. These entities include the Office of the State Auditor (OSA), Office of Economic Recovery and Investment (OERI), the Office of Internal Audit (OIA), within the North Carolina Office of State Budget and Management (OSBM), as well as local government oversight authorities. As we reported in our May 2010 report, the state’s primary tool for ensuring accountability and oversight of federal funds is the “Single Audit,” which reports on internal controls over financial reporting and compliance with pertinent laws and regulations, as well as compliance with requirements applicable to each major federal program and internal controls over compliance in accordance with OMB circular A-133. In addition to the Single Audit, North Carolina’s oversight entities conduct a range of work related to ensuring recipients’ compliance with applicable laws and regulations. For this report, we interviewed senior administrators with OSA, OERI, and OIA to obtain updates on their work, since our last report, in monitoring the use of Recovery Act funds around the state.

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## Office of the State Auditor

We previously reported that in addition to its work in conducting the Single Audit, OSA performs interim agency-specific internal control and compliance audits for agencies receiving Recovery Act funds. The state auditor’s office told us that its single audit reports have consistently reported findings related to subrecipient monitoring by state agencies. OSA’s recent interim agency audits have also included findings related to subrecipient reporting. For example, as of July 2010 OSA completed an audit of the North Carolina Department of Environment and Natural Resources (DENR) and found that the department did not consistently perform effective monitoring procedures to ensure that subrecipients of Recovery funds were in compliance with requirements of the Davis-Bacon

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Act.<sup>37</sup> OSA also conducted an interim review of the North Carolina Department of Crime Control and Public Safety's internal controls over two programs—Edward Byrne Memorial Justice Assistance Program and the National Guard Military Construction program—receiving Recovery Act funds.<sup>38</sup> OSA found deficiencies in the state's subrecipient monitoring of the Edward Byrne Memorial Justice Assistance Program. Specifically, grant managers did not maintain complete records of monitoring visits and the checklists used as a monitoring tool did not address all federal compliance requirements.

OSA officials reported that in addition to reviews of specific agencies they are also beginning to review the efficiency of statewide systems, particularly those used for purchasing and contracting, which may also impact Recovery Act programs. For example, the OSA is reviewing contract monitoring policies and procedures to improve the efficiency and effectiveness of the state's contracting process and to ensure proper oversight of state contracts. Due in part to a series of contract audits conducted by OSA, the North Carolina General Assembly recently enacted legislation to improve oversight of state contracts.

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Office of Economic  
Recovery and Investment

As we have previously reported, OERI was set up by the state to help agencies track, monitor, and report on Recovery Act funds. In May 2010, we reported that OERI officials told us that the implementation of a new software system that was intended to integrate North Carolina's various state agency systems containing Recovery Act funding information into an overall statewide system had experienced delays. This system was supposed to start operating by December 2009; instead OeRION, an

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<sup>37</sup>OSA's review included an audit of three local governments. In the city of Conover, OSA found no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In Pitt County, OSA found that the county did not collect certified payrolls from all subcontractors, as required by the Davis-Bacon provision of the Recovery Act, nor did they verify the job classification and pay rate of an interviewed employee. Finally, in the town of Kure Beach, OSA found that the town did not conduct interviews of employees from each contract and subcontract performed or collect certified payrolls from all subcontractors as required by the Davis-Bacon provision of the Recovery Act.

<sup>38</sup>State of North Carolina Office of the State Auditor. *Department of Crime Control and Public Safety: Results of Audit Procedures Applied to the Design of Internal Control over Compliance for Selected Programs Awarded American Recovery and Reinvestment Funds for the Years ended June 30, 2009 and June 30, 2010* (North Carolina: Office of the State Auditor), 4.

acronym for Office of Economic Recovery and Investment Oversight for North Carolina, was implemented in June 2010. As of May 2010, \$146,004 of Recovery Act funds had been used for licensing and short term staffing to develop the application. An OERI official reported to us that although the OeRION system went “live” in June 2010, the office would not be able to track the weekly status of the state’s Recovery Act funds, as anticipated.<sup>39</sup> Rather, this official reported, OeRION will be primarily used for maintenance of OERI’s record of all Recovery Act awards in the state and any corresponding reports.

In addition to tracking the use of funds, an OERI official reported to us that the office is also working with state agencies in developing and implementing their corrective action plans to resolve OSA findings related to Recovery Act funds. For example, OERI issued a report to the Office of the Governor outlining steps the North Carolina Department of Health and Human Services (NCHHS) would make in addressing findings in a January 2010 report, written by OSA, related to providing timely information to subrecipients, cash management procedures, and subrecipient monitoring.<sup>40</sup> OERI officials reported that the office has conducted similar efforts regarding OSA findings in January 2010 reports on the Department of Commerce, which administers the Workforce Investment Act of 1998 (WIA) and State Energy Programs and DENR, which administers the Clean Water State Revolving Fund and Drinking Water State Revolving Fund Recovery Act programs. OERI officials also reported that the office will continue to meet with the agencies with OSA findings on their Recovery Act programs to monitor the impact of the changes made through the corrective action plans.

As we reported in our May 2010 report, OERI issued a directive for all recipients and subrecipients regarding the use of Recovery Act funds for procurements of goods and services.<sup>41</sup> In April 2010, OERI issued another management directive directing North Carolina’s state agencies to ensure

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<sup>39</sup>As we reported in our May 2010 report, this weekly report is known as the *Weekly Funding and Disbursement Report* and it is prepared using the weekly reports of state agencies.

<sup>40</sup>This report included 12 programs receiving Recovery Act funds, including Medicaid and Community Services Block Grant.

<sup>41</sup>OERI Management Directives 3 and 3(b) (May 2009 and January 2010) “Contract Provisions for the Procurement of Goods, Services, and Construction Projects Including Design Services and Internal Procurement Directives.”

compliance with Recovery Act procurement requirements and OERI's May 2009 directives. Based on our discussion with officials, this management directive required state agencies to design an audit program for Recovery Act projects and contracts that includes regularly scheduled on-site visits and desk reviews. OERI's directive also required an initial report on April 30, 2010, of state agencies' plans, and a report every 30 days thereafter certifying that subrecipients used a competitive process for Recovery Act purchases or reported if an exception was used along with a statement of justification.<sup>42</sup> OERI also scheduled several technical assistance seminars around the state to provide guidance on complying with its directives. Since our May 2010 report, a senior OERI official reported to us that the office has continued to conduct technical assistance sessions around the state as well as make presentations for administrators of Recovery Act funds during state conferences. In addition, OERI provides a range of resources such as webinars and checklists on its website to help agencies comply with Recovery Act requirements and its directives related to procurement. This official also reported that state agencies are submitting the required monthly reports regarding progress in ensuring compliance and, as a result, OERI has seen a more planned approach among the state's agencies in this area.

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## Office of Internal Audit

OIA provides internal audit services for eight of North Carolina's state agencies.<sup>43</sup> In addition, OIA is using some of the Recovery Act funds allocated to OSBM to provide additional monitoring assistance to North Carolina agencies. In September 2009, OIA received \$1.2 million from the Recovery Act State Fiscal Stabilization Fund (SFSF) for the purposes of monitoring. These monitoring efforts include funds to hire four additional auditors to cover the workload associated with the risk assessments, compliance reviews, and assessments of sub-recipient monitoring plans for Recovery Act funds. In addition, the North Carolina State Energy Office provided funds for one auditor through a memorandum of agreement.

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<sup>42</sup>OERI Management Directive 8, "ARRA Compliance and Competition Management" (April 2010).

<sup>43</sup>These agencies are, the Department of Administration; (2) North Carolina Department of Commerce (NCDOC); (3) OSA; (4) Department of Labor; (5) Community Colleges Central Office; (6) OSBM; (7) Governor's Office; and (8) Wildlife Resource Commission. According to OIA's Assistant State Budget Officer/Audit Director, other state agencies have their own Internal Audit office.

Since our last report, OIA has issued one compliance review and three risk assessments related to Recovery Act funds. In June 2010, the office issued its findings related to its compliance review of agencies' use of the SFSF funds.<sup>44</sup> OIA found that one local educational agency (LEA) and one charter school were out of compliance with OERI's management directives for procurement. In addition, the office recommended that OSBM and the two agencies overseeing the state's institutes of higher education ensure that information on the Recovery Act whistleblower protections and U.S. Office of Management and Budget (OMB) guidance on referrals to inspectors general are properly communicated to the relevant parties.<sup>45</sup> As of July 2010, OIA had issued agency-specific risk assessments for Recovery Act programs administered by the Department of Public Instruction (DPI), DENR, and NCHHS. The risk assessments are a part of OIA's effort to identify those Recovery Act programs that may require more attention from OIA auditors.<sup>46</sup> Based on discussions with relevant program and audit staff and prior audit findings, OIA assessed risks for 7 DPI programs, 11 DENR programs, and 35 NCHHS programs receiving Recovery Act funds.

Although OIA has continued to conduct audits and risk assessments of Recovery Act programs, OIA's Assistant State Budget Officer stated that there have been challenges to the office's ability to carry out its auditing responsibilities since our last report. Specifically, OIA officials told us, the office has lost 2 of the 5 auditors it hired to assist with its planned monitoring. Three agencies—NCHHS, DPI, and DENR—were each assigned one of 5 newly hired auditors. The fourth auditor was responsible for conducting audits of the remaining State agencies receiving Recovery Act funds. The fifth auditor, hired to perform audits on the State Energy Program and Weatherization Assistance Program, resigned in March 2010, as we reported in our May 2010 report. An OIA official said that the auditor

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<sup>44</sup>According to OIA's report, the purpose of the audit was to determine if the agency's SFSF transactions (both fiscal and performance) comply with applicable state and federal laws, rules, and regulations in the areas of (1) funding expenditures (2) cash management, and (3) data quality and performance reporting. The report covered the time period of May 2009 through January 2010 for the North Carolina Department of Public Instruction and May 2009 through December 2009 for all other agencies.

<sup>45</sup>State of North Carolina Office of Internal Audit. *Memorandum: ARRA-State Fiscal Stabilization Fund Compliance (North Carolina: Office of the Internal Audit)*, 1. For the whistleblower protections in the Recovery Act, see Recovery Act, div. A, §1553.

<sup>46</sup>According to an OSBM official, OIA conducted a prior risk assessment to determine in which agencies its auditors would be placed.

that was assigned to DPI resigned 2 months after being hired. OIA transferred the auditor assigned to DENR to the Department of Commerce. These changes left OIA with 3 auditors to conduct its monitoring work. An OIA official reported that the office permanently lost the auditing position it acquired through an agreement with the North Carolina State Energy Office because administrators decided to use the funds for that position in a different manner. This OIA official said that the office is in the process of hiring an auditor for DPI, using Recovery Act funds, and will use two positions funded by the North Carolina Department of Administration to monitor state agencies' compliance with procurement rules and regulations.

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### Office of Auditor General's Single Audits Provide Oversight of Some Recovery Act Funds

According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing single audit results, it received North Carolina's Single Audit reporting package for the year ending June 30, 2009, on March 30, 2010. This was the first Single Audit for North Carolina that includes Recovery Act programs, and it included only 4 months of Recovery Act expenditures. North Carolina's Single Audit report for fiscal year 2009 identified 160 significant internal control deficiencies related to compliance with federal program requirements, of which 36 were classified as material weaknesses. Some of these material weaknesses and significant deficiencies occurred in programs that included Recovery Act funds.

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### Agency Comments on This Summary

We provided a draft of all materials related to Head Start and Early Head Start to OHS and HHS for comment, but they did not provide comments in time for us to consider them in the report. We also verified factual information with the local Head Start expansion programs we visited. In addition, we provided a draft copy of this appendix to the North Carolina Office of Economic Recovery and Investment, the North Carolina State Auditor's Office, the North Carolina Office of State Budget and Management, and other relevant state offices for review and comment. We also provided excerpts of the draft to other entities covered in this appendix for review and comment. Officials of the Office of Economic Recovery and Investment, State Auditor's Office, and the Office of Internal Audit within the Office of State Budget and Management provided clarifying and technical comments which we incorporated into the report as appropriate. In addition, several other entities provided clarifying and technical comments, which we have also incorporated as appropriate.

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# Appendix XV: Ohio

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## Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009<sup>1</sup> (Recovery Act) spending in Ohio. The full report on all of our work, which covers 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery>.

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## What We Did

To continue our ongoing analysis of the use of the Recovery Act funds in Ohio, we updated information on the U.S. Department of Transportation's Highway Infrastructure Investment Program and the U.S. Department of Energy's Home Weatherization Assistance Program. We also continued our review of two programs that provide capital investments in low income housing tax credit projects—the Tax Credit Assistance Program administered by the U.S. Department of Housing and Urban Development (HUD) and the Section 1602 Tax Credit Exchange Program administered by the U.S. Department of the Treasury, that we previously reviewed in our May 2010 report. We also collected information on one program that we have not covered in the past, the Early Head Start Program, administered by the U.S. Department of Health and Human Services (HHS). For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).

We continued to gather information about the state's economic condition and met with officials from one local government —the City of Cincinnati—that we had visited for our December 2009 report. We also contacted officials from oversight entities in Ohio responsible for monitoring Recovery Act funds to discuss their most recent, ongoing, and planned audit results; as well as Ohio's participation in the Office of Management and Budget's (OMB) Single Audit pilot program.

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## What We Found

Following are highlights of our review:

- **Early Head Start Program.** The Recovery Act provided funding for the expansion of Early Head Start programs that afford comprehensive early childhood development services to low-income children from birth to 3 years old. The Office of Head Start awarded approximately \$22.7 million in Recovery Act funds to grantees in the state of Ohio to

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

provide services to an additional 2,158 children. We visited three program grantees to see how the Recovery Act funds are being used and found that some grantees have encountered challenges, such as obtaining facility space, recruiting income-eligible families into the program, and concerns with service delivery, as they get their programs up and running.

- **Low Income Housing Tax Credit programs.** Ohio received about \$83.5 million in Tax Credit Assistance Program funds and approximately \$118.1 million in Section 1602 Tax Credit Exchange Program funds. As of July 26, 2010, the state had committed all but \$1.6 million of the funding from the two programs. OHFA has disbursed \$39.5 million (about 20 percent) for 80 projects to support the construction of nearly 4,000 tax credit units. The state plans to commit the remainder of its funds during August 2010 and expects to meet the Recovery Act deadlines for disbursement of the funds during the next 2 years.
- **State and local government use of Recovery Act funds.** In Ohio, the state and City of Cincinnati continue to feel the effects of the economic downturn and reduced revenues. Ohio has received about \$7.9 billion in Recovery Act funds as of August 1, 2010, but the state still faces budget challenges as state tax revenues remain significantly below fiscal year 2008 levels. We visited the City of Cincinnati again and found they continue to use Recovery Act funds to provide additional services and save jobs, but will need to address a \$50.4 million structural budget deficit during the next fiscal year. Recent Recovery Act awards will allow the city to build and rehabilitate rental housing, invest in energy-efficiency initiatives, improve services, and save nursing jobs.
- **Accountability.** There are a number of state entities identified as having responsibility for monitoring Recovery Act-funded projects in Ohio, namely the State Audit Committee, the Office of Internal Audit, the Auditor of State, and the state-appointed Deputy Inspector General for Recovery Act funds. As previously reported, these entities work in conjunction with one another to monitor Recovery Act-funded projects. In addition, Ohio participated in OMB's Single Audit pilot program and according to state officials will be participating in the next phase of the pilot program.
- **Highway Infrastructure Investment Program.** As of August 24, 2010, the Ohio Department of Transportation (ODOT) had awarded contracts worth an estimated \$930 million for 385 out of 426 Recovery

Act funded projects. As previously reported, Ohio continues to award contracts an average of 10 percent below original cost estimates and as a result, has been able to fund 89 more projects than originally planned. ODOT officials also said the state anticipates meeting the Recovery Act's maintenance-of-effort requirement to maintain the level of spending for the types of transportation projects funded by the Recovery Act that it had planned to spend the day the Recovery Act was enacted.

- **Home Weatherization Assistance Program.** In our December 2009 report, we reviewed three grantees and raised a number of concerns about how Recovery Act funds were being used to weatherize homes and concluded that real-time monitoring and early assessments of grantees' activities could help ensure program success. In response, the Ohio Department of Development (ODOD) hired additional staff and developed a monitoring program designed to ensure that its grantees were in compliance with program requirements set forth in the state plan. ODOD officials said that the reviews completed as part of this monitoring program helped keep the state's program on track and ensure its grantees adhered to the program requirements.
- **State Fiscal Stabilization Fund.** In our May 2010 report, we identified weaknesses in how the Ohio Board of Regents (BOR) monitored State Fiscal Stabilization Fund (SFSF) monies allocated to institutions of higher education (IHE). In response to our findings, BOR submitted an amended monitoring plan to the U.S. Department of Education. The revised monitoring plan requires IHEs to identify quarterly and cumulative SFSF receipts and expenditures and attest that their institution used SFSF funds only for allowable educational and general expenditures. According to the plan, if BOR discovers any indications of noncompliance, it will follow up with additional reviews, which may include site visits to the IHEs.

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## Despite Some Challenges, Early Head Start Grantees Are Beginning to Provide Services Funded by the Recovery Act

The Early Head Start program, administered by the Office of Head Start (OHS), part of the Administration for Children and Families within HHS, provides comprehensive early childhood development services to low-income children from birth to 3 years old, including educational, health, nutritional, social, and other services, intended to promote the school readiness of low-income children. Services can be provided either through center-based care or through home-based care, or a combination of both. In home-based care, children and families receive weekly visits from a home visitor. Home visits are required to last a minimum of 90 minutes,

and home visitors must complete a minimum of 48 visits a year.<sup>2</sup> In addition, pregnant women are eligible to receive Early Head Start services.

The Recovery Act provided an additional \$2.1 billion in funding for Head Start, including almost \$1.2 billion for the expansion of Early Head Start programs.<sup>3</sup> Federal Head Start funds are provided directly to local grantees, rather than through states. OHS awarded \$22,722,446 in Recovery Act funds to grantees in Ohio, to provide services to an additional 2,158 children.

To see how Recovery Act funds are being used to support Early Head Start expansion efforts in Ohio, we visited three grantees in the state. We selected these grantees, in part, based on the size of the grant award, whether the grantee planned to use grant funds to purchase or renovate facilities for Early Head Start expansion, and whether the grantee served a rural or urban population. Table 1 provides details on Early Head Start grantees included in our review.

**Table 1: Grantees Included in Our Review**

Grantee	Funds designated for expansion (dollars)	Facility purchase or renovation	Population served	Number of children served
Miami Valley Child Development Centers, Inc.	\$5,644,519	n/a	Urban and rural	286
Child Development Council of Franklin County	2,230,342	Purchase and major renovation	Urban	60
Pickaway County Community Action Organization, Inc.	1,537,378	Minor renovation	Rural	72

Source: GAO analysis of Office of Head Start and Ohio Department of Development data.

Note: n/a = not applicable.

Although grantees were awarded expansion funds for 2 years, the amount awarded differs in each program year. In the first program year, OHS awarded funds to grantees for start-up costs, operations, and training and technical assistance (T/TA). Because funds were not made available to grantees until late November or December 2009, OHS adjusted the amount

<sup>2</sup>45 C.F.R. § 1306.33(a)(1). The regulation specifies a minimum of 32 home visits based on a part-year Head Start program. Because Early Head Start is a 12-month program, the number of home visits should increase accordingly to a minimum of 48 visits.

<sup>3</sup>Recovery Act, div. A, title XIII, 123 Stat. 178.

of funds awarded to grantees for operations to account for a shortened program year.<sup>4</sup> In the second program year, the grantees will receive funds for operations and T/TA only. The operating funds will cover the entire 12-month period. Table 2 shows the amount of funding awarded, by category, in each program year for the grantees included in our review.

**Table 2: Funding Details for Grantees in Review**

Grantee	Start-up funding	First-year training and technical assistance (T/TA) funding	First-year operations funding	Second-year training and technical assistance (T/TA) funding	Second-year operations funding	Total Recovery Act funding awarded
Miami Valley Child Development Centers, Inc.	\$119,409	\$174,336	\$2,333,677	\$143,671	\$2,873,426	<b>\$5,644,519</b>
Child Development Council of Franklin County	593,000	36,674	666,945	44,463	889,260	<b>2,230,342</b>
Pickaway County Community Action Organization, Inc.	143,454	53,037	520,733	39,055	781,099	<b>1,537,378</b>

Source: GAO presentation of OHS data.

Note: The shaded area represents funds that have not yet been awarded and are subject to OHS review.

### Grantees We Visited Are Reaching Full Enrollment but Providing Certain Services Remains a Challenge

All three grantees we visited have reached full enrollment. However, they did not document, in some cases, that certain services had been delivered. To determine whether certain Early Head Start services are being provided to children enrolled in the program, we reviewed a random sample<sup>5</sup> of files at each grantee, interviewed Early Head Start staff at each grantee, visited center-based facilities, and interviewed staff who conduct home visits. During our review, we checked to see if all necessary enrollment forms were included in the file as well as reviewed attendance records of children in center-based care and home visitors' logs for children in home-based care. We also reviewed the files to see if children are receiving medical and dental screenings, as required by Head Start

<sup>4</sup>The first program year goes from December 1, 2009, to September 29, 2010. The second program year goes from September 30, 2010, to September 29, 2011.

<sup>5</sup>Our sample included children enrolled in center-based care and home-based care.

regulations.<sup>6</sup> In addition, we reviewed the policies for ensuring families met Early Head Start income-eligibility requirements and verified, during our file reviews, that income documentation had been reviewed.

In almost all cases—69 of 71 files we reviewed—we found that the files contained the necessary paperwork to document whether children were enrolled in Early Head Start. At the time of our file review, all 71 children had entered the program, defined as either being in attendance at a center (for the center-based option) or having received the first visit from a home visitor (for the home-based option). However, we found that the files did not always document that children had received their required hearing, vision, developmental, and motor screenings. We found that screenings exceeded the 45-day time frame in 29 of the files we reviewed.<sup>7</sup> In addition, we found that of the 32 files of children who had entered Early Head Start at least 90 days prior to our review, 8 were missing the required documentation to show that the child was up-to-date on a schedule of primary and preventative care. Officials at two grantees we visited told us that staff are required to monitor whether children have received the required screenings and track the number of days that have passed from enrollment so that they do not exceed the required time frames.

Almost all of the files we reviewed contained the appropriate income-eligibility documentation; however, verifying income eligibility remains a challenge. Specifically, grantee officials said they lacked guidance from OHS on how, or whether, to confirm eligibility when a family declares no income. We found that in 9 of the 71 files we reviewed, the family declared no income for the previous 12 months. Grantee officials and some of the home visitors said they have to rely on the families to provide documentation for all their income. One home visitor told us that she has encountered situations where families are initially reluctant to provide income information.

Home visitors from all three grantees described other challenges they face in providing services to children enrolled in home-based care. For

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<sup>6</sup>45 C.F.R. § 1304.20(a)(ii). Grantees are required to document that children are up-to-date on a schedule of preventative and primary health care within 90 days of entry into the Early Head Start program. Moreover, grantees are required to ensure that within 45 days of entry, children have received hearing, vision, developmental, and motor screenings. Finally, grantees are required to obtain follow-up treatment for children with known dental problems.

<sup>7</sup>Fifty-nine of the 71 children had entered the program at least 45 days prior to our review.

example, home visitors attributed difficulty in completing home visits to parents' appointment cancellations. One home visitor told us that some parents canceled appointments because visits weren't convenient to their schedule. Another home visitor told us that cancellations occur because the family is involved with other programs that have a home visit component and are feeling overwhelmed by the number of home visits they are receiving. Similarly, home visitors told us that attendance at socialization activities is low, despite numerous attempts to increase attendance.<sup>8</sup> Lastly, grantee officials told us that they face difficulties in getting oral exams completed for the children. Grantee officials told us that many physicians will not do an oral screening as part of a child's physical and that some dentists will refuse to see an infant because they do not yet have teeth.

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### Grantees We Visited Encountered Some Challenges at Startup That Will Require Continued Monitoring

The three grantees we visited encountered some challenges getting their expansion programs started. Before they could begin serving children, one of the grantees needed to procure and renovate facilities for classrooms or administrative offices and another struggled to recruit income-eligible families to participate in the program. In addition, one grantee has identified problems with one of the contractors that provide its home-based services that raise concerns about the delivery of services.

At one grantee, officials have encountered challenges obtaining facility space for the expansion of its Early Head Start program. Although this grantee had planned to provide center-based care, it could not provide those services until it purchased and renovated a new facility and renovated existing facilities. As a result of delays in providing OHS with the certification required to approve the purchase of this building, grantee officials did not have access to facilities on the planned schedule. Grantee officials spent the month of May (6 months after their grant was approved), enrolling children in a home-based program and began providing those services on June 1, 2010. Grantee officials said they will move those children to center-based care as soon as their new facility is ready.

At another grantee, officials told us that recruiting income-eligible families for home-based services had been a challenge. Although officials told us

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<sup>8</sup>As part of home-based care, grantees are required to provide two socialization activities per month. 45 C.F.R. § 1306(a)(2).

its community assessment identified a need for Early Head Start in their service area, staff with this grantee said that recruitment had been a challenge. Specifically, staff told us that in addition to recruiting at other social service agencies in the community, they had to spend time at grocery stores, thrift stores, and laundry facilities recruiting eligible families for the program. In one case, one of the children enrolled in the program is the daughter of a home visitor. In addition, this grantee has also enrolled the maximum number of over-income families, in order to reach full enrollment.<sup>9</sup>

Moreover, in order to fill potential vacancies, Head Start grantees are required to maintain a waiting list.<sup>10</sup> However, the Early Head Start Director at this grantee told us that its waiting list did not actually reflect children waiting to receive center-based Early Head Start services. Of the five families on its waiting list, as of June 22, 2010, three had been enrolled but left the program. This official told us that the families had not been in contact with the grantee, but if they were to come back for services they would be already on the waiting list.

Finally, in order to get its program started as quickly as possible, one grantee awarded contracts to three different organizations in its service area to operate its home-based program. The three organizations had experience providing services for a state-funded home visit program—the Help Me Grow program. Grantee officials told us that in addition to allowing them to get their program up and running quickly, awarding contracts for these services with these organizations helped to preserve services to children and preserve jobs in the community as the state had planned budget cuts. However, the grantee has identified problems with its contractor-based home visit program.

Grantee officials told us they recently had to develop an action plan for service improvement with one of the contractors after they found that the contractor was not ensuring that home visitors were documenting health screenings. Grantee officials told us that some home visitors from this contractor were struggling with how to be an Early Head Start home visitor. For example, officials told us that some home visitors have had a hard time adjusting to how to document the services provided during the

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<sup>9</sup>No more than 10 percent of children enrolled by a Head Start grantee may be from over-income families. 45 C.F.R. § 1305.4(b)(1) and (2).

<sup>10</sup>45 C.F.R. § 1305.6(d).

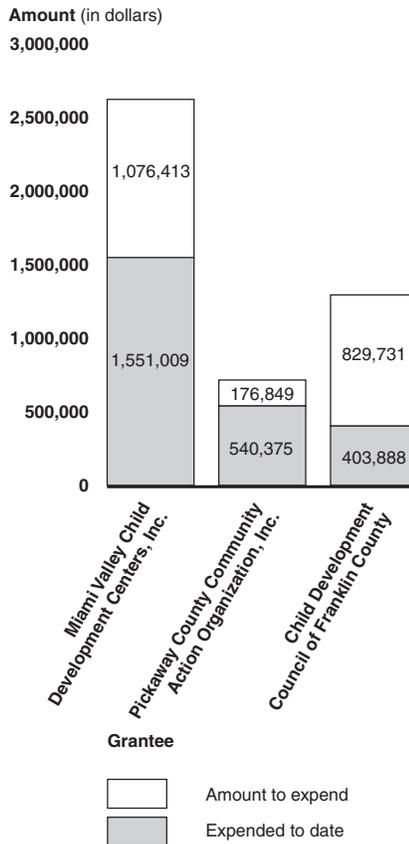
home visit. Home visitors agreed that they had trouble filling out the paperwork, telling us that although their prior experience with the Help Me Grow program provided them with the ability to connect with families during home visits, they were unsure how to comply with the paperwork requirements of Early Head Start, even after receiving training from the grantee. Moreover, at this contractor, some children are being identified as dual enrolled in both Early Head Start and Help Me Grow programs. Officials noted that some children must be dual-enrolled, but an official from this grantee acknowledge that this dual enrollment could make it difficult to determine which program is paying for which services. Home visitors from this contractor stated that when providing services for these children, they are unable to distinguish if they are meeting the requirements for Early Head Start or Help Me Grow. Officials from this grantee told us that they have not had similar concerns with services being provided by the other two contractors, and attribute this to the contractors no longer being involved with the Help Me Grow program. Officials told us that home visitors at the other contractors could focus on being only Early Head Start home visitors. Grantee officials told us they were in negotiations for the contracts spanning the next program year to require a separation of services to ensure that a true Early Head Start model is being implemented.

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### Grantees We Visited Face Challenges in Meeting Obligation Deadline

OHS officials told us that grantees will forfeit first-year program funds they have not obligated by September 29, 2010, unless grantees obtain OHS approval to carry over funds into the next program year. Officials at the three grantees we visited told us that they will face challenges meeting this deadline. At two of the grantees, officials told us that they do not expect to obligate 100 percent of funds by September 29 although one grantee noted that they plan to have less than 3 percent of the allocated funding remaining at the end of fiscal year 2010. Officials at the other grantee told us that although they anticipate meeting this deadline, some of the funds it obligates will not be spent until the next grant year. OHS has not yet decided if grantees will be able to apply for a waiver to carry-over funds from the first program year into the second-program year. Figure 1 shows the amount of first year funds each grantee has left to expend as of July 31, 2010.

**Figure 1: Amount of Funds Expended, as of July 31, 2010, by Grantee**



Source: GAO presentation of grantee data.

Officials at two of the grantees said that delays in receiving the grant awards from OHS resulted in challenges in obligating their first-year funds. OHS regional office officials told us that OHS anticipated making funding decisions in the fall of 2009 but those decisions were not made until December. Even though the awards were adjusted to account for a 10-month program year, grantee officials said they would have liked more time to plan for spending first-year program funds. Officials with one grantee said they would purchase more-expensive playground equipment so that all its funds are obligated before the deadline. This grantee also expressed concerns that it might not obligate all its T/TA funds by September 29, 2010. Specifically, officials told us that they planned to obligate \$16,000 for eight persons to attend an Early Head Start conference in October 2010. However, they were told by OHS regional office staff that they could not do so unless the conference’s registration deadline was

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before September 29, 2010. Because the registration deadline was after September 29, they would have to use second-year T/TA funds to pay the October 2010 conference fees.

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### Grantees We Visited Acknowledge Errors in Recipient Reporting but Plan to Issue Corrections

Officials from all three grantees expressed some concerns with the recipient-reporting process but said they could reach out to program staff in OHS' regional office for assistance. A common concern voiced by officials was that the guidance was initially confusing and they had trouble determining what data to put into the federal reporting system. For example, none of the grantees reported hours worked by contractors that were funded with Recovery Act funds and were not aware that they needed to do so. In response to our questions, grantee officials contacted their regional program representatives and confirmed they needed to do so. Grantee officials told us that they would make corrections to their first-quarter of calendar year 2010 recipient report to include those hours worked by contract employees and would include those hours in future recipient reports.

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### Ohio Has Allocated and Drawn Down Recovery Act– Provided Funds for a Variety of Affordable Housing Projects

The Recovery Act established two funding programs that provide capital investments in Low-income Housing Tax Credit (LIHTC) projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Section 1602 Tax Credit Exchange Program (Section 1602 Program) administered by the U.S. Department of Treasury (Treasury).<sup>11</sup> Before the credit market was disrupted in 2008, the LIHTC program provided substantial financing in the form of third-party equity (tax credit equity) for affordable rental housing units (tax credit unit).<sup>12</sup> As the demand for tax credits declined, so did the prices private investors were willing to pay for them, which created funding gaps in projects that had received tax credit allocations in 2007 and 2008. TCAP and the Section 1602 Program were designed to fill financing gaps in planned LIHTC projects and jump-start stalled projects. Ohio was allocated approximately \$201.6 million for

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<sup>11</sup>State housing finance agencies award low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low-income tenants. Once awarded tax credits, project owners sell them to investors to obtain funding for their projects. Investors receive tax credits for 10 years if the property continues to comply with program requirements.

<sup>12</sup>Many affordable-housing tax credit projects rely on LIHTCs together with other forms of subsidies like HOME Investment Partnerships Program funds (HOME), Community Development Block Grant (CDBG), and state funds.

these two programs with the Ohio Housing Finance Agency (OHFA) responsible for administering the funding.

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### OHFA Has Committed Nearly All TCAP and Section 1602 Program Funds and Expects to Meet HUD and Treasury Disbursement Deadlines

According to information provided by OHFA, as of July 26, 2010, the agency has committed all its available TCAP funding (approximately \$83.5 million) and \$116.6 million (out of \$118.1 million available) in Section 1602 Program funds to support the construction of 80 LIHTC projects. An OHFA official said they will commit the remaining \$1.5 million in Section 1602 Program funding to one additional project during August 2010. These projects are expected to produce nearly 4,000 tax credit units that will benefit seniors, families, and special-needs populations. Ohio officials provided documentation showing that as of July 2010, construction had begun on 45 of the projects, and owners for 31 of the projects have begun drawing down Recovery Act funding. According to data from HUD and Treasury, as of July 31, 2010, OHFA had disbursed \$15.6 million in TCAP funds and \$23.9 million in Section 1602 Program funds to these projects. While less than half of the projects have begun drawing down funds and more than 25 have not begun construction, OHFA officials stated that they believe all projects where they awarded Recovery Act funds will meet the TCAP and Section 1602 Program deadlines for committing and spending this funding.<sup>13</sup>

We interviewed officials from OHFA and the Ohio Capital Corporation for Housing (OCCH), a leading syndicator of LIHTC projects in Ohio.<sup>14</sup> We reviewed documentation on five projects that are being provided TCAP and Section 1602 Program funding by OHFA, met with officials from three

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<sup>13</sup>Under TCAP, housing finance authorities (HFA) must disburse 75 percent of the funds by February 2011, and project owners must spend all remaining TCAP funds by February 2012. Any funding not disbursed or spent by the respective deadlines must be returned to HUD. Under Section 1602 Program rules, HFAs must commit the funding to projects by December 2010 and can continue to disburse funds to awarded projects through December 31, 2011, provided that the project owners spend at least 30 percent of the eligible project costs by December 31, 2010. HFAs must disburse all Section 1602 Program funds by December 2011, or the funds the HFAs have not disbursed must be returned to Treasury.

<sup>14</sup>Project owners sell LIHTC to private investors to generate tax credit equity to finance their LIHTC projects. Some project owners sell the LIHTCs to an investor that will invest directly in the LIHTC project while others use a syndicator, which assembles a group of investors and pools funds that are then invested in the LIHTC project. We met with OCCH officials, the syndicator for two of the projects we selected for our review where there was private investor participation—Heart of Ohio Homes and East End Twin Towers Crossing.

of the projects,<sup>15</sup> and conducted site visits at these three project locations as well. See table 3 for information on each of these projects and figure 2 for pictures of the three project locations visited. The project owners of the three projects that we visited have various amounts of LIHTC program experience and as a group reported completing more than 60 different LIHTC projects during the past 20 years.

**Table 3: Selected TCAP and Section 1602 Program Projects in Ohio**

Project name, location	Type of funding	Recovery Act funds committed	Percentage of Recovery Act funds disbursed	Recovery Act funds as percent of total project costs	Number of housing units (tax credit units/ total units)	Project description	Expected placed in service date <sup>a</sup>
Mount Vernon Senior Village, Mt Vernon, Ohio	Section 1602 Program	\$3,046,522	3%	76%	28/28	Rural, new construction, housing for seniors	July 2011 <sup>b</sup>
Heart of Ohio Homes, Centerburg, Ohio	TCAP, Section 1602 Program	2,000,000 1,567,928	34	71	25/25	Rural, new construction, housing for families	December 2010
East End Twin Towers Crossing Dayton, Ohio	Section 1602 Program	2,688,178	100	31	40/40	Urban, new construction, housing for families	June 2010
Honeybrook Greene Utica, Ohio	TCAP	1,449,170	68	19	36/36	Rural, new construction, housing for families	December 2010
Barnett Plaza, Columbus, Ohio	Section 1602 Program	927,792	46	14	50/50	Urban, rehabilitation, housing for seniors	December 2010

Source: GAO analysis of OHFA data.

<sup>a</sup>The placed in service date for a new or existing building used as residential rental property is the date on which the building is certified as being suitable for occupancy in accordance with state or local law.

