

September 2010

RECOVERY ACT

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



GAO

Accountability * Integrity * Reliability

Appendix VIII: Iowa

Overview

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

What We Did

Our work in Iowa examined six programs receiving Recovery Act funds—the State Energy Program (SEP), the Energy Efficiency and Conservation Block Grant (EECBG) program, the Weatherization Assistance Program, and three education programs: (1) Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA), as amended; (2) Individuals with Disabilities Education Act (IDEA), Part B, as amended; and (3) the State Fiscal Stabilization Fund (SFSF)—as well as state and local efforts to stabilize their budgets, monitor the use of Recovery Act funds, and report the number of jobs paid for by these funds. We selected the SEP and EECBG programs because the Department of Energy (DOE) has instructed the states to increase their efforts to obligate and spend the Recovery Act funds for these programs. We selected the weatherization program because community action agencies in Iowa are weatherizing large numbers of homes. Finally, we selected the three education programs because these continue to be the largest source of Recovery Act funds in Iowa. For descriptions and requirements of the programs we reviewed, see appendix XVIII of [GAO-10-1000SP](#).

To review the use of Recovery Act funds for the SEP and EECBG programs, we examined documents and met with officials of the Iowa Office of Energy Independence (OEI) in Des Moines, which is responsible for administering both programs. For the SEP program, we visited three grant recipients: the Des Moines Area Community College at Ankeny, the Iowa Association of Municipal Utilities, and the Sun Prairie/Vista Court Apartments. For the EECBG program, we visited two local governments that DOE supported directly: Iowa City and Warren County. For both SEP and EECBG, we discussed with officials how their agencies were using Recovery Act funds to support national energy goals, any concerns about complying with the Recovery Act's requirements, whether internal controls and monitoring systems were in place to ensure the effective and

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

efficient use of funds, and the extent to which program recipients collected data on energy savings and job creation.

To review the weatherization program, we examined documents and met with officials of Iowa's Division of Community Action Agencies (DCAA), within the Department of Human Rights, which is responsible for administering the weatherization program in Iowa. We also met with the Executive Director of the Southern Iowa Economic Development Association (SIEDA), a local community action agency responsible for weatherizing homes in seven southern Iowa counties.

To review the use of Recovery Act funds for education, we met with officials from the Iowa Department of Education and reviewed state grant applications, financial records, and monitoring plans to identify the state's policies and procedures for ensuring the appropriate expenditure of Recovery Act funds. To obtain officials' projections of the financial condition of Iowa schools in 2010 and 2011, we interviewed the Iowa Department of Education's Chief Financial Officer and officials from six local school districts that we had contacted for previous Recovery Act reports—Atlantic, Des Moines, Maple Valley, Marshalltown, Ottumwa, and Waterloo. We also visited the Des Moines Independent Community School District and the Marshalltown Community School District to review districts' controls over the expenditure of Recovery Act funds.² At each district we selected a judgmental sample of disbursements to review the use of funds and documentation of expenditures.³ We also discussed our findings with local and state officials.

To review state and local efforts to use Recovery Act funds and stabilize their budgets, we analyzed state and local budget information and met with state and municipal officials. We visited two Iowa localities—Des Moines and Marshalltown—which we selected to provide a mix of large

²We selected the Des Moines District because it is the largest K-12 school district in the state and receives the most federal Recovery Act dollars. Marshalltown, a midsized district, was selected because of financial control weaknesses identified in the district's 2008 Independent Auditor's Report.

³We judgmentally selected 40 Des Moines School District disbursements for February 2009 through March 2010 and 20 Marshalltown School District disbursements for February 2009 through April 2010. Among other things, when selecting disbursements for review, we considered large-dollar purchases; round number purchases such as \$20,000; payments to unusual payees, such as a local department store; and large purchases broken into several smaller payments.

and small communities and unemployment rates. We selected Des Moines because it is the largest city in Iowa and has an unemployment rate above the state's average—7.4 percent compared with a state average of 6.6 percent—and Marshalltown because its population is smaller compared with many other localities throughout the state, and its unemployment rate is 7.5 percent, above the state's average.

What We Found

- **State Energy Program (SEP).** As of July 20, 2010, OEI had obligated \$34.3 million, or 84.6 percent, of \$40.5 million in Recovery Act funds for SEP. Specifically, OEI awarded \$19.2 million in grants, which recipients plan to match with an additional \$48.5 million from other sources. OEI also obligated \$1.5 million to commission energy projects and is establishing a \$6.5 million loan fund to stimulate energy efficiency improvements by Iowa businesses and a \$1 million loan loss reserve to enhance financing credit for private sector energy efficiency projects. OEI has retained \$6.1 million for administrative expenses. OEI expects to obligate its remaining funds by September 30, 2010. OEI reimburses grant recipients for applicable costs only after major milestones are achieved and recipients submit receipts and other supporting documentation. To monitor the use of funds, OEI plans to visit each grant recipient annually and will make more frequent visits to recipients receiving the largest SEP awards and to those with little or no prior experience with government accounting requirements.
- **Energy Efficiency and Conservation Block Grants (EECBG) program.** Almost all (94 percent) of the \$21.1 million in Recovery Act funds allocated to recipients in Iowa for EECBG has been obligated. However, only about 6 percent of the funds have been spent, in part because of delays between when OEI received its portion of the funds and when it awarded grants. According to OEI officials, the program was new and officials waited for DOE to issue guidance on the program's federal requirements. In addition, some grant recipients spent few funds because they were developing plans, providing information to agencies involved in ensuring compliance with federal and state requirements, or waiting for decisions on requests for waivers from certain federal requirements. The DOE project officer for the grant to OEI said that he believes Iowa will meet the DOE goal to draw down 20 percent of grant funds by September 30, 2010. As projects have begun, DOE and OEI have implemented strategies for monitoring grant recipients' use of funds. These strategies involve reviewing the information recipients report and visiting grant recipient's projects. Moreover, grant funds are paid only after

recipients submit invoices and supporting documentation to DOE or OEI for payment.

