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RECOVERY ACT

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

GAO
Accountability * Integrity * Reliability

GAO-10-1000SP

Appendix III: Colorado

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).[1] 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 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.[2] 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

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

[2]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).

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 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.

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.[3] 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.[4] 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.

[3]FTE data are as of August 11, 2010, unless otherwise indicated.

[4]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).

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.

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.[5] 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.[6] As a result, the state allocated $150.7 million of SFSF funds in fiscal

[5]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).

[6]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.

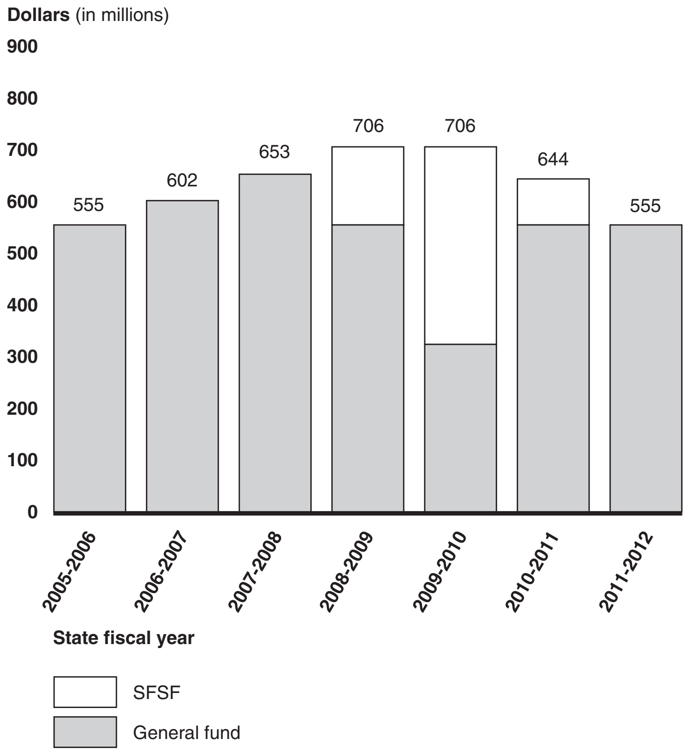
year 2009 and $382.0 million in fiscal year 2010 to the IHEs, which, according to officials, spent it largely on faculty costs. The balance of the education stabilization funds remaining for use in fiscal year 2011 is $89.2 million. For the period covering April 1, 2010, through June 30, 2010, IHEs reported 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.[7] 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.

[7]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.[8] 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.[9] 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.

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.[10] 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

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

[9]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.

[10]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.

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

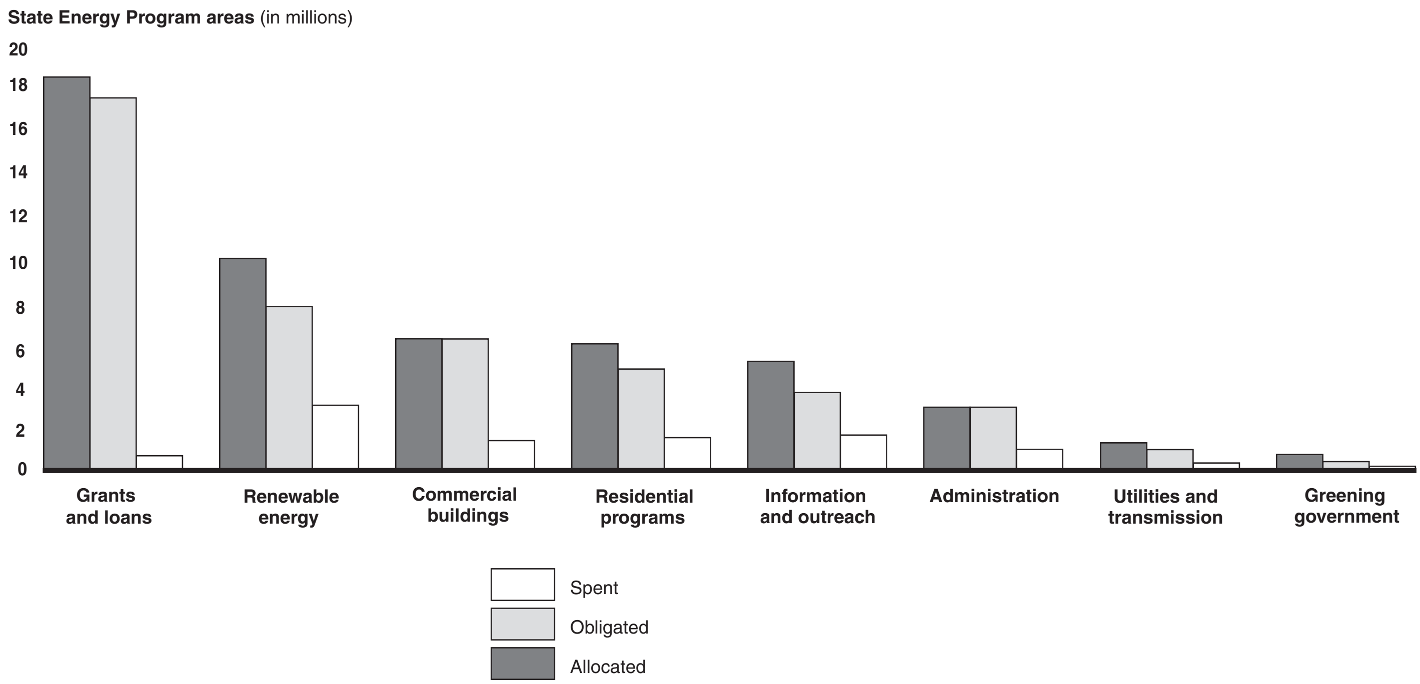
With Recovery Act funds provided for the State Energy Program, DOE will disburse $3.1 billion to states to fund energy efficiency and renewable energy activities such as expanding states' existing energy efficiency programs and renewable energy projects. Colorado received $49 million in State Energy 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 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.