<sup>b</sup>An official with the project owner for Mount Vernon Senior Village stated that the project will be placed in service during February 2011, a few months earlier than the estimate provided by OHFA.

<sup>15</sup>We met with project owners for the Mount Vernon Senior Village, Heart of Ohio Homes, and East End Twin Towers Crossing affordable housing projects. We selected Mount Vernon Senior Housing because it was a Section 1602 Program funded project with no private investor participation. We selected Heart of Ohio Homes because it was a rural project that was receiving both TCAP and Section 1602 Program funding. We selected East End Twin Towers Crossing because it was an urban project that was a Section 1602 Program funded project with private investor participation.

A diverse mix of TCAP and Section 1602 Program funding was used to fill financing gaps on the projects we reviewed, with the funding representing 14 to 76 percent of the financing for these five projects. For example, the TCAP funding committed to Heart of Ohio Homes is being used as an interest free bridge loan that will be repaid by the private investor in 2017. This structure improves the private investor's return on investment and made it more willing to invest in the project. OHFA used this type of TCAP loan structure on 31 projects to keep private investor participation in those projects. They expect more than \$68 million in TCAP funds to be repaid by equity investors, which then becomes program income that can be used to support LIHTC housing in the future.<sup>16</sup> Four of the projects we reviewed had private investor financing in the development but the fifth, Mt Vernon Senior Village, was unable to sell any tax credits to generate this type of financing. It is one of only seven projects without private investor participation being funded by OHFA.

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<sup>16</sup>Pursuant to 24 CFR 85.25(h), HUD has established requirements for the disposition of program income earned after the TCAP grant is closed.

Figure 2: Construction of Various Affordable Housing Projects with TCAP and Section 1602 Program Funding



Single-family housing units under construction at Heart of Ohio Homes project



Single-family housing units at East End Twin Towers Crossing project



Building foundation under construction at Mount Vernon Senior Village project

Source: GAO; Oberer Residential Construction, and Buckeye Community Hope Foundation (clockwise from upper left corner).

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## OHFA Assumes New Responsibilities under TCAP and Section 1602 Program

The project oversight role required of state housing finance agencies (HFA) under the Recovery Act–funded TCAP and Section 1602 Program is greater than under the standard LIHTC program.<sup>17</sup> Specifically, under the Recovery Act programs HFAs must monitor the disbursement and use of funds throughout the construction period. Also, HFAs must perform long-term asset-management activities to ensure the long-term viability of the projects, including (1) monitoring current financial and physical aspects of project operations, (2) approving a project’s operating budget, (3) analyzing cash-flow trends and reserve accounts, and (4) conducting physical inspections. Asset-management activities also include examining long-term issues related to plans for addressing a project’s capital needs, changes in market conditions, and the recommendation and implementation of plans to correct troubled projects. HFAs are also responsible for returning TCAP and Section 1602 Program funds to HUD and Treasury, respectively, if a project fails to comply with LIHTC requirements.<sup>18</sup>

With respect to construction oversight, OHFA staff conduct one or more site visits to conventional LIHTC projects during the construction phase, but they plan to increase construction monitoring of the TCAP and Section 1602 Program–funded projects to ensure projects meet Recovery Act deadlines. OHFA officials said that OHFA is developing specific policies on construction site inspections and they plan to leverage the construction oversight and project reporting that is done by other interested parties.

With respect to asset-management, OHFA officials said that the agency has not previously engaged in asset management under the conventional LIHTC program. However, we found that OHFA structured its administration of the TCAP and Section 1602 Program to address oversight concerns. First, OHFA maintained private investor participation in the

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<sup>17</sup>Under the LIHTC program, HFAs are required to review LIHTC projects at least annually to determine project owner compliance with tenant qualifications and rent and income limits. Additionally, the HFA must conduct on-site inspections at least once every three years of all buildings in each LIHTC project and inspect at least 20 percent of the LIHTC units and resident files associated with those units.

<sup>18</sup>In contrast, under the conventional LIHTC program, HFAs are not liable for recapturing funds if a project owner fails to comply with LIHTC requirements. Rather, their obligation is to report any noncompliance to the IRS, and the IRS takes any further actions with respect to recapture. GAO reported previously on the risks and responsibilities of recapture for HFAs under the TCAP and Section 1602 programs. See GAO, *States’ and Localities Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](#) (Washington, D.C.: May 26, 2010).

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majority of its Recovery Act-funded TCAP and Section 1602 Program projects. Of the 80 projects to which OHFA awarded Recovery Act funds, 74 projects include private investments. OHFA officials emphasized that private investors have an incentive to protect their investments by performing asset management services which complement the compliance monitoring that OHFA is required to provide. Second, OHFA officials said that their agency has experience working with LIHTC projects where they must consider the project's financial feasibility, and a number of OHFA staff have a background in asset management. Moreover, before the Recovery Act was even enacted, OHFA officials said they had been planning to increase the reporting requirements for conventional LIHTC program to better predict the performance of such projects.

While OHFA obtained private investor participation in 74 of the 80 projects where they have committed Recovery Act funds, they awarded a contract to Ohio Capital Corporation for Housing (OCCH), a leading syndicator of LIHTC projects in Ohio, to oversee the asset management of the other seven projects. While OCCH and OHFA have worked with each other in the past on the conventional LIHTC program, OCCH officials said they plan to treat OHFA as they would any other investor for whom they provide asset-management services.

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### Ohio LIHTC Market Is Stabilizing but Uncertainties Remain

We discussed investor involvement and financing trends in Ohio for LIHTCs available under the LIHTC program with officials from OHFA, several project owners, and OCCH—the syndicator for many of the Recovery Act-funded affordable housing projects in the state of Ohio. Officials from OHFA and OCCH stated that prior to the TCAP and Section 1602 Program, tax credit equity accounted for about 50 percent or more of the project financing and that mortgage debt represented an important source of financing as well. In comparison, documentation provided by OHFA showed and comments made by OCCH support that tax credit equity dropped only slightly for the 74 Recovery Act projects with private investor participation and now represents about 45 percent of the financing on these projects. OHFA officials noted and a GAO analysis of OHFA provided information showed that their use of Section 1602 Program funds as gap financing, especially in combination with TCAP funds made projects attractive to private investors and enabled project owners to maintain a considerable amount of tax credit equity in the Recovery Act funded projects. For example, OHFA committed Section 1602 Program funds as gap financing to 64 projects that maintained tax credit equity and used it in combination with TCAP funds on about half of these projects. However, OHFA and OCCH officials told us that there is

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little to no mortgage debt in most of the Recovery Act—funded projects, which has been replaced to a large extent by TCAP and Section 1602 Program funds and soft debt in the form of HOME funds<sup>19</sup> and other grant funding sources.

OHFA and some project officials we met with expressed an interest in seeing an extension of the Section 1602 Program. For example, OHFA officials said that an extension of the Section 1602 Program would help the LIHTC market in Ohio because it would provide gap funding for projects. Officials from two of the projects we visited also said that extending the program would be helpful in case tax credit prices are too low in future years and leave project financing gaps that need to be filled. One project owner said they would likely participate in the Section 1602 Program again. Another project owner added that the program could serve as a reserve account from year to year to fill financing gaps when LIHTC prices fall below 80 cents on the dollar.

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### OHFA and Project Owners Undertake Recovery Act Recipient-Reporting Activities

Recovery Act recipient-reporting requirements for TCAP and the Section 1602 Program are different. For TCAP, state HFA must collect information from subrecipients and use OMB's FederalReporting.gov Web site to report on the nature of projects and numbers of jobs funded by the Recovery Act on a quarterly basis for each quarter that the HFA receives Recovery Act funds directly from the federal government. In contrast, the Recovery Act does not require recipients of Section 1602 Program funds to report information to the FederalReporting.gov Web site.<sup>20</sup> Instead, Treasury requires HFAs to submit quarterly performance reports—including job estimates—for all projects that are awarded funding during the quarter. Specifically, HFAs are required to make only one report at the start of each project on the number of FTE jobs to be created or retained by the entire project. The TCAP job count is based on OMB guidance that calculates hours worked to arrive at the number of full-time equivalent

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<sup>19</sup>The HOME program managed by HUD provides formula grants to states and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.

<sup>20</sup>Section 1512 of the Recovery Act describes recipient-reporting requirements, including that of estimated jobs created and retained. Section 1512 and the recipient-reporting requirements apply only to programs under division A of the Recovery Act, which includes TCAP. The Section 1602 Program is under division B of the Recovery Act, and therefore, not subject to section 1512 requirements.

jobs (FTE) funded by the Recovery Act. In contrast, the Section 1602 Program job count is an estimate of FTEs created or retained. Except for requiring the use of FTEs, Treasury has not issued detailed guidance specifying job estimation methodology under the Section 1602 Program. Therefore, these two estimates cannot be used to compare job creation between the programs.

For TCAP, OHFA said it made changes to its quarterly jobs reporting tool used to collect information from its subrecipients to incorporate the changes from OMB's December 2009 guidance.<sup>21</sup> In addition, based on OMB guidance, OHFA said it prorates the number of FTEs reported by its subrecipients based on the percentage of TCAP funds being used as a share of total project cost. OHFA officials said they do not conduct a systematic review of the information being provided by their subrecipients—the project owners; instead OHFA relies on signed statements from the project owners attesting to the accuracy of the jobs estimates. For the quarter ended June 30, 2010, OHFA reported that approximately 186 FTEs were funded by TCAP in Ohio.<sup>22</sup> Similarly, for the Section 1602 Program, OHFA officials said they receive a onetime estimate from project owners of all jobs being created or retained that is used in the report they submit to Treasury. As of July 30, they have reported on all but two projects where Section 1602 Program funds are being committed with none of the job estimates prorated for the amount of Recovery Act funding involved as is being done for the quarterly recipient-reporting on the TCAP funding. Since the start of the program OHFA officials said they reported 4,883.3 jobs to Treasury that projects funded by the Section 1602 Program in Ohio have or will create or retain.

We discussed the recipient-reporting requirements for TCAP and the Section 1602 Program with officials associated with the three projects including the project owners—or subrecipients. One of the project owners received both TCAP and Section 1602 Program funds and has completed the recipient-reporting required under both programs. For TCAP recipient-reporting, staff from this project owner said they complete OHFA's quarterly jobs reporting tool using an estimate of the hours worked provided by the general contractor for both general contractor and

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<sup>21</sup>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).

<sup>22</sup>GAO extracted this FTE estimate from Recovery.gov on August 9, 2010.

subcontractor employees who are working on the project. Project owner staff also said that they perform a review of these jobs estimate figures against costs being charged to the project to ensure their accuracy. In contrast, the other two project owners received only Section 1602 Program funding and officials with these two projects reported completing the jobs estimate required at the start of the project. Officials with both projects said that the jobs estimate they provided identified the total number of employees who are expected to be working on the project and not the actual employment effect directly attributable to the Recovery Act funding.

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## Recovery Act Funds Continue to Provide Some Needed Support to Ohio and City of Cincinnati

In Ohio, the state and City of Cincinnati continue to feel the effects of the economic downturn and reduced revenues, and Recovery Act funds are providing some needed support. As of August 1, 2010, Ohio has received about \$7.9 billion in Recovery Act funds. As we have previously reported, Ohio's 2010-2011 biennial budget, passed in July 2009, appropriated about \$7.6 billion in Recovery Act funds for use by state agencies. The state closed out its fiscal year 2010 (July 1, 2009-June 30, 2010) having spent almost \$3.4 billion in Recovery Act funds, which represented about 13 percent of its \$25.5 billion in general fund disbursements.<sup>23</sup> According to a senior state budget official, the state expects to spend about \$3.4 billion in Recovery Act funds in fiscal year 2011, including about \$550 million originally appropriated for fiscal year 2010.<sup>24</sup>

Ohio's 2010-2011 biennial budget assumes a significant reduction in revenues, and the state's monthly financial reports indicate that revenue collections were lower than estimated for fiscal year 2010. Despite lower than forecast revenue projections, Ohio controlled spending to keep its budget balanced for fiscal year 2010. In fiscal year 2011, state officials expect general fund tax revenues to increase slightly from fiscal year 2010 levels, but still be significantly below fiscal year 2008 levels. The state does not expect to make any revisions to the budget for the remainder of the biennium.

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<sup>23</sup>Ohio spent about \$807 million in Recovery Act funds in fiscal year 2009 (July 1, 2008-June 30, 2009).

<sup>24</sup>This state official also told us the state may expend less than the \$7.6 billion in Recovery Act funds it appropriated for 2010-2011 because some programs, including Medicaid, have experienced less growth than projected.

We visited the City of Cincinnati again and found it continues to face fiscal challenges as well. According to city officials, while Recovery Act funds have helped the city save jobs and provide additional services, Cincinnati will need to address a structural budget deficit<sup>25</sup> of \$50.4 million next year. Table 4 highlights Cincinnati’s population and unemployment rate.

**Figure 3: Map of Ohio**



Source: Art Explosion.

**Table 4: Demographics for Cincinnati, Ohio**

Population	Locality type	Unemployment rate
333,013	City	10.6%

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

Notes: The BLS data are from Local Area Unemployment Statistics (LAUS). 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.

### Cincinnati Is Using Recovery Act Funds to Provide Additional Services and Save Jobs

As of July 8, 2010, the City of Cincinnati has been awarded over \$44 million in Recovery Act grants and continues to use these funds to provide additional services and save jobs in public safety, community development and social services, and infrastructure and equipment. Since we last reported on Cincinnati in December 2009,<sup>26</sup> the city received \$10.2 million in Recovery Act awards, which it will use to build and rehabilitate rental

<sup>25</sup>According to the City of Cincinnati, a structural budget deficit occurs when operating expenditures are projected to grow at a faster rate than revenues.

<sup>26</sup>GAO, *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Ohio)*, [GAO-10-232SP](#) (Washington, D.C.: December 2009).

housing, invest in energy-efficiency initiatives, improve services, and save nursing jobs. See table 5 for more information on Recovery Act funding received by the City of Cincinnati since December 1, 2009.

**Table 5: Sources of Recovery Act Funding Awarded to Cincinnati City Government since December 2009**

Area for funding	Source of funding	Amount approved (dollars)
Community development	Neighborhood Stabilization Program 2 (NSP2)	\$8,139,879
Infrastructure	State Energy Program	1,480,020
Social services	Health Resources and Services Administration (HRSA) Capital Improvement Program	303,975
	HRSA Increased Demand for Services	180,993
Equipment	Clean Cities Program	122,000

Source: Hamilton County, Ohio; Recovery.gov; and City of Cincinnati officials.

Below is a discussion of Cincinnati’s Recovery Act funds received to date.

- Public safety:* Cincinnati continues to use its \$13.6 million COPS Hiring Recovery Program (CHRP) grant, as we reported in December 2009, to save the jobs of 50 police officers. The CHRP grant will allow the city to retain these jobs through fiscal year 2012. City officials told us they hope that the city will have enough revenue to continue to keep the officers employed by the time the CHRP funding runs out.
- Community development and social services:* As we reported in December 2009, Cincinnati received \$8.8 million in community development and social services funding from Community Development Block Grant-Recovery Act Funds (CDBG-R) and Homelessness Prevention and Rapid Re-Housing Program (HPRP) grants. Over \$700,000 of the CDBG-R funding was used to prevent the elimination of a private lot abatement initiative and nine other human service initiatives, such as drug addiction treatment and homelessness prevention. All of these initiatives have been completed or almost completed except for the private lot abatement, for which the contract was finalized in June 2010. Cincinnati is using the remaining \$8.1 million in CDBG-R and HPRP funding for eight new initiatives and administration. In February 2010, the city was awarded \$8.1 million in NSP2 funds as part of a coalition with Hamilton County, the Cincinnati Metropolitan Housing Authority, and a nonprofit housing developer. Cincinnati officials told us they will use funding to acquire foreclosed, abandoned, and vacant property and either build or rehabilitate existing rental housing. In addition, the two recent HRSA grants

totaling about \$485,000 will enable the city to build capacity for keeping electronic records at a city-run health center and retain the jobs of two nurses.

- *Infrastructure and equipment:* According to Cincinnati officials, the city has used part of its \$3.5 million Energy Efficiency and Conservation Block Grant (EECBG) funding to complete energy-efficiency upgrades at two fire stations and to perform energy audits at 88 city buildings. Cincinnati also reported that it has begun environmental assessments on two hike and bike trail projects with EECBG funds and worked on both transportation projects with \$4.5 million in highway funds. These transportation projects include a multiuse hike and bike trail along the north bank of the Ohio River and replacing and expanding a computerized traffic control system. In addition, Cincinnati will use two recent grants from the U.S. Department of Energy to install solar panels on the roofs of city buildings and to purchase hybrid and propane-fueled vehicles for use by the city.

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## City of Cincinnati Continues to Face Fiscal Challenges

The City of Cincinnati continues to feel the effects of the economic downturn and reduced revenues. To balance its budget of \$359.4 million for its fiscal year 2010 (January 1, 2010-December 31, 2010), the city took several actions that included laying off and furloughing employees, cutting services, drawing down funds from onetime revenue sources, and making onetime spending cuts. Cincinnati officials said they will have to address a \$50.4 million structural budget deficit in fiscal year 2011. While Recovery Act funds helped offset \$2.8 million in expenditures in the current year, other onetime revenue sources and spending cuts made in fiscal year 2010 will no longer be available. In addition, the costs of health care for city employees, fuel, and other budget items are projected to increase. Because the city projects revenues will continue at about fiscal year 2010 levels, Cincinnati is considering multiple options to reduce expenditures in its 2011-2012 biennial budget (January 1, 2011-December 31, 2012), including salary freezes, program eliminations, and program reductions. For example, funding for police and fire departments represent about 65 percent of city expenditures; city officials said that cuts in those two departments will be necessary to address its structural deficit.

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## Cincinnati Is Experiencing Some Challenges with Recipient Reporting

In the second quarter of 2010 (April-June 2010) Cincinnati reported about 100 FTEs funded by the Recovery Act;<sup>27</sup> however, officials experienced some reporting challenges. Specifically, officials told us a nonprofit partner organization performing energy-efficiency audits under the city's EECBG grant reported administrative hours that were classified as program hours by the city causing a reallocation of administrative dollars between the city and the partner. A senior city official said Cincinnati is working with the partner to resolve the issue.<sup>28</sup> In addition, officials told us they were previously confused on the proper way to implement job reporting changes outlined in OMB's December 2009 guidance. However, a senior Cincinnati official said these issues were resolved by the next reporting quarter. Cincinnati plans to use an audit checklist, beginning in fall 2010, to spot check timesheets and other backup records in order to verify jobs data. Officials said they will initially target higher-risk Recovery Act grants for the audits, but eventually plan to cover all grants.

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## Ohio's Audit Community Continues to Coordinate Recovery Act Oversight Activities

There are a number of oversight entities in Ohio with responsibility for monitoring Recovery Act funded projects, namely the (1) State Audit Committee;<sup>29</sup> (2) Office of Budget and Management (OBM), Office of Internal Audit (OIA); (3) Auditor of State (AOS); and (4) the state-appointed Deputy Inspector General for Recovery Act funds in the Office of Inspector General (OIG). As previously reported, these entities work in conjunction with one another to monitor Recovery Act funded projects.<sup>30</sup> For example, OBM's OIA plans its audit work in collaboration with the Auditor of State to avoid duplication of effort and to maximize Ohio's audit coverage. In addition, Ohio's oversight entities meet every other month to exchange information and discuss Recovery Act-related issues.

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<sup>27</sup>FTE data was drawn from the City of Cincinnati's Recovery Act web site on August 10, 2010.

<sup>28</sup>Also, when we reviewed the city's initial recipient reporting submission for EECBG for the second reporting quarter of 2010, we found an inconsistency in the narrative regarding the number of jobs funded. Specifically, two breakouts of jobs created and retained within the narrative did not match each other. A senior Cincinnati official said the city plans to correct the inconsistency in its third quarter 2010 reporting.

<sup>29</sup>Ohio's State Audit Committee assists the Governor and Director of the Office of Budget and Management (OBM) in fulfilling their oversight responsibilities in several areas including audit processes, and compliance with laws, rules and regulations.

<sup>30</sup>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).

We contacted officials from these audit entities to discuss their most recent, ongoing, and planned audits. The State Audit Committee meets quarterly and released on June 15, 2010, the results of its last three audits for its fiscal year 2010. The OIA recently presented to the State Audit Committee its fiscal year 2011<sup>31</sup> audit plan, which will focus on some Recovery Act programs not previously reviewed. Ohio participated in phase I of OMB's Single Audit pilot program and according to state officials will be participating in the next phase of the pilot program.<sup>32</sup>

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**Ohio Accountability  
Entities Conducted  
Numerous Reviews and  
Identified Some  
Weaknesses in Recovery  
Act–Funded Programs**

The OIA is responsible for conducting internal audits of state agencies. In state fiscal year 2010, the OIA completed 15 audits related to Recovery Act programs and found weaknesses in several areas including fund management, review of expenditures, vendor and subrecipient monitoring, and validation of Recovery Act reporting data. According to the OIA, it made a decision not to examine four Recovery Act programs (Prevention and Wellness Immunization Fund, Health Information Technology, Department of Administrative Services II Broadband, and Aquaculture) due to limited funding or expenditures. Since we last reported in May 2010, 8 of the 12 comments from prior OIA audits have been addressed and closed. The OIA is anticipating that the remaining open comments concerning the Clean Water and Drinking Water State Revolving Funds Program and the Help Me Grow Program will be addressed by August, 2010. The OIA plans to devote fewer audit hours to Recovery Act programs in fiscal year 2011 due to increased audit coverage by the Auditor of State and an increased focus on monitoring prior audit comments. The OIA is currently scheduling its 2011 audits, which will focus on some Recovery Act programs not previously reviewed, such as Homelessness Prevention, Child Care, State Unemployment Insurance, and the State Energy Phase II program, and following up on remediation of previously issued reports.

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<sup>31</sup>The State of Ohio's fiscal year runs from July 1 to June 30 of the next calendar year.

<sup>32</sup>OMB implemented a Single Audit Internal Control Project (project) in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits.

The Auditor of State is responsible for conducting audits of state and local agencies. According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Ohio's Single Audit reporting package for the year ending June 30, 2009, on June 28, 2010.<sup>33</sup> This was almost 3 months after the deadline specified by the Single Audit Act and almost a year after the period the audit covered.<sup>34</sup> This was the first Single Audit for Ohio that includes Recovery Act programs and it identified 25 significant internal control deficiencies related to compliance with federal program requirements, of which 3 were classified as material weaknesses. Some of these significant deficiencies occurred in programs that included Recovery Act funds. Specifically, the AOS reviewed 13 of the 19 programs for which Ohio receives Recovery Act funding and found deficiencies in 8 of the programs.<sup>35</sup> Some deficiencies that were identified included unallowable expenditures, inadequate cash management, and reporting. While there were questioned costs of over \$4 million, Auditor of State officials stated that they did not separate Recovery Act funds in their review. The Auditor of State said that many of these findings were repeat findings due to ongoing internal control weaknesses that dated back to fiscal year 2004 or earlier. The granting federal agency is responsible for resolution of the audit findings and works with the grantee to implement and follow up on corrective actions. The Auditor of State is anticipating the release of Ohio's fiscal year 2010 State Single Audit by March 31, 2011. While the preliminary selection of programs for the 2010 audit will be completed in early August, the final selection will occur when the Schedule of Expenditures and Federal Awards is received in October. Auditor of State officials said that SFSF funds will be audited because of the high funding level.

Ohio also participated in phase I of the OMB Single Audit Internal Control Project. Ohio's Auditor of State reported findings for two Recovery Act-funded programs that it examined. The findings for the Unemployment

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<sup>33</sup>The State Single Audit includes the review of programs that have received monies from Recovery and non-Recovery Act funding, and a combination of the two.

<sup>34</sup>As reported in May 2010, the Auditor of State's office said they were not able to meet the original reporting date of March 31, 2010, due to not receiving fiscal year 2009 financial statements from management until February 1, 2010.

<sup>35</sup>Recovery Act programs with audit deficiencies are: (1) Food Stamp Cluster, (2) Unemployment Insurance, (3) WIA Cluster, (4) Highway Planning & Construction Cluster, (5) Child Support, (6) Foster Care, (7) Adoption Assistance, and (8) Medicaid Cluster.

Insurance funding were partially corrected with the remainder of the corrections to be completed later this summer. The findings for the highway planning and construction funding were corrected as of February 2010. Ohio will participate in phase 2 of the Single Audit Internal Control Pilot. On August 30, 2010, the AOS finalized its selection of programs to be tested under the Pilot. The four programs selected include: 1) Unemployment Insurance, 2) Highway Planning and Construction Cluster, 3) Title I–Local Education, and 4) Department of Education’s Special Education Cluster.

During 2010 the Auditor of State for local governments began conducting their audits of local entities with fiscal-year ends December 31, 2009, and June 30, 2010.<sup>36</sup> This work to date includes the review of 21 different Recovery Act programs. AOS is responsible for reviewing 146 local entities receiving Recovery Act funds in Ohio and has completed and released audit reports for 27 of these local entities as of August 19, 2010. These completed AOS audits did not report any findings for the Recovery Act-funded programs included in these reviews. AOS expects to complete and release the remaining 119 audits of local entities during calendar years 2010 and 2011.<sup>37</sup>

The Office of Inspector General (OIG), responsible for investigations of potential criminal activity, recently issued a report involving a complaint of the misuse or waste of Recovery Act funds by the Ohio Department of Natural Resources (ODNR). Although the OIG did not find any misuse or waste of funds, it found that ODNR did not dispose of used equipment in a safe manner, and recommended that ODNR take corrective measures to ensure public safety. There are four ongoing investigations involving Recovery Act funds, two of which are expected to be completed by September 2010. We previously reported<sup>38</sup> that Ohio Environmental Protection Agency (EPA) may not have met the Buy American requirements and recommended that Ohio EPA consult with the U.S. Environmental Protection Agency to review and make a compliance

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<sup>36</sup>Local government entities in Ohio generally have a December 31 fiscal-year end while school districts in Ohio generally have a June 30 fiscal year end, with a few exceptions.

<sup>37</sup>AOS estimates that independent public accounting (IPA) firms will be conducting 179 audits of other local entities in Ohio. As of Aug 19, 2010, AOS expects that only 54 of these IPA audits are likely to include the review of Recovery Act-funded programs.

<sup>38</sup>[GAO-10-605SP](#).

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determination. In June 2010, the U.S. EPA determined that there was no violation of the Buy American requirements.

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## Highway Infrastructure Investment

By March, 2010, the U.S. Department of Transportation's Federal Highway Administration (FHWA) obligated Ohio's full apportionment of \$936 million in Recovery Act funds to the state for highway infrastructure and other eligible projects. As of August 24, 2010, the Ohio Department of Transportation (ODOT) had awarded contracts worth an estimated \$930 million for 385 out of 426 FHWA funded projects. As previously reported, Ohio continues to receive bids averaging 10 percent below the state cost estimates and as a result, has been able to fund 89 more projects than originally planned. As of August 2010, ODOT had \$28 million in deobligated funds and has until the end of September 2010<sup>39</sup> to obligate those funds to new projects. According to ODOT officials, the agency plans to adjust its funding mix to also include non-Recovery Act funds (about 10 percent) for new projects and plans to deobligate this funding portion of the projects if the contract awards come in under the state estimates.<sup>40</sup>

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## Ohio Anticipates Meeting the Maintenance of Efforts Requirement

According to ODOT, Ohio expects to meet the Recovery Act's maintenance-of-effort (MOE) requirement. The Recovery Act's MOE requires the state to maintain the level of spending for the types of transportation projects funded by the Recovery Act that it had planned to spend the day the Recovery Act was enacted. We reported in our May 2010 report that ODOT had concerns about meeting the MOE requirement due to the decline in major sources of state transportation revenue. We also reported a decline in forecasted transit and aviation expenditures. However, ODOT officials recently reported that revenue sources have stabilized and expenditures have generally kept pace. According to ODOT officials, transit expenditures will likely meet the forecasted level but aviation expenditures are currently at about \$200,000 less than the forecasted amount. ODOT officials reported that they are working with Ohio's Office of Aviation to process expenses in time to meet the MOE

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<sup>39</sup>Per memorandum from the U.S. Department of Transportation's FHWA, dated July 1, 2010, the last day ODOT can obligate funds is September 27, 2010.

<sup>40</sup>The maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent; under the Recovery Act it is 100 percent.

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requirement. States that are unable to meet the MOE obligation will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011.<sup>41</sup> For the past 3 years, Ohio has received over \$40 million annually in redistribution.

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## Monitoring Plan for Home Weatherization Program Has Been Implemented

In December 2009, we reported that due to the rapid expansion of Ohio Home Weatherization Assistance Program under the Recovery Act, the program was at heightened risk for waste, fraud, and abuse. When we reviewed production files at three grantees we raised a number of concerns ranging from use of Recovery Act funds to weatherize the home of an ineligible recipient to use of Recovery Act funds on homes that were weatherized before the program began. We concluded that real-time monitoring and early assessments of grantees' activities could aid in avoiding those types of problems and help ensure program success. In response, the Ohio Department of Development (ODOD) developed a monitoring program designed to ensure that its grantees were in compliance with program requirements set forth in the state plan. ODOD also hired three new staff to augment those already on line to conduct reviews of its grantees. As of June 30, 2010, ODOD officials said they had conducted reviews at all 34 grantees and a number of delegate agencies. These officials said that the reviews were helpful in ensuring that the state's program stayed on track and its grantees adhered to the program requirements. For example, in a summary analysis of visits through June 11, 2010, ODOD reports that many of the grantees had charged the Recovery Act grant for production begun before the program began. ODOD officials said that they were able to reverse the charges, freeing up Recovery Act funds to weatherize more homes. As of July 31, 2010, ODOD reports that it has inspected 5.7 percent of the homes weatherized in the state (14,077 homes completed) and reviewed the administrative files for 5.2 percent of its production.

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<sup>41</sup>As required by statute, FHWA annually adjusts the states' limitations on obligations for federal-aid highway programs.

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## Ohio Revised SFSF Monitoring Plan to Improve Oversight of Funds

In May 2010, we identified weaknesses in how the Ohio Board of Regents (BOR) monitored SFSF funds allocated to institutions of higher education (IHE). Although Ohio developed a plan for monitoring SFSF funds, quarterly reports submitted by IHEs to BOR during the first and second reporting periods (February through December 2009) did not break out the receipt and use of SFSF funds. This made it difficult for BOR to determine how SFSF funds were spent during those quarters, and therefore, whether the funds were used for allowable expenditures. Moreover, a senior state official told us that there was no mechanism to validate the expenditure information submitted by IHEs. In addition, when we reviewed the Auditor of State's Web site in April 2010, we found that the Ohio State University, the largest SFSF recipient in Ohio, was not reporting receipt of SFSF funds to the site, as directed by Ohio's monitoring plan. Ohio State University finance officials told us that they would report the required information and when we reviewed the Auditor of State's Web site on August 9, 2010, we found the Ohio State University had reported receipt and use of SFSF funds. In addition, in response to our findings, BOR submitted its amended monitoring plan of SFSF funds allocated to IHEs to the U.S. Department of Education on May 28, 2010. The revised monitoring plan requires IHEs to include in their quarterly financial statements a detailed subsection that identifies cumulative SFSF revenues and expenditures. The revised plan also requires IHEs' fiscal officers to submit a form attesting that their institution used SFSF funds only for allowable educational and general expenditures. According to a senior BOR official, these changes were made for the third reporting period and going forward. If BOR discovers any indications of noncompliance from these quarterly statements, it will follow up with additional reviews, which may include site visits to the IHEs, as outlined in the revised plan.

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## Comments on This Summary

We provided the Governor of Ohio with a draft of this appendix on August 17, 2010, and representatives of the Governor's office responded on August 19, 2010. In general, the state agreed with our draft and provided some clarifying information which we incorporated. We also provided the City of Cincinnati with a statement of facts on August 17, 2010, and city officials responded on August 18, 2010, with technical comments which we incorporated as appropriate.

In addition, we provided a draft of all materials related to Head Start and Early Head Start to OHS and HHS for comment on August 20, 2010, but they did not provide comments in time for us to consider them in the report. We also met with officials from the HHS Office of Head Start,

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Region V on August 13, 2010, to discuss our findings regarding expansion of the Early Head Start program at selected grantees in Ohio.

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## Staff Acknowledgments

In addition to the contacts named above, Bill J. Keller, Assistant Director; Tranchau Nguyen, Assistant Director; Matthew Drerup, analyst-in-charge; Debra Cottrell; Jeffrey G. Miller; Brian Smith; and Myra Watts-Butler made major contributions to this report.

# Appendix XVI: Pennsylvania

## Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of the American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Pennsylvania. 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 Pennsylvania focused on selected programs funded under the Recovery Act, as shown in table 1. These programs were selected primarily because they received significant amounts of Recovery Act funds. We collected relevant documentation and interviewed program officials to review the status of the program's funding, how funds are being used and monitored, and expected outcomes. For descriptions and requirements of the programs covered in our review, see appendix XVIII of [GAO-10-1000SP](#).

**Table 1: Programs Reviewed**

Program	Rationale for selection
State Energy Program (SEP)	The Recovery Act SEP funding in Pennsylvania was a nearly 100 times increase from the state's allocation of \$1.1 million in recent years. The state program has been identified as high risk by the Pennsylvania Bureau of Audits.
Energy Efficiency and Conservation Block Grants	This new grant, funded for the first time by the Recovery Act, provided a total of \$106.6 million to Pennsylvania. The Department of Energy encouraged recipients to obligate 90 percent of the funds by June 2010 and to spend at least 20 percent by September 2010.
Weatherization Assistance Program	To provide updated information on Pennsylvania's progress toward spending and production goals, and its progress in training and certifying all weatherization workers working on Recovery Act projects ahead of the state's self-imposed July 1, 2010 deadline.
Low-Income Housing Tax Credit Assistance programs	Continued monitoring Tax Credit Assistance Program (TCAP) and Grants to States for Low-income Housing Projects in Lieu of Low-income Housing Credits Program under division B Section 1602 of the Recovery Act.
Public Housing Capital Fund	Provide updated information on (1) Public Housing Capital Fund formula grants which had a deadline for obligating all funds by March 2010, and (2) Public Housing Capital Fund competitive grants.

Source: GAO.

We continued to track the state's fiscal condition and also visited two local governments—the County of Berks as well as the City of Philadelphia—to discuss the amount of Recovery Act funds each expects to receive and

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

how those funds will be used. We also contacted state and local auditors about oversight and auditing of Recovery Act spending in Pennsylvania.

**State Energy Program.** The Department of Energy (DOE) awarded \$99.7 million to Pennsylvania in State Energy Program (SEP) funds. The state plans to fund alternative and renewable energy projects—including solar, geothermal, and wind projects—and commercial retrofit loans and to expand existing geothermal loans and solar rebate programs. As of August 15, 2010, Pennsylvania has obligated about \$72.9 million and expects to obligate the remaining funds by September 2010; about \$24.4 million has been expended. Based on preliminary estimates, Pennsylvania expects that these projects, loans, and rebates, in aggregate, will generate enough energy to power 9,200 homes each year and will also reduce carbon dioxide emissions by the equivalent of taking more than 500,000 cars off the road for one year.

**Energy Efficiency and Conservation Block Grant.** DOE awarded Pennsylvania and its cities and counties about \$106.6 million in Recovery Act Energy Efficiency and Conservation Block Grant (EECBG) funds. Specifically, DOE awarded \$23.6 million directly to the state, most of which was competitively awarded to local governments and nonprofits, and \$83.0 million directly to 43 local governments across Pennsylvania. Recipients are using funds to increase energy efficiency through projects including improvements to building heating and cooling systems as well as lighting. For example, the County of Berks is using its \$2.97 million grant to upgrade a boiler to run on natural gas and repair steam pipes. Philadelphia is using its \$14.1 million award for onetime projects, such as converting to 85,000 energy-efficient traffic signals, and establishing a new revolving loan fund for commercial building retrofits.

**Weatherization Assistance Program.** Pennsylvania is in line to receive \$252.8 million in Recovery Act weatherization funds and has expended \$86.3 million as of August 15, 2010. Local weatherization agencies have weatherized 10,287 homes—about 72 percent of the state’s target to weatherize 14,355 homes by September 30, 2010, and about 35 percent of its overall target to weatherize 29,700 homes by March 31, 2012. Although Pennsylvania chose to set a deadline to train and certify all weatherization workers working on Recovery Act projects by July 1, the state is working to identify weatherization workers not yet trained and certified. Pennsylvania is not yet eligible to access its final 50 percent of Recovery Act funding and is working to meet the DOE monitoring and quality control requirements.