- **Weatherization Assistance Program.** In a July 13, 2010, letter to DOE, DCAA certified that it had, among other things, completed weatherizing 2,178 homes—30.3 percent of its target of 7,196 homes—using Recovery Act funds. DCAA also certified that it had inspected at least 5 percent of the homes weatherized by each of the 17 local agencies that used Recovery Act funds. In response, DOE notified DCAA on July 26, 2010, that the department had released the remaining 50 percent of Iowa’s Recovery Act weatherization funds, or \$40.4 million. On August 17, 2010, DCAA notified SIEDA that it would release \$1.7 million in Recovery Act funds effective August 23, 2010, for weatherizing homes in seven southern Iowa counties. DCAA had delayed making these funds available until SIEDA had corrected numerous weaknesses in its oversight of weatherization contractors.
- **Education.** Between 2009 and 2011, Iowa will receive about \$666 million in Recovery Act funds from the U.S. Department of Education (Education) to support local school districts, institutions of higher learning, and selected public safety and assistance programs. These funds will be provided to the state through three Education programs: Title I, Part A, of the ESEA; IDEA, Part B; and SFSF.⁴ As of June 30, 2010, Iowa reported that local school districts, institutions of higher learning and state government entities had spent or distributed about \$501 million in Recovery Act education funds—more than 75 percent of the Recovery Act education funds provided to the state. Iowa reported that these funds paid for more than 7,800 education-related positions across the state in the final quarter of the 2009-2010 school year (April 1 to June 30, 2010). Although Recovery Act funding for education in Iowa will be much less in the 2010-2011 school year, a state education official said that he was optimistic about the financial outlook for most local school districts in the state. Officials from six local districts stated that they expected to balance their budgets by taking a number of actions, including reducing staff, suspending new hiring, consolidating schools, raising local taxes, and drawing upon their reserve funds, including unspent Recovery Act funds received in school year 2009-2010.

⁴The state received an additional \$15 million to fund education technology, IDEA Part C, school lunch equipment, homeless youth and a teacher quality partnership project.

Our review of expenditures at the Des Moines and Marshalltown school districts showed that Recovery Act funds were used to pay educators' salaries, purchase books to support curriculum, and purchase specialized equipment to upgrade services to students with disabilities. Our review of selected disbursements at these two local school districts showed that Recovery Act funds were generally spent and accounted for appropriately. However, we found and state officials agreed that these districts did not fully comply with requirements to obtain approval for IDEA equipment purchases of \$5,000 or more.

- **State and local governments' use of Recovery Act funds.** According to senior officials from the Iowa Department of Management, Recovery Act funds have enabled the state to continue avoiding tax increases and reduce the amount of funds drawn from the state's Cash Reserve Fund to balance the fiscal year 2011 budget. Anticipating the end of Recovery Act funds and other one-time sources of revenue, Iowa is implementing several plans to improve the efficiency of state operations and reorganize state agencies to reduce state expenditures. For example, as of June 30, 2010, about 2,100 eligible state employees had applied for retirement under the state's early retirement plan. Officials at the two localities we visited—Des Moines and Marshalltown—said that they have used Recovery Act funds for various programs, and that these funds have helped to stabilize their budgets. However, they also said that they plan to reduce expenditures or eliminate programs—such as Marshalltown's lead abatement program—once Recovery Act funds are depleted. Local officials also said that they encountered several problems applying for and administering funds from some Recovery Act competitive grants. These problems included finding staff to apply for the grants and difficulties complying with some of the statutory requirements, such as the Buy American and Davis-Bacon provisions.
- **State monitoring and internal controls.** Iowa's Office of the State Auditor and the Iowa Accountability and Transparency Board continue to monitor controls over Recovery Act funds. While the Office of the State Auditor did not identify any material weaknesses in its fiscal year

2009 Audit report,⁵ officials said that they identified some problems with internal controls, such as inadequate monitoring of subrecipients. In May 2010, the state provided training on subrecipient monitoring to state and local agencies receiving Recovery Act funds.

- **State and local recipient reporting.** Iowa created a centralized database that it uses to calculate the number of jobs created based on data provided by state and local agency officials. Through its centralized database, Iowa reported that 9,696 jobs were funded by the Recovery Act for the period April 1 to June 30, 2010, as of July 29, 2010. Iowa has also implemented internal controls to ensure the accuracy of jobs data, such as requiring state and local agency officials to certify that they reviewed and approved jobs data prior to submission.

Iowa Has Obligated Most of Its State Energy Program Funds, but Recipients Are Just Beginning to Spend Them

DOE obligated \$40.5 million in Recovery Act SEP funds to OEI for energy efficiency and renewable energy projects. Subsequently, in an April 2010 letter to the states, DOE set new interim milestones for each state to obligate at least 80 percent of its Recovery Act SEP funds by June 30, 2010, and spend at least 20 percent of its funds by September 30, 2010.⁶ As shown in table 1, OEI had obligated \$34.3 million, or 84.6 percent, of its \$40.5 million as of July 20, 2010, and according to DOE's Recovery Act Web site, OEI had spent \$1 million as of July 30, 2010. To obligate its SEP funds, OEI awarded \$19.2 million in grants for the public sector (government and university), technology demonstration, training and information, and innovation projects. The largest SEP grant was \$1.1 million to Kirkwood Community College for three large wind turbines, while the smallest grant was \$1,800 to Whiting community schools for

⁵The State Auditor issued the fiscal year 2009 Single Audit report on March 31, 2010. Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, (31 U.S.C. §§ 7501-7507) and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal controls over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

⁶Recovery Act funds for loan programs are treated as obligated if OEI and the Iowa Finance Authority expect to sign an agreement by September 30, 2010, according to DOE's contracting officer for Iowa.

humidity sensors to reduce heating and cooling costs. Grant recipients intend to implement their projects by leveraging SEP funds with an additional \$48.5 million from other sources to increase the program impact on job creation and energy savings. OEI also obligated SEP funds to commission energy projects, create a loan fund to stimulate energy efficiency improvements by Iowa businesses, and create a loan loss reserve to enhance financing credit for residential and private sector energy efficiency projects. OEI expects to obligate the remaining \$6.2 million in SEP funds by September 30, 2010. Regarding SEP expenditures, OEI officials told us that expenditure data can lag more than a month from when costs are incurred because OEI reimburses recipients only after major milestones are achieved and recipients submit invoices and other supporting documentation.