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.[11] 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.

[11]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.[12] 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

[12]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.

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.

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.[13] 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, 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

[13] A Btu is the quantity of heat needed to increase the temperature of 1 pound of water by 1 degree Fahrenheit.

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.

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.[14] 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.

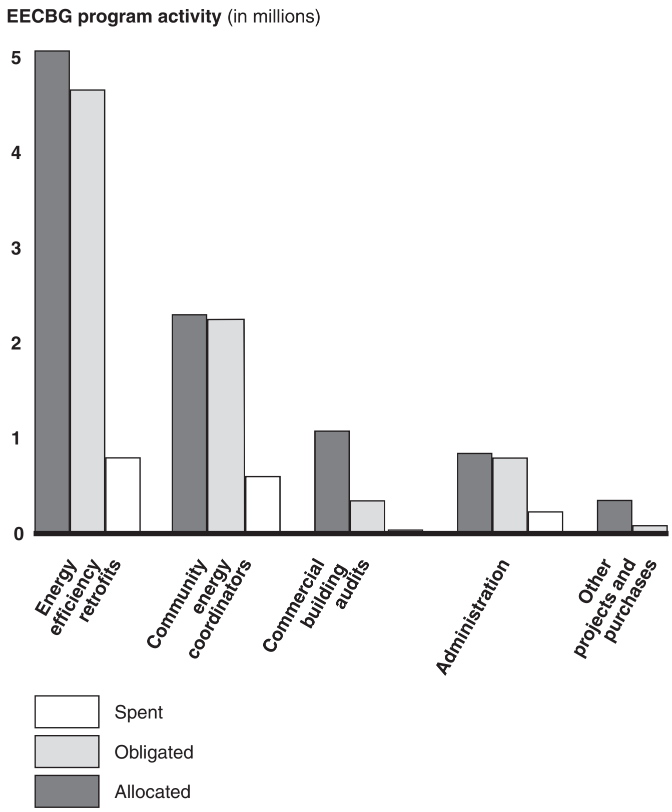
After Initial Groundwork, Most of GEO's Energy Efficiency and Conservation Projects Have Begun

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

[14] 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.[15]

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

[15]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 EECBG funds are primarily focused in the following program areas:

- **Energy efficiency retrofits.** The largest portion of GEO's EECBG 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 EECBG 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 EECBG 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 EECBG 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 EECBG program.

- **Direct purchases for select projects.** GEO plans to spend the remaining $340,000 of EECBG 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 EECBG 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 EECBG projects would be most beneficial to localities. Using this input, GEO selected a diverse set of activities within its program areas.

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

To provide internal controls over EECBG 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 EECBG 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 EECBG 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 EECBG award.

It Is Too Early to Know Long-Term Energy Benefits of EECBG 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 EECBG funding, but as of August 2010, the state had not reported savings and reported few jobs. Under DOE's reporting requirements, EECBG 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.[16] GEO officials told us that they plan to measure actual energy savings that result from EECBG; 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

[16]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.

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.

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.[17] 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

[17]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.[18]

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

[18]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.

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.[19] 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.

[19] 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			
Total		**$61,436,665**	**5**	**4**	**2**

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

Contract	Original contract value	Current contract value	Percent change
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[a]	5.9
City of Manitou Springs—water and sanitation improvements	4,361,360	4,395,740[a]	0.8
City of Fort Collins—purchase of transit buses	2,433,792	2,449,350[a]	0.6

Source: GAO analysis of contracting agencies' information.

[a]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

Contract	Original planned completion date	Current planned or actual completion date	Schedule change
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.[20] 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

[20]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.

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.

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[a]	Total
2009	$215,721,373	$150,676,055	$24,600,000	**$390,997,428**
2010	331,409,119	382,008,243	87,206,274	**800,623,636**
2011	311,551,463	89,194,099	0	**400,745,562**
Total	**$858,681,955**	**$621,878,397**	**$111,806,274**	**$1,592,366,626**

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

[a]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.[21] 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

[21]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.[22] 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.[23]

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.[24] 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.[25] 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.

[22]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).

[23]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.

[24]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.

[25]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.[26]

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

[26] 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.[27] 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 EECBG 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.

[27]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.

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.[28] 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.

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

[28] 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.

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.[29]

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.[30] 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

[29]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.

[30]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.[31] 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.[32] 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

[31]This estimate does not include any hours worked by Authority or DOLA staff for this period.

[32]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.

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.[33] 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.[34] 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.[35] 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

[33]GAO-10-605SP.

[34]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.

[35]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.[36] 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.[37] 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.[38] 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.[39] 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

[36]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.

[37]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).

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

[39]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.[40] 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.[41] 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

[40]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).

[41]City of Fort Collins, Colorado, *Compliance Report* (Denver, Colorado: Dec. 31, 2009).

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).[42] 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.

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