**Low-Income Housing Tax Credit Assistance Programs.** Pennsylvania received \$95.1 million in Tax Credit Assistance Program (TCAP) funds and \$229.9 million in Grants to States for Low-income Housing Projects in Lieu of Low-income Housing Credits Program under Section 1602 of division B of the Recovery Act (Section 1602 Program). As of August 18, 2010, Pennsylvania had committed about \$85.0 million (89 percent) in TCAP funds and \$214.5 million (93 percent) in Section 1602 Program funds to 60 projects, including a project building 12 duplexes for low-income families in Northumberland. According to Department of Housing and Urban Development (HUD) data, Pennsylvania had disbursed about \$43.4 million in TCAP funds as of August 1, 2010. According to Department of the Treasury (Treasury) data, Pennsylvania had disbursed \$117.6 million in Section 1602 Program funds as of July 31, 2010.

**Public housing.** In Pennsylvania, 82 public housing authorities received \$212.2 million in Public Housing Capital Fund formula grants. As of August 7, 2010, all authorities have obligated all funds and in aggregate have drawn down a total of \$126 million. Fourteen authorities received \$55.2 million in Public Housing Capital Fund competitive grants under the Recovery Act and, as of August 7, 2010, these authorities have obligated about \$50.7 million, and 12 authorities have drawn down a total of \$3.4 million. At two authorities we visited, Harrisburg is using its competitive grant to renovate existing housing featuring new energy-efficiency improvements, and Philadelphia is using its competitive grants to build 194 handicapped-accessible units and a new mixed-use development.

**State fiscal condition and use of Recovery Act funds.** The governor of Pennsylvania signed a \$28 billion state general fund budget for fiscal year 2010-2011 on July 6, 2010. The budget is an increase of about \$200 million over the 2009-2010 budget. It includes over \$1.9 billion in Recovery Act funding including State Fiscal Stabilization Fund (SFSF) funds and Federal Medical Assistance Percentage (FMAP) funds.

**State accountability.** According to state budget and accounting officials, Pennsylvania has taken actions to require state agencies to report quarterly on their corrective action plans to resolve prior year Single

Audit<sup>2</sup> findings and to improve subrecipient monitoring. Pennsylvania's Single Audit Report for the fiscal year ended June 30, 2009 was jointly issued by the Auditor General and an independent public accounting firm and received by the Federal Audit Clearinghouse on June 30, 2010, 3 months after the due date required by statute. The report had 7 material weakness findings specifically related to the approximately \$1.47 billion in Recovery Act expenditures in the fiscal year ended June 30, 2009. Auditor General officials expect that an increased number of Recovery Act awards and related guidance will increase their workload for the Single Audit for fiscal year ended June 30, 2010. The Bureau of Audits, an internal audit bureau in the state budget office, is targeting audits of Recovery Act programs considered high risk in Pennsylvania, including weatherization and the SEP, and has issued four Recovery Act audit reports to date. In addition, the Pennsylvania Accountability Office posts Recovery Act outcome measures to the State's Recovery Act Web site as they are made available.

**Local uses of Recovery Act funds.** The County of Berks and the City of Philadelphia received Recovery Act funds totaling \$5.6 million and \$252.1 million, respectively. As of June 30, 2010, Berks has expended about 47 percent of its funds to support onetime projects, such as extending a road in an industrial park, as well as new services to prevent homelessness. As of August 23, 2010, Philadelphia has expended about 11 percent of funds awarded to support activities and programs, many of which, according to officials, will likely end after Recovery Act funds are expended.

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<sup>2</sup>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 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.

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## Pennsylvania Has Obligated Three-Quarters of Recovery Act State Energy Program Funding to Support Renewable and Other Energy Projects

The State Energy Program (SEP) provides funds through formula grants to states to achieve national energy goals such as increasing efficiency and decreasing costs. The Recovery Act appropriated \$3.1 billion to the SEP to be administered by DOE and spent over a 3-year period by the states, U.S. territories, and the District of Columbia. The Pennsylvania Department of Environmental Protection (DEP) administers the \$99.7 million in SEP Recovery Act funds provided to the state. The SEP Recovery Act grant represents a significant increase from the \$1.1 million that DEP received annually for its base SEP program for the 2009 and 2010 program years.

Pennsylvania plans to use its Recovery Act SEP funds to fund new alternative and renewable energy projects—including solar, geothermal, wind, and biogas projects—and plans to set up new loan funds for approximately 29 commercial retrofit loans as well as buy down the interest rates on at least 950 residential geothermal loans and provide some training for geothermal contractors (see table 2). About \$3 million will be retained by the state to cover administrative costs. As of August 15, 2010, Pennsylvania has obligated about \$72.9 million (73 percent) of SEP funds, and about \$24.4 million (24 percent) has been expended. DOE has set a goal that all SEP funds be obligated by September 30, 2010, and requires that they be expended within 36 months of the award date.<sup>3</sup> DEP expects to meet these deadlines.

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<sup>3</sup>DEP was awarded its SEP Recovery Act funds on May 13, 2009.

Table 2: Planned SEP Projects in Pennsylvania as of August 13, 2010

(Dollars in millions)<sup>a</sup>

Project type	Total awarded	Number of projects	Selected expected outcomes of projects supported with Recovery Act funding <sup>b</sup>
<b>Green Energy Works!</b> —Approximately \$56.8 million for the deployment of green energy projects.			
Wind	\$22.8	3	291,477 megawatt hours per year generation.
Solar 1: competitive grants for solar deployment projects	\$6.6	7	5,678 megawatt hours per year generation.
Solar 2: PA Solar manufacturing sole source grant	\$5.0	1	The funds will be used to purchase equipment to manufacture thin-film solar panels in Pennsylvania. It is expected that the total annual production capacity of the solar modules produced will be 200 megawatts each year.
Solar 3: PA Sunshine Rebate Program	\$7.9 (planned)	N/A	The funds will expand an existing fund to provide residential rebates and training on building code provisions applicable to solar installations.
Biogas	\$3.8	7	14,418 megawatt hours per year generation.
Combined Heat & Power	\$10.7	8	84,004 megawatt hours per year generation. 2,628 megawatt hours per year saved.
<b>Sustainable Business Recovery</b> —Approximately \$14.9 million <sup>c</sup> awarded for a Pennsylvania Energy Development Authority (PEDA) program to provide grants to alternative energy generation and energy conservation projects for businesses, non-profit corporations, and colleges and universities.			
PEDA—Sustainable Business Recovery	\$14.9	12 awarded <sup>d</sup>	53,153 megawatt hours per year generation. 583 megawatt hours per year saved.
<b>PEDA-Mined project grants</b> —Approximately \$3.8 million planned for competitive grants to fund innovative advanced energy projects that could not be funded within the state's fiscal year 2008-2009 budget. Projects include onsite energy conservation and production for five subrecipients, including a hospital and a food services distribution center.			
PEDA-Mined	\$3.8	5	18,299 megawatt hours per year generation. 4,651 megawatt hours per year saved.
<b>Energy Harvest Mined project grants</b> —Approximately \$4.3 million planned for competitive grants to fund innovative advanced onsite energy deployment projects that could not be funded within the state's fiscal year 2008-2009 budget.			
Energy Harvest	\$4.3	10	4,636 megawatt hours per year generation. 3,175 megawatt hours per year saved.
<b>Green Development Loan Program</b> —About \$12 million to capitalize a new statewide Green Development revolving loan fund for business and commercial building energy efficiency retrofits, equipment replacement, or development, implementation, and installation of onsite renewable energy technology. The fund will be managed by a competitively selected manager.			
Green Development Loan Fund	\$12	(29 planned)	5,130 megawatt hours per year saved
<b>Pennsylvania Geothermal Fund</b> —About \$5.0 million to buy down interest rates on two Keystone Home Energy Loan Program (HELP) loan products. The program will also provide geothermal contractor training.			
Geothermal Fund	\$5.0 (planned)	(At least 950 planned)	The program will provide International Ground Source Heat Pump Association accreditation for geothermal designers, installers, and inspectors to train geothermal contractors.
<b>Administrative</b> —DEP will retain about \$3.0 million for administrative costs, including seven funded employees.			

Source: GAO analysis of DEP data.

<sup>a</sup>Due to rounding, the total awarded does not sum to the total \$99.7 million received by Pennsylvania.

<sup>b</sup>The expected outcomes for the projects reflect both Recovery Act funds as well as matching funds leveraged by the subrecipients.

<sup>c</sup>PEDA offered an additional \$11 million in state funding for this program.

<sup>d</sup>As of September 1, 2010, DEP announced eight additional awards totaling \$5 million for PEDA-Sustainable Business Recovery projects.

DEP selected projects based on criteria including project readiness to proceed, cost effectiveness, and environmental benefits.<sup>4</sup> DOE encouraged states to leverage Recovery Act funds with matching contributions, and DEP officials expect SEP subrecipients to provide approximately \$778 million in leveraged funds. Based on its preliminary analysis, DEP estimated that the planned SEP projects, loans, and rebates, in aggregate, will generate enough energy to power approximately 9,200 homes each year and will also reduce carbon dioxide emissions by the equivalent of taking more than 500,000 cars off the road for one year.<sup>5</sup> Although DEP's preliminary estimates of energy production and environmental benefits were approximations, DEP officials said that its estimates will improve as DEP awards its Recovery Act SEP funds and collects project-specific information from subrecipients. We visited a 1-megawatt photovoltaic solar energy project at the Carlisle School District—a project funded by \$1 million in Recovery Act SEP funds and approximately \$4.8 million in leveraged funds. When completed, the school district expects the solar project to generate enough power to meet 15 percent of its energy needs—an estimated savings of approximately \$150,000 each year—and reduce carbon dioxide emissions by the equivalent of taking approximately 178 cars off the road per year.

According to DEP and DOE officials we interviewed, the review process required under the National Environmental Policy Act (NEPA)<sup>6</sup> has been among the biggest challenges faced by SEP projects in Pennsylvania. DEP officials also said that the historic preservation review requirements slowed down some SEP projects. Before DEP issues a notice to proceed, SEP projects must obtain relevant local building permits, historical preservation approval, and NEPA clearance to demonstrate that

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<sup>4</sup>DEP based its cost-effectiveness analysis on the cost per unit of energy generated. Projects that generate more energy per dollar were more likely to be funded.

<sup>5</sup>According to DEP, this estimate is based on a conversion factor that assumes that an average home in Pennsylvania uses approximately 10,000 kilowatt hours of electricity annually.

<sup>6</sup>42 U.S.C. §§ 4321–4370h.

environmental impacts of the project have been considered. According to DEP officials, the NEPA review process at DOE slowed down DEP's granting of notices to proceed, in part because DOE had many more SEP projects to review and projects were larger than SEP projects under the base SEP program, with potentially greater environmental impacts to consider. DEP officials also said that they are working with Pennsylvania's State Historic Preservation Office (SHPO) to streamline the historic review and approval process for SEP projects. In response to an August 2009 memo from DOE that encouraged review process improvements, the Pennsylvania SHPO has developed a screening approach to determine which projects need the greatest review.

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### DEP Has Increased Its Oversight of SEP Projects Under The Recovery Act

DEP officials have said that the increased oversight expectations for the Recovery Act spurred DEP to improve its monitoring of subrecipients.<sup>7</sup> DEP assigned project advisors to monitor each project and developed a Recovery Act reporting and tracking system with information on project outcomes, costs, milestones, deadlines, expenditures, and inspection dates.<sup>8</sup> By tracking project milestones, project advisors can identify projects experiencing challenges and work to address the challenges. Project advisors are to conduct on-site project inspections at the beginning and end of every project as well as on an interim basis, maintain regular communication with subrecipients, and enter weekly project status updates into DEP's Recovery Act tracking and reporting system. As of August 23, 2010, DEP project advisors had completed initial inspections for over 80 percent of the SEP energy projects already awarded. For the projects under the Green Energy Works program, advisors use a checklist to verify that work has been completed in accordance with the grant agreement and that state and local permits are in place, and to record job activity observed on-site. DEP officials told us that DEP plans to continue using the new monitoring tools for future programs.

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<sup>7</sup>In addition, DEP is subject to DOE monitoring of the SEP program in Pennsylvania. DOE activities include site visits by DOE project officers.

<sup>8</sup>SEP projects must progress through a series of milestones throughout the duration of the project, marked by project start date, design, requests for proposals, contract award, installation, and completion.

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## DEP Reports on Project Outcomes, Including Environmental Benefits

DEP reports performance measures for the SEP program, including outcomes, to DOE and the Pennsylvania Accountability Office. DEP reports monthly and quarterly to DOE on activity and results metrics, including jobs created and retained, programmatic metrics such as outlays and obligations, and impact metrics, such as energy savings. The state's performance measures also track investments in projects leveraged by Recovery Act funds. DEP will also report on future benefits resulting from the projects, including reduction in carbon dioxide emissions, energy savings, and renewable energy generation.

According to the quarterly recipient report on [www.recovery.gov](http://www.recovery.gov), Pennsylvania reported that the Recovery Act SEP funded approximately 22 full-time-equivalent jobs during the quarter ending June 30, 2010.<sup>9</sup> According to DEP officials, the expected full-time-equivalent jobs would be larger when considering the jobs created with leveraged funds in addition to the Recovery Act SEP funds.

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## Energy Efficiency and Conservation Block Grants Are Funding Projects across Pennsylvania, but More than One-Fourth of Local Recipients Had Not Yet Spent Funds

The Energy Efficiency and Conservation Block Grant program (EECBG), administered by DOE, is funded for the first time by the Recovery Act.<sup>10</sup> DOE awarded a total of \$106.6 million in EECBG Recovery Act funds in Pennsylvania—about \$23.6 million to DEP, most of which was competitively awarded to local governments and nonprofits, and about \$83.0 million in direct formula grants to 43 local governments. EECBG direct formula grants range from \$147,000 for the Township of Cheltenham to \$14.1 million for the City of Philadelphia. DOE encouraged recipients to obligate 90 percent or more of funds by June 25, 2010, and spend at least 20 percent by September 30, 2010, 50 percent by June 30, 2011, and 90 percent by June 30, 2012.

DEP is using most of its \$23.6 million EECBG award to administer and pay for a onetime grant program—Conservation Works!—which provides funds to local governments<sup>11</sup> and nonprofit agencies in Pennsylvania. DEP awarded funds to projects that could be started within 6 months of the

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<sup>9</sup>As of August 11, 2010.

<sup>10</sup>The EECBG program was authorized in Title V, Subtitle E of the Energy Independence and Security Act, which was signed into law on December 19, 2007.

<sup>11</sup>As required by 42 U.S.C. § 17155(c)(1)(A), at least 60 percent of the EECBG state award is reserved for units of local government that are not eligible for EECBG direct formula grants from DOE.

award date and completed within 18 months. It also required applicants to demonstrate that the projects could support energy-efficiency improvements of at least 25 percent in a cost-effective manner.<sup>12</sup> DEP received 500 applications from July 17, 2009, through August 14, 2009, and announced its EECBG grant awards on November 17, 2009. DEP announced 102 EECBG awards—up to \$250,000 for individual subrecipients, and \$500,000 for coalitions—for local government and nonprofit subrecipients. These subrecipients are to contribute matching funds of \$17.9 million. As of August 15, 2010, DEP has obligated all its EECBG funds.<sup>13</sup> In addition, \$10.6 million (45 percent) has been spent.

According to DEP officials, the most common types of EECBG subrecipient projects include street and traffic light replacement; heating, ventilating and air-conditioning projects; and building retrofits. For example, Thaddeus Stevens College of Technology in Lancaster received \$250,000 to replace or upgrade over 3,700 lighting fixtures in 12 campus buildings and expects to save \$71,000 per year from reduced energy consumption.<sup>14</sup> DEP officials expect the EECBG program to save, over project lifetimes, about \$57 million in energy costs and about \$21 million in natural gas costs because of reduced consumption. In addition, DEP estimates that the projects will reduce carbon dioxide emissions by 450,000 tons, which DEP compares to taking 75,000 passenger cars off the road for one year.

DOE also awarded \$83 million in EECBG direct formula grants to 43 local governments throughout Pennsylvania.<sup>15</sup> As of August 13, 2010, local recipients, in aggregate, have spent about \$7.5 million, or 9 percent of available funds. As shown in table 3, three local recipients have spent their entire awards, and 12 local recipients—more than one-fourth—have not spent any funds, as of August 13, 2010.

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<sup>12</sup>While renewable energy projects were eligible if they would generate energy to replace at least 25 percent of the building or entity's energy use, few renewable energy projects were selected because of their high costs.

<sup>13</sup>While DEP obligated about \$22.2 million to projects, the remaining funds—about \$1.3 million—were approved for administrative purposes.

<sup>14</sup>Thaddeus Stevens College of Technology provided an additional \$64,244 in matching funds to support this project.

<sup>15</sup>DOE made the first 41 awards between July 24, 2009 and December 31, 2009; the last two awards were on June 24, 2010, and August 4, 2010.

**Table 3: Expenditures of EECBG Direct Formula Local Recipients in Pennsylvania as of August 13, 2010**

Percentage of award spent	Number of local recipients
100 percent	3
80 to 99 percent	0
60 to 79 percent	1
40 to 59 percent	2
20 to 39 percent	3
0.1 to 19 percent	22
0 percent	12
<b>Total</b>	<b>43</b>

Source: GAO analysis of DOE data.

Note: This table covers only local governments receiving EECBG funds directly from DOE and does not include the DEP state award.

We visited two recipients of EECBG direct formula awards: Berks County and the City of Philadelphia.<sup>16</sup> Berks County is using its EECBG award for a onetime project to renovate and convert an oil boiler to also run on natural gas and repair leaky steam pipes at a county-owned facility. According to DOE data, Berks County received its \$2.97 million award on December 23, 2009, and has spent more than half as of July 23, 2010, and the county anticipates that the project will be completed in the fall of 2010. According to a county official, Berks County was able to move quickly on its EECBG grant because the county had worked with a contractor in early 2009 to develop an energy-efficiency capital improvement plan.<sup>17</sup>

Philadelphia is using its EECBG direct formula grant to (1) fund onetime projects, (2) set up programs to finance energy improvements by businesses, and (3) support initiatives to enhance the city’s existing sustainability program (see table 4).<sup>18</sup> According to DOE data, Philadelphia received its \$14.1 million award on September 29, 2009, and as of August 13, 2010, has spent approximately \$1.7 million (12 percent). Officials said

<sup>16</sup>We selected a mix of one city and one county. Philadelphia and Berks each had spent more EECBG funds than other recipients in the state.

<sup>17</sup>The county had identified 22 energy-efficiency projects, and the EECBG grant allowed it to fund the additional boiler and steam pipe work sooner than it otherwise would.

<sup>18</sup>Philadelphia also received a \$25 million award under the competitive EECBG program.

that because the city relied on its existing Greenworks plan,<sup>19</sup> which laid out planned energy-efficiency and other projects, it was able to move forward once it received its EECBG award. Philadelphia used EECBG funds to hire additional staff for the city Office of Sustainability to help with Greenworks initiatives, and, once the Recovery Act funds end, continued funding of those positions will depend on the city's fiscal outlook.

**Table 4: City of Philadelphia Projects Funded by EECBG Direct Formula Grant**

Project	Budget	Expenditures as of June 30, 2010
<b>Onetime projects</b>		
LED Traffic Signal Replacement. <sup>a</sup> Replacement of 85,000 traffic signals with more energy-efficient light-emitting diode (LED) signals. Expected to be completed in fall 2011.	\$3.1 million	\$216,624
Solar trash-compacting trash cans and recycling units. Procure and install 260 solar trash-compacting waste bins and 115 on-street recycling units. Expected to be completed in September 2010.	\$973,000	\$170,176
Radio Frequency Identification (RFID) Readers for Recycling Program. Procure equipment to track participation in a city recycling program. Completed in June 2010.	\$708,400	\$708,400
Philadelphia Water Department Solar Installation. Development of a 250 kilowatt solar power installation for a water pollution control plant. Expected to be completed in October 2010.	\$850,000	\$0
Bicycle Racks. Conversion of 1,600 parking meters to bicycle racks and installation of 1,000 additional racks. Expected to be completed in June 2011.	\$375,000	\$0
<b>Finance programs for businesses</b>		
Greenworks Loan Fund. <sup>b</sup> City partnership with a private lender to offer low-interest rate loans for commercial and industrial energy-efficiency improvements. As of June 10, 2010, Philadelphia approved one loan for \$1.6 million, had six loans totaling about \$4.5 million in underwriting, and another worth \$1 million on hold awaiting information on energy performance. All loans expected to be issued by summer 2012.	\$4.8 million	\$80,863
Energy Efficiency Retrofit Grants for Small Businesses and Commercialization of Technologies. Equipment rebates to small companies and nonprofits for energy efficiency building retrofits. Expected to be provided by winter 2011.	\$1.0 million	\$0

<sup>19</sup>City of Philadelphia, Mayor's Office of Sustainability, *Greenworks Philadelphia* (Philadelphia, Pa., 2009) and City of Philadelphia, Mayor's Office of Sustainability, *Greenworks Philadelphia 2010 Progress Report* (Philadelphia, Pa., 2010).

Project	Budget	Expenditures as of June 30, 2010
<b>Initiatives enhancing city sustainability program</b>		
Municipal Building Energy Efficiency Retrofits. Funding energy audits and retrofits to improve energy efficiency of city buildings. Expected to be completed in fall 2011.	\$1.0 million	\$0
Development of the city's Energy Management Capacity. Fund staff of an energy management office. Expected to be completed in 2012.	\$508,115	\$60,574
Building Code Development and Compliance. Fund a Green Building Program Manager and train staff in issues associated with green buildings. Expected to be completed in 2012.	\$300,000	\$44,881
Target Energy Budget Support and Training. Fund an Energy Conservation Coordinator, establish a utility bill management database, and develop an employee outreach and education campaign. Expected to be completed in July 2012.	\$292,000	\$5,411
Greenworks Monitoring and Reporting. Development of a project management and reporting database, a comprehensive annual plan, and a staff position to support implementation. Expected to be completed in July 2012.	\$250,700	\$29,968
<b>Total</b>	<b>\$14.1 million</b>	<b>\$1.3 million</b>

Source: GAO analysis of City of Philadelphia data.

\*Philadelphia had previously installed red LEDs for traffic signals in 1998. The Recovery Act funds are being used to replace the yellow and green LEDs. In addition, the old red LEDs are being replaced simultaneously using non-Recovery Act funds.

<sup>3</sup>Philadelphia used \$2.8 million, the maximum amount permitted by statute, to establish a revolving loan fund and provided an additional grant of \$1.7 million to the lender to provide greater initial capitalization. Philadelphia will be using half of its \$25 million EECEBG competitive award to increase the funds available under the Greenworks Loan Fund.

Both local governments expect their projects to provide financial, environmental, and other benefits. Berks County expects its project to reduce energy consumption and carbon dioxide emissions by 5,800 megawatt-hours and 4,900 metric tons per year, respectively. These reductions are expected to save approximately \$430,000 per year. Philadelphia estimates the LED traffic signals will save approximately \$1 million per year, and its RFID-based recycling program will increase the percentage of waste diverted to recycling by 5 percent to 10 percent. In addition, the city expects all loan projects to reduce energy consumption by at least 25 percent, compared with prior levels used by the same building or comparable buildings.

At the state and local level, certain EECEBG projects did not obligate and spend funds on schedule. According to DEP officials, the NEPA review process at DOE affected the start date for ten EECEBG projects, primarily geothermal heating and cooling, but did not affect most other EECEBG projects which had received categorical exclusions under NEPA from

DOE.<sup>20</sup> As with SEP, DEP is working with the SHPO to help streamline SHPO's project historic review and approval of EECBG projects. In addition, projects involving LED lighting, including Philadelphia's traffic signal replacement, did not fully proceed until DOE provided a Buy American categorical waiver for light components as there were not enough American suppliers of the lights.<sup>21</sup> Philadelphia also required time to solicit and evaluate applications, and select recipients for its loan fund and energy-efficiency retrofit grants.

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DEP and Local Governments Monitor EECBG Project Funds, Report on Performance, and Plan to Report on Outcomes

DEP monitors its EECBG Recovery Act funds in much the same way as described above for the SEP funds. DEP project advisors perform initial, interim, and final inspections, communicate regularly with subrecipients, work with subrecipients to address existing or potential project challenges, and track project progress against milestones and expenditures using DEP's Recovery Act tracking and reporting system. At the local level, Philadelphia, for its loan and grant programs, plans onsite inspections for all subrecipients of loans over \$100,000 and 10 percent to 20 percent of grant subrecipients after projects are finished. Berks County monitors its EECBG grant using a monitoring strategy that includes reviewing all contractor invoices, tracking funds, and conducting biweekly site visits and weekly meetings with the contractor.

DEP as well as the two direct formula recipients we interviewed measure the performance of their EECBG projects and have plans to measure the outcomes and report data to DOE and other sources. DEP reports quarterly to DOE on three categories of activity and results metrics,<sup>22</sup> and reports monthly on funds obligated, funds spent, and amount of relevant activity completed for its 102 projects. Philadelphia and Berks County also report information on project outputs to DOE. For example, Philadelphia reports on measures including the number of loans provided under the loan fund and the number of LED signals installed; Berks County will

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<sup>20</sup>Categorical exclusions cover categories of activities that an agency has determined to have no significant effect on the environment. Barring extraordinary circumstances, these activities do not require a detailed environmental review.

<sup>21</sup>DEP encouraged its EECBG subrecipients to buy American-made products even when they are not required to and provided grantees with information on Pennsylvania suppliers, where applicable.

<sup>22</sup>The categories are hours worked; standard programmatic metrics, such as obligations, outlays, and metrics associated with the activity undertaken; and other critical metrics such as energy savings and energy costs savings.

report on the number of linear feet of steam piping renovated. DEP requires its EECBG subrecipients to provide monthly reports on project status and will require a final report on measurable energy and environmental benefits. Many of the environmental benefits cannot be realized until the project is complete, so these outcomes cannot be measured at this point. DEP requires subrecipients to register their energy consumption data with Energy Star's Portfolio Manager Program and submit a follow-up status report 1 year after each project's completion date to document energy savings. Berks County's contractor plans to measure annual energy savings and carbon dioxide emissions avoided resulting from the new boiler system. Philadelphia requires loan recipients to provide information on energy usage that it will analyze 1 year after each project is completed. However, city officials acknowledged that for some of its EECBG projects, including the bicycle parking, identifying and measuring outcomes will be more difficult.

DEP is using the same job-reporting procedures for its EECBG projects as it is using for Recovery Act SEP projects. According to quarterly recipient reports on [www.recovery.gov](http://www.recovery.gov), Pennsylvania reported that the Recovery Act EECBG funded approximately 26 full-time-equivalent jobs during the quarter ending June 30, 2010, an increase from approximately 8 full-time-equivalent jobs reported for the quarter ending March 31, 2010.<sup>23</sup> Both Philadelphia and Berks County collected and reported job data and cited no major challenges in doing so. For their quarterly recipient reporting, officials from both local governments gathered work hours from the Davis-Bacon-Certified payrolls submitted by contractors, hours reported from contractors not covered by Davis-Bacon requirements, and internal payroll systems for their own employees' time. For its loan program, Philadelphia plans to have its loan fund administrator collect the work hours from the subrecipients. In EECBG recipient reports for the quarter ending June 30, 2010, Philadelphia reported approximately 8 full-time-equivalent jobs funded, and Berks County reported approximately 6 full-time-equivalent jobs.<sup>24</sup>

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<sup>23</sup> As of August 11, 2010.

<sup>24</sup> As of August 5, 2010.

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## Pennsylvania Is Making Progress on Weatherization Production Targets but Is Not Yet Eligible to Access Its Final 50 Percent of Funds

The Pennsylvania Department of Community and Economic Development (DCED)—the agency that administers the state’s Weatherization Assistance Program—is in line to receive \$252.8 million in Recovery Act funds to be spent by March 31, 2012. DCED will retain up to \$8.3 million for program management and oversight and will spend up to \$20 million for worker training. As of August 15, 2010, Pennsylvania has expended \$86.3 million, and, according to DCED, as of August 13, 2010, the 43 local weatherization agencies have weatherized 10,287 homes—about 72 percent of the state’s target to weatherize 14,355 homes by September 30, 2010, and about 35 percent of its target to weatherize 29,700 homes by March 31, 2012. According to quarterly recipient reports on [www.recovery.gov](http://www.recovery.gov), Pennsylvania reported that the Recovery Act Weatherization Assistance Program funded about 710 full-time-equivalent jobs during the quarter ending June 30, 2010—an increase from the approximately 484 full-time-equivalent jobs reported for the quarter ending March 31, 2010.<sup>25</sup>

DCED and the Pennsylvania Department of Labor and Industry (L&I) have not met the state’s self-imposed deadline to have all weatherization workers working on Recovery Act projects trained and certified or on a path to certification by July 1, 2010. Although not required by DOE, Pennsylvania has required certification of its weatherization workers and has decided to use part of its Recovery Act funds to train and certify all weatherization installers, crew chiefs, and auditors to perform weatherization work. In May 2010, we reported that without a method of ensuring compliance with the certification requirement, Pennsylvania’s training goals may not be achieved.<sup>26</sup> On May 26, 2010, DCED issued a directive to weatherization subrecipients to remind them of their responsibility for ensuring that all direct-hire employees and subcontractors are either certified or registered for courses required for certification by June 30, 2010.

Starting July 1, 2010, DCED implemented desk audit and on-site monitoring procedures to help enforce the state’s weatherization worker certification requirements. DCED has been comparing Davis-Bacon certified payrolls to L&I certification lists to cross-check worker

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<sup>25</sup> As of August 11, 2010.

<sup>26</sup> GAO, *Recovery Act: States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](http://www.gao.gov/products/GAO-10-604) (Washington D.C.: May 26, 2010).

certification. As of August 17, 2010, 22 agencies' payrolls have been audited revealing 230 uncertified workers. According to DCED, these worker names have been forwarded to L&I, which is to advise them of the training and certification requirement and instruct them on both the certification and course scheduling procedures. Desk audits of the remaining 21 agencies' files are to continue. DCED officials told us that all monitors were trained to review training certification compliance issues and were provided with a list of uncertified employee names for their on-site monitoring reviews. Since July 1, 2010, according to DCED officials, monitors have completed 12 agency site visits at which certification was specifically reviewed. Two agencies were cited for noncompliance with training requirements with three uncertified auditors at one agency and 55 uncertified subcontractors at the other. DCED forwarded the lists of uncertified workers to L&I for follow-up.

Concurrently, L&I continues to review the applications of existing weatherization workers seeking certification as well as to track those workers completing coursework to obtain certification. According to state officials, as of July 31, 2010, 1,215 existing workers submitted applications for certification based on their training, experience, or both. Because individual workers may request multiple levels of certification (installer, crew chief, or auditor), the 1,215 applicants requested 1,635 certifications. The application review committee has reviewed the applications and certified 260 requests; applicants for 434 requests will be required to pass a proficiency test or complete an accelerated training program; and applicants for 941 requests were recommended to complete full coursework. Of those recommended to complete coursework, as of August 2, 2010, 579 have enrolled in required coursework, 542 of the 579 have completed coursework, and 513 of those who have completed coursework have been certified.

Pennsylvania is not currently eligible under DOE requirements to access its final 50 percent of Recovery Act funding.<sup>27</sup> According to DCED, as of

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<sup>27</sup>DOE plans to provide access to the remaining funds to recipients, including Pennsylvania, once they have completed weatherizing 30 percent of the homes identified in their weatherization plans and meet other requirements. Other requirements include the recipient fulfilling the monitoring and inspection protocols established in its weatherization plan; monitoring 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 confirm acceptable performance.

July 23, 2010, Pennsylvania weatherization agencies had met DOE's Recovery Act production milestone to weatherize 30 percent of the total homes the state plans to weatherize. However, Pennsylvania is ineligible to receive its final Recovery Act weatherization funding until DCED addresses financial and administrative concerns identified in DOE's monitoring of Pennsylvania's program; specifically:

- DCED needs to resolve past Single Audit report findings related to noncompliance with federal regulations, potential unallowable costs, and material internal control deficiencies at both the state and subrecipient levels. Although DCED has implemented corrective actions to address some prior year deficiencies, DOE is concerned that more needs to be done.<sup>28</sup>
- DOE found that DCED monitors are not in compliance with DOE's monitoring procedures and has required DCED to submit a corrective action plan that demonstrates how DCED monitors will better document their monitoring efforts at each weatherization agency and track their recommendations to resolution.
- According to DOE, DCED needs to improve its financial management system so that it can track actual costs for each unit weatherized or on a per dwelling or a per subrecipient basis.
- The DOE Project Officer also identified concerns with the quality of work done at some of the local weatherization agencies. For example, some agencies visited by DOE did not complete moisture assessments as part of the initial audit, did not appear to follow the DOE-approved Priority List of measures, did not appear to practice lead safe weatherization, and may require further training in conducting blower door tests. In one case, DOE found little coordination among two local weatherization agencies that serve the same geographic area.

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<sup>28</sup>Findings include noncompliance and internal control deficiencies in DCED's program monitoring of weatherization subrecipients, including inconsistent state guidelines in calculating client income to determine eligibility, a lack of written policies and procedures for subrecipients to effectively administer their programs, and computer control weaknesses in the Hancock Energy Software (HES) system consisting of lack of documentation of change controls and weaknesses in system security. Commonwealth of Pennsylvania, *Single Audit Report for the Fiscal Year Ended June 30, 2009*, (Harrisburg, Pa.: June 30, 2010).

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As of August 23, 2010, DCED was working on corrective actions to address the issues raised by DOE.

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## Pennsylvania Has Disbursed Nearly Half of Its TCAP Funds and More than Half of Its Section 1602 Program Funds, but Faces Increased Oversight Workload for the Low-Income Housing Tax Credit Assistance Programs

The Recovery Act established two funding programs that provide capital investments to Low-Income Housing Tax Credit (LIHTC) projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) Grants to States for Low-income Housing Projects in Lieu of Low-income Housing Credits Program under section 1602 of division B of the Recovery Act (Section 1602 Program) administered by the U.S. Department of the Treasury (Treasury).<sup>29</sup> Before the credit market was disrupted in 2008, the LIHTC program provided substantial financing in the form of third-party investor equity for affordable rental housing units.<sup>30</sup> As the demand for tax credits declined, so did the prices investors were willing to pay for them, creating funding gaps in projects that had received tax credit allocations in 2007 and 2008. TCAP and the Section 1602 Program were designed to fill financing gaps in planned tax credits projects and jump-start stalled projects.

Pennsylvania received \$95.1 million in TCAP funds and \$229.9 million in Section 1602 Program funds through the Recovery Act. As of August 18, 2010, Pennsylvania had committed about \$85.0 million (89 percent) in TCAP funds and \$214.5 million (93 percent) in Section 1602 Program funds to 60 projects. According to HUD data, Pennsylvania had disbursed about \$43.4 million (46 percent) in TCAP funds as of August 1, 2010. According to Treasury data, Pennsylvania had disbursed \$117.6 million (51 percent) in Section 1602 Program funds as of July 31, 2010.

The Pennsylvania Housing Finance Agency (PHFA) administers the LIHTC program in the state and committed TCAP and Section 1602 Program funds to 60 projects containing 3,087 units (including 3,002 tax credit

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<sup>29</sup>State housing finance agencies award low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low-income tenants. Once awarded tax credits, owners attempt to sell them to investors to obtain funding for their projects. Investors can then claim tax credits for 10 years if the property continues to comply with program requirements.

<sup>30</sup>Many affordable housing tax credit projects rely on LIHTCs together with other forms of subsidies such as HOME Investment Partnerships Program funds (HOME), Community Development Block Grant (CDBG) funds, and state funds.

units).<sup>31</sup> PHFA officials said they selected projects with the intention of funding the highest number of viable projects possible while distributing funds equitably across the state.<sup>32</sup> PHFA officials also said they generally used Section 1602 Program funds to fund selected projects without investors and used TCAP funds to fill financing gaps on projects with investors. With Recovery Act financing available, TCAP and Section 1602 Program projects received about 75 percent of financing through funds disbursed by PHFA. In the past, PHFA said it would provide about 15 percent to 30 percent of financing for LIHTC, with the remaining financing coming from tax credit equity (about 60 percent) or other loans (about 10 percent to 25 percent). PHFA officials said they expect to commit the remainder of TCAP and Section 1602 Program funds by September 1, 2010. PHFA officials told us they are concerned that one Section 1602 Program project may not meet Treasury's December 2010 spending deadline.<sup>33</sup>

We revisited two TCAP projects we reported on in May 2010, and also visited two other TCAP projects as well as one Section 1602 Program project that did not have an investor (see table 5). We interviewed project owners for all five projects and investors for the TCAP projects we visited. According to PHFA officials and project owners, Recovery Act funds helped four out of five projects we visited move forward when owners

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<sup>31</sup>Of the 60 TCAP and Section 1602 projects in the state, 25 only received TCAP funds and 31 only received Section 1602 funds. Four projects received both TCAP and 1602 funds. Projects may contain units not financed through the TCAP or Section 1602 programs.