Table 1: Iowa’s Use of Recovery Act SEP Funds, as of July 20, 2010

Category	Planned allocation	SEP funds obligated ^a	SEP project funding from other sources ^b
Public sector ^c	\$21,161,000	\$15,528,807	\$37,923,100
Technology demonstration ^d	4,160,000	2,554,000	8,254,000
Training and information	1,082,000	582,206	728,206
Innovation ^e	3,556,000	3,055,000	1,549,000
Private sector loans	4,500,000	6,500,000	0
Nonprofit sector loans	7,000	0	0
OEI administrative expenses ^f	6,080,000	6,081,000	0
Total	\$40,546,000	\$34,301,013	\$48,454,306

Source: Iowa Office of Energy Independence.

^aDOE considers (1) loan program funds to be obligated because the Iowa Finance Authority has agreed to underwrite the program and (2) OEI administrative expenses to be obligated because the funding will primarily be used to pay for salaries of additional staff hired to implement the Recovery Act program. In some cases, funds obligated may exceed planned allocations.

^bIowa requires that SEP grant recipients provide at least a one-to-one matching of funds to increase the program impact on job creation and energy savings.

^cPublic sector funding supports energy efficiency and renewable energy projects for state buildings, cities, schools, community colleges, and universities, and for Iowa’s Building Energy Smart program.

^dTechnology demonstration funding supports new energy efficiency and renewable technologies for businesses, electric power utilities, nonprofit organizations, and community colleges, among others.

^eIncludes \$555,000 for grant awards as well as \$1.5 million for commissioning energy projects by verifying, among other things, that the design and specifications meet original project intent and the equipment purchased is as specified; \$1 million for establishing a loan loss reserve through the Iowa Finance Authority to leverage \$20 million for a residential and private sector energy efficiency financing program; and \$500,000 for benchmarking through Iowa’s Energy Center.

^fOEI’s staff has grown from 4 to 34 to administer the Recovery Act’s SEP and EECBG programs, the SEP program that DOE funds through its regular appropriation, and Iowa’s energy programs.

OEI staff have focused on awarding Recovery Act SEP grant funds and negotiating the terms and conditions for each SEP funding agreement to ensure that recipients spend funds by DOE's April 2012 deadline.⁷ Before SEP grant recipients can proceed with their projects, they must certify to OEI that they have complied with the National Environmental Policy Act (NEPA),⁸ the National Historic Preservation Act, and the Recovery Act's Buy American and Davis-Bacon provisions, among other requirements. Regarding NEPA compliance, all but eight of the SEP grant projects are designed to improve the energy efficiency of existing buildings and transportation infrastructure or install small amounts of renewable energy generating capacity, thereby minimizing their impact on the environment and qualifying them for a categorical exclusion under NEPA. Of the eight SEP projects requiring a detailed NEPA review, five have been reviewed and approved by DOE and three are under review—of these, two projects are for wind turbines and one is for a solar system installation. OEI officials told us that DOE guidance has been useful for addressing Davis-Bacon prevailing wage, Buy American, and historic preservation requirements.

OEI has established several controls to ensure that SEP funds are effectively and efficiently spent. For example, OEI requires that grant recipients provide at least a one-to-one matching of SEP funds with funds from other sources. Matching funds are an Iowa, rather than a SEP, requirement that is designed to enhance project oversight because the grant recipient is responsible for more than half of the project's cost. In addition, OEI generally does not provide up-front funding.⁹ Instead, OEI reimburses grant recipients for applicable costs only after major milestones are achieved and recipients submit receipts and other supporting documentation for incurred costs.

⁷DOE's funding opportunity announcement stated that Recovery Act SEP grant funds are to be spent within 36 months after the grant's award date—April 20, 2009, for Iowa.

⁸NEPA requires that federal agencies assess the environmental impacts of proposed actions before making decisions. 42 U.S.C. §§ 4321-4370f. Projects deemed to have no significant impact on the environment because of their size, type of activity, and the agency's experience with similar projects can qualify for categorical exclusion determinations. Alternatively, if a project is expected to have a significant environmental impact, DOE would prepare either an environmental assessment or an environmental impact statement, which generally takes a few months to more than a year to complete.

⁹OEI has provided up-front SEP funding only to the Iowa Department of Administrative Services, which needed up-front capital to help with cash flow for its multi-million dollar project to improve the energy efficiency of several buildings in the state capitol complex.

OEI officials told us that they plan to visit each SEP project at least once per year, projects that receive grants of \$750,000 or more at least two times per year, and projects that receive grants of \$1 million or more at least four times per year. OEI also plans to give priority to monitoring recipients with little or no prior experience in complying with government accounting and reporting requirements. Recipients are considered to be higher risk if their management control systems have not been previously examined, as they have been for grant recipients with established accounting procedures, and if external audits of their financial systems have not been completed. OEI requires most SEP grant recipients to complete their construction activities by January 1, 2012, and all recipients to submit their final reports by March 31, 2012.

Most Funds from Iowa's Energy Efficiency and Conservation Block Grants Have Been Obligated but Little Has Been Spent

DOE allocated a total of about \$21.1 million in Recovery Act funds to recipients in Iowa for EECSBG. Of this total, DOE allocated about \$11.5 million directly to the 13 largest cities and 10 largest counties in the state according to a federal population formula; about \$46,600 to the Sac and Fox Tribe of the Mississippi in Iowa; and about \$9.6 million to OEI.¹⁰ Following statutory requirements, DOE required OEI, in turn, to make at least 60 percent of the \$9.6 million it received available to local governments not eligible for grants directly from DOE because of their size. According to DOE, about 94 percent of the \$21.1 million allocated to recipients in Iowa had been obligated as of July 16, 2010. The remaining 6 percent of funds were programmed for Cedar Rapids, Dubuque, and Scott County, which have not received all of their DOE allocations. DOE officials told us that grant recipients were allowed to obtain a portion of their allocation to develop energy strategies and obtain the balance of funds after resubmitting plans for specific projects.

The two localities we visited—Iowa City and Warren County—received direct grants from DOE. With its direct grant of \$692,300, Iowa City is establishing (1) an energy office, (2) a public education campaign to promote existing energy audit programs for residences and businesses, (3) a municipal energy efficiency retrofit program to reduce energy costs in municipal buildings, and (4) an energy efficiency revolving loan fund for businesses to implement energy efficiency upgrades in their buildings. With its direct grant of \$171,200, Warren County has upgraded the heating

¹⁰On August 4, 2010, DOE also awarded a competitive EECSBG grant for \$1 million to the City of West Union, Iowa.

and cooling system at a county nature center and plans to construct a wind turbine for the center's electricity needs.

OEI grants to Iowa entities were generally made several months later than the DOE direct formula grants. More specifically:

- OEI received its \$9.6 million award in September 2009. The office retained 10 percent, or about \$960,000, for program administration, as allowed under the program, and in March 2010 awarded over \$8.2 million in grants. About \$5.8 million went to cities and counties that were not large enough to be eligible for the direct grants from DOE. This total met the requirement that at least 60 percent of grant funds provided to state energy offices go to these smaller cities and counties. Subsequent awards increased the total amount of OEI awards to over \$8.6 million to 76 recipients.
- While DOE used a population-based formula to determine the amounts and recipients of the direct grants from DOE, it did not prescribe how the state energy offices were to distribute their grant funds. OEI decided to make the awards competitive and, in January 2010, requested proposals for use of EECBG grant funds.¹¹ According to OEI officials, the office delayed announcing its request for proposals until DOE provided guidance on federal requirements applicable to EECBG funding and OEI could assess whether grant proposals sufficiently addressed them. These requirements included those governing labor (e.g., the Davis-Bacon provisions of the Recovery Act); purchasing (e.g., the Buy American provisions of the Recovery Act); the treatment of environmental resources (e.g., NEPA); and historical sites (e.g., the National Historic Preservation Act). DOE issued program guidance on NEPA and the Buy American provisions in December 2009. The department issued program guidance on historic preservation in February 2010 and continues to issue additional program guidance.

OEI required that its EECBG grants be used cost-effectively, yielding continuous benefits over time in terms of energy and emission reductions, and that recipients provide matching funds equal to the amount of the grant award. OEI also required that projects complete on or before

¹¹In its January 2010 request for proposals, OEI stated that it was making about \$5.8 million (60 percent of its grant award) available for local governments that were not eligible for direct grants from DOE because of their smaller size. The remaining over \$2.8 million was to be available for all Iowa local governments and other entities such as state agencies.

September 2012 in order to be eligible for funding. OEI limited the types of projects eligible for funding, in part, to avoid the need for extensive NEPA reviews, which could affect the start date of projects. In this regard, OEI limited the size or output of certain projects, such as wind turbines and ground source heat pumps. A proposed project could exceed these limits if the applicant provided additional information on how it would obtain NEPA approval and an approval timeline.

OEI's EECSBG grants are primarily being used to upgrade to energy-efficient lighting or install energy-efficient heating, ventilating, and air conditioning (HVAC) equipment or controls. The lighting upgrades were for street lights; traffic lights; or lights in buildings, parking lots, and garages. HVAC activities included replacing HVAC systems, furnaces, boilers, or building ventilation or control systems. Other local governments received grants from OEI to develop and implement a community energy plan or to fund activities such as adding insulation to buildings, installing energy-efficient windows and doors, training staff in energy efficiency building codes, and optimizing traffic flow.

The largest OEI grant was for \$1 million to the county of Washington community schools for insulation, a geothermal system, windows, and lighting. The smallest OEI grant was for \$3,405 to the city of Murray for various energy efficiency measures such as replacing an existing furnace with a more efficient one. The grants OEI made were generally smaller than the DOE direct grants. For example, the allocations for 11, or 44 percent, of the 25 DOE direct grant recipients were for \$500,000 or more, while only 3 OEI recipients received awards in that range. On the other hand, 41 of OEI's 76 recipients, or about 54 percent, received grants under \$50,000, and only 1 DOE grant was about that amount.

While almost all EECSBG funds for Iowa have been obligated, spending has been slow. Some grant recipients have taken time to further refine their plans or, in the case of OEI, waited for additional DOE program guidance before distributing grant funds to spend.

- DOE data showed that about \$1.2 million, or about 6 percent, of EECSBG funds provided to recipients within Iowa had been spent as of July 16, 2010. Of the 24 cities, counties, and Indian tribes allocated funds directly from DOE, 12 had not spent any funds. In contrast, 2 counties had spent all of their award funds, and the county of Warren had spent over half of its funds. OEI and its grant recipients had spent less, slightly over \$129,000, or about 1 percent of the funds awarded to them. DOE officials told us that spending has been slower than

anticipated but that many EECBG grantees are beginning to identify projects and complete plans for them. They said that the results of energy audits and engineering studies have shown that many grantees' original plans for energy projects are no longer feasible, and replacement activities have been common.