<sup>32</sup>The Internal Revenue Code requires states to develop a qualified allocation plan (QAP) for allocating tax credits that explains the basis upon which the state housing finance agencies distributes their LIHTC allocations. States use the QAP to establish preferences and set-asides within their tax credit competitions to target credits toward specific regions (such as rural areas) or types of people (such as the elderly). PHFA uses its qualified allocation plan to ensure that tax credits are spread across the state rather than clustered only in the larger cities such as Philadelphia or Pittsburgh.

<sup>33</sup>Under the Recovery Act, all subawards must be made by December 2010, or the housing finance agency must return the funds to Treasury. HFAs can continue to disburse funds for committed projects through December 31, 2011, provided that the project owners spend or incur at least 30 percent of eligible project costs by December 31, 2010. The project owner must have, by the close of 2010, paid at least 30 percent of the project owner's total adjusted basis in land and depreciable property that is reasonably expected to be part of the low-income housing project. Under TCAP, HFAs must disburse 75 percent of their TCAP awards by February 2011. Project owners must spend all of their TCAP funds by February 2012.

faced difficulties financing projects, and construction is under way on all five projects as shown in figure 1.<sup>34</sup>

**Table 5: Selected TCAP and Section 1602 Program Projects in Pennsylvania**

Project name, location	Type of funding	Recovery Act funds committed	Percentage of Recovery Act funds disbursed	Recovery Act funds as a total percentage of total project costs	Number of housing units (tax credit units/total units)	Project description	Expected place in service date
Hopewell Courtyard, <sup>a</sup> Stewartstown	TCAP	\$5,594,162	69	34	96/96	Rural, new construction, senior aged 55 or older	December 2010
Greystone Apartments, City of Allentown	TCAP	\$1,332,138	26	23	24/24	Urban, rehabilitation, family	March 2011
Presser Senior Apartments, <sup>b</sup> City of Philadelphia	TCAP	\$2,259,189	100	16	45/45	Urban, rehabilitation, senior aged 62 or older	January 2011
Mantua Square, Phase II, <sup>c</sup> Philadelphia	TCAP	\$2,000,000	0	12	51/51	Urban, new construction, family	March 2011
Cannery Point, Northumberland	Section 1602 Program	\$3,590,825	74	65	24/24	Rural, new construction, family	June 2011

Source: GAO analysis of PHFA data.

<sup>a</sup>We used the original project name shown on PHFA documentation; the project is now known as Westminster Place at Stewartstown.

<sup>b</sup>Presser Senior Apartments received \$2 million (about 14.4 percent of total development costs) in a Recovery Act Community Development Block Grant (CDBG-R) through the City of Philadelphia. This project also has federal historic preservation tax credits.

<sup>c</sup>Mantua Square, a Philadelphia Housing Authority (PHA) development, received a TCAP allocation from PHFA for Phase II. Phases I and II also received a \$10 million Public Housing Capital Fund Competitive Grant. PHA officials said they expect both Phase I and Phase II to be completed by March 2011.

<sup>34</sup>The fifth project is Philadelphia Housing Authority's Mantua Square. A housing official said the project would have been built without Recovery Act funds but would not have included energy efficiency and green elements that the official said will save money over the life of the project.

Figure 1: Selected TCAP and Section 1602 Program Projects in Pennsylvania

Project	Description
<p><b>Hopewell Courtyard</b></p> 	<p>Hopewell Courtyard is a rehabilitation of an old factory and construction of two new buildings to create 96 units of senior housing in Stewartstown, Pennsylvania. Project owners said that the first units in the rehabilitated factory will be ready for occupancy by September 2010 and will incorporate many green building features, such as geothermal heating.</p>
<p><b>Greystone Apartments</b></p> 	<p>Greystone Apartments is a rehabilitation to improve the safety and energy efficiency of 24 existing units in three late 1800s-era buildings in Allentown, Pennsylvania. New sprinklers and metal stairs to replace the old fire escapes will be installed as well as a new heating and air conditioning system to reduce energy costs and improve safety. During the construction, families living in two buildings were relocated and will return when work is complete. Then families in the third building will be relocated while the construction is completed.</p>
<p><b>Presser Senior Apartments</b></p> 	<p>Presser Senior Apartments is a rehabilitation of a historic former retirement home to build 45 units of senior housing in Philadelphia, Pennsylvania, while preserving historic features of the structure. Built in 1914, the property has been vacant since 2002 and became blighted. The project also has a Recovery Act Community Development Block Grant award from the city as well as federal historic tax credits.</p>
<p><b>Mantua Square</b></p> 	<p>Mantua Square is a new 101 unit development by the Philadelphia Housing Authority that encompasses more than one square city block and combines residential space with some commercial rental space. For Phase II with 51 units, Philadelphia Housing Authority received a TCAP award from PHFA and will use the award to incorporate green features including solar panels into the overall development. PHA also received a Recovery Act public housing competitive grant for Phases I and II of the project, discussed below in the public housing section of this appendix. As shown in the photos, roofs are on Phase I buildings and foundation work was underway for Phase II.</p>
<p><b>Cannery Point</b></p> 	<p>Cannery Point is a new development consisting of 12 duplexes for low income families in Northumberland, Pennsylvania. Project owners said that the first units will be ready for occupancy about October 2010, while construction on the remaining units continues.</p>

Source: GAO.

PHFA officials and project owners we interviewed that applied for 2010 LIHTC funds said that extending the Section 1602 Program through 2010 would help stabilize the LIHTC market. Some developers said projects in rural areas may have trouble obtaining financing without an extension of the Section 1602 Program in 2010. Investors we interviewed said that their geographic preferences in LIHTC investments generally followed their need to find Community Reinvestment Act (CRA) opportunities.<sup>35</sup> However, some project owners we interviewed expressed concerns that allowing the program to continue too long beyond 2010 could hamper the market by crowding out private investors.

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### PHFA Plans to Use an Established Framework to Oversee Construction and Asset Management and Reported Job Measures for the TCAP and Section 1602 Program Projects

The project oversight role required of state housing finance agencies (HFA) under the TCAP and Section 1602 Program is greater than under the standard LIHTC program.<sup>36</sup> Under the TCAP and the Section 1602 program, HFAs are obligated to perform both construction oversight and asset management, which imposes ongoing responsibilities for the long-term viability of each project. HFAs need to ensure compliance with LIHTC requirements as part of their construction oversight and asset management activities and must return TCAP and Section 1602 Program funds to HUD and Treasury, respectively, if a project fails to comply with LIHTC requirements.<sup>37</sup>

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<sup>35</sup>The Community Reinvestment Act is intended to encourage institutions that accept deposits—such as banks—to help meet the credit needs of the communities in which they operate. See 12 U.S.C. §§ 2901 *et seq* and 12 C.F.R parts 25, 228, 345, and 563e. The CRA requires that each insured depository institution’s record in helping meet the credit needs of its entire community be evaluated periodically. That record is taken into account in considering an institution’s application for deposit facilities, including mergers and acquisitions. Investing in LIHTC projects allows banks to earn positive consideration toward their regulatory ratings under the CRA. Investors said banks’ CRA needs tended to be greater in metropolitan areas.

<sup>36</sup>Under the LIHTC program, HFAs are required to review LIHTC projects at least annually to determine project owner compliance with tenant qualifications and rent and income limits. Additionally, every 3 years the HFAs must conduct on-site inspections of all buildings in each LIHTC project and inspect at least 20 percent of the LIHTC units and resident files associated with those units.

<sup>37</sup>In contrast, under the conventional LIHTC program, HFAs are not liable for recapturing funds if a project owner fails to comply with LIHTC requirements. Rather, their obligation is to report any noncompliance to the Internal Revenue Service (IRS), and the IRS takes any further actions with respect to recapture. GAO reported previously on the risks and responsibilities of recapture for HFAs under the TCAP and the Section 1602 Program. See [GAO-10-604](#), *States’ and Localities Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability* (Washington, D.C.: May 26, 2010).

PHFA officials said their agency plans to use the same established framework for construction oversight and asset management that it uses to manage its other loan programs.<sup>38</sup> As part of its construction oversight, PHFA officials said the agency conducts periodic inspections of sites during construction to monitor progress and observe challenges that may affect schedules or cost.<sup>39</sup> For TCAP and Section 1602 Program funds, PHFA reviews all project construction invoices to ensure payments are being made in accordance with program guidance. PHFA officials told us they have been monitoring construction for projects underway and also said they will add projects to their asset management schedule as they are completed. As part of its asset management activities, PHFA officials said they plan to perform annual physical inspections for TCAP projects similar to those on PHFA's oversight schedule for other loans. For the Section 1602 Program, PHFA plans to perform physical inspections every 3 years similar to those on the schedule for regular LIHTC projects. For projects without an investor—29 of the 60 in Pennsylvania—PHFA said the agency will be responsible for overseeing all asset management activities. According to PHFA, the asset management plan for TCAP and Section 1602 Program projects focuses on managing risks to the agency. From PHFA's perspective, TCAP projects pose a greater risk because of potential full repayment obligations to HUD in the event projects do not comply with program requirements during the occupancy period.<sup>40</sup> In addition, officials said the TCAP loans have been underwritten for repayment and will require loan servicing and monitoring. PHFA views the recapture risk for Section 1602 Program projects as similar to the recapture risk for a regular LIHTC project. According to officials, PHFA's asset management plan for both TCAP and Section 1602 properties will involve ongoing fiscal and physical reviews of properties for both program compliance and to establish early warning programs for any management weaknesses or operational deficiencies.

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<sup>38</sup>PHFA also oversees the state PennHOMES program, which combines resources from PHFA Agency Unrestricted Reserves and the federal HOME program funding passed through the Pennsylvania Department of Community and Economic Development.

<sup>39</sup>Project owners must comply with Davis-Bacon wage rules and the National Environmental Protection Act (NEPA). Davis-Bacon and NEPA requirements do not apply to Treasury's Section 1602 Program.

<sup>40</sup>A PHFA official said the agency is still waiting for HUD clarification on the requirements for repayment obligations as of August 16, 2010.

Although spreading Recovery Act funding across a larger number of projects allowed Pennsylvania to fund more low-income housing units, PHFA has a larger number of projects to monitor during construction as well as an increased workload for the entire 15-year LIHTC compliance period for which TCAP and Section 1602 Program projects will require asset management activities. Officials estimated that the increased workload will cost the agency 20 percent to 30 percent more in annual operating costs. To help cover some of these oversight costs, PHFA is collecting a monthly \$500 fee per project for construction monitoring and a onetime asset management fee of \$800 per unit from project developers. PHFA officials said that agency staff are stretched to meet current demands, but that the agency has sufficient staff to conduct oversight activities, in part because every year some projects will age out of their compliance periods.<sup>41</sup>

Reporting requirements for the TCAP and the Section 1602 Program differ and HUD requires TCAP recipients to report project data to three different reporting systems, including through [Federalreporting.gov](http://Federalreporting.gov) to satisfy the recipient reporting requirements under section 1512 of division A of the Recovery Act. Section 1512 describes the recipient reporting requirements, which include estimation of full-time-equivalent jobs created and retained. Section 1512 applies only to programs under division A of the Recovery Act, which includes TCAP. The Section 1602 Program is under division B of the Recovery Act and therefore not subject to section 1512 requirements.

To satisfy quarterly Recovery Act recipient reporting requirements for TCAP projects, PHFA officials collected jobs information from TCAP project owners, reporting approximately 103 full-time-equivalent-jobs funded for the quarter ending June 30, 2010; for the quarter ending March 31, 2010, PHFA reported approximately 60 full-time-equivalent jobs funded by TCAP.<sup>42</sup> On the basis of OMB guidance, officials said the number of jobs funded for TCAP projects was prorated according to the percentage of TCAP financing on each project. PHFA officials said they calculated the

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<sup>41</sup>According to PHFA officials, the agency performs asset management activities for 589 properties, including TCAP and Section 1602 Program-financed properties.

<sup>42</sup>As of August 12, 2010.

percentage of TCAP financing used on each project and provided it to project owners to complete the HUD calculator.<sup>43</sup>

In contrast, Treasury collects its own project information through quarterly performance reports submitted by HFAs. HFAs are required to make only one report of the number of jobs funded by the Section 1602 Program. HFAs submit estimated information on the number of full-time-equivalent jobs to be funded by the entire project with the first quarterly report for each project. The number of jobs reported to Treasury need not be reduced to reflect parts of the project not funded under the Section 1602 Program. Except for requiring the use of full-time-job equivalents, Treasury has not issued detailed guidance specifying job estimation methodology under the Section 1602 Program. PHFA collected job information for the Section 1602 Program by requiring project owners receiving Section 1602 Program funds to submit an estimate of the jobs the projects would fund with their program application. Officials said they did not plan to submit updated estimates or reports.

TCAP projects with other Recovery Act grants covered by section 1512 recipient reporting requirements must submit jobs information for each grant. For example, Presser Senior Apartments submitted the number of prorated jobs to PHFA to account for jobs funded by the TCAP program and to the City of Philadelphia to account for jobs funded by a Recovery Act Community Development Block Grant. In contrast, projects with both TCAP and Section 1602 Program funds are to submit data to PHFA quarterly for the TCAP-funded jobs only.

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## Public Housing Authorities Met the Deadline for Obligating Public Housing Funds and Are Expending Funds

In Pennsylvania, 82 public housing authorities collectively received \$212.2 million in Public Housing Capital Fund formula grants under the Recovery Act. These grant funds were provided to the authorities to improve the physical condition of their properties. As of August 7, 2010, these authorities have obligated all funds, and the 82 in aggregate have drawn down a total of \$126 million.

Fourteen public housing authorities in Pennsylvania received a total of \$55.2 million in 21 different Public Housing Capital Fund competitive

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<sup>43</sup>HUD provided an updated calculator for determining the number of jobs created or retained. PHFA officials said the new HUD calculator was helpful, and easy to use, and prorated jobs accurately.

grants under the Recovery Act. As shown in table 6, these grant funds were provided to the authorities in four grant categories to improve the physical condition of their properties. As of August 7, 2010, these authorities have obligated about \$50.7 million, and 12 authorities have drawn down a total of \$3.4 million (see fig. 2). Officials with the HUD field office in Philadelphia said that they do not consider any of the housing authorities in their jurisdiction to be at risk for not meeting the Recovery Act's September 2010 deadline for obligating competitive grant funds.

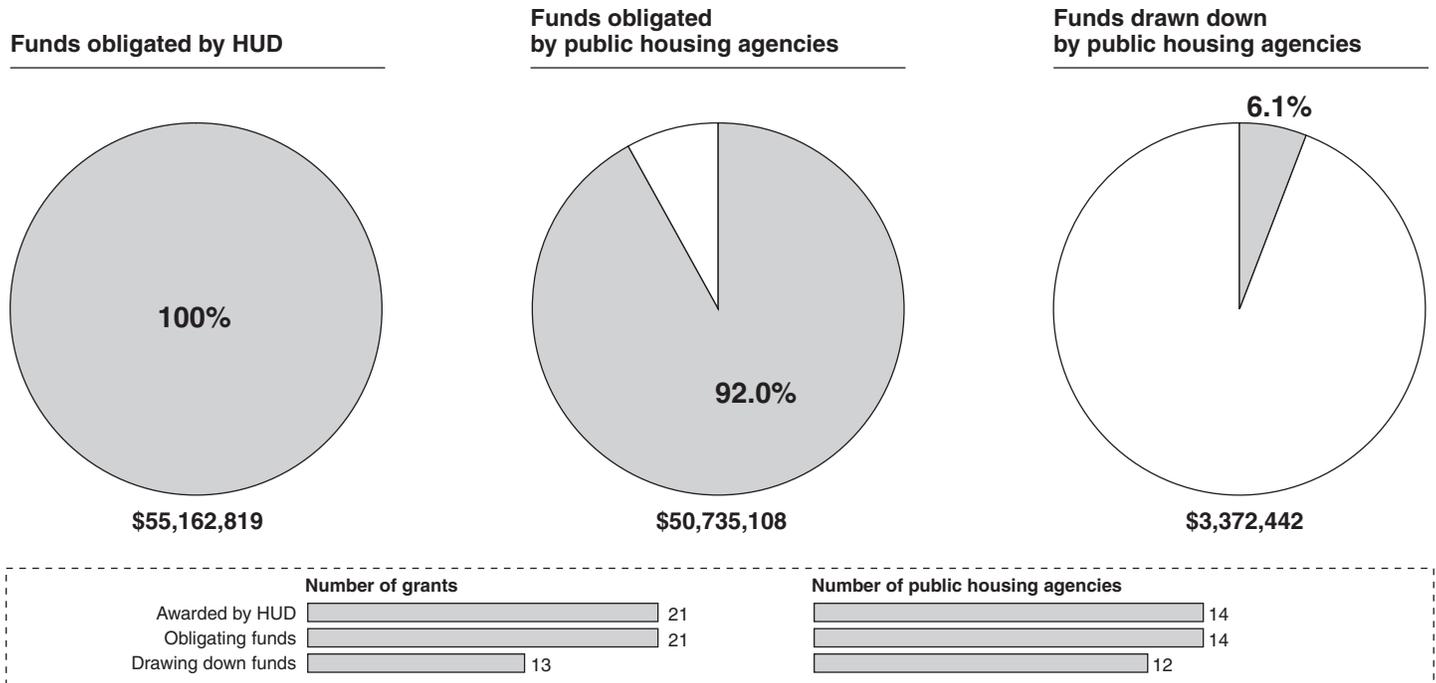
**Table 6: Public Housing Capital Fund Competitive Grants Awarded in Pennsylvania**

Category	Number of recipients	Number of grant awards	Total awarded
Improvements Addressing the Needs of the Elderly and/or Persons with Disabilities	6	10	\$15,537,789
Gap Financing for Projects that are Stalled Due to Financing Issues	2	2	\$12,064,258
Creation of Energy Efficient, Green Communities: Option 1, Substantial Rehabilitation or New Construction	1	1	\$13,915,000
Creation of Energy Efficient, Green Communities: Option 2, Moderate Rehabilitation	8	8	\$13,645,772

Source: GAO analysis of HUD data.

Note: Because some housing authorities received multiple awards, the number of recipients does not add to 14.

**Figure 2: Percentage of Public Housing Capital Fund Competitive Grants Allocated by HUD That Had Been Obligated and Drawn Down in Pennsylvania, as of August 7, 2010**



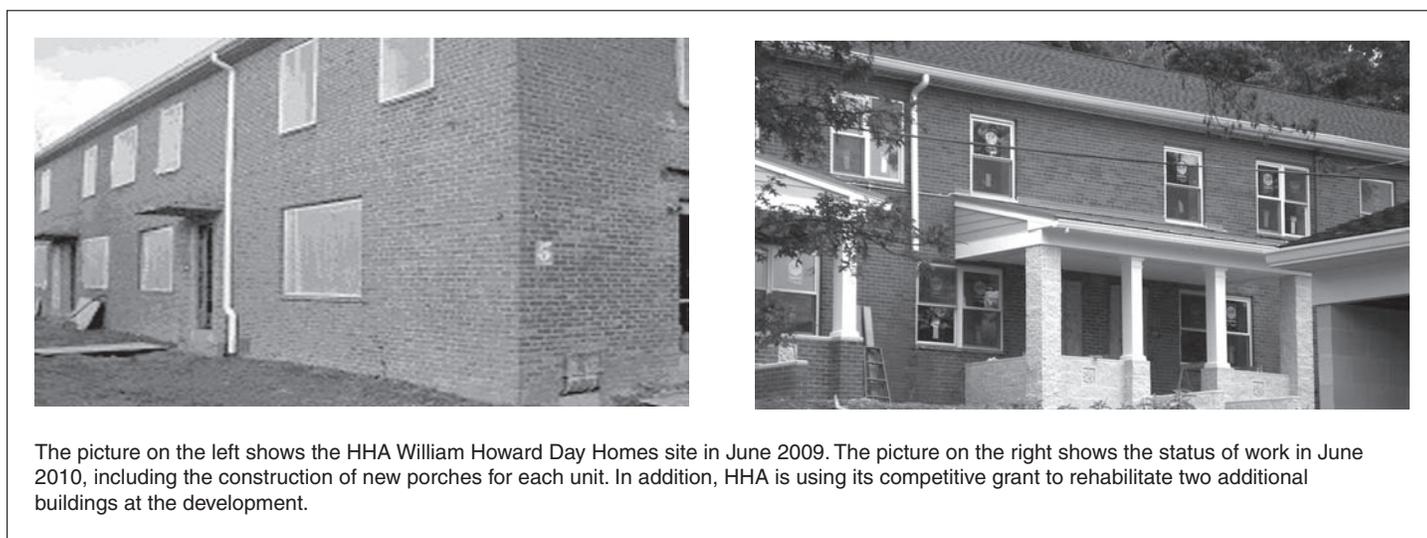
Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

We revisited two public housing authorities in Pennsylvania—Harrisburg Housing Authority (HHA) and Philadelphia Housing Authority (PHA). HHA is using 54 percent of its \$4.4 million formula grant to rehabilitate the interiors and add porch facades to two 1940s-era buildings at the William Howard Day Homes development (see fig. 3).<sup>44</sup> As of August 7, 2010, HHA has disbursed about \$2.9 million, or about 66 percent, of its grant, and expects to complete work by the end of 2010. HHA is rehabilitating 54 units in two additional buildings at William Howard Day Homes with a \$3.4 million Energy Efficient Green Communities Option 2 competitive grant. This work includes energy efficiency and other environmental features, including installation of (1) energy-efficient windows, appliances, and lighting fixtures and (2) low-flow faucets and toilets. HHA expects these

<sup>44</sup>HHA is using the balance of its award to upgrade kitchens in a senior high-rise property and on other projects. For more information on these projects, see GAO: *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, GAO-09-830SP (Washington, D.C.: July, 2009).

efforts to reduce energy and water consumption by 28.6 percent and 33.5 percent annually, respectively, compared with this property's consumption prior to renovation. HHA plans to measure future energy and water usage and compare against usage in prior years to determine savings. As of August 7, 2010, HHA obligated all its competitive grant funds and expended about \$295,000, or about 9 percent.

**Figure 3: Progress of Formula Grant Work at William Howard Day Homes**



Source: GAO.

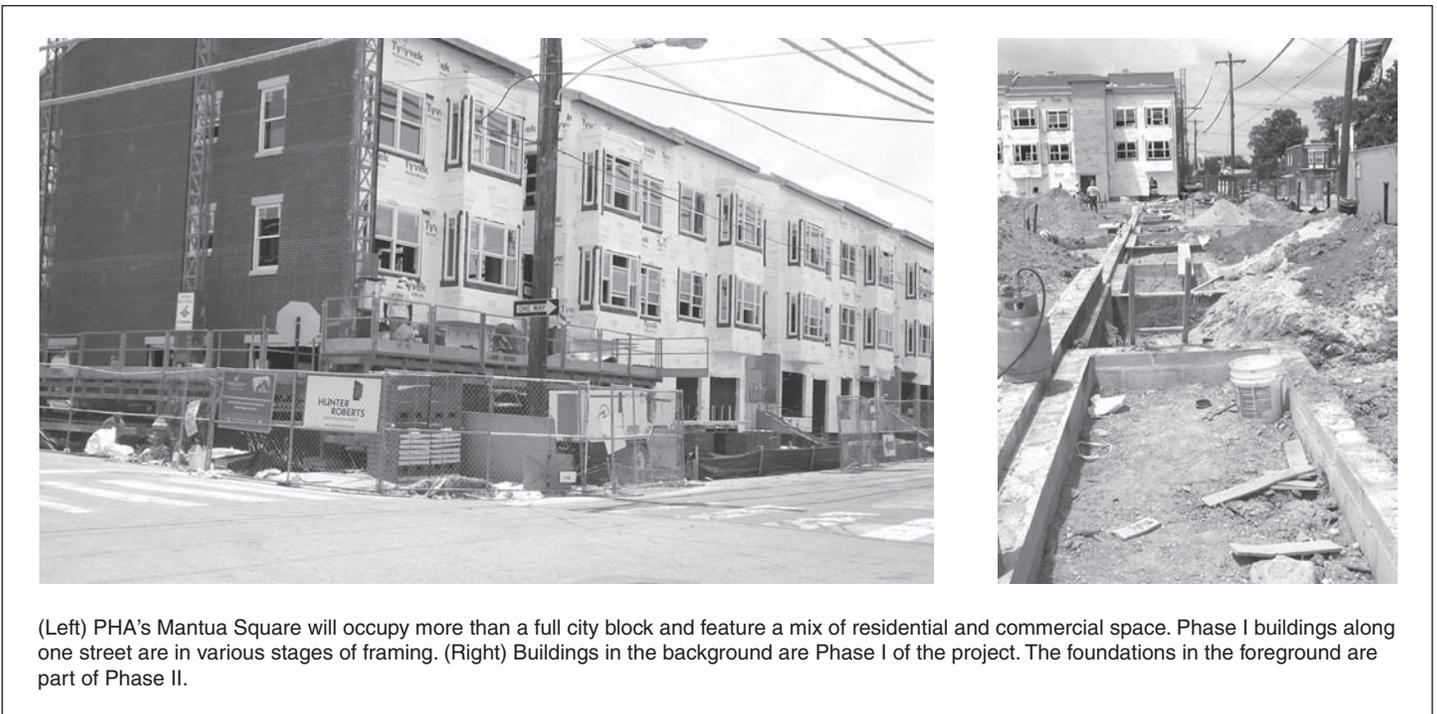
PHA is using about \$90.6 million in awarded formula grants for 6 projects, including rehabilitating 340 units of scattered site properties, constructing 25 new 4-unit scattered site buildings,<sup>45</sup> and, at 27 different properties, upgrading electrical, heating, and mechanical systems in order to reduce energy consumption.<sup>46</sup> As of August 7, 2010, PHA has expended about \$40.8 million, or about 45 percent, of its formula grant. PHA also received six competitive grants totaling about \$36 million. PHA is using four of these grants, totaling about \$12 million, to construct 194 handicapped-accessible

<sup>45</sup>PHA is piloting a new construction method for the authority in building some units of the 25 buildings that contain a total of 100 units. Units will be constructed of structural insulated panels to increase energy efficiency in the units.

<sup>46</sup>PHA is using an information technology system that will remotely monitor the electrical, heating, and mechanical systems at 27 sites and notify PHA officials if units are consuming more utilities than expected, triggering a maintenance visit from PHA.

housing units; a \$13.9 million grant to construct 100 new housing units at Paschall Village; and a \$10 million gap financing grant to help build its 101-unit Mantua Square development (see fig. 4).<sup>47</sup> Other funding sources for Mantua Square are funding energy-efficiency and green features that are part of a larger effort by PHA to incorporate green practices into its housing portfolio.<sup>48</sup> According to PHA, as of August 13, 2010, 28 percent of Mantua Square was completed, and work will be completed in March 2011. As of August 7, 2010, PHA has obligated all its competitive grants and has not disbursed any funds.

**Figure 4: Progress of Work on Mantua Square**



Source: GAO.

<sup>47</sup>Phase II of the project is partially funded with a \$2 million Recovery Act TCAP award that was discussed earlier in this report.

<sup>48</sup>For example, this project includes solar panels. PHA expects that the panels and other energy-efficiency measures will provide annual electricity savings of about \$42,000 and pay for themselves in 12 years.

Both housing authorities we visited are subject to oversight by the HUD Philadelphia field office. Oversight activities of the office, including remote monitoring of authorities' projects,<sup>49</sup> have resulted in actions at other authorities in Pennsylvania. In one case, HUD expects to recapture about \$588,000 in Recovery Act funds from one public housing authority that had not executed a contract by the March 2010 obligation deadline. In another case, the HUD office required another authority to submit additional documentation to HUD for review after the office determined that the housing authority lacked thorough documentation on its competitive procurement process for its Recovery Act funds. In addition, in response to concerns about appropriate use of taxpayer dollars, HUD's Office of Public and Indian Housing initiated an audit of the Philadelphia Housing Authority on August 26, 2010, with a preliminary report to be due within 60 days.

Both HHA and PHA collected and reported data to OMB on jobs funded with their Recovery Act grants. In past reporting periods, HHA has experienced difficulties with reporting accurate job information. In its May 2010 audit report, the HUD Office of the Inspector General recommended that HUD require HHA to develop and implement internal control procedures to ensure accurate reporting of job creation data.<sup>50</sup> According to an HHA official, HHA has taken action to address errors identified by us and the inspector general by auditing the workpapers of selected contractors, requiring contractors to certify submitted data, and adhering to OMB's guidance and job-reporting template. As a result, on the basis of our analysis of the data we received, we determined that HHA used the correct methods and calculator in preparing its recipient reports for the quarter ending June 30, 2010. According to HHA, for the quarter ending June 30, 2010, HHA funded approximately 22 full-time-equivalent jobs with its formula grant and approximately 1 full-time-equivalent job with its competitive grant.<sup>51</sup> PHA also used OMB's template to calculate full-time-equivalent jobs based on contractor data that were verified by PHA staff. According to recipient reports on [www.recovery.gov](http://www.recovery.gov), for the quarter ending June 30, 2010, PHA reported approximately 156 full-time-equivalent

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<sup>49</sup>In remote monitoring, HUD officials said they use a checklist to review a housing authority's project files to confirm current obligations and expenditures and project schedules against estimated completion dates.

<sup>50</sup>HUD Office of the Inspector General, *Audit Report*, 2010-PH-1009 (May 13, 2010).

<sup>51</sup>As of August 5, 2010.

jobs funded with its formula grant.<sup>52</sup> In the recipient reports for its 6 competitive grants, PHA did not report any full-time-equivalent jobs during the quarter ending June 30, 2010.<sup>53</sup> According to PHA officials, however, PHA funded approximately 16 full-time-equivalent jobs in the quarter that it was unable to report since funds were not disbursed.<sup>54</sup>

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## Pennsylvania Is Using Recovery Act Funds to Stabilize Its Enacted Fiscal Year 2010-2011 State Budget, but Continues to Face Fiscal Challenges

For fiscal year 2009-2010, Pennsylvania used \$921 million in State Fiscal Stabilization Fund (SFSF) monies as well as state funds freed up as a result of the almost \$1.78 billion in increased Federal Medical Assistance Percentage (FMAP) funds to help stabilize its \$27.8 billion general fund budget.<sup>55</sup> After exhausting its rainy-day fund, Pennsylvania ended its 2009-2010 fiscal year with a \$1.18 billion revenue shortfall due to lower than expected revenues.<sup>56</sup> On July 6, 2010, Pennsylvania's Governor signed a \$28 billion general fund budget for fiscal year 2010-2011 with an increase of about \$200 million over the fiscal year 2009-2010 budget. The 2010-2011 budget does not include any tax increases, and general fund revenues are estimated to fall 3.4 percent from their level in fiscal year 2009-2010. The enacted budget includes over \$1.9 billion in Recovery Act funds, including \$921 million in SFSF funds, about \$655 million of which supports basic education spending, which received an increase of \$250 million, or 4.5 percent, over fiscal year 2009-2010, and about \$1 billion in increased FMAP funds.

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<sup>52</sup>As of August 5, 2010.

<sup>53</sup>As of August 5, 2010.

<sup>54</sup>Although PHA reported zero jobs funded in the quarter, PHA provided information about work underway and job counts not yet funded in the report narrative.

<sup>55</sup>The use of Recovery Act funds must comply with specific program requirements but also, in some cases, enables states to free up state funds to address their projected budget shortfalls. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that a state would otherwise have to use for its Medicaid programs. As we previously reported, Pennsylvania plans to use the funds made available as a result of the increased FMAP to cover the state's increased Medicaid caseload, ensure that prompt payment requirements are met, maintain current populations and benefits, and help finance general budget needs, among other purposes.

<sup>56</sup>However, because of a positive general fund balance carried from fiscal year 2008-2009 together with spending cuts during the year as well as other budgetary measures, a general fund deficit of \$294 million as of June 30, 2010, was carried over to the current fiscal year.

In addition to receiving about \$4.6 billion in Recovery Act funds used to stabilize the state budget in fiscal years 2009-2010 and 2010-2011, Pennsylvania state agencies have received other Recovery Act funds from federal agencies—including awards discussed in this appendix. For example, Pennsylvania received just over \$1 billion for highway and bridge projects and is using these funds to repave roads and repair structurally deficient bridges. Pennsylvania currently expects that state agencies will receive a total of \$13.5 billion in Recovery Act funds, including the SFSF and FMAP funds already described. According to Pennsylvania, as of August 15, 2010, not including the SFSF and FMAP funds, about \$6.8 billion in Recovery Act funds have been obligated and almost \$5.5 billion have been expended.<sup>57</sup>

Pennsylvania faces the end of Recovery Act funds in fiscal year 2011-2012, and as we reported in May 2010, the Governor had proposed creating a stimulus transition reserve fund to help the next administration and legislature deal with fiscal challenges that remain as the economy recovers.<sup>58</sup> For example, Pennsylvania faces a sharp increase in pension costs beginning in fiscal year 2012-2013.<sup>59</sup> Although the enacted budget did not include the stimulus transition reserve fund or new revenue measures, the budget legislation does state that it is the intention of the majority leadership in the Pennsylvania House and Senate to enact legislation by October 1, 2010, that raises revenue from the extraction of natural gas, to be divided among the state, counties, and municipalities, and environmental initiatives, to be effective no later than January 1, 2011. Also, in response to state transportation funding shortfalls, the Pennsylvania General Assembly has begun special legislative sessions to consider options for statewide transportation funding, including roads, bridges, and public transit.

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<sup>57</sup>This total includes about \$2.5 billion in Emergency Unemployment Compensation.

<sup>58</sup> The proposed fund was to be financed through a package of tax measures—including lowering the state sales tax from 6 percent to 4 percent and eliminating 74 exemptions, enacting a natural gas extraction tax, and other revenue raisers—with revenues reserved for use after June 30, 2011.

<sup>59</sup>In fiscal year 2012-2013, Pennsylvania projects a sharp increase in the state's employer contributions to the State Employees' Retirement System and the Public School Employees' Retirement System. The state's combined contributions that year are projected to be \$2.8 billion.

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## Pennsylvania's State Audit Agencies Continue Recovery Act Oversight, but the 2009 Single Audit Report Identified Material Weaknesses

According to state budget and accounting officials, Pennsylvania has taken actions to resolve past Single Audit findings and improve subrecipient monitoring with the aim to prevent future findings. Pennsylvania has added staff to a work unit in the Bureau of Audits (BOA), an internal audit bureau within the Office of the Budget, to review subrecipient Single Audit reports and forward those with findings to the state agencies for more timely resolution. In addition, the state Comptroller Operations Bureau of Quality Assurance (BQA) has worked closely with state agencies developing subrecipient monitoring plans to provide additional guidance and oversight on the agencies' monitoring plans. Beginning in October 2009, Pennsylvania has required state agencies to report quarterly on the status of their corrective action plans to resolve prior year Single Audit findings. According to state officials, because Pennsylvania did not implement this process until after the 2009 Single Audit period, the effect of the new quarterly corrective action monitoring process will not be realized until the completion of the 2010 Single Audit. For example, of the 53 findings in the 2008 Single Audit, Pennsylvania has resolved 4 findings<sup>60</sup> and has submitted corrective action plans for the other 49 to relevant federal agencies.

According to the state Auditor General, the Single Audit is that office's primary tool for oversight of Recovery Act and other federal funds. Pennsylvania's Single Audit report for the fiscal year ending June 30, 2009 was jointly issued by the Auditor General and an independent public accounting firm and received by the Federal Audit Clearinghouse on June 30, 2010. This was 3 months after the statutory March 31, 2010 due date.<sup>61</sup> This was the first Single Audit for Pennsylvania that included Recovery Act programs, and the audit identified 54 significant internal control deficiencies related to compliance with federal program requirements, of which 42 were classified as material weaknesses.<sup>62</sup> Many of these material

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<sup>60</sup>Single Audit findings are resolved once a letter is provided by the relevant federal agency indicating resolution.

<sup>61</sup>Auditor General officials previously told us that the audit was late because the state budget impasse in 2009 delayed the year-end closeout. Pennsylvania's Office of the Budget did not request an extension to the March deadline on behalf of Pennsylvania because officials were told that the federal government would not grant an extension.