- Now that OEI has received DOE guidance on how to comply with program requirements, OEI officials said that projects are gearing up, with 5 of the 76 projects completed as of July 15, 2010. OEI officials said that they believed that the majority of funds will be spent in fiscal year 2011. The DOE project officer for the award told us that he expects that Iowa will meet the DOE goal to draw down at least 20 percent of funds by September 30, 2010.
- The city and county we visited that received direct grants from DOE had used a considerable portion of their grant funds. DOE reported that, as of July 16, 2010, Iowa City had spent \$280,000 of its \$692,300 grant. City officials told us that \$250,000 of these expenditures was a drawdown of funds for the revolving loan fund that the city established to help finance local businesses' energy efficiency activities. A city official said that the funds were moved into a city account to be available for loans under the revolving fund. As of late June 2010, no loans had been requested from the fund, and project officials were considering whether they should lower the minimum loan amount that could be obtained from the fund. The city had also created a small energy office to continue to support the mission to increase energy efficiency and reduce greenhouse gas emissions and spent small amounts of funds on some of its other initiatives. For example, city officials said that over \$9,800 had been spent on setting up and operating the energy office as of June 30, 2010, and over \$8,600 had been spent for software and energy audits to support the municipal retrofit activity.
- The county of Warren had spent \$116,849 of its \$171,200 grant. At the time of our visit, the county had installed a geothermal heating and cooling system to replace a less energy-efficient system at a local nature center and was waiting for a decision from DOE on its request for a waiver of the Buy American provisions of the Recovery Act. According to county officials, the waiver is being sought to use Recovery Act funds to procure a wind turbine for the center project from a Canadian manufacturer. County officials said that they received three bids on the wind turbine: two from U.S. manufacturers and one from the Canadian manufacturer. The officials stated that the Canadian wind turbine is much more efficient and will be less costly to

maintain. They also said that an American firm will build the supporting tower for the turbine.

DOE and OEI have similar approaches to monitoring their grants. Both review reports submitted by grantees, which DOE refers to as desktop reviews, and make site visits. Both award grants on a cost reimbursable basis and review invoices (and supporting documentation) submitted for payment. In March 2010, DOE issued a reference manual for monitoring Recovery Act funding for EECBG, SEP, and weatherization. The manual, which provides more detailed instructions to implement DOE's monitoring plan for these programs, requires that DOE personnel conduct both desktop and onsite monitoring of grantees, with the frequency based on the dollar amount of the grants and grantees' performance. According to the manual, desktop monitoring requires DOE to constantly review details of project planning, implementation, and outcome (such as overall energy efficiency impacts) captured in DOE data management/evaluation systems through regular reporting by grantees and DOE's project management teams. DOE project officers are to review the report submissions to determine progress toward goals and objectives, compare planned and actual activities, and determine whether grantees are meeting benchmarks and deliverables on schedule and within budget. According to DOE, the purpose of its onsite visits is to formally evaluate progress and identify issues concerning progress. Visits generally involve interviews of grantee staff and a review of project documents, and may include visits to work sites. DOE staff have begun to make site visits. According to DOE officials, as of July 23, 2010, department personnel visited five EECBG grantees, including Iowa City, between May 24 and May 27, 2010.

- In November 2009, OEI set out its monitoring strategy for the EECBG program, which applies only to the grants OEI awarded. The office does not monitor the grants DOE provided directly. OEI's monitoring is similar to DOE's—both use their reviews of grant recipients' reporting as the primary device to monitor project activity and both make onsite visits on a schedule based on the size of the award. OEI also plans to give priority to monitoring grantees with little or no prior experience in complying with government accounting and reporting requirements because the office believes these recipients' management control systems are uncertain and likely higher risk.
- OEI requires its grantees to report quarterly on progress and submit other project data on use of the funds. These data include quarterly status reports on funds received during the reporting period; the amount of Recovery Act funds obligated or expended; a detailed list of

all projects or activities for which Recovery Act funds were expended or obligated, including the name and description of the project or activity; and an estimate of the number of jobs created or retained by the project/activity.

According to OEI officials, the office plans to make at least one onsite visit for each grant per year. For grants from \$750,000 to \$1 million, it plans to make site visits at least once every 6 months. For recipients of grants of \$1 million or more, OIE plans to visit at least once every 3 months. If this schedule cannot be maintained for all grants, OEI will, at a minimum, review the agreement, all reports, submittals, and financial records on a grant, and contact the grantee by e-mail or telephone. As of July 23, 2010, OEI had made 13 site visits.

Under OEI's program, grant recipients incur project expenses and submit invoices for applicable project costs that are supported by receipts and related documentation for OEI's review. OEI staff are responsible for comparing the billings with the terms of the grant agreement and ensuring the charges and payments being made are within the agreement terms. OEI makes payments to grantees on a quarterly basis, which provides additional leverage to OEI to ensure that grantees meet requirements for their quarterly reporting on projects. According to OEI officials, the office can refuse to make these payments or even suspend the availability of grant funds if grantees do not comply with reporting or other requirements.

Iowa Has Access to All of Its Recovery Act Weatherization Funds and Approved a Local Agency's Management Reforms

In a July 13, 2010, letter to DOE, DCAA requested access to the remaining 50 percent of its Recovery Act weatherization funds, or \$40.4 million, and certified that it had, among other things, completed weatherizing 2,178 homes—30.3 percent of its target of 7,196 homes—using Recovery Act funds. DCAA also certified that it had inspected at least 5 percent of the homes weatherized by each of the 17 local agencies that used Recovery Act funds. In response, DOE notified DCAA on July 26, 2010, that the department had released the remaining 50 percent of Iowa's allotted Recovery Act funds. As shown in table 2, Iowa began using Recovery Act funds to weatherize homes in August 2009 once the U.S. Department of Labor had determined prevailing wage rates for weatherization workers. Since then, Iowa's monthly total of completed weatherized homes grew to 546 in July 2010 as DCAA used funding from the Recovery Act, DOE's regular weatherization appropriation, and the federal Low-Income Home Energy Assistance Program. As of July 30, 2010, Iowa had spent \$22.6

million of its Recovery Act weatherization funds, according to DOE's Recovery Act Web site.

Table 2: Number of Homes Weatherized in Iowa, by Funding Source, August 2009 through July 2010

Month	Homes weatherized using annual appropriated funds ^a	Homes weatherized using Recovery Act funds	Total
August 2009	264	1	265
September 2009	202	6	208
October 2009	184	59	243
November 2009	105	147	252
December 2009	73	156	229
January 2010	53	231	284
February 2010	40	258	298
March 2010	11	318	329
April 2010	23	400	423
May 2010	14	361	375
June 2010 ^b	8	241	249
July 2010 ^c	19	527	546
Total	996	2,705	3,701

Source: Iowa Division of Community Action Agencies.

Note: Iowa considers weatherization to be complete only after the local agency's inspector has conducted the final inspection and approved the work.

^aIncludes DOE's regular Weatherization Assistance Program appropriations and funding from the U.S. Department of Health and Human Services' Low-Income Home Energy Assistance Program. According to DCAA officials, Iowa has spent all of the \$8.6 million made available through DOE's fiscal year 2009 regular and supplemental appropriations. DOE allocated about \$3.9 million to Iowa for weatherization activities from its regular fiscal year 2010 appropriation.

^bThe number of weatherized homes is underreported for June and over reported for July because totals were reported early in June to meet Recovery Act quarterly reporting deadlines, according to a DCAA official.

As we reported in May 2010,¹² DCAA had found numerous management weaknesses in the oversight of weatherization contractors' work by SIEDA, one of the state's local agencies that implement the weatherization program. Although Recovery Act funds had not been used, DCAA believed that the identified weaknesses were sufficiently serious that it suspended Recovery Act funding to SIEDA in September 2009 and required SIEDA to

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

develop and implement an action plan to correct them. In response, SIEDA fired its weatherization coordinator and decertified its furnace and weatherization contractors. DCAA and SIEDA officials told us that SIEDA has also (1) hired and trained several new weatherization staff members, (2) revised its contracting procedures, and (3) developed a new list of general and furnace contractors to bid on weatherization work. On the basis of SIEDA's test of its new procedures for overseeing contractors' performance, DCAA notified SIEDA that it would release \$1.7 million in Recovery Act funds effective August 23, 2010, for weatherizing homes in seven southern Iowa counties.

Recovery Act Education Funds in Iowa Primarily Fund Teachers' Salaries, and Controls over Expenditures at Two Local Districts Are Generally Working

Between 2009 and 2011, Iowa will receive approximately \$666 million in Recovery Act funds through three Education programs. As of June 30, 2010, Iowa's local school districts, institutions of higher learning, and other state government entities had expended about \$501 million as described below:

- **ESEA Title I, Part A.** As of June 30, 2010, Education had allocated to the Iowa Department of Education an estimated \$51.5 million in ESEA Title I, Part A, funds under the Recovery Act to help school districts educate disadvantaged youth. The Iowa Department of Education reported that school districts had spent a total of about \$16 million using federal funding formulas that target funds on the basis of such factors as schools with high concentrations of students from families living in poverty. In addition, Education awarded Iowa an \$18.7 million ESEA Title I School Improvement Grant. These funds are intended to help improve student achievement in the nation's persistently low-performing schools identified for improvement, corrective action, or restructuring. As of June 30, 2010, Iowa had disbursed only about \$36,000 of these funds, primarily for expenses associated with the review and approval of districts' applications for grants. The Iowa Department of Education will begin disbursing program funds to selected districts at the beginning of the 2010-2011 school year.
- **IDEA, Part B.** As of June 30, 2010, Education had allocated to the Iowa Department of Education an estimated \$126.2 million in IDEA, Part B, funds under the Recovery Act. IDEA, Part B, is the major federal statute supporting the provisions of early intervention and special education and related services for children and youth with disabilities. The Iowa Department of Education reported that local

school districts and area education agencies¹³ had expended about \$101 million of these funds as of June 30, 2010.

- **SFSF.** Education allocated to Iowa a total of about \$472 million in SFSF funds: about \$386 million in education stabilization funds—generally financial aid to local school districts and institutions of higher learning—and about \$86 million in government services funds. Of the \$86 million in government services funds, Iowa used \$63 million for public assistance, public safety, and Medicaid programs. The remaining \$23 million will be used to support K-12 education in the coming school year. As of June 30, 2010, Iowa reported that local school districts, institutes of higher learning and state government entities had spent or distributed about \$384 million of the total \$472 million in SFSF funds.
- Iowa officials told us that Recovery Act funds made up for statewide funding shortfalls in education, which allowed local districts and the states' universities to retain general and special education instructors, make changes in course curriculum, or replace outdated instructional equipment. This past school year—July 2009 through June 2010—Iowa officials estimated that the Recovery Act provided about 6 percent of the state's per pupil K-12 funding and about 14 percent of the state's per pupil funding for institutions of higher learning. According to information on Iowa's Recovery Act Web site, the Recovery Act funded more than 7,800 educator and education-related administrative positions across the state for the period April 1 through June 30, 2010. Recovery Act state aid funding for the 2010-2011 school year will be about \$48 million, down from \$202 million in 2009-2010. However, according to a state education official, most districts in the state should not face significant financial difficulties in the year ahead. Officials at six local districts that we contacted told us they planned to balance their budgets by taking a number of different actions, including reducing staff, suspending new hiring, consolidating schools, raising local taxes, and drawing upon their reserve funds including unspent Recovery Act funds received in school year 2009-2010.
- Public Law 111-226, enacted on August 10, 2010, provides \$10 billion for the new Education Jobs Fund to retain and create education jobs

¹³Iowa's 10 regional area education agencies, which were established by the Iowa Legislature in 1974 to provide equitable and economical educational opportunities for Iowa's children, partner with public and some private schools to provide education and instructional support services.

nationwide.¹⁴ The Fund will generally support education jobs in the 2010-2011 school year and be distributed to states using a formula based on population figures. States can distribute their funding to school districts based on their own primary funding formulas or districts' relative share of federal ESEA Title I funds. According to a state Education official, Iowa expects to receive about \$96 million from the Education Jobs Fund that will be distributed to districts across the state based on weighted student counts per the state's established aid formula.

Controls over Recovery Act Education Funds Are in Place, but Two Districts We Visited Did Not Fully Comply

To receive Recovery Act funds, Education required that states provide assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. The Iowa Department of Education had systems in place to monitor the state's 361 local school districts' compliance with federal requirements for education programs prior to receiving Recovery Act funds. These processes, including oversight and financial analyses at the state level as well as required financial statement reporting by local school districts, were extended to oversight of Recovery Act funds. In addition, specifically for the Recovery Act, districts must report quarterly on funds spent and related jobs information.