<sup>62</sup>A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that (1) material misstatement of the financial statements will not be prevented or detected by the entity's internal control or (2) material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.

weakness findings, including inadequate monitoring of subrecipients by state agencies and noncompliance with federal regulations and state laws, were repeats from past Single Audits. Some of these material weaknesses and significant deficiencies occurred in programs that included Recovery Act funds. Specifically, 7 of these findings, including subrecipient monitoring and noncompliance with laws and regulations,<sup>63</sup> were related to the \$1.47 billion in Recovery Act funds spent in Pennsylvania in the fiscal year ending June 30, 2009.<sup>64</sup>

Auditor General and state budget officials acknowledged that Pennsylvania will face challenges in meeting the March 2011 deadline for the 2010 Single Audit. The increased number of Recovery Act awards and related guidance, in turn, will increase the Single Audit workload for the Auditor General. According to Auditor General officials, additional audit work with no corresponding increase in audit personnel may influence the effectiveness of Auditor General oversight of Recovery Act spending. Pennsylvania officials said that their audit preparations would be facilitated if the federal government released its guidance earlier.<sup>65</sup>

In addition to the Single Audit, state audit organizations continue to provide oversight of Recovery Act spending in Pennsylvania. Auditor General officials said that their office has completed, but not yet released, an audit of Pennsylvania Department of Transportation (PennDOT) Recovery Act procurement. BOA has issued four audits of Recovery Act spending in Pennsylvania (see table 7). BOA has also begun other reviews of programs receiving Recovery Act funds, targeting work on programs it considers to be high risk in Pennsylvania. These reviews include SEP, focused on allowable activities, procurement, and reporting, and the state's weatherization assistance program. State officials anticipate that

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<sup>63</sup>For the Recovery Act Child Care and Development Block Grant, the Auditor General criticized Pennsylvania for failing to spend any funds between the April 2009 award date and the June 30 fiscal year end, despite an existing waiting list for child care services. Pennsylvania officials disagreed with this finding because the grant deadlines are to obligate funds by September 30, 2010, and expend funds by September 30, 2011. According to state budget officials, Pennsylvania did not have state appropriation authority to spend the federal award until August 2009.

<sup>64</sup>The only Recovery Act programs with substantial expenditures in fiscal year 2008-2009 were the Medicaid (Federal Medical Assistance Percentage (FMAP)) and Unemployment Insurance programs.

<sup>65</sup>The Single Audit guidance for 2009 was issued in May 2009 and the 2010 guidance was issued on July 29, 2010.

BOA audits of state agencies will help identify and resolve potential findings prior to the Single Audit.

**Table 7: Bureau of Audit Reports on Recovery Act Spending in Pennsylvania**

Recovery Act audited program	Administering agency	Results
Highway Infrastructure Agreement 4203 PA75 Juniata River Bridge	PennDOT	Issued on January 6, 2010 with no adverse findings.
Highway Infrastructure Agreement 82385 Rt 235 Resurfacing	PennDOT	Issued in April 2010 and found that contractors did not always pay minimum prevailing wage rates. The audit recommended that PennDOT should ensure that existing controls for reviewing certified payrolls are followed to make sure that prevailing wage rates are paid. PennDOT agreed with the finding and reinforced use of a project office manual and included wage check requirements as part of the employee performance rating process beginning in 2010.
Workforce Investment Act of 1998 (WIA) Youth Program	Philadelphia Workforce Development Corporation	Issued in March 2010 with no findings.
WIA Adult, Dislocated Worker, and Youth Programs	Luzerne/Schuylkill Workforce Investment Board	Issued in July 2010 with findings concerning participant eligibility and compliance with rules and regulations and resulted in the awardee agreeing to return over \$37,000 to Pennsylvania. The repayment has not been received, and state agency follow-up is due to Bureau of Audits in early September.

Source: GAO analysis of Pennsylvania Bureau of Audits completed audits.

Finally, the Governor appointed Pennsylvania’s Chief Accountability Officer in March 2009 to help oversee reporting and transparency for Recovery Act activities of state agencies. For the quarter ending June 30, 2010, Pennsylvania filed 371 recipient reports on behalf of state agencies and posted them to the state’s Recovery Act Web site.<sup>66</sup> According to the state Accountability Office, Pennsylvania reported funding about 16,420 full-time-equivalent jobs with Recovery Act funds in the quarter ending June 30, 2010.<sup>67</sup>

In addition to job measures, Pennsylvania Accountability Office officials said that Recovery Act outcome measures are posted monthly or quarterly to Pennsylvania’s Recovery Act Web site as they are made available. Some

<sup>66</sup>See <http://www.recovery.pa.gov>.

<sup>67</sup>Pennsylvania Stimulus Accountability Office, *Citizen’s Update: Quarterly Progress Report* (Harrisburg, Pa., July 15, 2010).

measures, such as the number of housing units weatherized to date, are tracked and reported as work is completed. Other measures, such as the numbers of new low-income housing units, will be reported as projects are completed. For longer-term measures, such as the annual reduction in greenhouse gas emissions and alternative renewable energy generated through EECBG, Accountability Office officials said that outcome data will not be available until the projects are complete.

According to Pennsylvania officials, isolating the effects of Recovery Act spending when it is combined with other spending can be difficult. For Recovery Act projects with multiple sources of funding—such as the EECBG and SEP projects with matching private investment as well as TCAP housing projects—Pennsylvania reports only the share of full-time-equivalent jobs funded by the Recovery Act in its quarterly recipient reports. However, other performance measures, such as energy savings, will reflect total project outcomes, cannot easily be prorated, and thus will not show outcomes solely related to Recovery Act spending. Officials also cautioned that measuring longer-term outcomes attributable solely to Recovery Act education programs will be difficult. For example, Pennsylvania is tracking the number of economically disadvantaged students served by the Recovery Act funds awarded for Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended and, beginning in the fall 2010, plans to report on the percentage of economically disadvantaged students scoring at grade level or above on state achievement tests. However, because multiple factors influence test scoring, Pennsylvania will not be able to determine the percentage change solely attributable to Recovery Act spending.

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## Local Governments Use Recovery Act Funds for Onetime Projects and Services

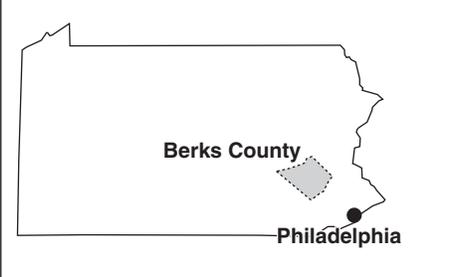
To learn more about the effect of Recovery Act funds on local governments, we visited the County of Berks and the City of Philadelphia.<sup>68</sup> Figure 5 provides demographic information for these localities. Berks County is a medium-sized urban area encompassing the city of Reading, while Philadelphia is Pennsylvania's largest city. Both locations have unemployment rates higher than the state's average of 9.2 percent. According to local officials, both localities plan to use the

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<sup>68</sup>Our examination of Recovery Act funds included only funds that have been or will be received by the specific entities we visited. In the localities we visited, local school districts, workforce investment boards, transportation agencies, and public housing authorities also have or will be receiving Recovery Act funds.

Recovery Act funds for a variety of projects and service expansions which would have remained unfunded.

**Figure 5: Demographics for Two Local Governments Visited in Pennsylvania**

		<b>Philadelphia</b>	<b>Berks County</b>
	<b>Estimated population (2008):<sup>a</sup></b>	1,547,297	407,125
	<b>Unemployment rate (March 2010):</b>	11.9%	9.8%
	<b>2010 General Fund Budget:</b>	\$3.85 billion	\$448.9 million
	<b>Locality type:</b>	city	county

Source: GAO analysis of U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics data, city of Philadelphia and Berks county; and Map Resources (map).

**Berks County.** Berks County has received about \$5.6 million in Recovery Act funds and, as of June 30, 2010, has expended about 47 percent of the funds awarded, as shown in table 8. Berks County has used or is using Recovery Act funds to support onetime projects that were already planned and approved by the county but had not been funded, such as upgrading a computer tracking system to monitor homeless clients, and extending a street through an industrial park. According to a county official, the street project has improved accessibility and encouraged a new bottled water business to open, creating 32 local jobs. In addition, the county has used funds to support new programs to prevent homelessness. As of June 30, 2010, more than 275 persons have received assistance under the county’s Homelessness Prevention and Rapid Rehousing grant. A county official notes that unless other funding is obtained, these services will likely be significantly reduced or discontinued when the Recovery Act funding ends. The official also said that while the county’s budget situation has declined since 2007, the fiscal year 2010 budget totaling \$449 million<sup>69</sup> included an \$8.3 million surplus. Future budgets, however, may face decreased revenue collections that may require the county to make reductions.

<sup>69</sup>Berks County’s fiscal year 2010 budget total of \$449 million does not include capital projects.

**Table 8: Sources of Recovery Act Funding to Berks County as of June 30, 2010**

Agency	Grant	Description	Award	Percent Expended
U.S. Department of Housing and Urban Development	Homelessness Prevention and Rapid Rehousing (HPRP)	Prevent homelessness and rapidly rehouse homeless individuals focusing on prisoners released from the county jail and mental health clients.	\$1,427,174 <sup>a</sup>	22
	Community Development Block Grant- Recovery	Supplement construction of a learning center adjacent to an emergency homeless shelter and extend street in industrial park and provide highway access.	\$725,297	83
U.S. Department of Energy	Energy Efficiency and Conservation Block Grant <sup>b</sup>	Upgrades to boilers and replacement of leaking steam pipes in county buildings.	\$2,973,200	55
Pennsylvania Commission on Crime and Delinquency <sup>c</sup>	Edward Byrne Memorial Justice Assistance Grant (JAG)	Expand and enhance services of Treatment Court and provide assistance to victims of juvenile offenders.	\$504,800	20
<b>Total Recovery Act funds to Berks County</b>			<b>\$5,630,471</b>	<b>47</b>

Source: GAO analysis of data from Berks County and the Pennsylvania Commission on Crime and Delinquency.

<sup>a</sup>Berks County received HPRP funding directly from the federal government as well as funds passed through the state.

<sup>b</sup>Berks County's use of EECBG funds is discussed separately in this report.

<sup>c</sup>The Pennsylvania Commission on Crime and Delinquency received funding directly from the Department of Justice and redirected it to state agencies and localities.

Berks County monitors and oversees grants from the federal government through project manager site visits and requires the subrecipients to provide monthly status reports. In addition, the county reports jobs data to the federal government, and according to a county official, has not experienced any challenges in doing so. The Berks County Controller's Office reviews Recovery Act project invoices but has not conducted specific audits of Recovery Act projects. The Berks County Controller's Office expects to issue its 2009 Single Audit report by the due date of September 30, 2010.<sup>70</sup>

**Philadelphia.** The City of Philadelphia has received \$252.1 million in Recovery Act funds, and has expended about 11 percent, as of August 23,

<sup>70</sup>Berks County's fiscal year 2009 ended December 31, 2009.

2010 (see table 9).<sup>71</sup> City officials acknowledged the slow start of Recovery Act spending in Philadelphia and pointed out that \$110 million was awarded this year and the large transportation infrastructure projects, such as street paving, could not start until summer 2010. According to city officials, all grants received as of June 30, 2010, have received spending authority from the City Council, and expenditures are expected to accelerate in the next 6 months.<sup>72</sup> Officials said that most of the funded services and projects will end or be reduced once Recovery Act funding ends.

**Table 9: Examples of Recovery Act Funding to the City of Philadelphia by Grant Category as of August 23, 2010**

Agency	Select grants by category	Award (Dollars in millions)	Percentage expended
<b>Economic development</b>			
U.S. Department of Housing and Urban Development	Community Development Block Grant <sup>a</sup> —to develop neighborhood businesses, affordable housing, and the city's cultural economy	\$14.0	32
	Neighborhood Stabilization Program II—to rejuvenate neighborhoods <sup>b</sup>	\$44.0	0
<b>Energy</b>			
U.S. Department of Energy	Energy Efficiency and Conservation Block Grant (EECBG) <sup>c</sup> —to replace LED traffic signals, retrofit city buildings, and provide loans for energy efficiency projects	\$14.1	19
	Energy Retrofit Ramp Up Grant—EECBG competitive grant to fund energy efficiency activities <sup>b</sup>	\$25.0	0
<b>Health and social services</b>			
U.S. Department of Health and Human Services	Community Service Block Grant (CSBG)—To help move low-income Philadelphians toward self-sufficiency through job training and literacy improvement programs	\$8.3	33
U.S. Department of Housing and Urban Development	Homelessness Prevention and Rapid Rehousing—federal and state grants to prevent homelessness through programs such as rental and utility assistance	\$24.3	21

<sup>71</sup>According to the city recovery office, quasi-city governmental and partner agencies—such as the local workforce investment board and local weatherization agency—also received \$67.2 million.

<sup>72</sup>A \$6.3 million Broadband II award received on July 1, 2010, was awaiting approval by the City Council as of August 27, 2010.

Agency	Select grants by category	Award (Dollars in millions)	Percentage expended
<b>Public safety</b>			
U.S. Department of Justice	COPS Hiring Recovery Program (CHRP)—to hire 50 police officers	\$10.9	9
	Edward Byrne Memorial Justice Assistance Grant (JAG)—to retain 52 jobs in the Philadelphia municipal court, provide crime-fighting resources such as Tasers and collapsible batons to the police department, and provide crime prevention and reentry services	\$13.5	39
<b>Transportation and infrastructure</b>			
Department of Homeland Security	Transportation Security Administration Inline Baggage Screening—to build two new baggage-screening systems at Philadelphia International Airport	\$26.6	6
<b>Other awards</b>	Includes road repaving, airport runway rehabilitation, and water and sewer replacement	\$71.3	8
<b>Total for Recovery Act funding for Philadelphia</b>		<b>\$252.1</b>	<b>11</b>

Source: GAO analysis of data from City of Philadelphia

Notes: The table highlights some of the largest grants received by the City of Philadelphia. The city provides a complete list of Recovery Act grants on its Website <http://www.phila.gov/recovery>.

<sup>a</sup>One of Philadelphia’s CDBG-R affordable housing projects—Presser Senior Apartments—also received TCAP funds and is discussed earlier in this report.

<sup>b</sup>Grant awarded in 2010.

<sup>c</sup>Philadelphia’s use of the EECBG formula grant funds is discussed separately in this report.

On the basis of GAO observations about potential risks in monitoring the city’s various grants, Philadelphia officials now use the city’s accounting system to track key grant deadlines to ensure funds are not forfeited because of missed timeframes. For example, Philadelphia has been tracking its Community Services Block Grant and, according to a Recovery Act office official, the city expects to meet the grant’s September 30, 2010 deadline to complete services. For the COPS Hiring Recovery Program grant, the city faces a requirement that the police department maintain force strength for at least 1 year beyond the grant terms or return the funds. Given the recent cancellation of two police academy classes, city officials are closely monitoring police staffing to ensure compliance.

Although Recovery Act funds allowed the city to fund onetime projects and provide additional services that it would not have been able to do otherwise, city officials said these funds had little effect on Philadelphia’s fiscal condition because of the stipulations on their use. Philadelphia used JAG funds to avoid disbanding the city community courts, but in general, Recovery Act funding is specifically targeted for select projects or services

and cannot be used for other funding gaps or needs identified by the city. To address a budget shortfall in Philadelphia's \$3.85 billion fiscal year 2011 budget due to declining revenues, the city, among other actions, has reduced its prison and police budgets and has reduced service at selected firehouses on a rotating basis, but was unable to use Recovery Act funds to offset these reductions.<sup>73</sup>

Philadelphia's Recovery Act efforts are coordinated through the city's Recovery Office. In August 2010, the Recovery Office published its first quarterly update on Recovery Act funds received.<sup>74</sup> Also in August, the city's Inspector General and the Chief Integrity Officer issued a compliance and control program guide<sup>75</sup> and a risk assessment checklist to help identify and manage risks associated with Recovery Act projects. According to city Recovery officials, the risk assessments have been completed by the city agencies and will help target oversight attention to the highest risk projects. In addition, the city Controller's office reviews transactions to ensure compliance with grant guidelines and conducts the City's Single Audit review. Officials said the 2009 report was not issued by the March 31, 2010 deadline because of limited staff.<sup>76</sup> According to city officials, the Controller's office has contracted with a private accounting firm to help prepare the report. Officials expect the accounting firm to provide its report to the Controller's office by September 30, 2010, and the Controller's office will issue the Single Audit report shortly thereafter.

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## Pennsylvania Comments on This Summary

We provided the Governor of Pennsylvania with a draft of this appendix on August 18, 2010. The Chief Implementation Officer responded for the Governor on August 23, 2010, generally agreed with the draft and provided technical comments that we incorporated where appropriate. We also provided the Auditor General's staff with portions of the draft that addressed the Auditor General's past work and plans related to Single Audit review of Recovery Act funding. They provided technical comments that we incorporated as appropriate. We also provided portions of the

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<sup>73</sup>The city's fiscal year is July 1 to June 30.

<sup>74</sup>City of Philadelphia, *Stimulus at Work in Philadelphia: The Mayor's Quarterly Update on the Recovery Act to the Citizens of Philadelphia* (August 2010).

<sup>75</sup>*The Recovery Act in Philadelphia, ARRA Compliance and Control Guide Phases I-V* (August 2010) is available at [www.phila.gov/recovery](http://www.phila.gov/recovery).

<sup>76</sup>Philadelphia's 2008 Single Audit report was issued in October 2009.

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draft to the City of Philadelphia and the County of Berks and incorporated their technical comments as appropriate.

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## Staff Acknowledgments

In addition to the contacts named above, MaryLynn Sergent, Assistant Director; Matthew Rosenberg, analyst-in-charge; Eleanor Cambridge; John Healey; Richard Mayfield; Jodi M. Prosser; and Stephen Ulrich made major contributions to this report.

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# Appendix XVII: Texas

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## Overview

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

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## What We Did

We reviewed the use of Recovery Act funds in Texas for public housing projects and for energy efficiency and conservation block grant projects. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#). For these programs, we focused on how funds were being used, how safeguards were being implemented to ensure funds are used appropriately, and how results were being assessed:

- The public housing program was selected to provide a continuing or updated assessment of Public Housing Capital Fund competitive and formula grants awarded under the Recovery Act—an assessment covering the status of obligations and expenditures by public housing agencies, oversight assistance and monitoring provided by the U.S. Department of Housing and Urban Development (HUD), and the overall impacts of the funds. We contacted two HUD offices in Texas—the Fort Worth Regional Office and the San Antonio Field Office—to determine the types and extent of assistance they provided to help public housing agencies meet Recovery Act deadlines and review the offices' plans for monitoring public housing agencies' compliance with requirements for using grant funds. We obtained updated information on three ongoing projects that we began covering in our previous work and reports—one project funded by a competitive grant awarded under the Recovery Act and two projects funded by formula grants awarded under the act. The three projects are managed by the San Antonio Housing Authority (SAHA), which received relatively large amounts of both Capital Fund competitive grant funds and formula grant funds directly from HUD.<sup>2</sup> At SAHA, we reviewed project-related documentation, including funding obligation and expenditure data, and made on-site observations of progress on

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

<sup>2</sup>Of the hundreds of public housing agencies in Texas, SAHA received the second highest amount (\$5.3 million) of Public Housing Capital Fund competitive grants awarded under the Recovery Act, and SAHA received the highest amount (\$14.6 million) of Public Housing Capital Fund formula grants awarded under the act.

the three projects.<sup>3</sup> Also, we interviewed SAHA's Executive Director, the Chief Financial Officer, the Director of Procurement, and other responsible officials. Further, in contacting HUD and SAHA officials, we obtained perspectives on the various impacts of Recovery Act funds.

- We selected the Energy Efficiency and Conservation Block Grant (EECBG) program, which is administered by the U.S. Department of Energy (DOE), because we had not previously reviewed it and because over \$200 million was awarded to entities within Texas.<sup>4</sup> The purposes of the EECBG program include assisting eligible communities to implement strategies to reduce fossil fuel emissions and improve energy efficiency. In Texas, we selected four recipients of EECBG funding to review—the State Energy Conservation Office (SECO) and three cities (Austin, Bryan, and Round Rock) that received direct awards from DOE.<sup>5</sup> In visiting each of the four recipients, we reviewed available documentation and interviewed officials to determine the process for selecting projects, the amounts of funds obligated and spent, oversight methods for monitoring use of funds, and plans for measuring energy savings resulting from EECBG projects.

Further, in Texas, we obtained state and local government perspectives on overall use and impact of Recovery Act funds. Specifically, at the state level, we obtained perspectives from the Office of the Governor, staff of

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<sup>3</sup>The SAHA project funded by the competitive grant involves improvements to the Villa Hermosa Apartments, which has 66 units for the elderly and/or disabled community. The two SAHA projects funded by formula grants involve improvements to, respectively (1) the Lewis Chatham Apartments, which has 119 units for the elderly and/or disabled community and (2) the Highview Apartments, which has 68 units for families.

<sup>4</sup>The EECBG program was authorized by Title V, Subtitle E, of the Energy Independence and Security Act, which was signed into law on December 19, 2007. However, the program was not funded until passage of the Recovery Act in 2009.

<sup>5</sup>We selected Austin, Bryan, and Round Rock for various reasons. Austin is Texas's capital and the headquarters location for state agencies. As such, in conducting Recovery Act work, our review team routinely visited Austin. Also, Austin received \$7.5 million in EECBG funding. Bryan and Round Rock—which received \$695,000 and \$955,000 in EECBG funding, respectively—are geographically located near or relatively close to Austin. Moreover, these three cities include a large metropolitan area (Austin) and a less populous city (Bryan), both which had not outlaid any EECBG funding at the time of our selections (as of May 14, 2010), and a medium sized suburb (Round Rock) that had outlaid a portion of its EECBG funding.

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the Legislative Budget Board,<sup>6</sup> and the State Comptroller's Office; at the local level, we contacted city management officials in Austin and Round Rock.<sup>7</sup> Also, we reviewed efforts by state and local government to promote accountability for use of Recovery Act funds. We focused in particular on efforts by the Office of the Governor; the State Auditor's Office; and city auditor offices or other responsible officials in Austin, Bryan, Dallas, Houston, and Round Rock.<sup>8</sup>

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## What We Found

- **Public housing.** All of the 10 public housing agencies in Texas that received Public Housing Capital Fund competitive grants (\$21.5 million total) are on track to meet the September 2010 deadline for obligating all funds, according to HUD officials.<sup>9</sup> To help ensure that this occurs, the two HUD field offices we contacted in Texas noted plans for providing continued assistance to public housing agencies. Officials at the HUD San Antonio Field Office stated, for instance, that they sponsor weekly telephone conferences—with invited participation from all of the 88 public housing agencies in the office's jurisdiction—to collaborate and discuss new developments. Also, to help ensure compliance with requirements for using Recovery Act funds, the HUD field offices we contacted in Texas are implementing the monitoring strategy promulgated by HUD headquarters—a strategy that includes

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<sup>6</sup>According to state officials, the Legislative Budget Board is a permanent joint committee of the Texas legislature that develops budget and policy recommendations for legislative appropriations for all agencies of state government, as well as completes fiscal analyses for proposed legislation. The Lieutenant Governor and the Speaker of the House of Representatives serve as co-chairs of the board. Other members include the chairs of the House Appropriations Committee and Senate Finance Committee. See [www.lbb.state.tx.us](http://www.lbb.state.tx.us).

<sup>7</sup>We selected Austin and Round Rock because our staff was also reviewing the use of EECBG funds by these cities.

<sup>8</sup>Accountability efforts by audit offices in three of these cities (Austin, Dallas, and Houston) are discussed in our May 2010 report ([GAO-10-605SP](#)), and we again contacted officials in these cities to obtain updated information. As noted in our May 2010 report, these cities were awarded large amounts of Recovery Act funding and are located in different geographic areas of Texas, while collectively accounting for approximately 17 percent of the state's total population. We selected the other two cities (Bryan and Round Rock) because our staff was also reviewing the use of EECBG funds by these cities. See 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).

<sup>9</sup>As noted in our May 2010 report ([GAO-10-605SP](#)), the 351 public housing agencies in Texas that received Public Housing Capital Fund formula grants (\$119.8 million total) under the Recovery Act met the March 2010 deadline for obligating all the funds.

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various types of reviews of public housing agencies. Regarding overall impacts or benefits of these funds, HUD field office officials cited improvements in public housing agencies' Public Housing Capital Fund grant management and enhanced partnering relationships with the housing agencies. SAHA officials stated that Recovery Act grants are enabling capital improvements benefiting residents of a significant portion (42 percent) of the agency's total public housing inventory of 6,273 units. Also, for the most recent quarter (April to June 2010), SAHA reported that about 61 jobs (full-time equivalents) were funded with Recovery Act dollars.<sup>10</sup>

- **Energy efficiency and conservation block grants.** For the EECBG program, Texas received approximately \$208.9 million, which consists of \$163.3 million awarded by DOE directly to cities, counties, and tribal communities in the state and \$45.6 million awarded to SECO. The four recipients we reviewed in Texas (three cities and SECO) have taken steps to choose projects. As of late summer 2010, three of the recipients each reported that more than 80 percent of their respective funding was obligated for EECBG project expenses, but none of the four recipients reported having spent more than 6 percent of their funds. The four EECBG recipients are implementing processes to monitor the use of Recovery Act funds through methods such as conducting on-site inspections and verifying that materials meet specifications. Also, in accordance with DOE guidance, the four recipients reported that they have plans to measure energy savings resulting from EECBG projects. Further, for the most recent quarter (April to June 2010), the four recipients collectively reported that about eight jobs (full-time equivalents) were funded with Recovery Act dollars.
- **Use and impact of funds.** Recovery Act funds continue to support a range of programs in Texas. As of August 1, 2010, Texas state entities had spent a majority—approximately \$12.2 billion or about 62 percent—of the awarded \$19.8 billion Recovery Act funds, according to the State Comptroller's Office. The Governor's staff noted Texas has achieved a balanced budget and Recovery Act funds were not used to estimate the revenue available to support the budget. Staff from key

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<sup>10</sup>Job calculations are based on the number of hours worked in a quarter and funded under the Recovery Act and are expressed in full-time equivalents, calculated as the total hours worked divided by the number of hours in a full-time schedule. Recipient reports cover only direct jobs paid from Recovery Act funding and do not include the employment impact on material suppliers (indirect jobs) or on the local community (induced jobs).

legislative offices noted that the Recovery Act increased federal funds available to support state programs. In preparing for the end of Recovery Act funding, state officials continue to emphasize the Governor's and the state legislature's guidance to avoid using Recovery Act funds for ongoing expenses. At the local government level, city officials we contacted in Austin and Round Rock commented that Recovery Act funds have had a limited overall budgetary impact but have been helpful in furthering specific efforts.

- **Promoting accountability.** Texas state entities, particularly the State Auditor's Office, the Governor's Office, and the State Comptroller's Office, continue efforts to help ensure that Recovery Act funds are used appropriately. These efforts include conducting audits and tightening controls to help ensure only eligible recipients receive Recovery Act payments. Also, local government audit offices or other responsible officials in the five cities we contacted—Austin, Bryan, Dallas, Houston, and Round Rock—have similar efforts underway or planned. Further, in July 2010, after completing a Recovery Act-related performance audit of the Workforce Investment Act of 1998, the State Auditor's Office reported that the two local workforce development boards it reviewed did not calculate the number of jobs funded with Recovery Act dollars consistent with guidance provided by the Texas Workforce Commission. Going forward, the report noted that the Texas Workforce Commission and the two local boards generally concurred with recommendations for improving accuracy in calculating and reporting the number of applicable jobs.

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## Public Housing in Texas: Status of Recovery Act Funds, HUD's Oversight Assistance and Monitoring Efforts, and Impacts of the Funds

Public housing support under the Recovery Act consists of separate competitive and formula grants awarded directly from HUD to public housing agencies. Regarding competitive grant funds, none of the 10 public housing agencies in Texas that received Capital Fund competitive grants are at risk of missing the September 2010 deadline for obligating all of the funds, according to HUD officials in the state. As noted in our previous report, all recipient grantees met their March 2010 deadline for obligating all formula grant funds. HUD officials reported ongoing oversight efforts to assist public housing agencies meet deadlines for obligating and expending Recovery Act funds and to monitor the agencies for compliance with requirements for using the funds. Among the overall impacts or benefits of these funds, the HUD officials cited enhanced partnering relationships with public housing agencies, and SAHA officials cited capital improvements benefiting residents of 42 percent of the agency's 6,273 public housing units. Also, for the most recent quarter

(April to June 2010), SAHA reported that about 61 jobs (full-time equivalents) were funded with Recovery Act dollars.

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### Statewide Status of Competitive Grant Funds and Use in One Housing Project

Of the 415 public housing agencies in Texas, 10 collectively received 22 Public Housing Capital Fund competitive grants under the Recovery Act, totaling \$21.5 million. These grant funds were provided to the agencies to improve the physical condition of their properties. As of August 7, 2010, 9 of the 10 recipient public housing agencies collectively had obligated \$5 million (23 percent) of the \$21.5 million. Also, 6 of the recipient agencies had drawn down a cumulative total of \$1.3 million from the obligated funds, as of August 7, 2010.

Of the 10 recipient public housing agencies, 5 are under the jurisdiction of the HUD Fort Worth Regional Office, and 5 are under the HUD San Antonio Field Office. According to officials in both HUD offices, none of the 10 public housing agencies are at risk of missing the September 2010 deadline for obligating 100 percent of competitive grant funds.<sup>11</sup>

We visited the San Antonio Housing Authority (SAHA) in June 2010. SAHA received the largest number of competitive grants in Texas (9 of the 22 total) and the second highest dollar amount. SAHA officials stated that the agency expects to meet the obligation deadline. The officials said that SAHA recently revised its procurement and award procedures to ensure it would meet operational goals, such as those related to providing employment opportunities for low-income individuals. This change, according to the officials, led to longer procurement cycles, which necessitated that SAHA project managers and procurement personnel give increased attention and focus to planning efforts. In addition, SAHA officials said that they recently restructured their construction services

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<sup>11</sup>In August 2010, HUD San Antonio Field Office officials informed us that one recipient agency (Georgetown Housing Authority) will be returning its competitive grant (\$419,430) because it recently had some staff turnover and other competing priorities and no longer had sufficient matching funds to complete the work originally planned under the grant. The officials explained that the lack of matching funds stems from a recent audit that will require the Georgetown Housing Authority to use non-federal funds to reimburse HUD programs for ineligible expenses that were previously charged to the programs. See HUD Regional Inspector General for Audit (Fort Worth Region, 6AGA), *The Georgetown Housing Authority Used \$195,855 for Ineligible and Unsupported Expenditures*, Audit Report Number 2010-FW-1004 (Fort Worth, Tex.: June 2, 2010), which reported that Georgetown's financial records were inaccurate, a condition attributable to a lack of financial and disbursement controls and an absence of formal written policies and procedures.

department to better focus, plan, collaborate, and execute current and future projects.

In San Antonio, we observed progress at a competitive grant-funded project (\$265,528) managed by SAHA—upgrades to the Villa Hermosa Apartments. Converted to public housing in 1971, the five-story property has 66 units for elderly and/or disabled persons. SAHA officials said that the property previously was a detention center. The existing common and community space is to be evaluated, redesigned, and upgraded to enhance accessibility and efficiency of use for residents and create an environment that encourages socialization among the residents. Areas to be enhanced include the first floor assembly space, kitchen, laundry rooms, and special use space (e.g., space for service providers and confidential discussions). At the time of our June 2010 visit, the architectural and engineering design work (which began in March 2010) was nearing completion. The schedule going forward, according to SAHA officials, was to award a construction contract by August 31, 2010—a date enabling SAHA to meet the September 2010 deadline for obligating the competitive grant funds. Further, the officials noted that the scheduled date for completing the upgrades is March 31, 2011, which is earlier than the September 2011 deadline for expending 60 percent of competitive grant obligations and the September 2012 date for expending 100 percent of the obligations.

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### Statewide Status of Formula Grant Funds and Use in Selected Housing Projects

Of the 415 public housing agencies in Texas, 351 collectively received \$119.8 million in Public Housing Capital Fund formula grants under the Recovery Act to improve the physical condition of their properties. The recipient agencies met the March 2010 deadline for obligating all of the funds. Also, 346 of the recipient agencies had drawn down a cumulative total of \$84.5 million from the obligated funds, as of August 7, 2010.

We visited San Antonio in June 2010 to observe the status of two ongoing formula grant-funded projects managed by SAHA. One of the formula grant-funded projects is intended to improve housing for elderly residents (Lewis Chatham Apartments) and the other to improve housing for families (Highview Apartments).<sup>12</sup> Built in 1973, the Lewis Chatham Apartments is a four-story property with 119 units for elderly and/or

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<sup>12</sup>In addition to our visit to these two project sites in June 2010, we earlier visited the Lewis Chatham project site in March 2010, October 2009, and May 2009, and the Highview project site in March 2010 and May 2009.

disabled persons. The property was vacated in December 2009 to facilitate abatement of environmental items (asbestos). In March 2010, after completion of abatement work, the general contractor began reconstruction of the apartments. Among other improvements, the rehabilitation of the property includes replacing kitchen and bathroom cabinets and fixtures, installing energy-efficient lighting, upgrading heating and air-conditioning systems, and replacing the roof. Rehabilitation of these apartments is SAHA's most expensive Recovery Act project, accounting for approximately \$6.4 million of the total Public Housing Capital Fund formula grant (\$14.6 million) awarded to SAHA. During our June 2010 visit, we observed ongoing interior work—involving, for example, installation of electrical wiring and plumbing and preparation for adding sheetrock to the interior walls—and ongoing exterior work to replace roofing. According to SAHA officials, the scheduled date for completing the project is December 31, 2010—which is earlier than the March 2011 deadline for expending 60 percent of formula grant obligations and the March 2012 deadline for expending 100 percent of the obligations.

Built in 1977, the Highview Apartments is a one-story property with 68 duplex units for families. Formula grant funds were allocated to develop three playground areas (\$291,850) and replace roofing on all housing units and the administrative office building (\$665,394) at the Highview Apartments.<sup>13</sup> In May 2010, work to develop the playground areas was completed, including installation of a soft-fall product to enhance safety for children and reduce annual maintenance costs. During our June 2010 visit, we observed the newly completed playground areas. Also, we observed that roofing replacement work was ongoing. SAHA officials said the project is on track to meet the targeted completion date of September 23, 2010, which is earlier than the 2011 and 2012 deadline dates for expending 60 percent and 100 percent, respectively, of formula grant obligations.

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<sup>13</sup>The formula grants funds to develop playground areas (\$291,850) will be used for developing three playground areas at the Highview Apartments and playground areas at two other apartment complexes (Mission Park and Riverside). Also, the formula grant funds to replace roofing (\$665,394) will be used for roofing work at the Highview Apartments and roofing work at three other SAHA apartment complexes (Olive Park, Village East, and Wheatley Courts).

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## HUD Field Offices in Texas Are Using Various Oversight Efforts to Assist and Monitor Public Housing Agencies

HUD Fort Worth Regional Office and San Antonio Field Office officials cited various types of ongoing assistance to help ensure that public housing agencies stay on track in meeting deadlines for obligating and expending Recovery Act funds. As a key part of assistance efforts, both offices noted the particular usefulness of weekly telephone calls and e-mail messages to the public housing agencies. HUD San Antonio Field Office officials stated, for instance, that they sponsor weekly telephone conferences—with invited participation from all of the 88 public housing agencies in the office’s jurisdiction. Also, in some cases, the officials said that they initiate conference calls with a housing agency’s board of commissioners to provide impetus for meeting deadlines. SAHA officials reported that the local HUD office’s assistance efforts were helpful. SAHA officials noted, for example, that the periodic telephone conferences sponsored by the HUD office were excellent opportunities for collaborating and exchanging information.

To help ensure that public housing agencies comply with Recovery Act requirements for housing grant funds, the HUD field offices we contacted in Texas are also implementing the monitoring strategy promulgated by HUD headquarters—the Recovery Act monitoring strategy for year 2 (March 18, 2010 to March 17, 2011). The strategy covers both competitive and formula grants and calls for field offices to conduct various types of reviews. Under HUD’s monitoring strategy, each of the 22 competitive grants awarded to public housing agencies in Texas was to be reviewed by August 20, 2010. The HUD Fort Worth Regional Office is responsible for reviewing 8 of the competitive grants, and the HUD San Antonio Field Office is responsible for reviewing the other 14.<sup>14</sup> The Fort Worth Regional Office completed its reviews during July 2010. The HUD San Antonio Field Office completed the required reviews on August 12, 2010. HUD headquarters developed a standardized monitoring checklist for use in completing the reviews—a checklist based on requirements in the Recovery Act and HUD notices and program regulations.