To assess whether controls were working as designed and verify that funds were spent in accordance with Recovery Act guidelines, we reviewed purchases and financial control activities at two judgmentally selected school districts—the Des Moines Independent Community School District, as of March 31, 2010, and Marshalltown Community School District, as of April 30, 2010. Specifically, we reviewed the use of funds and documentation of selected Recovery Act expenditures for SFSF, ESEA Title I, and IDEA Part B. We found the following at the time of our review:

- Both districts had controls, including written policies and established review procedures, to ensure Recovery Act funds were appropriately spent and expenditures were generally in accordance with established guidelines and requirements. The Des Moines School District had received \$17.8 million in Recovery Act funds and used those funds to retain general education, ESEA Title I, and special education teachers; purchase materials to implement a new mathematics learning series;

¹⁴Pub. L. No. 111-226, § 101, 124 Stat. 2380 (Aug. 10, 2010). The legislation also provided for an extension of increased Federal Medical Assistance Percentage (FMAP) funding.

and purchase specialized equipment to support students with sight impairments. The Marshalltown School District had received \$2.8 million in Recovery Act funds and used those funds to retain educators across the district, purchase materials to implement a new literacy learning series, and upgrade district communication systems and related services.

- District officials acknowledged that, in some instances, they did not follow state or federal guidelines or made an erroneous accounting entry, although the districts were taking corrective actions to address these problems. Specifically, we identified equipment purchases for the IDEA, Part B program larger than \$5,000 that were not submitted to the state for approval, that state officials agreed was required by U.S. and Iowa Department of Education guidelines. The Des Moines School District purchased a Gemini Braille machine and a Braille notes machine for about \$25,000 without seeking review and approval from the state prior to purchase. Since April 2009, according to state officials, Iowa state policy has required local school districts to obtain prior approval from the state Department of Education to purchase equipment exceeding \$5,000.¹⁵ Similarly, we found that the Marshalltown School District had not requested approval to purchase communication equipment and software at a cost of \$8,400. In both cases, administrators at the local district stated that they were unaware of the state requirement. As we completed our reviews, the districts were making changes in their procedures to ensure that they received state approval of IDEA equipment purchases greater than \$5,000. Furthermore, the state Department of Education emphasized to area education agencies and local districts the importance of obtaining state review of plans to purchase equipment for the IDEA, Part B program valued at \$5,000 or more. We also found two instances in which products or services were erroneously coded to the IDEA Part B program—one for a carbon monoxide detector that should have been charged to IDEA, Part C, and one for books that should have been charged to the ESEA Title I programs. In both instances, the dollar amounts were small and the districts initiated corrective action.

¹⁵Moreover, Department of Education guidance states that, in general, local education agencies must obtain prior approval from the state before using IDEA funds to purchase equipment with a unit cost of \$5,000 or more.

State and Local Officials Said They Benefited from Recovery Act Funds but Will Need to Reduce or Eliminate Programs Once These Funds Are Spent

Senior Iowa Department of Management officials told us that Iowa will benefit from the use of Recovery Act funds received in fiscal year 2011 because these funds will enable the state to avoid tax increases and limit the amount of funds drawn from its Cash Reserve Fund to balance the state's fiscal year 2011 budget. The state's fiscal year 2011 budget is based on a revenue estimate of approximately \$5.44 billion. The Governor has signed the budget into law. During fiscal year 2010—ending June 30, 2010—Iowa had collected approximately \$5.5 billion in revenues for the state's General Fund. According to officials from Iowa's Legislative Services Agency, fiscal year 2010 General Fund revenues were approximately \$244 million above the projections of Iowa's Revenue Estimating Conference.¹⁶ These officials added that the state should end fiscal year 2010 with excess revenue of approximately \$350 million.¹⁷

Senior Iowa Department of Management officials said that the Governor implemented plans for improving the efficiency of state operations to reduce state expenditures, in part to account for revenue shortfalls following the disbursement of the remaining Recovery Act funds and other one-time sources of revenue, such as state reserve funds. According to a June 2010 report issued by the Iowa departments of administrative services and management, the implementation of efficiency measures approved by the Governor and General Assembly will benefit Iowa taxpayers by \$298.8 million.¹⁸ According to senior Iowa Department of Management officials we spoke with, most of the savings will be realized in fiscal year 2011. Furthermore, the state implemented a State Employee Retirement Incentive Program (SERIP) in February 2010.¹⁹ Senior Iowa Department of Management officials said that, as of June 30, 2010, approximately 2,100 employees had participated in SERIP.

¹⁶Fiscal year 2010 receipts will continue to be deposited and final net fiscal revenue growth will not be known until the end of September 2010.

¹⁷This figure, according to Iowa Legislative Service Agency officials, does not include adjustments for any appropriation reversions, or increases or decreases to unlimited appropriations.

¹⁸According to officials from Iowa's Legislative Services Agency, the Governor implemented some plans for improving the efficiency of state operations through Executive Order 20 (Dec. 16, 2009), and the General Assembly passed additional efficiency improvements and plans to reorganize state agencies, as detailed in Iowa Senate File 2088 (Feb. 1, 2010). For more information, see [GAO-10-605SP](#).

¹⁹According to senior Iowa Department of Management officials, SERIP is intended to reduce state personnel expenditures and help reduce the state's unemployment, provide greater diversity in state government, and expand employees' service capabilities.

We visited the cities of Des Moines and Marshalltown to discuss local governments' use of Recovery Act funds, including plans to adjust their budgets once they use available Recovery Act funds. (Table 3 provides some demographic information on these two localities.) Local government officials said that their cities and budgets benefited from the use of Recovery Act funds for various programs but that they planned to reduce expenditures or eliminate programs once Recovery Act funds are expended. Additionally, some local government officials indicated they faced difficulties when applying for and administering funds for Recovery Act competitive grant programs, such as a limited number of staff to apply for grants and difficulty in complying with Buy American and Davis-Bacon provisions.