For formula grants, under HUD’s monitoring strategy, each public housing agency that was less than 90 percent obligated as of February 26, 2010, was to be reviewed by June 2010. According to HUD, 25 public housing agencies in Texas met the criterion for these “quick look” reviews. The HUD Fort Worth Regional Office was responsible for reviewing 21 of the

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<sup>14</sup>HUD San Antonio Field Office officials informed us in August 2010 that one recipient agency (Georgetown Housing Authority) will be returning its competitive grant to HUD.

agencies, and the HUD San Antonio Field Office was responsible for reviewing 4 agencies. The San Antonio Field Office reported that each of the 4 agencies it reviewed was on track. After conducting initial reviews in May and June 2010 and applicable follow-up reviews in June, July, and August 2010, the Fort Worth Regional Office reported that 16 of the 21 agencies it reviewed were on track, whereas the other 5 had not provided required documentation. In August 2010, Fort Worth Regional Office officials told us that efforts to obtain the required documentation were continuing. The officials also commented that, to date, there were no deficiencies requiring HUD to deobligate or recapture funds from any of the public housing agencies. In reference to the overall assessment for each of the 25 public housing agencies, we analyzed the standardized quick look checklists completed by HUD staff who conducted the respective assessment. We found that each quick look checklist reflected a record of supervisory review.

HUD Fort Worth Regional Office and San Antonio Field Office officials acknowledged that Recovery Act responsibilities presented capacity challenges to their respective office in having to manage these responsibilities concurrently with maintaining oversight of the regular Capital Fund and other HUD programs. However, the officials noted that their offices met these challenges by setting priorities and adjusting resource allocations to meet changing circumstances. For example, HUD Fort Worth officials explained that select teams are usually responsible for specific housing programs, such as the regular Capital Fund program, but that all housing staff were assigned some responsibility for Recovery Act activities. Both offices reported that all of the public housing agencies under their respective jurisdiction met the June 2010 deadline for obligating fiscal year 2008 regular Capital Fund grants.

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### Various Impacts Attributed to Recovery Act Funding for Public Housing

HUD and public housing agency officials cited a variety of impacts resulting from Recovery Act funding. Attributed impacts ranged from energy-efficiency enhancements and other property upgrades benefiting numerous residents to improvements in the ability of both HUD and housing agencies to manage Public Housing Capital Fund grants.

HUD Fort Worth Regional Office officials anticipate that an impact of Recovery Act funding will be a reduction in energy consumption. The officials elaborated that public housing agencies have been able to, for example, purchase energy efficient appliances; install new cooling systems, windows, and doors; and replace roofs. As such, the officials anticipate that the cost of utilities will decrease significantly.

HUD San Antonio Field Office officials commented that a significant aspect of Recovery Act funding is the size of the grant amounts, which are approximately 1.5 times the Capital Fund amounts usually received by public housing agencies on an annual basis. In providing further perspective, the officials noted that public housing agencies still received a regular Capital Fund grant in 2009—in addition to Recovery Act funding—and, collectively, these amounts constituted about 2.5 times the normal Capital Fund allocation for 2009. Thus, the officials characterized the Recovery Act grants as a “major infusion of funds” that provided “a welcome relief” for public housing agencies to address growing needs associated with the gradual obsolescence of properties, among other factors.

SAHA officials expressed a similar perspective. The officials said that Recovery Act funding enabled SAHA to immediately address some deferred maintenance needs that otherwise might not have been addressed for years. Thus, according to SAHA officials, a significant result expected is an improved quality of life for hundreds of public housing residents. Specifically, the officials explained that SAHA is using nearly \$20 million in Recovery Act funding to make capital improvements at 37 of the agency’s 70 public housing properties—improvements that will benefit residents of the 2,634 units at the 37 properties.<sup>15</sup> For example, the officials noted that improvements to properties serving the elderly and/or persons with disabilities include upgrading elevator, security, and fire alarm systems; installing energy-efficient heating, ventilating, and air conditioning systems; and modernizing common areas to encourage socialization among residents.

More broadly, officials at the HUD San Antonio Field Office—which oversees 88 public housing agencies (including SAHA)—said Recovery Act funding is being used to renovate 188 of the 223 public housing properties that are under the office’s jurisdiction. The officials noted that capital improvements at the 188 properties will benefit residents of 16,568 units, which constitute 76 percent of the 21,659 total units under the office’s jurisdiction.

Another impact of Recovery Act funding cited by HUD San Antonio Field Office officials is improvement in the ability of both HUD and housing

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<sup>15</sup>According to SAHA officials, the 2,634 units benefiting from Recovery Act funding constitute 42 percent of the agency’s total public housing inventory of 6,273 units.

agencies to manage Public Housing Capital Fund grants. The officials explained, for example, that Recovery Act implementation necessitated cross-training of HUD staff, which makes the staff more effective and provides the office with more flexibility in future work assignments. Also, the officials noted that Recovery Act implementation, particularly oversight assistance and monitoring responsibilities, created many new opportunities for HUD field office staff to interact with public housing agencies. The officials elaborated that these interactions have included individual telephone calls, weekly conference calls, frequent e-mail bulletins, and training sessions. Further, in implementing the Recovery Act, the officials noted that the field office has conducted reviews (either a remote review or an on-site review) of all 88 public housing agencies under its jurisdiction—whereas, previously, some of the agencies had not been reviewed in years.

The numerous interactions and reviews stemming from Recovery Act implementation, according to HUD San Antonio Field Office officials, have resulted in better-performing public housing agencies. Consequently, the HUD officials said that potential risks associated with administering the Public Housing Capital Fund Program in the future probably have been significantly reduced. In sum, while acknowledging some negative aspects of Recovery Act implementation—such as additional strains on workloads and complaints about reporting mandates—the HUD officials’ overall observations were positive.

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**Number of Jobs Reported  
by SAHA as Funded with  
Recovery Act Dollars**

The Recovery Act and related Office of Management and Budget guidance require recipients of Recovery Act funds to periodically report an estimated number of jobs funded with Recovery Act dollars. As mentioned previously, HUD awarded SAHA a Public Housing Capital Fund formula grant (\$14.6 million) and nine Public Housing Capital Fund competitive grants (totaling \$5.3 million) under the Recovery Act. Regarding the number of jobs funded with Recovery Act dollars for the most recent quarter (April to June 2010), SAHA reported (to [FederalReporting.gov](http://FederalReporting.gov)) about 55 full-time equivalents (FTE) for the formula grant and about 6

FTEs for the competitive grants.<sup>16</sup> For the prior quarter (January to March 2010), SAHA reported about 29 FTEs for its formula grant—and no FTEs for its competitive grants because contract awards were not made until late March 2010, according to SAHA officials.<sup>17</sup> For both quarters, a SAHA procurement official stated that more than 90 percent of the jobs reported as funded by Recovery Act dollars were contractor employees working on modernization improvements at SAHA properties. The official explained that the other Recovery Act-funded jobs reported were SAHA employees, such as project managers and inspectors.

SAHA officials said they used OMB and HUD guidance to determine how to calculate FTEs and that this methodology remained the same since the October to December 2009 reporting period. To help ensure accuracy in job reporting, the SAHA officials noted that the agency requires its contractors to use a standardized template for submitting hours worked on Recovery Act projects each quarter. Regarding FTEs reported for SAHA employees, a SAHA official stated that agency reporting is based on actual hours worked as recorded on timesheets.

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<sup>16</sup>FTEs as of August 10, 2010. In January 2010, the Recovery Accountability and Transparency Board modified the process for correcting data in [FederalReporting.gov](http://FederalReporting.gov) by initiating a “continuous corrections” period. With a continuous corrections period, recipients can correct reported data for the immediately preceding quarter after that reporting quarter has ended and after the data are published on [FederalReporting.gov](http://FederalReporting.gov). Since the continuous corrections process began, the Board has been refreshing the data on [Recovery.gov](http://Recovery.gov) approximately every 2 weeks to reflect these corrections.

<sup>17</sup>FTEs as of August 10, 2010.

## Selected Entities in Texas Are Taking Steps to Implement Energy Efficiency and Conservation Block Grant Projects, but Much Additional Work Remains

As a result of the Recovery Act, Texas received approximately \$208.9 million in EECBG direct formula funding, which consists of \$163.3 million awarded by the U.S. Department of Energy (DOE) directly to cities, counties, and tribal communities in the state and \$45.6 million awarded to the State Energy Conservation Office (SECO). The purposes of the EECBG program are to assist eligible communities in creating and implementing strategies to reduce fossil fuel emissions and total energy use and to improve energy efficiency in the building, transportation, and other appropriate sectors. In Texas, we selected four recipients of EECBG funding to review—three cities that received direct awards from DOE, plus the state agency (SECO) that plans to allocate the majority of its funding to cities and counties in Texas ineligible for direct grants from DOE (see table 1).<sup>18</sup>

**Table 1: Recovery Act EECBG Funding and Types and Number of Projects by Four Recipients in Texas**

EECBG recipient	Grant amount and percentage obligated and spent			Types of project	Number of projects funded
	Amount	Obligated <sup>a</sup>	Spent <sup>a</sup>		
City of Austin	\$7,492,700	81%	2%	Energy efficiency retrofits	2
				Lighting	2
				Buildings and facilities	1
				Onsite renewable technology	1
City of Bryan	\$695,100	100%	3%	Energy efficiency retrofits	1
City of Round Rock	\$955,400	15%	6%	Energy efficiency retrofits	3
				Lighting	1
				Onsite renewable technology	1
				Technical consultant services	1
State Energy Conservation Office (SECO)	\$45,638,100	89%	2%	Building audit and/or retrofit	962
				Renewable energy	58
				Traffic signals and/or street lights	41

Sources: U.S. Department of Energy, City of Austin, City of Bryan, City of Round Rock, and State Energy Conservation Office.

<sup>a</sup>City of Austin percentages are as of July 31, 2010; City of Bryan percentages are as of August 11, 2010; City of Round Rock percentages are as of August 10, 2010; and SECO percentages are as of August 19, 2010.

<sup>18</sup>Cities are ineligible for direct EECBG funding from DOE if the city population is less than 35,000 and if it is not one of the 10 highest populated cities in the state. Counties are ineligible for direct EECBG funding from DOE if the county population is less than 200,000 and if it is not one of the 10 highest populated counties in the state.

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**Grant Recipients Completed the Project Selection Process; Three of the Four Recipients Obligated Most of Their Grant Funds, but Spending Is Just Beginning**

The four EECBG recipients we reviewed selected projects to fund based, for example, on estimated energy savings. Three of the recipients each reported obligating more than 80 percent of their respective grant funds as of late summer 2010, but none of the four recipients reported spending more than 6 percent of their funds (see table 1). Under DOE guidance, EECBG recipients have 18 months from the effective date of the grant award to obligate the funds and 36 months to spend funds.

Austin Energy, which oversees the City of Austin's \$7.5 million in EECBG funding, reported that the city's EECBG funding is allocated to six separate projects.<sup>19</sup> The projects include an energy efficiency retrofit of a building that houses first responders, two lighting retrofits at city hall and parking and other facilities, installation of programmable thermostats with two-way communication at multiple city facilities, weatherization and duct sealing at fire and emergency medical service stations and park facilities, and the installation of biogas generation equipment<sup>20</sup> at the Hornsby Bend Biosolids Management Plant. Austin Energy officials said they did not document specific criteria for grading and selecting potential projects but generally chose projects that were ready to proceed to construction and would provide long-term value in terms of energy efficiency. As of July 31, 2010, Austin Energy reported that 81 percent of its EECBG funding was obligated and approximately 2 percent of total EECBG funds had been spent.

Engineering officials in Bryan reported that the city's \$695,100 in EECBG funding is allocated toward an energy efficiency building retrofit. The building, which formerly housed the police department, is to be retrofitted with new energy efficiency windows; new roof; new heating, ventilation, and air conditioning (HVAC) system; low-flow toilets and showerheads; and energy efficient lighting. City of Bryan officials said they considered another project, traffic signal replacements, but selected the building retrofit because the building would be used for at least another 20 to 30 years and they believed this maximized the use of funds and provided a long-term solution for the building. As of August 11, 2010, Bryan officials

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<sup>19</sup>According to its Web site, Austin Energy (owned by the City of Austin) is the nation's ninth largest community-owned electric utility and serves approximately 388,000 customers within the City of Austin, Travis County, and a small portion of Williamson County.

<sup>20</sup>Biogas generation equipment captures methane gas, a byproduct of the sludge treatment process, and uses it as a renewable energy source that ultimately will be used to generate electricity.

reported that 100 percent of EECBG funding was obligated and approximately 3 percent of total EECBG funds had been spent.

The City of Round Rock, which received \$955,400 in EECBG funding, plans to use the grant for multiple projects—lighting and HVAC retrofits at various city facilities, such as the library, water treatment plant, and fire stations; solar panel installation on the city hall parking garage; and the services of an energy management consultant to develop the city’s strategy for spending the EECBG funding.<sup>21</sup> Round Rock officials reported that they worked with the energy management consultant to prioritize and select potential projects based on estimated annual energy savings and total investment costs. As of August 10, 2010, Round Rock officials reported that about 15 percent of EECBG funding was obligated and approximately 6 percent of total EECBG funds had been spent.

SECO, which received \$45.6 million in EECBG funding from DOE, plans to allocate the majority of the funding to subrecipients—that is, cities and counties in Texas ineligible for direct grants from DOE.<sup>22</sup> SECO officials said their approach was to spread funding out to smaller communities to foster awareness of energy efficiency, greenhouse gas reduction, and sustainability in those communities. SECO said that 1,061 cities and counties in Texas would receive EECBG funding, with an average grant of \$39,000. As of August 19, 2010, SECO reported that about 89 percent of its \$45.6 million EECBG funding was obligated, mainly through contracts with local entities.<sup>23</sup> Also, SECO reported that about 2 percent of the EECBG funds had been spent as of August 19, 2010.

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<sup>21</sup> A unit of local government may not use more than 20 percent of its EECBG funding or \$250,000, whichever is greater, for the provision of subgrants to nongovernmental organizations for the purpose of assisting in the implementation of the energy efficiency and conservation strategy of the applicant.

<sup>22</sup> As noted previously, cities and counties with populations below the specified threshold are ineligible for direct EECBG funding from DOE. However, SECO plans to allocate much of its \$45.6 million in EECBG funding to support projects in each of 1,061 of these less populous communities. Also, SECO plans to retain a portion of the \$45.6 million in EECBG funding to pay for administrative costs. States may not use more than 10 percent of awarded EECBG funds for administrative expenses.

<sup>23</sup> SECO officials noted that calculation of the 89 percent obligation figure includes administrative funds retained by SECO.

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## EECBG Recipients Developed Plans to Monitor the Use of Recovery Act Funding

As part of their overall EECBG program implementation strategy, recipients described the methods they plan to use for monitoring Recovery Act funding. For example, the cities of Austin and Bryan both reported that site inspections by the respective city's EECBG project managers would be conducted to monitor construction. The City of Bryan's EECBG monitoring strategy document states that site inspections are to be performed by the city to ensure that submitted and installed materials and components are the same and do not indicate points of origin other than what is required contractually and in accordance with Buy American requirements. Round Rock officials also reported plans to inspect and verify materials, comparing the description and model number from the contract with the actual equipment installed.

SECO officials said that the very large number of subrecipients receiving EECBG funding from SECO—1,061 cities and counties throughout Texas—present management and monitoring challenges. The officials reported that SECO plans to select a contractor to monitor the subrecipients receiving the EECBG funding through site visits and/or desk reviews of the subrecipient entities.<sup>24</sup> The SECO officials added that some of these entities may not have received any federal awards previously, which could create an increased need for on-site visits and more frequent communication from SECO.

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## EECBG Recipients Plan to Measure Energy Savings

According to DOE guidance, EECBG recipients are required to report quarterly to DOE on several categories of activity and results metrics. Included in these categories are critical metrics, such as energy savings and associated cost savings. The guidance notes that DOE prefers that recipients utilize their own methodology for determining and reporting critical metrics—although DOE has developed a tool to help recipients estimate metrics if using their own methodology proves difficult. The DOE tool, a benefits calculator, is designed to provide high-level estimates of energy savings and resulting energy emissions reductions. The benefits calculator requires multiple inputs, such as the zip code where the project is implemented and whether the project sector is commercial or residential. DOE indicated that the outputs from the benefits calculator

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<sup>24</sup>On September 1, 2010, SECO officials informed us that a contractor had been selected and that SECO expected to have a contract executed and the firm on board by mid- to late September.

should be used for reporting to DOE only if site-specific estimates are not available.

The four EECBG recipients we visited said they plan to use a variety of approaches to measure energy savings resulting from their EECBG projects. For example, Austin Energy officials reported that they plan to measure energy savings by using the company's database that tracks utility costs and usage. This information enables them to measure actual cost and energy savings as a result of the EECBG activities by comparing energy use information for periods before and after project completion. Also, the officials said they plan to normalize the savings to account for differences in weather and occupancy.

Bryan officials said after they chose the building retrofit project and in advance of the renovations, they conducted an energy audit of the building by looking at historic utility bills. The officials also plan to monitor energy consumption after construction completion to obtain data on energy savings. The officials noted, however, they were concerned that pre- and postconstruction energy audits would not accurately reflect actual energy savings because the use of the building is changing.

According to Round Rock officials, they plan to work with their energy management consultant to establish a baseline estimate of energy used before and after installation of HVAC, lighting, and other retrofits and also plan to analyze utility bills to identify energy and cost savings. Round Rock officials were familiar with the DOE benefits calculator; however, they noted that in some instances the DOE benefits calculator provided a different, reduced amount of energy savings than their energy savings estimates. For example, Round Rock reported obtaining estimates from both the local electricity provider and the DOE calculator for one of Round Rock's energy efficiency retrofit projects to consolidate computer servers. According to officials, the local electricity provider's estimates for energy savings were higher than DOE's estimates. Round Rock officials noted that they plan to contact DOE for guidance on which analysis of energy savings should be reported.

According to SECO officials, their office created a SECO Stimulus Recipient Reporting Tool for use by EECBG subrecipients. The tool contains DOE metrics based on each EECBG activity and metrics developed by SECO to track awards. Subrecipients are required to report to SECO monthly. According to SECO officials, several subrecipients performed energy audits before beginning EECBG activities. The officials added that if subrecipients report energy savings that are not consistent

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with energy audits or seem excessive, a site visit may be triggered to verify outcomes.

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### Selected EECBG Recipients Reported Few Jobs Created or Saved

For each of the four EECBG recipients that we visited (three cities and SECO), we reviewed the number of jobs reported as created or saved with Recovery Act dollars. Only two of these recipients (the City of Round Rock and SECO) reported jobs for the most recent quarter (April to June 2010). Round Rock officials reported less than one FTE, and SECO officials reported approximately eight FTEs.<sup>25</sup> Bryan officials said they reported no FTEs because the city awarded its contract on June 8, 2010, and the contractor did not begin work until July 6, 2010. Both Austin and Bryan officials said they anticipate FTEs will be reported for the next quarter.

In general, the four EECBG recipients reported using (or plans for using) similar methods for calculating FTEs and ensuring the reliability of FTE data reported. That is, the four recipients either used or plan to use OMB guidance (dated December 18, 2009) to calculate FTEs, and no recipient officials said they experienced or anticipate experiencing issues with collecting, calculating, or reporting FTEs. Recipient officials said they plan to take steps to ensure the reliability of FTEs reported, such as reviewing certified payrolls to confirm total hours worked, checking invoices submitted by vendors, and verifying internal payroll records when an FTE is directly employed by the recipient.

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

As of August 1, 2010, Texas state entities reported spending approximately \$12.2 billion of the approximately \$19.8 billion in awarded Recovery Act funds.<sup>26</sup> At the local government level, city officials in Austin and Round Rock reported that while Recovery Act funds have been helpful in furthering specific efforts, such as energy efficiency and rehabilitation of homes, the funds have had a limited overall impact on their ability to address ongoing fiscal challenges.

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<sup>25</sup>FTEs as of August 10, 2010.

<sup>26</sup>The term “state entities” refers to state agencies and public institutions of higher education.

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State of Texas Continues  
to Use Recovery Act Funds

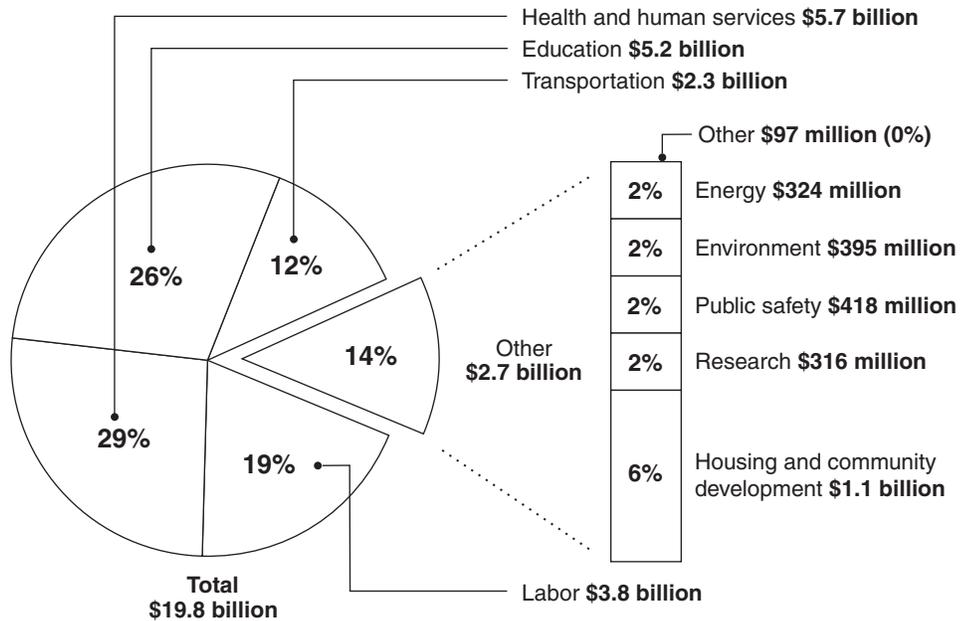
According to the State Comptroller's Office, approximately \$19.8 billion in Recovery Act funds have been awarded to Texas state entities, as of August 1, 2010. This amount represents an increase of approximately \$2.3 billion from the \$17.5 billion total presented in our previous report.<sup>27</sup> The \$2.3 billion increase in Recovery Act funding is concentrated in Texas's Medicaid program. The State Comptroller's Office reported that Recovery Act funding for the Medicaid program in Texas increased approximately 40 percent from \$3.5 billion in March 2010 to slightly more than \$5 billion by August 2010. The State Comptroller's Office classifies Recovery Act funding into 10 categories.<sup>28</sup> As figure 1 indicates, four categories—Health and Human Services, Education, Transportation, and Labor—account for 86 percent of Recovery Act funding awarded to Texas state entities.

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<sup>27</sup>Our May 2010 report ([GAO-10-605SP](#)) presented Recovery Act funding data as of March 28, 2010, for Texas.

<sup>28</sup>The funding categories are based on the Catalogue of Federal Domestic Assistance, a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public.

**Figure 1: Recovery Act Funding Awarded to Texas State Entities by Category (as of Aug. 1, 2010)**



Source: State Comptroller's Office.

Note: The detailed funding amounts do not add to total due to rounding.

As of August 1, 2010, according to the State Comptroller's Office, Texas state entities had spent a majority—approximately \$12.2 billion or about 62 percent—of their awarded \$19.8 billion Recovery Act funds.<sup>29</sup> This spend-out percentage is an increase from the 48 percent as of March 28, 2010, reported by the State Comptroller's Office. Similarly, the broader perspective in table 2 shows that spend-out rates of Recovery Act funds in Texas increased from March to August 2010 for many major programs.

<sup>29</sup>The State Comptroller's Office considers funds to be spent when they have been expended or transferred to another state agency and calculates the amount on a cash basis.

Table 2: Spend-Out Percentages of Recovery Act Funds in Selected Programs, as of March and August 2010

Program	Spend-out percentages as of: <sup>a</sup>	
	March 28, 2010	August 1, 2010
Highway Infrastructure Investment Program	20	34
State Fiscal Stabilization Fund Education Stabilization Funds	31	59
Housing Tax Credit Exchange Program	1	12
Clean Water and Drinking Water State Revolving Funds	Less than 1	24
Weatherization Assistance Program	5	16
Energy Efficiency and Conservation Block Grant (EECBG)	Less than 1	2
State Energy Program	Less than 1	Less than 1
Edward Byrne Memorial Justice Assistance grants (JAG)	7	41

Source: State Comptroller's Office.

Note: For our May 2010 report ([GAO-10-605SP](#)), we selected nine programs that accounted for approximately three-quarters of Recovery Act funding awarded to Texas state entities. Table 2 provides updated information on seven of these nine programs as well as the Energy Efficiency and Conservation Block Grant (EECBG) awarded to Texas state entities. We added information about EECBG because this program is assessed in this report. We did not report updated information on two programs, Medicaid and Unemployment Insurance. The Governor's Office staff described these two programs as entitlement programs, noting that entitlement program funds increase or decrease with demand.

<sup>a</sup>The spend-out percentage indicates the portion of awarded Recovery Act funding that has been spent.

Key Texas officials provided various perspectives regarding the impact Recovery Act funding may have had on the state's 2010-2011 biennial budget. Texas is midway through its current 2-year budget cycle (formally called the 2010-2011 biennium), which began in September 2009 and runs through August 2011. As discussed in our July 2009 report<sup>30</sup> and our September 2009 report,<sup>31</sup> staff from the state's Legislative Budget Board (LBB)—as well as staff representing various offices in the Texas legislature—commented that Recovery Act funding helped to support programs in the state.<sup>32</sup> One direct impact is that state entities received

<sup>30</sup>GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (Appendixes)*, [GAO-09-830SP](#) (Washington, D.C.: July 8, 2009).

<sup>31</sup>GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Addressed (Appendixes)*, [GAO-09-1017SP](#) (Washington, D.C.: Sept. 23, 2009).

<sup>32</sup>For our previous reports, we interviewed staff representing various offices in the Texas legislature—the Speaker of the House of Representatives, the Lieutenant Governor, the House Select Committee on Federal Economic Stabilization Funding, and the Senate Finance Committee.

increased federal funds. Regarding education, for example, LBB staff estimated that the Recovery Act's State Fiscal Stabilization Fund provided Texas with increased federal funds of more than \$3.5 billion for textbooks, public schools, and higher education. Also, under the Recovery Act, the state legislature anticipated that the federal government would reimburse Texas for 68.3 percent of the state's expenditures for Medicaid services for the 2010 federal fiscal year.<sup>33</sup> However, the actual reimbursement rate proved to be higher, at 70.9 percent, which resulted in additional funding for the Medicaid program in Texas, according to Texas officials.<sup>34</sup>

As an overview perspective, the LBB Director commented that Recovery Act funds helped the Texas legislature balance the 2010-2011 budget within available revenue. The director explained that, in January 2009, the Texas legislature was considering a general appropriations bill (for the 2010-2011 biennium) wherein general revenue spending would have exceeded the amount of revenue the State Comptroller estimated was available.<sup>35</sup> According to the director, passage of the Recovery Act in February 2009 allowed Texas to use Recovery Act funds to cover certain costs that otherwise would have been covered by general revenue. A similar perspective is presented in a July 2009 report by the research organization for the Texas House of Representatives. Specifically, in reference to the general appropriations bill for 2010-2011, the research organization reported that \$6.4 billion in Recovery Act funds were "substituted for state general revenue funds."<sup>36</sup> Also, the Texas legislature's

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<sup>33</sup>Texas Legislature, *Conference Committee Report for S.B. No. 1 General Appropriations Bill, 81st Leg. Sess.* (Austin, Tex.: May 26, 2009), at XII-20.

<sup>34</sup>The federal government matches state expenditures for Medicaid services based on a formula known as the federal medical assistance percentage (FMAP). 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).

<sup>35</sup>The State Comptroller is responsible for providing the state legislature with a revenue estimate to ensure general-purpose spending does not exceed anticipated funds available for general-purpose spending.

<sup>36</sup>Texas House of Representatives, House Research Organization, *Texas Budget Highlights: Fiscal 2010-2011*, State Finance Report No. 81-4 (Austin, Tex.: July 13, 2009). The House Research Organization is an independent administrative department of the Texas House of Representatives and is governed by a steering committee of 15 House members elected by the House membership to set policy for the organization, approve its budget, and ensure that its reports are objective.

May 2009 conference committee report on the state's general appropriations act for the 2010-2011 biennium makes references to these Recovery Act funds.<sup>37</sup> Moreover, an analysis presented in March 2010 by LBB staff to the Texas legislature's House Committee on Ways and Means and the House Committee on Appropriations indicated that Recovery Act funds replaced more than \$6 billion in general revenue in the state's 2010-2011 budget.<sup>38</sup> In sum, the LBB analysis and other documentation indicated that the availability of Recovery Act funding allowed Texas to cover certain costs with Recovery Act funds in place of the state's general revenue—and, thus, enabled Texas to balance its budget at a higher level than would have been possible otherwise.

When discussing the Recovery Act's impact on the state's budget, the Governor's staff said that Recovery Act funds did not affect Texas's efforts to balance its budget in reference to the state's constitutional requirement, although the staff said that the funds could be viewed as helping the state to balance the budget at a higher level. The Governor's staff emphasized that the Texas constitution requires a balanced budget. In this regard, the staff pointed out that Texas has achieved a balanced budget for the 2010-2011 biennium, and the staff particularly noted the State Comptroller has certified that sufficient funding exists to support the budget for the 2010-2011 biennium. Consequently, the Governor's staff concluded that the balanced budget requirement was met irrespective of the Recovery Act.<sup>39</sup>

In preparing for the end of Recovery Act funding, Texas officials continue to emphasize the Governor's and the state legislature's guidance to avoid using Recovery Act funds for ongoing expenses. In a 2009 proclamation, the Governor stated that "state agencies and organizations receiving

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<sup>37</sup>Texas Legislature, *Conference Committee Report for S.B. No. 1 General Appropriations Bill, 81st Leg. Sess.* (Austin, Tex.: May 26, 2009), at XII-1, XII-2, XII-3, XII-4, and XII-14.

<sup>38</sup>Although entitled "Budget/Revenue Outlook for 2012-2013 Biennium," the analytical presentation also includes general revenue data for the 2010-2011 biennium and is publicly available at [www.lbb.state.tx.us/Notice/Budget Revenue\\_Outlook\\_2012-13\\_0310.pdf](http://www.lbb.state.tx.us/Notice/Budget Revenue_Outlook_2012-13_0310.pdf).

<sup>39</sup>In commenting on a draft of this appendix, a senior official representing the Office of the Governor explained that at the time the Recovery Act was passed in February 2009, the Texas legislature was in the process of adopting the state's 2010-2011 biennial budget, which subsequently was signed into law in June 2009. The senior official commented that because the Recovery Act was passed in the middle of the state's budget-adoption process, it is not possible to say with any certainty how the state's general revenue would have been appropriated in the absence of the Recovery Act. Also, the senior official commented that Recovery Act funds represent only a small portion of Texas's \$182 billion biennial budget.

[Recovery Act] funds should not expect them to be renewed by the state in the next biennium.”<sup>40</sup> Similarly, the state legislature’s conference committee report on the general appropriations act specified that any state employee position funded by the Recovery Act should be eliminated once the agency exhausts Recovery Act funds for the position.<sup>41</sup> We asked state officials about budget assessments their offices may have done analyzing the end of Recovery Act funding. As referenced above, in March 2010, LBB staff prepared a budget and revenue outlook for the 2012-2013 biennium for the Texas legislature’s House Committee on Ways and Means and the House Committee on Appropriations. The analysis indicated Texas could face a \$10 billion shortfall for the 2012-2013 biennium. Also, the LBB staff noted that approximately \$6 billion of the estimated shortfall can be attributed to the end of Recovery Act funding. The staff explained, for example, that Recovery Act funds reduced the amount of general revenue needed in the current biennium (2010-2011) to support certain programs, particularly education and Medicaid.

In commenting on a draft of this appendix, the Governor’s staff emphasized that under Texas’s constitution the State Comptroller’s Office has the sole responsibility for preparing the official revenue estimate, which is used to certify the biennial budget. The Governor’s staff pointed out that the State Comptroller’s revenue estimate for the 2012-2013 biennium is anticipated to be submitted some time in January 2011, and the state legislature’s passage of an appropriations bill for the biennium is expected in spring 2011. Thus, because the State Comptroller’s Office has yet to submit a revenue estimate for the 2012-2013 biennium and the legislature has not passed an appropriations bill, the Governor’s staff characterized the LBB lookout as speculative and misleading. Further, the Governor’s staff emphasized that Texas has a history—long predating the Recovery Act—of setting priorities and cutting spending to achieve a balanced budget. We reviewed statistics comparing spending and revenue in Texas with other states. For example, according to U.S. Census Bureau statistics, Texas’s per capita state government spending is the lowest among all 50 states; and, consequently, state tax revenue is a lower share of personal income in Texas than in most other states.

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<sup>40</sup>Proclamation by the Governor of the State of Texas Concerning the General Appropriations Act (June 19, 2009).

<sup>41</sup>Texas Legislature, *Conference Committee Report for S.B. No. 1 General Appropriations Bill, 81st Leg. Sess.* (Austin, Tex.: May 26, 2009), at XII-9, § 8.

Texas is taking various actions to address potential fiscal challenges. In January 2010, the Governor, the Lieutenant Governor, and the Speaker of the House of Representatives requested state agencies identify savings for the remainder of the 2010-2011 biennium.<sup>42</sup> More recently, in preparing for the next biennium, the Speaker of the Texas House of Representatives created (by proclamation on January 12, 2010) the House Select Committee on Fiscal Stability. The Select Committee is charged with assessing the state's ability to meet its current and future budget obligations and determining whether the past and anticipated budget shortfalls are due primarily to the current economic recession or a more systemic problem. The proclamation directs the Select Committee to file a report no later than December 1, 2010.

In recent months, several indicators point to an improving fiscal outlook for Texas. For instance, LBB staff said that sales tax collections have been increasing in recent months. Specifically, the staff noted that for 3 consecutive months (April through June 2010), the State Comptroller's Office reported that state sales tax collections exceeded the amounts collected in 2009 for this 3-month period.<sup>43</sup> Also, the Federal Reserve Bank of Dallas recently reported the likelihood that "the Texas economy should pick up steam in 2010 and beyond."<sup>44</sup> The bank's assessment noted improving home sales; increased demand for energy; and increases in the state's exports, especially to Canada and Mexico. Further, Texas continues to have access to a sizable reserve fund.<sup>45</sup> Oil and gas production taxes continue to be an important source of revenue for this rainy day fund. The State Comptroller's Office reported in an August 2009 presentation to the Texas House Select Committee on Federal Economic Stabilization Funding that the current fund balance was \$6.7 billion. Texas officials noted that Texas has not used its reserve fund in the 2010-2011 biennium.<sup>46</sup>

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<sup>42</sup>The specific request was to identify savings totaling 5 percent of the general revenue and general revenue-dedicated appropriations for the 2010-2011 biennium.

<sup>43</sup>The reported data represent state sales tax net collections deposited to general revenue.

<sup>44</sup>Federal Reserve Bank of Dallas, "Texas Economy Shakes Off Rough Ride in 2009," in *Southwest Economy* (First Quarter 2010), at page 3.

<sup>45</sup>The state's economic stabilization fund is commonly referred to as the "rainy day fund." According to the State Comptroller's Office, the state is required to transfer into the rainy day fund one-half of any surplus general revenue in the biennium budget and 75 percent of any oil and natural gas production taxes exceeding 1987 levels.

<sup>46</sup>According to Texas officials, appropriating funds from the rainy day fund would require a supermajority vote in the state legislature.

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Instead, the State Comptroller's Office anticipates transferring additional money into the rainy day fund, resulting in a fund balance forecast to be \$8.156 billion at the end of the 2010-2011 biennium.

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**Texas Local Governments'  
Use of Recovery Act Funds**

We assessed the use of Recovery Act funding for two local governments in Texas, the cities of Austin and Round Rock. We had previously reported on the City of Austin's use of Recovery Act funds for our May 2010 report ([GAO-10-605SP](#)). Table 3 provides information about the two localities and identifies their five largest Recovery Act awards. Officials in both cities we visited cited various positive effects that Recovery Act funds are expected to have on their communities. Austin officials noted that many of the projects funded through the Recovery Act, such as Community Development Block Grant funding for the construction of several buildings for nonprofits, would not have occurred without Recovery Act funding. Officials in Round Rock discussed the Energy Efficiency and Conservation Block Grant (EECBG) the city received from the U.S. Department of Energy. They said the grant will be used for energy efficiency retrofits to replace older and less efficient equipment, resulting in reduced maintenance and utilities costs. In addition, since our May 2010 report, the City of Austin reported that it was awarded a competitive EECBG from the Department of Energy. Austin city officials said they are coordinating with the City of San Antonio, which also received competitive EECBG funds, and plan to use the funding for a retrofit ramp-up program, which may include financing mechanisms for energy efficiency home improvements.

**Table 3: Use of Recovery Act Funds by Two City Governments in Texas**

Locality information		Five largest Recovery Act awards	
Austin	Locality type	<b>City</b>	• Clean Water State Revolving Fund—\$31.8 million
	Population	786,382	• Energy Efficiency and Conservation Block Grant—competitive grant—\$10 million
	Unemployment rate	6.9%	• Energy Efficiency and Conservation Block Grant—formula grant—\$7.5 million
	Operating budget	\$614.9 million	• Communities Putting Prevention to Work—\$7.5 million
	Total Recovery Act funding awarded	\$81.7 million	• Weatherization Assistance Program—\$5.8 million
Round Rock	Locality type	<b>City</b>	• Transit Capital Assistance Grant—\$2.0 million
	Population	105,412	• Energy Efficiency and Conservation Block Grant—formula grant—\$955,400
	Unemployment rate	6.7%	• Edward Byrne Memorial Justice Assistance Grant <sup>a</sup> —\$384,587
	Operating budget	\$84.0 million	• Community Development Block Grant—\$108,742
	Total Recovery Act funding awarded	\$3.5 million	• Edward Byrne Memorial Justice Assistance Grant <sup>a</sup> —\$54,825

Sources: U.S. Census Bureau, U. S. Department of Labor, City of Austin, and City of Round Rock.

Note: 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 revision.

<sup>a</sup>Round Rock received two Recovery Act Edward Byrne Memorial Justice Assistance Grants. Specifically, the first grant for \$384,587 represents a subgrant passed from the Texas Governor’s Criminal Justice Division and the second grant for \$54,825 is an allocation received directly from the U.S. Department of Justice, Bureau of Justice Assistance.

Consistent with perspectives presented in our May 2010 report, officials in the two cities commented that Recovery Act funds have had a limited overall budgetary impact but have been helpful in furthering specific efforts. Austin officials told us they did not use Recovery Act funds to help balance the city budget. Similarly, Round Rock officials reported Recovery Act funds have had “a nominal effect” on the city’s fiscal stability, noting that while energy efficiency retrofits may reduce utility costs, the city faces increased maintenance costs for a new transit facility funded by a Recovery Act grant.<sup>47</sup> Officials in the two cities explained that they are using Recovery Act funds for capital projects, equipment purchases, and one-time programs. Austin officials estimated that 98 percent of Recovery

<sup>47</sup>Round Rock is using a Federal Transit Capital Assistance Grant to fund a transit facility to connect downtown Round Rock to a bus network in north Austin.

Act funds are being used for one-time programs or efforts.<sup>48</sup> Round Rock officials identified rehabilitation of homes (for low- to moderate-income families) funded by a Community Development Block Grant as an example of a one-time cost. Consequently, officials in both cities said they anticipate no significant impacts when Recovery Act funds are phased out.

The two cities continue to take other actions to address fiscal challenges they are facing. For Austin's next fiscal year, which begins October 1, 2010, city officials reported that the city is facing a projected budget gap of approximately \$11 million to \$28 million. To put this in perspective, Austin's annual operating budget for fiscal year 2009-2010 was a little more than \$600 million; consequently, the projected budget gap is approximately 2 to 5 percent of the city's annual operating budget. Austin officials noted that city employees have received no pay increases since December 2008, and the city is "scrubbing" department budgets for cost savings. Similarly, according to Round Rock officials, the operating budget of each department of the city's government was reduced 3 percent for the current fiscal year compared to the previous year's budget.<sup>49</sup> In addition, Round Rock officials noted that city employees were given time off instead of pay increases for the current fiscal year. Going forward, Round Rock officials identified the city's heavy reliance on sales tax revenue and the city's rapid population growth as two challenges. Sales tax revenue represents nearly half of Round Rock's general fund revenue. Round Rock officials noted sales tax revenue tends to be a less stable revenue source than property taxes. The U.S. Census Bureau has identified Round Rock as one of the nation's fastest growing cities, which puts substantial demands on city services and infrastructure. Looking ahead for Austin, city officials noted sales tax revenues have increased but commented that this increase largely has been offset by declines in other revenue, such as fees and charges for residential and commercial development.

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<sup>48</sup>Austin officials explained an exception is that the city is using an Edward Byrne Memorial Competitive Grant to fund a dozen 911 dispatchers for 2 years. The officials noted that, after 2 years, the city plans to evaluate this funding against other needs.

<sup>49</sup>Round Rock's current fiscal year runs from October 1, 2009, through September 30, 2010.

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## State and Local Government Efforts in Ensuring Accountability of Recovery Act Funds in Texas

Texas state entities, particularly the State Auditor's Office (SAO), the Governor's Office, and the State Comptroller's Office, continue efforts to help ensure that Recovery Act funds are used appropriately. These efforts include conducting audits and tightening controls to help ensure only eligible recipients receive Recovery Act payments. Also, local government audit offices or other responsible officials in the five cities we contacted—Austin, Bryan, Dallas, Houston, and Round Rock—have similar efforts underway or planned. Many of the oversight activities we described in our May 2010 report continue, so we focused on providing updated information on these activities.

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## State Auditor's Office Continues to Further Accountability Efforts through Performance Audits and the Single Audit; the Governor's Office and the State Comptroller's Office Continue to Have Important Roles

In July 2010, SAO completed a Recovery Act-related performance audit report—based on a review of jobs and expenditure reporting for programs under the Workforce Investment Act of 1998 (WIA).<sup>50</sup> SAO found that the two local workforce development boards it reviewed had incorrectly calculated the number of jobs created and retained with Recovery Act funds. For example, SAO found that the Capital Area Workforce Development Board significantly overreported the number of jobs (full-time equivalents) by more than 400 percent for February through September 2009.<sup>51</sup> SAO reported that the Texas Workforce Commission had provided timely and adequate guidance to the local boards on how to calculate the number of jobs created and retained using Recovery Act funds. However, SAO noted that the boards did not consistently follow the guidance and also noted that the Texas Workforce Commission's documented monitoring procedures did not include steps for validating the completeness and accuracy of the boards' self-reported information. To ensure accurate calculation and reporting of the number of jobs created and retained, SAO recommended that the Texas Workforce Commission document its processes for reviewing, collecting, and reporting these data and that the local boards continue to monitor

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<sup>50</sup>Texas State Auditor's Office, *American Recovery and Reinvestment Act Funds for Selected Programs at the Texas Workforce Commission*, SAO Report No. 10-037 (Austin, Tex.: July 2010). The scope of the audit included reviewing and analyzing data (covering February through December 2009) at the Texas Workforce Commission, two local boards (the Capital Area Workforce Development Board and the Lower Rio Grande Valley Workforce Development Board), and the local boards' contractors.

<sup>51</sup>Specifically, whereas the board reported 691 jobs created and retained, the SAO auditors calculated approximately 129 jobs. The auditors did note improvement by both of the local boards in calculating the number of jobs for the subsequent quarter (October through December 2009).

applicable guidance. SAO reported that the Texas Workforce Commission and the two local boards generally concurred with the findings and recommendations.<sup>52</sup>

SAO has begun preliminary work for the next Single Audit report that will assess Texas's financial statements for fiscal year 2010, which ends August 31, 2010.<sup>53</sup> Single Audit is intended, among other objectives, to test compliance with program requirements for certain federal programs as well as ensure a fair presentation of financial statements. SAO officials expect that various Recovery Act programs will be selected for review. Recovery Act programs will likely receive heightened attention because, according to SAO officials, the majority of Texas's Recovery Act funding was appropriated for use during the state's 2010 and 2011 fiscal years. The Single Audit for the previous year, 2009, did assess programs receiving Recovery Act funding, but an SAO official indicated that more programs would be assessed for fiscal year 2010, as state entities use Recovery Act funds.

Our May 2010 report ([GAO-10-605SP](#)) noted that Texas completed the Single Audit for the previous year (Texas's 2009 fiscal year) in less time than the requisite 9 months, thereby providing early warnings of

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<sup>52</sup>One of the local boards, while acknowledging concurrence with SAO's recommendation, commented that the jobs-reporting guidance—initiated from the federal level to the state level and then to the local level—was subject to continuous change and was inconsistent, which creates problems that have been recognized as a national issue.

<sup>53</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

deficiencies in internal controls.<sup>54</sup> For example, the Single Audit for Texas's 2009 fiscal year identified a weakness in determining eligibility for three programs—Medicaid, Temporary Assistance for Needy Families, and the Supplemental Nutrition Assistance Program.<sup>55</sup> Under the Recovery Act, Texas has been awarded more than \$5 billion for Medicaid, more than \$200 million for Temporary Assistance for Needy Families, and more than \$27 million for the Supplemental Nutrition Assistance Program, according to August 1, 2010, data from the State Comptroller's Office. Officials from the U.S. Department of Health and Human Services' Office of Inspector General reviewed Texas's Single Audit report for the 2009 fiscal year and made a number of recommendations to Texas officials for tightening eligibility procedures and monitoring subrecipients.

Providing oversight to ensure that corrective actions are taken is an important aspect of the Single Audit process. For example, in May 2010, the Texas Health and Human Services Commission finalized a corrective action plan, with provisions that include improving its existing computer systems for determining eligibility for Medicaid and the other entitlement programs and providing appropriate instruction for staff in reviewing documents. The State Auditor's Office noted that the Single Audit report for fiscal year 2010 will assess the corrective actions taken to address the

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<sup>54</sup>The Federal Audit Clearinghouse received Texas's report on March 26, 2010. The clearinghouse operates on behalf of the Office of Management and Budget to disseminate audit information to federal agencies and the public. The Single Audit requires grantees to submit a financial reporting package, including the financial statements and the Single Audit report, to the clearinghouse no later than 9 months after the end of the grantee's fiscal year under audit. An SAO official indicated that Texas routinely completes its Single Audit report in this time frame. The official explained that Single Audit work in Texas is done concurrently with completing the state's financial statements, which must be completed within 6 months of the end of the fiscal year.

<sup>55</sup>State Auditor's Office, *State of Texas Federal Portion of the Statewide Single Audit for the Fiscal Year Ended August 31, 2009*, SAO Report No. 10-339 (Austin, Tex.: March 2010).

previous year's findings.<sup>56</sup> Also, the Governor's Office staff said that their office is emphasizing the importance of timely resolution of issues identified in the Single Audit for the 2009 fiscal year. The staff noted that, in May 2010, the Governor's Office sent the U.S. Department of Health and Human Services—which is the designated cognizant federal agency for Texas's Single Audit—a formal communication explaining how state agencies plan to address the various findings and recommendations resulting from the 2009 Single Audit.

Further, Governor's Office staff told us that Texas is attempting to serve as an example of accountability and transparency in its administration of Recovery Act funds. The staff noted that the Governor's Stimulus Working Group—which includes representatives from state agencies receiving significant amounts of Recovery Act funding—continues to be a useful mechanism for sharing information to help ensure accountability and transparency.<sup>57</sup> The staff noted, for example, that the Stimulus Working Group has been used to distribute information to state agencies about Recovery Act recipient reporting requirements, help focus audit and monitoring efforts, and address program concerns if necessary.

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<sup>56</sup>Overall, Texas's Single Audit report for the 2009 fiscal year identified 132 significant internal control deficiencies related to compliance with federal program requirements, and 18 of these were classified as material weaknesses. Of the overall findings, 14 of the 132 significant internal control deficiencies involved programs that received Recovery Act funds, and 3 of these were classified as material weaknesses. As reported, the 3 material weaknesses involved the following: (1) for certain benefit programs, the Texas Health and Human Services Commission had some incomplete files and some errors in calculating benefits, resulting in questioned costs of \$118,033; (2) regarding development of a management information system application, the Texas Education Agency did not have adequate controls regarding, for example, access and separation of duties; and (3) for subrecipient agreements tested, the Texas Department of Transportation did not include the federal award number on applicable documentation, and the department did not consistently conduct annual compliance reviews and other periodic monitoring, resulting in questioned costs of \$10,840. The Single Audit report noted that the respective state agencies had taken corrective actions or had such actions underway or planned. Regarding the first of the three material weaknesses listed above, the Office of the Governor informed us in August 2010 that although the figure of \$118,033 was the amount questioned in SAO's report, the Texas Health and Human Services Commission had determined since issuance of the report that only \$1,363 was incorrectly paid to clients.

<sup>57</sup>Our first bimonthly report noted that after the Recovery Act passed, the Office of the Governor began hosting regularly scheduled meetings (twice weekly) of a Stimulus Working Group to help ensure statewide communication of the need for accountability and transparency regarding Recovery Act funds. See GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: April 23, 2009).

As a portal for providing transparency of Recovery Act funds in Texas, the state's official Recovery Act Web site (<http://window.state.tx.us/recovery/>) is maintained by the State Comptroller's Office.<sup>58</sup> Since establishing the Web site in 2009, the State Comptroller's Office has made various enhancements. For instance, the State Comptroller's Office instituted a process for state agencies and institutions of higher education to report all awards using Recovery Act funds on a weekly basis—for the purpose of making the data publicly available on the state's Web site. Also, state officials noted that the Web site now has an interactive map, allowing county-by-county displays of Recovery Act funds and activities.<sup>59</sup>

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### Local Government Audit Offices or Other Officials Also Have a Significant Accountability Role

The city auditor offices or other responsible officials we contacted in Austin, Bryan, Dallas, Houston, and Round Rock reported having Recovery Act-related accountability efforts underway or planned. The Austin city auditor, after being appointed in December 2009, initiated an assessment of the office to determine areas for improvement, among other objectives. The resulting March 2010 assessment report noted that federal stimulus funding received by the city “presents additional risks related to spending oversight and reporting requirements which can be expected to continue in the current and subsequent years.”<sup>60</sup> Regarding planned action, the assessment report stated that these risks would be specifically considered when developing audit plans for fiscal year 2011 and subsequent years.

City officials in Bryan and Round Rock noted that the Single Audit of their respective city includes an assessment of federal grants. We reviewed the Single Audit report of the City of Bryan for the year ended September 30, 2009. The independent auditor reported no material weaknesses and no

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<sup>58</sup>The common or popular name of the Web site is “A Texas Eye on the Dollars.” The portal provides links to the Web sites of applicable state agencies in Texas and a link to the national Web site ([www.recovery.gov](http://www.recovery.gov)). Another portal that provides additional accountability and transparency for Recovery Act funds flowing to the state is [www.txstimulus.com](http://www.txstimulus.com). This Web site is maintained by the Texas legislature's House Select Committee on Federal Economic Stabilization, which was established in February 2009 by proclamation of the Texas legislature's Speaker of the House.

<sup>59</sup>The previous absence of county-mapping data was critically noted in a 2009 report issued by a national policy resource center. See Good Jobs First, *Show Us the Stimulus: An Evaluation of State Government Recovery Act Websites* (Washington, D.C.: July 2009). The report is available online at <http://www.goodjobsfirst.org/stimulusweb.cfm>.

<sup>60</sup>Office of the City Auditor, City of Austin, *Initial Assessment of the Office of the City Auditor* (Austin, Tex.: March 23, 2010).

significant deficiencies regarding internal controls over major programs that received federal awards, which included a grant program (Community Development Block Grant) funded by the Recovery Act.<sup>61</sup>

Since passage of the Recovery Act, the Dallas city auditor has taken a number of steps to promote accountability, as noted in our May 2010 report. Initially, for example, the city auditor conducted a risk assessment of the city's internal control systems relevant to ensuring compliance with Recovery Act requirements.<sup>62</sup> Also, the city auditor initiated efforts to monitor Recovery Act funding received by the city; assess the city's compliance with requirements; and issue periodic audit reports, such as the one issued in April 2010.<sup>63</sup> More recently, in August 2010, the city auditor issued another audit report, which again noted that no allegations of fraud, waste, and abuse regarding Recovery Act funds had been identified or received.<sup>64</sup> However, in reference to the Recovery Act-funded Weatherization Assistance Program<sup>65</sup>—operated locally by both the City of Dallas and the County of Dallas—the audit report stated that the city avoided potentially unallowable costs of up to \$481,000. The audit report explained that the city auditor's office used computerized audit techniques to identify 74 duplicate applications—69 duplicate applications between the city's database and the county's database and 5 duplicate applications within the city's database. The audit report further noted that management took immediate action to eliminate the 74 duplicate applications and that management also agreed with a recommendation to continuously monitor for potential duplication by collaborating with Dallas County.

In late June 2010, the Houston city auditor told us that field work had been completed for the risk assessment that was ongoing at the time of our May

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<sup>61</sup>Weaver and Tidwell, L.L.P., *City of Bryan, Texas, Single Audit Report, September 30, 2009* (Houston, Tex: March 2, 2010).

<sup>62</sup>Dallas City Auditor, *Risk Assessment of City of Dallas Implementation of the American Recovery and Reinvestment Act*, Report No. A10-004 (Dallas, Tex.: Oct. 9, 2009).

<sup>63</sup>Dallas City Auditor, *Audit of American Recovery and Reinvestment Act of 2009: January 1, 2010 to March 31, 2010*, Report No. A10-012 (Dallas, Tex.: April 23, 2010). Of particular importance, the audit report noted that no "allegations for fraud, waste, and abuse" have been received by the city auditor's office.

<sup>64</sup>Dallas City Auditor, *Audit of American Recovery and Reinvestment Act of 2009: April 1, 2010 to June 30, 2010*, Report No. A10-018 (Dallas, Tex.: August 13, 2010).

<sup>65</sup>Implementation of the Recovery Act-funded Weatherization Assistance Program in Texas is discussed in detail in our May 2010 report ([GAO-10-605SP](#)).

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2010 report.<sup>66</sup> The city auditor said that a risk assessment report is to be issued in September 2010. Also, the Houston city auditor mentioned that one of his office's goals is to begin issuing quarterly reports assessing the Recovery Act, starting on September 30, 2010. Further, the Houston city auditor noted that his office's Web site has a link for reporting fraud but no allegations had been reported as of August 2010.<sup>67</sup>

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## Texas's Comments on This Summary

We provided the Governor of Texas with a draft of this appendix on August 9, 2010. A senior official (the Director of Financial Accountability) in the Office of the Governor responded on August 11, 2010. The senior official characterized as speculative several passages of text—regarding Texas's budget and the impact of Recovery Act funds—and suggested that the passages be eliminated from the appendix. In particular, the senior official objected to the inclusion in the appendix of budget and revenue estimates for the upcoming 2012-2013 biennium prepared by LBB staff. The senior official commented that the estimates may be several months old and are based on a series of assumptions that may prove to be inaccurate. Also, the senior official noted that the State Comptroller's Office, which is the state entity legally responsible for determining the official state revenue amount, has not yet published an estimate.

In addressing these comments, we added information where appropriate in the appendix to reflect the Office of the Governor's perspectives. Also, as appropriate in this appendix, we incorporated the senior official's suggestions for technical clarifications. However, because the Texas legislature has an important role in establishing the state's budget, we retained relevant estimates prepared by LBB staff for the 2012-2013 biennium; and, to provide enhanced transparency, we included a hyperlink to the LBB staff's supporting analysis. Further, we provided additional or clarifying context regarding other publicly available reports produced by or for the Texas legislature, especially the Texas legislature's conference committee report and the Texas House Research Organization's report on 2010-2011 appropriations.

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<sup>66</sup>GAO-10-605SP (May 2010). Our report noted that the city was conducting an enterprise risk assessment to comprehensively identify risks that the city's various departments face in ensuring accountability for Recovery Act funds.

<sup>67</sup>The Houston city auditor heads the Audit Division within the Office of the City Controller. (<http://houstontx/controller/audit/index.html>)

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On August 9, 2010, we also provided of copy of a draft of this appendix to the State Auditor’s Office and a copy of applicable sections of a draft of this appendix to the Director, Legislative Budget Board. A senior official in the State Auditor’s Office responded on August 12, 2010. The senior official generally agreed with the information presented and provided a suggestion for a technical clarification, which we incorporated. The Legislative Budget Board Director responded on August 11, 2010. The director reiterated that Recovery Act funds helped the Texas legislature balance the 2010-2011 budget within available revenue. The director also provided technical clarifications, which we incorporated where appropriate.

Further, on August 9, 2010, we provided of copy of applicable sections of a draft of this appendix to the HUD Fort Worth Regional Office, the HUD San Antonio Field Office, the San Antonio Housing Authority, the City of Austin, the City of Bryan, the City of Dallas, the City of Houston, and the City of Round Rock. Responding officials generally agreed with the information presented and, if applicable, provided technical suggestions that we incorporated where appropriate.<sup>68</sup>

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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Fredrick Berry, Danny Burton, K. Eric Essig, Erinn Flanagan, Michael O’Neill, Gloria Proa, and Bob Robinson made major contributions to this report.

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<sup>68</sup>With one exception (HUD Fort Worth Regional Office), all of the entities provided a response.

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# Appendix XVIII: Program Descriptions

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## Airport Improvement Program

Within the Department of Transportation, the Federal Aviation Administration's Airport Improvement Program provides formula and discretionary grants for the planning and development of public-use airports. The Recovery Act provides \$1.1 billion for discretionary Grant-in-Aid for Airports under this program with priority given to projects that can be completed within 2 years. The Recovery Act requires that the funds must supplement, not supplant, planned expenditures from airport-generated revenues or from other state and local sources for airport development activities.

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## Assistance to Rural Law Enforcement to Combat Crime and Drugs Program

The Recovery Act Assistance to Rural Law Enforcement to Combat Crime and Drugs Program is administered by the Bureau of Justice Assistance (BJA), a component of the Office of Justice Programs, Department of Justice. The purpose of this program is to help rural states and rural areas prevent and combat crime, especially drug-related crime, and provides for national support efforts, including training and technical assistance programs strategically targeted to address rural needs. The Recovery Act provides \$125 million for this program, and BJA has made 212 awards.

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## Brownfields Program

The Recovery Act provides \$100 million to the Brownfields Program, administered by the Office of Solid Waste and Emergency Response within the Environmental Protection Agency, for cleanup, revitalization, and sustainable reuse of contaminated properties. The funds will be awarded to eligible entities through job training, assessment, revolving loan fund, and cleanup grants.

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## Broadband Technology Opportunities Program

The Broadband Technology Opportunities Program (BTOP), funded by the Recovery Act and administered by the Department of Commerce's National Telecommunications and Information Administration provides grants to increase broadband infrastructure in unserved and underserved areas of the country. BTOP grants fund projects for new or improved internet facilities in schools, libraries, hospitals, and public safety facilities, projects to establish or upgrade public computer facilities that provide broadband access to the general public or vulnerable populations, and projects that increase broadband internet usage among populations where broadband technology has been underutilized. Projects may include training and outreach activities that will increase broadband activities in people's everyday lives.

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**Build America Bonds**

Build America Bonds (BAB) administered by the Internal Revenue Service within the Department of the Treasury are taxable government bonds created by the Recovery Act that can be issued with federal subsidies for a portion of the borrowing costs delivered either through nonrefundable tax credits provided to holders of the bonds (tax credit BAB) or as refundable tax credits paid to state and local governmental issuers of the bonds (direct payment BAB). Direct payment BABs are a new type of bond that provide state and local government issuers with a direct subsidy payment equal to 35 percent of the bond interest they pay. Tax credit BABs provide investors with a nonrefundable tax credit of 35 percent of the net bond interest payments (excluding the credit), which represents a federal subsidy to the state or local governmental issuer equal to approximately 25 percent of the total return to the investor. State and local governments may issue an unlimited number of BABs through December 31, 2010, and all BAB proceeds must be used for capital expenditures.

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**Capital Improvement Program**

The Department of Health and Human Services' Health Resources and Services Administration has allocated \$862.5 million in Recovery Act funds for Capital Improvement Program grants to health centers to support the construction, repair, and renovation of more than 1,500 health center sites nationwide, including purchasing health information technology and expanding the use of electronic health records.

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**Child Care and Development Block Grants**

Administered by the Administration for Children and Families within the Department of Health and Human Services, Child Care and Development Block Grants, one of the funding streams comprising the Child Care and Development Fund, are provided to states, according to a formula, to assist low-income families in obtaining child care, so that parents can work or participate in education or training activities. The Recovery Act provides \$1.9 billion in supplemental funding for these grants.

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**Clean Cities Program**

The Department of Energy's Clean Cities program, administered by the Office of Energy Efficiency and Renewable Energy, is a government-industry partnership that works to reduce America's petroleum consumption in the transportation sector. The Department of Energy is providing nearly \$300 million in Recovery Act funds for projects under the Clean Cities program, which provide a range of energy-efficient and advanced vehicle technologies, such as hybrids, electric vehicles, plug-in electric hybrids, hydraulic hybrids, and compressed natural gas vehicles, helping reduce petroleum consumption across the United States. The

program also supports refueling infrastructure for various alternative fuel vehicles, as well as public education and training initiatives, to further the program's goal of reducing the national demand for petroleum.

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### Clean and Drinking Water State Revolving Funds

The Recovery Act appropriated \$4 billion for the Clean Water State Revolving Fund (SRF) programs and \$2 billion for the Drinking Water SRF programs. These amounts are a significant increase compared to federal funds awarded as annual appropriations to the SRF programs in recent years. From fiscal years 2000 through 2009, annual appropriations averaged about \$1.1 billion for the Clean Water SRF program and about \$833 million for the Drinking Water SRF program. The Environmental Protection Agency (EPA) distributed the Recovery Act funds to the 50 states, the District of Columbia, and Puerto Rico to make loans and grants to subrecipients—local governments and other entities awarded Recovery Act funds—for eligible wastewater and drinking water infrastructure projects and “nonpoint source” pollution projects intended to protect or improve water quality by, for example, controlling runoff from city streets and agricultural areas.<sup>1</sup> The Clean Water and Drinking Water SRF programs, established in 1987 and 1996 respectively, provide states and local communities independent and permanent sources of subsidized financial assistance, such as low or no-interest loans, for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations and protect public health.

In addition to providing increased funds, the Recovery Act included specific requirements for states beyond those that are part of base Clean Water and Drinking Water SRF programs. For example, states were required to have all Recovery Act funds awarded to projects under

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<sup>1</sup>EPA allocated Recovery Act Clean Water SRF capitalization grants to states based on a statutory formula. The agency allocated Recovery Act Drinking Water SRF capitalization grants to states based on the 2003 Drinking Water Infrastructure Needs Survey. EPA allocates Clean Water and Drinking Water SRF funds to the District of Columbia and U.S. territories as direct grants for the same purposes.

contract within 1-year of enactment—which was February 17, 2010<sup>2</sup>—and EPA was directed to reallocate any funds not under contract by that date.<sup>3</sup>

Further, states were required to use at least 50 percent of Recovery Act funds to provide assistance in the form of principal forgiveness, negative interest loans, or grants.<sup>4</sup> States were also required to use at least 20 percent of funds as a “green reserve” to provide assistance for green infrastructure projects, water or energy efficiency improvements, or other environmentally innovative activities.

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## Communities Putting Prevention to Work

The Recovery Act provides \$650 million to carry out evidence-based clinical and community-based prevention and wellness strategies authorized by the Public Health Service Act that deliver specific, measurable health outcomes that address chronic disease rates. In response to the act, the Department of Health and Human Services launched the Communities Putting Prevention to work initiative on September 17, 2009. The goals of the initiative, which is to be administered by the Centers for Disease Control and Prevention, are to increase levels of physical activity, improve nutrition, decrease obesity rates, and decrease smoking prevalence, teen smoking initiation, and exposure to second-hand smoke through an emphasis on policy and environmental change at both the state and local levels. Of the \$650 million appropriated for this initiative, approximately \$450 million will support community approaches to chronic disease prevention and control; \$120 million will support the efforts of states and territories to promote wellness, prevent chronic disease, and increase tobacco cessation; \$32.5 million is allocated

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<sup>2</sup>In this report we use the word “project” to mean an assistance agreement, i.e. a loan or grant agreement made by the state SRF program to a subrecipient for the purpose of a Recovery Act project.

<sup>3</sup>The Recovery Act requires states to have all funds awarded to projects “under contract or construction” by the 1-year deadline. EPA interprets this as requiring states to have all projects under contract in an amount equal to the full value of the Recovery Act assistance agreement by the deadline, regardless of whether construction has begun, according to a September 2009 memorandum. Thus, in this report, we use “under contract” when referring to this requirement. Further, according to EPA’s March 2, 2009, memorandum, the agency will deobligate any Recovery Act SRF funds that a state does not have awarded to projects under contract by the 1-year deadline and reallocate them to other states.

<sup>4</sup>Under the base Drinking Water SRF, Congress has authorized states to use an amount equal to up to 30 percent of their capitalization grant to provide additional subsidies to communities that meet state-defined criteria for being “disadvantaged.” There is no such statutory authorization for the Clean Water SRF program.

for state chronic disease self-management programs; and \$40 million is allocated to establish a National Prevention Media Initiative and a National Organizations Initiative to encourage the development of prevention and wellness messages and advertisements.

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**Community Development Block Grants**

The Community Development Block Grant (CDBG) program, administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, enables state and local governments to undertake a wide range of activities intended to create suitable living environments, provide affordable housing, and create economic opportunities, primarily for persons of low and moderate income. Most local governments use this investment to rehabilitate affordable housing and improve key public facilities. The Recovery Act includes \$1 billion for the CDBG.

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**Community Services Block Grants**

Community Services Block Grants (CSBG), administered by the Administration for Children and Families within the Department of Health and Human Services, provide federal funds to states, territories, and tribes for distribution to local agencies to support a wide range of community-based activities to reduce poverty. The Recovery Act appropriated \$1 billion for CSBG.

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**Community Oriented Policing Services Hiring Recovery Program**

The Recovery Act provided \$1 billion through the Department of Justice's (DOJ) Community Oriented Policing Service's (COPS) Hiring Recovery Program (CHRP) for competitive grant funding to law enforcement agencies to create and preserve jobs and to increase community policing capacity and crime-prevention efforts. CHRP grants provide 100 percent funding for 3 years to cover approved entry-level salaries and benefits for newly-hired, full-time sworn officers, including those who were hired to fill positions previously unfunded, as well as rehired officers who had been laid off. CHRP funds can also be used in the same manner to retain officers who were scheduled to be laid off as a result of local budget cuts. There is no local funding match requirement for CHRP. When the grant term expires after 3 years, grantees must retain all sworn officer positions awarded under the CHRP grant for at least 1 additional year.

The DOJ COPS office selected local law enforcement agencies to receive funding based on fiscal health factors—such as changes in budgets for law enforcement, poverty, unemployment, and foreclosure rates—and reported crime and planned community policing activities. DOJ awards 50

percent of CHRP funds to local law enforcement agencies with populations greater than 150,000 and awards the remaining 50 percent to local law enforcement agencies with populations of less than 150,000. Awards were capped at no more than 5 percent of the applicant agency's actual sworn force strength (up to a maximum of 50 officers) and a minimum of \$5 million was allocated to each state or eligible territory.

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### Diesel Emission Reduction Act Grants

The program objective of the Diesel Emission Reduction Act Grants, administered by the Office of Air and Radiation in conjunction with the Office of Grants and Debarment, within the U.S. Environmental Protection Agency (EPA), is to reduce diesel emissions. EPA will award grants to address the emissions of in-use diesel engines by promoting a variety of cost-effective emission reduction strategies, including switching to cleaner fuels, retrofitting, repowering or replacing eligible vehicles and equipment, and idle reduction strategies. The Recovery Act appropriated \$300 million for the Diesel Emission Reduction Act Grants. In addition, the funds appropriated through the Recovery Act for the program are not subject to the State Grant and Loan Program Matching Incentive provisions of the Energy Policy Act of 2005.

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### Education

#### Elementary and Secondary Education Act of 1965, Title I, Part A

The Recovery Act provides \$10 billion to help local educational agencies (LEA) educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended.<sup>5</sup> These additional funds are distributed through states to LEAs using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with applicable statutory and regulatory requirements and must obligate 85 percent of the funds by September 30, 2010.<sup>6</sup> The Department of Education is advising LEAs to use the funds in ways that will build the agencies' long-term capacity to serve

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<sup>5</sup>For the purposes of this report, "Title I" refers to Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended.

<sup>6</sup>LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and must obligate all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

disadvantaged youth, such as through providing professional development to teachers. The Recovery Act also appropriated \$3 billion for ESEA Title I School Improvement Grants (SIG), which provides funds to states for use in ESEA Title I schools identified for improvement<sup>7</sup> in order to substantially raise the achievement of their students.<sup>8</sup> These funds are awarded by formula to states, which will then make competitive grants to LEAs. State applications for the \$3 billion in Recovery Act SIG funding, as well as an additional \$546 million in regular fiscal year 2009 SIG funding, were due to the Department of Education on February 28, 2010. SIG regulatory requirements effective in February 2010,<sup>9</sup> prioritize the use of SIG funds in each state's persistently lowest-achieving Title I schools.<sup>10</sup>

To receive funds, states must identify their persistently lowest-achieving schools, and an LEA that wishes to receive SIG funds must submit an application to its state educational agency (SEA) identifying which schools it commits to serve and how it will use school improvement funds to implement one of four school intervention models: (1) turnaround model, which includes replacing the principal and rehiring no more than 50 percent of the school's staff; (2) restart model, in which an LEA converts the school or closes and reopens it as a charter school or under an education management organization; (3) school closure, in which an LEA closes the school and enrolls the students who attended the school in other, higher-achieving schools in the LEA; or (4) the transformation model, which addresses four specific areas intended to improve schools.

Individuals with Disabilities  
Education Act, Parts B and C

The Recovery Act provided supplemental funding for programs authorized by Part B and C of the Individuals with Disabilities Education Act (IDEA) as amended, the major federal statute that supports early intervention and special education and related services for children and youth with disabilities. Part B funds programs that ensure preschool and school-age

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<sup>7</sup>Under ESEA, schools in improvement have failed to meet adequate yearly progress for at least 2 consecutive years.

<sup>8</sup>School Improvement Grants are authorized under Section 1003(g) of ESEA.

<sup>9</sup>Final requirements for SIG were published in Dec. 2009 (74 Fed. Reg. 65618 (Dec. 10, 2009)), and were amended by interim final requirements published in Jan. 2010 (75 Fed. Reg. 3375 (Jan. 21, 2010)).

<sup>10</sup>To identify the persistently lowest-achieving schools in the state, a state educational agency must take into account both the performance of all students in a school on the state's assessments in reading/language arts and mathematics combined and the lack of progress by all students on those assessments over a number of years.

children with disabilities access to a free and appropriate public education and is divided into two separate grants—Part B grants to states (for school-age children) and Part B preschool grants. Part C funds programs that provide early intervention and related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families.

State Fiscal Stabilization Fund

The State Fiscal Stabilization Fund (SFSF) included approximately \$48.6 billion to award to states by formula and up to \$5 billion to award to states as competitive grants. The Recovery Act created the SFSF in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services, such as public safety. Stabilization funds for education distributed under the Recovery Act must first be used to alleviate shortfalls in state support for education to LEAs and public institutions of higher education (IHE). States must use 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds). The SFSF funds are being provided to states in two phases. Phase 1 funds—at least 67 percent of education stabilization funds and all government services funds—were provided to each state after the Department of Education (Education) approved the state’s Phase 1 application for funds. Phase 2 funds are being awarded to states as Education approves each state’s Phase 2 application. The Phase 1 application required each state to provide several assurances, including that the state will meet maintenance-of-effort requirements (or will be able to comply with the relevant waiver provisions); will meet requirements for accountability, transparency, reporting, and compliance with certain federal laws and regulations; and that it will implement strategies to advance four core areas of education reform.<sup>11</sup> The Phase 2 application requires each state to explain the information the state makes available to the public related to the four core areas of education reform or provide plans for making information related to the education reforms

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<sup>11</sup>The four core areas of education reform, as described by Education, are: (1) increase teacher effectiveness and address inequities in the distribution of highly qualified teachers; (2) establish a pre-K-through-college data system to track student progress and foster improvement; (3) make progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including students with limited English proficiency and students with disabilities; and (4) provide targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring.

publicly available no later than September 30, 2011. States must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to LEAs and public IHEs. When distributing these funds to LEAs, states must use their primary education funding formula, but they can determine how to allocate funds to public IHEs. In general, LEAs maintain broad discretion in how they can use education stabilization funds, but states have some ability to direct IHEs in how to use these funds.

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### Edward Byrne Memorial Justice Assistance Grant Program

The Recovery Act provided \$2 billion through the Department of Justice's (DOJ) Edward Byrne Memorial Justice Assistance Grant (JAG) Program for grants to state and local governments for law enforcement and criminal justice activities. JAG funds can be used to support a range of activities in seven broad program areas: (1) law enforcement; (2) prosecution and courts; (3) crime prevention and education; (4) corrections; (5) drug treatment and enforcement; (6) program planning, evaluation, and technology improvement; and (7) crime victim and witness programs. Within these areas, JAG funds can be used for state and local initiatives, training, personnel, equipment, supplies, contractual support, research, and information systems for criminal justice.

Although each state is guaranteed a minimum allocation of JAG funding, states and localities therein must apply to DOJ's Bureau of Justice Assistance (BJA) to receive their grant awards. BJA applies a statutory formula based on population and violent crime statistics to determine annual funding levels. After applying the formula, BJA distributes each state's allocation in two ways:

- BJA awards 60 percent directly to the state, and the state must in turn allocate a formula-based share of these funds—considered a “variable pass-through,” to its local governments; and
- BJA awards the remaining 40 percent directly to eligible units of local government within the state.

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### Electronic Baggage Screening Program

Administered by the Transportation Security Administration (TSA) of the Department of Homeland Security, the Electronic Baggage Screening Program provides funding to strengthen screening of checked baggage in airports. The Recovery Act provided approximately \$1 billion to invest in the procurement and installation of checked baggage explosives detection systems and checkpoint explosives detection equipment. According to

TSA, it has allocated over \$700 million to its Electronic Baggage Screening Program for purposes that include facility modifications; equipment purchase and installation; and programmatic, maintenance, and technological support.

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**Emergency Food and Shelter Program**

The Emergency Food and Shelter Program (EFSP), which is administered by the Federal Emergency Management Agency (FEMA) within the Department of Homeland Security, was authorized in July 1987 by the Stewart B. McKinney Homeless Assistance Act to provide food, shelter, and supportive services to the homeless.<sup>12</sup> The program is governed by a National Board composed of a representative from FEMA and six statutorily designated national nonprofit organizations.<sup>13</sup> Since its first appropriation in fiscal year 1983, EFSP has awarded over \$3.4 billion in federal aid to more than 12,000 local private, nonprofit and government human service entities in more than 2,500 communities nationwide.

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**Energy Efficiency and Conservation Block Grants**

The Energy Efficiency and Conservation Block Grants (EECBG), administered by the Office of Energy Efficiency and Renewable Energy within the Department of Energy, provides funds through competitive and formula grants to units of local and state government and Indian tribes to develop and implement projects to improve energy efficiency and reduce energy use and fossil fuel emissions in their communities. The Recovery Act includes \$3.2 billion for the EECBG. Of that total, \$400 million is to be awarded on a competitive basis to grant applicants.

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**Green Capacity Building Grants**

Under the Recovery Act, the Green Capacity Building Grants program, administered by the Employment and Training Administration within the Department of Labor, provides funds to build the green training capacity of current Department of Labor (Labor) grantees. Grants will help individuals in targeted groups acquire the skills needed to enter and advance in green industries and occupations by building the capacity of

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<sup>12</sup>Pub. L. No. 100-77, 101 Stat. 482 (July 22, 1987).

<sup>13</sup>Under the Act, the members of the EFSP National Board are to be the Director of the Federal Emergency Management Agency (Chair) and six members appointed by the Director from individuals nominated by the following organizations: American Red Cross, Catholic Charities USA, National Council of Churches of Christ in the USA, The Salvation Army, The Council of Jewish Federations, Inc. (now known as The Jewish Federations of North America), and the United Way of America (now known as United Way Worldwide).

active Labor-funded training programs. Grantees are required to give priority to targeted groups, including workers impacted by national energy and environmental policy, individuals in need of updated training related to energy-efficiency and renewable energy industries, veterans, unemployed individuals, and individuals with criminal records.

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**Health Information  
Technology Extension  
Program**

The Department of Health and Human Services' Health Information Technology Extension Program, administered by the Office of the National Coordinator for Health Information Technology, allocated \$643 million to establish 60 Health Information Technology Regional Extension Centers (REC) and \$50 million to establish a national Health Information Technology Research Center (HITRC). The first cycle of awards, announced February 12, 2010, provided \$375 million to create 32 RECs, while the second cycle of awards, announced April 6, 2010, provided \$267 million to establish 28 RECs. RECs offer technical assistance, guidance, and information on best practices for the use of Electronic Health Records (EHR) to health care providers. The HITRC supports RECs' efforts by collecting information on best practices from a wide variety of sources across the country and by acting as a virtual community for RECs to collaborate with one another and with relevant stakeholders to identify and share best practices for the use of EHRs. The goal of the RECs and HITRC is to enable nationwide health information exchange through the adoption and meaningful use of secure EHRs.

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**Head Start/Early Head  
Start**

The Head Start program, administered by the Office of Head Start of the Administration for Children and Families within the Department of Health and Human Services, provides comprehensive early childhood development services to low-income children, including educational, health, nutritional, social, and other services, intended to promote the school readiness of low-income children. Federal Head Start funds are provided directly to local grantees, rather than through states. The Recovery Act provided an additional \$2.1 billion in funding for Head Start and Early Head Start programs. The Early Head Start program provides family-centered services to low-income families with very young children designed to promote the development of the children, and to enable their parents to fulfill their roles as parents and to move toward self-sufficiency.

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**High-Speed Intercity  
Passenger Rail Program**

The High-Speed Intercity Passenger Rail Program (HSIPR) is administered by the Federal Railroad Administration, within the Department of Transportation (DOT). The purpose of the HSIPR Program is to build an

efficient, high-speed passenger rail network connecting major population centers 100 to 600 miles apart. In the near-term, the program will aid in economic recovery efforts and lay the foundation for this high-speed passenger rail network through targeted investments in existing intercity passenger rail infrastructure, equipment, and intermodal connections. In addition to the \$8 billion provided in the Recovery Act, the HSIPR Program also included approximately \$92 million in fiscal year 2009 and remaining fiscal year 2008 funds appropriated under the existing State Grant Program (formally titled, Capital Assistance to States—Intercity Passenger Rail Service). The fiscal year 2010 DOT appropriation included \$2.5 billion for high speed rail and intercity passenger rail projects.

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### Homelessness Prevention and Rapid Re-Housing Program

The Homelessness Prevention and Rapid Re-Housing Program, administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, awards formula grants to states and localities to prevent homelessness and procure shelter for those who have become homeless. Funding for this program is being distributed based on the formula used for the Emergency Shelter Grants program. According to the Recovery Act, program funds should be used for short-term or medium-term rental assistance; housing relocation and stabilization services, including housing search, mediation or outreach to property owners, credit repair, security or utility deposits, utility payments, and rental assistance for management; or appropriate activities for homeless prevention and rapid re-housing of persons who have become homeless. The Recovery Act includes \$1.5 billion for this program.

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### Highway Infrastructure Investment Program

The Recovery Act provides funding to states for restoration, repair, and construction of highways and other activities allowed under the Federal Highway Administration's Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must follow existing program requirements. While the maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent, under the Recovery Act, it is 100 percent.

Funds appropriated for highway infrastructure spending must be used in accordance with Recovery Act requirements. States were given a 1-year

deadline (March 2, 2010) to ensure that all apportioned Recovery Act funds—including suballocated funds—were obligated.<sup>14</sup> The Secretary of Transportation was to withdraw and redistribute to eligible states any amount that was not obligated by that time.<sup>15</sup> Additionally, the governor of each state was required to certify that the state would maintain its level of spending for the types of transportation projects funded by the Recovery Act it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state was required to identify the amount of funds the state planned to expend from state sources from February 17, 2009, through September 30, 2010.<sup>16</sup>

On March 2, 2009, the Federal Highway Administration apportioned \$799.8 million in Recovery Act funds to states for its Transportation Enhancement program. States may use program funds for qualifying surface transportation activities, such as constructing or rehabilitating off-road shared use paths for bicycles and pedestrians; conducting landscaping and other beautification projects along highways, streets, and waterfronts; and rehabilitating and operating historic transportation facilities such as historic railroad depots.<sup>17</sup> The Recovery Act requires that 3 percent of Highway Infrastructure Investment funds provided to states must be used for Transportation Enhancement activities. Additionally, states may decide to use additional Recovery Act Transportation Enhancement funds, beyond the 3 percent requirement, for qualifying activities such as those mentioned above. States determine the share of federal funds used for qualifying Transportation Enhancement projects up to 100 percent of the projects' costs.

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## Increased Demand for Services

The Department of Health and Human Services' Health Resources and Services Administration (HRSA) has allocated Recovery Act funds for Increased Demand for Services (IDS) grants to health centers to increase health center staffing, extend hours of operations, and expand existing

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<sup>14</sup>For the Highway Infrastructure Investment program, DOT has interpreted the term "obligation of funds" to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

<sup>15</sup>Recovery Act, div. A, title XII, 123 Stat. 206.

<sup>16</sup>Recovery Act, div. A, title XII, § 1201(a).

<sup>17</sup>The full list of qualifying Transportation Enhancement activities is defined in 23 U.S.C. § 101(a)(35).

services. The Recovery Act provided \$500 million for health center operations. HRSA has allocated \$343 million for IDS grants to health centers.<sup>18</sup>

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**Internet Crimes Against Children Initiatives**

Internet Crimes Against Children Initiatives (ICAC), administered by the Department of Justice, Office of Justice Programs' Office of Juvenile Justice and Delinquency Prevention, seeks to maintain and expand state and regional ICAC task forces to address technology-facilitated child exploitation. This program provides funding to states and localities for salaries and employment costs of law enforcement officers, prosecutors, forensic analysts, and other related professionals. The Recovery Act appropriated \$50 million for ICAC.

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**Lead-Based Paint Hazard Control Grants and Lead Hazard Reduction Demonstration Grant Program**

The Recovery Act provided approximately \$78 million to the Lead-Based Paint Hazard Control Grant Program through the Department of Housing and Urban Development to assist states and localities in undertaking programs to identify and control lead-based paint hazards in eligible privately owned housing for rental or owner-occupants. Funds will be used to perform lead-based paint inspections, soil and paint-chip testing, risk assessments, and other activities that are in support of lead hazard abatement work. An additional \$2.6 million was provided for the Lead Hazard Reduction Demonstration Grant Program which will assist urban areas with the greatest lead paint abatement needs to identify and control lead-based paint hazards in eligible privately owned single-family housing units and multifamily buildings occupied by low-income families.

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**Local Energy Assurance Planning Initiative**

The Recovery Act provided funding to support Local Energy Assurance Planning (LEAP) Initiatives to help communities prepare for energy emergencies and disruptions. The Department of Energy will award funds to cities and towns to develop or expand local energy assurance plans that will improve electricity reliability and energy security in their communities. LEAP aims to facilitate recovery from disruptions to the

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<sup>18</sup>The Recovery Act provided \$2 billion to HRSA for grants to health centers. Of this total, \$1.5 billion is for the construction and renovation of health centers and the acquisition of Health Information Technology systems, and the remaining \$500 million is for operating grants to health centers. Of the \$500 million for health center operations, HRSA has allocated \$157 million for New Access Point grants to support health centers' new service delivery sites, and \$343 million for IDS grants.

energy supply and enhance reliability and quicker repairs following energy supply disruptions.

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**Medicaid Federal Medical Assistance Percentage**

Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The Centers for Medicare and Medicaid Services, within the Department of Health and Human Services, approves state Medicaid plans, and the amount of federal assistance states receive for Medicaid service expenditures is determined by the Federal Medical Assistance Percentage (FMAP). The Recovery Act's temporary increase in FMAP funding will provide all 50 states and the District with approximately \$87 billion in assistance. Federal legislation was recently enacted amending the Recovery Act to provide for an extension of increased FMAP funding through June 30, 2011, but at a lower level.

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**National Clean Diesel Funding Assistance Projects**

The Recovery Act provided \$156 million in new funding to the National Clean Diesel Funding Assistance Program to support the implementation of verified and certified diesel emission reduction technologies. The competitive grant program funded projects that would achieve significant reductions in diesel emissions, especially from fleets operating in areas designated as having poor air quality. This is one of the Recovery Act-funded National Clean Diesel Campaign programs which have the goal to accelerate emission reductions from older diesel engines to provide air quality benefits and improve public health.

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**National Endowment for the Arts Recovery Act Grants**

The Recovery Act provides \$50 million to be distributed in direct grants by the National Endowment for the Arts to fund arts projects and activities that preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the current economic downturn.

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**Neighborhood Stabilization Program 2**

The Neighborhood Stabilization Program (NSP), administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, provides assistance for the redevelopment of abandoned and foreclosed homes and residential properties in order that such properties may be returned to productive use or made available for redevelopment purposes. The \$2 billion in NSP2

funds appropriated in the Recovery Act are competitively awarded to states, local governments, and nonprofit organizations.<sup>19</sup> NSP is considered to be a component of the Community Development Block Grant (CDBG) program and basic CDBG requirements govern NSP.

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**Port Security Grant Program**

The Port Security Grant Program (PSGP) provides grant funding to port areas for the protection of critical port infrastructure from terrorism. The Recovery Act provides \$150 million in stimulus funding for the PSGP administered by the Federal Emergency Management Agency (FEMA), an agency of the Department of Homeland Security. PSGP funds are primarily intended to assist ports in enhancing maritime domain awareness, enhancing risk management capabilities to prevent, detect, respond to, and recover from attacks involving improvised explosive devices, weapons of mass destruction and other nonconventional weapons, as well as training and exercises and Transportation Worker Identification Credential implementation. Ports compete for funds and priority is given to cost-effective projects that can be executed expeditiously and have a significant and near-term impact on risk mitigation.

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**Public Housing Capital Fund**

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; to develop, finance, and modernize public housing developments; and to improve management. Under the Recovery Act, the Office of Public and Indian Housing within the Department of Housing and Urban Development (HUD) allocated nearly \$3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008 and obligated these funds to housing agencies in March 2009.

HUD was also required to award nearly \$1 billion to public housing agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofitting. In September 2009, HUD

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<sup>19</sup>NSP, a term that references the NSP funds authorized under Division B, Title III of the Housing and Economic Recovery Act of 2008, provides grants to all states and selected local governments on a formula basis. Under NSP, the Department of Housing and Urban Development allocated \$3.92 billion on a formula basis to states, territories, and selected local governments. The term “NSP2” references the NSP funds authorized under the Recovery Act on a competitive basis.

awarded competitive grants for the creation of energy-efficient communities, gap financing for projects stalled due to financing issues, public housing transformation, and improvements addressing the needs of the elderly or persons with disabilities.

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## Public Transportation Program

The Recovery Act appropriated \$8.4 billion to fund public transit throughout the country through existing Federal Transit Administration (FTA) grant programs, including the Transit Capital Assistance Program, and the Fixed Guideway Infrastructure Investment Program. Under the Transit Capital Assistance Program's formula grant program, Recovery Act funds were apportioned to large and medium urbanized areas—which in some cases include a metropolitan area that spans multiple states—throughout the country according to existing program formulas. Recovery Act funds were also apportioned to states for small urbanized areas and nonurbanized areas under the Transit Capital Assistance Program's formula grant programs using the program's existing formula. Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Recovery Act funds from the Fixed Guideway Infrastructure Investment Program<sup>20</sup> were apportioned by formula directly to qualifying urbanized areas, and funds may be used for any capital projects to maintain, modernize, or improve fixed guideway systems.<sup>21</sup> As they work through the state and regional transportation planning process, designated recipients of the apportioned funds—typically public transit agencies and metropolitan planning organizations—develop a list of transit projects that project sponsors (typically transit agencies) submit to FTA for approval.<sup>22</sup>

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<sup>20</sup>Fixed guideway systems use and occupy a separate right-of-way for the exclusive use of public transportation services. They include fixed rail, exclusive lanes for buses and other high-occupancy vehicles, and other systems.

<sup>21</sup>Generally, to qualify for funding under the applicable formula grant program, an urbanized area must have a fixed guideway system that has been in operation for at least 7 years and is more than 1 mile in length.

<sup>22</sup>Metropolitan planning organizations (MPO) are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation, that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues, including major capital investment projects and priorities. To be eligible for Recovery Act funding, projects must be included in the region's Transportation Improvement and State Transportation Improvement Programs.

Funds appropriated for the Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment Program must be used in accordance with Recovery Act requirements. States were given a 1-year deadline (March 5, 2010) to ensure that all apportioned Recovery Act funds were obligated.<sup>23</sup> The Secretary of Transportation was to withdraw and redistribute to each state or urbanized area any amount that was not obligated within these time frames.<sup>24</sup> Additionally, the governor of each state was required to certify that the state would maintain its level of spending for the types of transportation projects funded by the Recovery Act it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state was required to identify the amount of funds the state planned to expend from state sources from February 17, 2009, through September 30, 2010.<sup>25</sup>

The Transit Investments for Greenhouse Gas and Energy Reduction (TIGGER) Grant program, administered by FTA within the Department of Transportation, is a discretionary program to support transit capital projects that result in greenhouse gas reductions or reduced energy use. The Recovery Act provides \$100 million for the TIGGER program, and each submitted proposal must request a minimum of \$2 million.

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## Race to the Top Fund

The Recovery Act includes up to \$5 billion for the Race to the Top Fund, administered by the Office of Elementary and Secondary Education within the Department of Education (Education). According to Education, awards in Race to the Top will go to states that are leading the way with ambitious yet achievable plans for implementing coherent, compelling, and comprehensive educational reform. Through Race to the Top, Education asks states to advance reforms in four specific areas: adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy; building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction; recruiting,

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<sup>23</sup>For the Transit Capital Assistance Program and Fixed Guideway Infrastructure Investment Program, the Department of Transportation has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a grant agreement.

<sup>24</sup>Recovery Act, div. A, title XII, 123 Stat. 210.

<sup>25</sup>Recovery Act, div. A, title XII, § 1201(a).

developing, rewarding, and retaining effective teachers and principals, especially where they are needed most; and turning around our lowest-achieving schools.

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**Recovery Act Assistance to Firefighters Fire Station Construction Grants**

The Recovery Act Assistance to Firefighters Fire Station Construction Grants, also known as fire grants or the FIRE Act grant program, is administered by the Department of Homeland Security, Federal Emergency Management Agency, Assistance to Firefighters Program Office. The program provides federal grants directly to fire departments on a competitive basis to build or modify existing nonfederal fire stations in order for departments to enhance their response capability and protect the communities they serve from fire and fire-related hazards. The Recovery Act includes \$210 million for this program and provides that no grant shall exceed \$15 million.

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**Recovery Act Impact on Child Support Incentives**

The Child Support Enforcement (CSE) Program (Title IV-D of the Social Security Act) is a joint federal-state program administered by the Administration for Children and Families (ACF), within the Department of Health and Human Services. The program provides federal matching funds to states to carry out their child support enforcement programs, which enhance the well-being of children by, among other things, establishing paternity, establishing child support orders, and collecting child support. Furthermore, ACF makes additional incentive payments to states based in part on their child support enforcement programs meeting certain performance goals. States must reinvest their incentive fund payments into the CSE program or an activity to improve the CSE program; however, incentive funds reinvested in the CSE program are not eligible for federal matching funds. Funds for the federal matching payments and incentive payments are appropriated annually, and the Recovery Act does not appropriate funds for either of them. However, the Recovery Act temporarily provides for incentive payments expended by states for child support enforcement to count as state funds eligible for the federal match. This change is effective October 1, 2008, through September 30, 2010.

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**Recovery Zone Bonds**

Recovery Zone Bonds are administered by the Internal Revenue Service within the Department of the Treasury and come in two types: Recovery Zone Economic Development Bonds (RZEDB) and Recovery Zone Facility Bonds. RZEDB are a type of direct payment Build America Bond (BAB), created under the Recovery Act. Direct payment BABs allow issuers the option of receiving a federal payment instead of allowing a federal tax

exemption on the interest payments. RZEDBs provide a 45 percent credit instead of a 35 percent credit like other types of BABs and must meet certain requirements. RZEDBs are targeted to economically distressed areas meeting certain criteria and are to be used for qualified forms of economic development. Recovery Zone Facility Bonds are exempt facility bonds which may be used to finance certain designated recovery zone property. The Recovery Act authorized up to \$10 billion for RZEDBs and up to \$15 billion for Recovery Zone Facility Bonds to be allocated to states, the District of Columbia, and territories, based to the their employment declines in 2008.

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### Renewable and Distributed Systems Integration

The Renewable and Distributed Systems Integration (RDSI) program, administered by the Office of Electricity Delivery and Energy Reliability within the Department of Energy (DOE), focuses on integrating renewable and distributed energy technologies into the electric distribution and transmission system. In April 2008, DOE announced plans to invest up to \$50 million over 5 years (fiscal years 2008 to 2012) in nine projects aimed at demonstrating the use of RDSI technologies to reduce peak load electricity demand by at least 15 percent at distribution feeders—the power lines delivering electricity to consumers. The program goal is to reduce peak load electricity demand by 20 percent at distribution feeders by 2015.

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### Retrofit Ramp-Up Program

The Recovery Act's Retrofit Ramp-Up program will provide funding to projects to "ramp-up" energy efficiency building retrofits. The program will target community-scale retrofit projects that make significant, long-term impacts on energy use and can serve as national role models for energy-efficiency efforts. These programs should result in retrofits that lead to significant efficiency improvements to a large number of buildings in communities or neighborhoods. The retrofits must reduce the total monthly operating costs of the buildings including any repayments of loans. The Retrofit Ramp-Up projects are the competitive portion of DOE's Energy Efficiency and Conservation Block Grant Program and are part of the Recovery Act investment in clean energy and energy efficiency.

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### Senior Community Service Employment Program

The Senior Community Service Employment Program (SCSEP), administered by the Employment and Training Administration within the Department of Labor, is a community service and work-based training program which serves low-income persons who are 55 years or older and have poor employment prospects by placing them in part-time community

service positions and by assisting them to transition to unsubsidized employment. The Recovery Act provides \$120 million for SCSEP.

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**Senior Nutrition Programs**

The Recovery Act provides \$100 million to the Senior Nutrition Programs, administered by the Administration on Aging (AoA) within the Department of Health and Human Services. AoA distributed funds to 56 States and Territories and 246 tribes and Native Hawaiian organizations to fund three programs at senior centers and other community sites. The Recovery act awarded \$65 million for congregate nutrition services provided at senior centers and other community sites, \$32 million for home-delivered nutrition services delivered to elders at home, and \$3 million for Native American nutrition programs. The Congregate Nutrition Services and Home-delivered Nutrition Services programs specifically targets vulnerable seniors, such as low-income minorities and those residing in rural areas, and aims to help elderly individuals avoid hospitalization and nursing home placement by maintaining their health through meals. The Nutrition Services for Native Americans provides congregate and home-delivered meals and related nutrition services to American Indian, Alaskan Native, and Native Hawaiian elders.

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**Services\*Training\*Officers  
\*Prosecutors Violence  
Against Women Formula  
Grants Program**

Under the Services\*Training\*Officers\*Prosecutors (STOP) Violence Against Women Formula Grants Program, the Office on Violence Against Women within the Department of Justice, has awarded over \$139 million in Recovery Act funds to promote a coordinated, multidisciplinary approach to enhance services and advocacy to victims, improve the criminal justice system’s response, and promote effective law enforcement, prosecution, and judicial strategies to address domestic violence, dating violence, sexual assault, and stalking.

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**Smart Grid Investment  
Grant Program**

Under the Recovery Act, states will receive \$3.4 billion to deploy and integrate advanced digital technology to modernize the electric delivery network through the Smart Grid Investment Grant Program, administered by the Office of Electricity Delivery and Energy Reliability within the Department of Energy. The program funds a broad range of projects aimed at applying smart grid technologies to existing electric system equipment, consumer products and appliances, meters, electric distribution and transmission systems, and homes, offices, and industrial facilities.

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**Staffing for Adequate Fire and Emergency Response**

The Staffing for Adequate Fire and Emergency Response (SAFER) grants program, administered by the Federal Emergency Management Agency within the Department of Homeland Security, was created to provide funding directly to volunteer, combination, and career fire departments<sup>26</sup> to help them increase staffing and enhance their emergency deployment capabilities. The goal of SAFER is to ensure departments have an adequate number of trained, frontline active firefighters capable of safely responding to and protecting their communities from fire and fire-related hazards. SAFER provides 2-year grants to fire departments to pay the salaries of newly hired firefighters or to rehire recently laid-off firefighters. Fire departments using SAFER funding to hire new fire fighters commit to retaining the SAFER-funded firefighters for 1 full year after the 2-year grant has been expended. The retention commitment does not extend to previously laid-off firefighters who have been rehired. In addition, volunteer and combination firefighter departments are eligible to apply for SAFER funding to pay for activities related to the recruitment and retention of volunteer firefighters.<sup>27</sup>

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**State Broadband Data and Development Program**

The Recovery Act appropriated \$7.2 billion to extend access to broadband throughout the United States. Of the \$7.2 billion, \$4.7 billion was appropriated to the Department of Commerce's National Telecommunications and Information Administration (NTIA) and \$2.5 billion to the Department of Agriculture's Rural Utilities Service. Of the \$4.7 billion, up to \$350 million was available pursuant to the Broadband Data Improvement Act (BDIA) for the purpose of developing and maintaining a nationwide map featuring the availability of broadband service. BDIA directs the Secretary of Commerce to establish the State Broadband Data and Development Grant Program and to award grants to eligible entities to develop and implement statewide initiatives to identify

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<sup>26</sup>Per FEMA's definition, a "volunteer fire department is composed entirely of members who do not receive compensation other than a length of service retirement program (LSOP) and insurance. A career department is one in which all members are compensated for their services. A combination department has at least one volunteer, with the balance being career members, or one career member with the balance being volunteers. Also, if a volunteer fire department provides stipends to their members or provides pay-on-call for their members, the department is considered to be combination."

<sup>27</sup>Volunteer fire departments are eligible to apply for both Hiring and Recruitment and Retention grants. Combination fire departments are eligible to apply for both Hiring/Rehiring of Firefighters and Recruitment and Retention of volunteer firefighters SAFER grants. Career fire departments are only eligible to apply for SAFER Hiring/Rehiring of firefighters grants.

and track the adoption and availability of broadband services within each state. To accomplish the joint purposes of the Recovery Act and BDIA, NTIA has developed the State Broadband Data and Development projects that collect comprehensive and accurate state-level broadband mapping data, develop state-level broadband maps, aid in the development and maintenance of a national broadband map, and fund statewide initiatives directed at broadband planning.

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### State Energy Program

Under the Recovery Act, states will receive \$3.1 billion for energy projects through the State Energy Program (SEP), administered by the Office of Energy Efficiency and Renewable Energy within the Department of Energy (DOE). States should prioritize the grants toward funding energy-efficiency and renewable energy programs, including expanding existing energy-efficiency programs, renewable energy projects, and joint activities between states. The SEP's 20 percent cost match is not required for grants made with Recovery Act funds. DOE estimates that SEP funding will have an annual costs savings of \$256 million.

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### State Health Information Exchange Cooperative Agreement Program

Under the Department of Health and Human Services' State Health Information Exchange (HIE) Cooperative Agreement Program, \$564 million has been allocated to support states' efforts to develop the capacity among health care providers and hospitals in their jurisdiction to exchange health information across health care systems through the meaningful use of Electronic Health Records (EHR). The meaningful use of EHRs aims to improve the quality and efficiency of patient care. In order to ensure secure and effective use of HIE technology within and across state borders, grant recipients are expected to use their authority and resources to implement HIE privacy and security requirements, coordinate with Medicaid and state public health programs in using HIE technology, and enable interoperability through the creation of state-level directories and technical services and the removal of barriers. The state HIE program uses a cooperative agreement, or partnership between the grant recipient and the federal government, to administer the awards (when the federal government has a substantial stake in the outcomes or operation of the program). The state HIE cooperative agreements are 4-year agreements and recipients will be required to match grant awards beginning in the second year of the award, 2011.

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**Statewide Longitudinal Data Systems**

The Statewide Longitudinal Data Systems grant program, administered by the Department of Education's Institute of Education Sciences, awards competitive grants to state educational agencies for the design, development, and implementation of statewide longitudinal data systems. These systems are intended to enhance the ability of states to efficiently and accurately manage, analyze, and use education data, including individual student records, while protecting student privacy. The first grants were awarded to 14 states in November 2005; 12 states and the District of Columbia were awarded grants in 2007, and 27 states were awarded grants in 2009. The Recovery Act appropriated \$250 million for this program.

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**Supplemental Nutrition Assistance Program (formerly the Food Stamp Program)**

The Supplemental Nutrition Assistance Program (SNAP), administered by the Food and Nutrition Service within the Department of Agriculture, serves more than 35 million people nationwide each month. SNAP's goal, in part, is to help raise the level of nutrition and alleviate the hunger of low-income households. The Recovery Act provides for a monthly increase in benefits for the program's recipients. The increases in benefits under the Recovery Act are estimated to total \$20 billion over the next 5 years.

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**Tax Credit Assistance Program (TCAP) and Section 1602 Program**

The Tax Credit Assistance Program administered by the Department of Housing and Urban Development (HUD) provides gap financing to be used by state Housing Finance Agencies (HFA) in the form of grants or loans for capital investment in low-income housing tax credits (LIHTC) projects through a formula-based allocation to HFAs.

HUD obligated \$2.25 billion in TCAP funds to HFAs. The HFAs were to award the funds competitively according to their qualified allocation plans, which explain selection criteria and application requirements for housing tax credits (as determined by the states and in accordance with Section 42 of the Internal Revenue Code). Projects that were awarded low-income housing tax credits in fiscal years 2007, 2008, or 2009 were eligible for TCAP funding, but HFAs had to give priority to projects that were "shovel-ready" and expected to be completed by February 2012. Also, TCAP projects had to include some low-income tax credits and equity investment. HFAs must commit 75 percent of their TCAP awards by February 2010 and disburse 75 percent by February 2011. Project owners must spend all of their TCAP funds by February 2012. HUD can recapture TCAP funds from any HFA whose projects do not comply with TCAP requirements. In these cases, HFAs are responsible for recapturing funds

from project owners. Furthermore, because TCAP funds are federal financial assistance, they are subject to certain federal requirements, such as Davis-Bacon and the National Environmental Policy Act (NEPA). These acts, respectively, require that projects receiving federal funds pay prevailing wages and meet federal environmental requirements.

The Section 1602 Program allows HFAs to exchange returned and unused tax credits for a payment from Treasury at the rate of 85 cents for every tax credit dollar. HFAs can exchange up to 100 percent of unused 2008 credits and 40 percent of their 2009 allocation. HFAs may award Section 1602 Program funds to finance the construction or acquisition and rehabilitation of qualified low-income buildings in accordance with the HFA's Qualified Allocation Plan, which establishes criteria for selecting LIHTC projects. Section 1602 Program funds may be committed to project owners that have not sold their LIHTC allocation to private investors, as long as the project owner has made good faith efforts to find an investor. However, some HFAs have required Section 1602 Program projects to include some tax credit equity from private investors. Section 1602 Program funds are subject to the same requirements as the standard LIHTC program, and like TCAP funds, may be recaptured if a project does not comply with the requirements. HFAs may submit applications to Treasury for Section 1602 Program funds through 2010. The last day for HFAs to commit funds to project owners is December 31, 2010, but they can continue to disburse funds for committed projects through December 31, 2011, provided that the project owners paid or incurred at least 30 percent of eligible project costs by the end of 2010. Congress appropriated 'such sums as may be necessary' for the operation of the Section 1602 Program. The Joint Committee on Taxation originally estimated the budget impact of this program at \$3 billion. As of the end of April 2010, however, Treasury had obligated more than \$5 billion to HFAs in Section 1602 Program funds. Section 1602 Program funds are not considered by Treasury to be federal financial assistance and, therefore, the Section 1602 Program is not subject to many of the requirements placed on TCAP.

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#### Title IV-E Adoption Assistance and Foster Care Programs

Administered by the Administration for Children and Families within the Department of Health and Human Services, the Foster Care Program helps states to provide safe and stable out-of-home care for children until the children are safely returned home, placed permanently with adoptive families, or placed in other planned arrangements for permanency. The Adoption Assistance Program provides funds to states to facilitate the timely placement of children, whose special needs or circumstances would otherwise make placement difficult, with adoptive families. Federal

Title IV-E funds are paid to reimburse states for their maintenance payments using the states' respective Federal Medical Assistance Percentage (FMAP) rates.<sup>28</sup> The Recovery Act temporarily increased the FMAP rate effective October 1, 2008, through December 31, 2010, resulting in an estimated additional \$806 million that will be provided to states for the Adoption Assistance and Foster Care Programs.

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**Transportation Investment  
Generating Economic  
Recovery Discretionary  
Grants**

Administered by the Department of Transportation's Office of the Secretary, the Recovery Act provides \$1.5 billion in competitive grants, generally between \$20 million and \$300 million, to state and local governments and transit agencies. These grants are for capital investments in surface transportation infrastructure projects that will have a significant impact on the nation, a metropolitan area, or a region. Projects eligible for funding provided under this program include, but are not limited to, highway or bridge projects, public transportation projects, passenger and freight rail transportation projects, and port infrastructure investments.

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**Water and Waste Disposal  
Loan and Grant Program**

The Water and Environmental Programs administered by the Department of Agriculture's Rural Development, provides loans, grants, and loan guarantees for drinking water, sanitary sewer, solid waste, and storm drainage facilities in rural areas and cities and towns of 10,000 or less. The Recovery Act provided nearly \$3.3 billion in Rural Water and Waste Disposal funding for these programs. Loans, grants and loan guarantees to rural water and waste systems will be used to construct, improve, rehabilitate, or expand existing water and waste disposal systems to areas initially excluded because service was not economically feasible.

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**Water Quality Management  
Planning Grants**

The Environmental Protection Agency (EPA) awarded \$39.3 million in Recovery Act funding for Water Quality Management Planning Grants to assist states in water quality management planning. Funds are used to determine the nature and extent of point and nonpoint source water pollution and to develop water quality management plans. Funded activities also include green infrastructure planning and integrated water resources planning. The fund is administered by the Office of Water, EPA.

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<sup>28</sup>See the Medicaid Federal Medical Assistance Percentage (FMAP) description in this appendix.

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**Weatherization Assistance Program**

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which the Department of Energy (DOE) is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent by March 31, 2012. The program, administered by the Office of Energy Efficiency and Renewable Energy within DOE, enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation; sealing leaks; and modernizing heating equipment, air circulation fans, and air conditioning equipment. Over the past 33 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. By reducing the energy bills of low-income families, the program allows these households to spend their money on other needs, according to DOE. The Recovery Act appropriation represents a significant increase for a program that has received about \$225 million per year in recent years. DOE has approved the weatherization plans of the 16 states and the District of Columbia that are in our review and has provided at least half of the funds to those areas.

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**Wildland Fire Management Program**

The Department of Agriculture's Forest Service administers the Wildland Fire Management Program funding for projects on federal, state, and private land. The goals of these projects include ecosystem restoration, research, and rehabilitation; forest health and invasive species protection; and hazardous fuels reduction. The Recovery Act provided \$500 million for the Wildland Fire Management program.

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**Workforce Investment Act of 1998 Title I-B Grants**

The Workforce Investment Act of 1998 (WIA) Youth, Adult, and Dislocated Worker Programs, administered by the Employment and Training Administration within the Department of Labor (Labor), provide job training and related services to unemployed and underemployed individuals. The Recovery Act provides an additional \$2.95 billion in funding for Youth, Adult, and Dislocated Worker employment and training activities under Title I-B of WIA. These funds are allotted to states, which in turn allocate funds to local entities pursuant to formulas set out in WIA. The adult program provides training and related services to individuals ages 18 and older, the youth program provides training and related services to low-income youth ages 14 to 21, and dislocated worker funds

provide training and related services to individuals who have been laid off or notified that they will be laid off.<sup>29</sup>

Recovery Act funds can be used for all activities allowed under WIA, including core services, such as job search and placement assistance; intensive services, such as skill assessment and career counseling; and training services, including occupational skills training, on-the-job training, registered apprenticeship, and customized training. For the youth program, Labor encouraged states and local areas to use as much of these funds as possible to expand summer youth employment opportunities. In addition, Labor advised states that training for adults and dislocated workers should be a significant focus for Recovery Act funds, and encouraged states to establish policies to make supportive services and needs-related payments available for individuals who need these services to participate in job training. To facilitate increased training for high-demand occupations, the Recovery Act expanded the methods for providing training under WIA and allowed local workforce boards to directly enter into contracts with institutions of higher education and other training providers, if the local board determines that it would facilitate the training of multiple individuals and the contract does not limit customer choice.

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<sup>29</sup>In general, a dislocated worker is an individual who has been terminated or laid off, or who has received a notice of termination or layoff, from employment; was self-employed but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters; or is a displaced homemaker who is no longer supported by another family member. In addition, the Recovery Act provides that youth up to age 24 may be served with Recovery Act funds.

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