Table 3: Demographics of Localities Visited to Address Use of Recovery Act Funds

Local government	Population ^a	Unemployment rate, June 2010 (percentage) ^b	Operating budget ^c
City of Des Moines	198,460	7.4	\$577,110,866
City of Marshalltown	25,645	7.5	\$25,794,881

Sources: GAO analyses of U.S. Census Bureau population data and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; City of Des Moines; and City of Marshalltown.

^aPopulation data are from the latest available estimate, July 1, 2009.

^bUnemployment rates are preliminary estimates for June 2010 and have not been seasonally adjusted. The state of Iowa had a nonseasonally adjusted unemployment rate of 6.6 percent during the same period. Rates are a percentage of the labor force. Estimates are subject to revisions.

^cThe time frame for the operating budgets of the localities we interviewed is July 1, 2010, through June 30, 2011.

Des Moines

As of May 31, 2010, Des Moines had been awarded approximately \$18.6 million in Recovery Act funds from federal and state sources and expended approximately \$5.4 million for community development, public housing, and transportation enhancement, among other things (see table 4). Since our May 2010 report on the Recovery Act,²⁰ Des Moines officials said the city had completed resurfacing projects on two streets, including Fleur Drive, a major roadway in Des Moines, and continues to use Recovery Act funds awarded by OEI.²¹ City officials also noted that they

²⁰GAO-10-605SP.

²¹OEI awarded Des Moines funding from the EECBG program to expand and update climate control systems in five city buildings, convert streetlights to use light-emitting diode technology, and purchase and install equipment at the Des Moines Metropolitan Wastewater Reclamation Authority facility.

received approval from DOE to use a revolving loan fund program, funded by Recovery Act EECBG funds, to purchase hybrid vehicles and charging stations for the city’s vehicle fleet. Des Moines officials said that Recovery Act funds will help improve the city’s budget and long-term fiscal stability by allowing Des Moines to use Recovery Act funds for several infrastructure projects, such as street repairs and extensions of pedestrian trails that would have been funded through other sources of revenue.

Table 4: Select Sources of Recovery Act Funding to Des Moines

Agency	Program	Use of funds	Amount awarded	Amount expended ^a
Iowa Department of Transportation	Transportation Enhancement	Constructing multipurpose trail extensions of a walkway along the Des Moines River	\$2,849,000	\$845,926
U.S. Department of Housing and Urban Development	Community Development Block Grant - Recovery	Expanding neighborhood infrastructure rehabilitation programs (e.g., street, curb, sidewalk repairs) and demolition programs for neighborhood redevelopment	1,152,886	76,073
U.S. Department of Housing and Urban Development	Recovery Act Public Housing Capital Fund	Modernizing Southview Manor to serve elderly residents eligible for public housing	1,455,108	1,309,598
U.S. Department of Justice	COPS Hiring Recovery Program (CHRP)	Creating nine additional police officer positions for 3 years, with an additional year funded by Des Moines, to support community policing efforts ^b	2,191,806	0
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant (JAG)	Improving forensic capabilities, upgrading technology, and funding equipment to improve officer safety	1,178,833 ^c	542,684

Source: City of Des Moines.

^aAmount expended as of May 31, 2010.

^bAccording to Des Moines officials, the city is expected to begin expending funds for the COPS Hiring Recovery Program in 2010.

^cLocal governments in the Des Moines metropolitan area, including Des Moines, the City of Altoona, and Polk County, received a joint award of \$1,502,161. Of that amount, Des Moines received \$1,178,833.

Des Moines officials said that while the city applied for but was not awarded funding from two Recovery Act competitive grants, it may apply for other Recovery Act grants.²² City officials also said, however, that the city has had difficulties finding staff who have time to research and apply for Recovery Act grants and obtaining funding for matching requirements required by some Recovery Act grants programs.

Des Moines officials said that the city is continuing its partnership with other localities in the Des Moines metropolitan area to administer funds from the Edward Byrne Memorial Justice Assistance Grant (JAG) program and EECBG. The city is considering using EECBG funds to implement an energy assessment program, in coordination with private firms and nonprofit entities, to improve energy conservation or find alternative sources of electricity for use in Des Moines.

Once Des Moines uses all of its Recovery Act funds, city officials said that they plan to reduce expenditures for programs receiving these funds to levels established prior to the implementation of the Recovery Act. Des Moines officials also said that they were looking for other sources of revenue for the city's budget, such as increased sewer and storm water fees; however, officials said that under Iowa law, the city would need to obtain approval from the Iowa General Assembly to obtain new taxing authority or expand its current authority to tax properties.

Des Moines projected total revenues of about \$639.2 million for fiscal year 2010-2011, which is about a 12.9 percent decrease from total revenues of about \$733.6 million in fiscal year 2009-2010. In response, city officials plan to decrease expenditures by reducing citizen services, changing business and contracting practices, and eliminating 58 full-time equivalent positions during fiscal year 2010-2011.²³

²²According to Des Moines officials, the city applied for but was not awarded (1) a Transit Investments for Greenhouse Gas and Energy Reduction grant from the Department of Transportation and (2) a Recovery Act Assistance to Firefighters Fire Station Construction Grant from the Federal Emergency Management Agency.

²³A full-time equivalent is the number of hours that represent what a full-time employee would work over a given time period, such as a year or a pay period.

Marshalltown

As of June 3, 2010, Marshalltown had been awarded at least \$3.52 million in Recovery Act funds from federal and state sources, and had expended at least \$1.11 million of this amount. Marshalltown officials said that Recovery Act funds were used, in part, to resurface a segment of Iowa Avenue, which is a major roadway in Marshalltown, acquire a bus for Marshalltown Municipal Transit, and purchase new radio equipment for law enforcement officials in Marshalltown and surrounding Marshall County.

Furthermore, according to city officials, Marshalltown was awarded about \$2.6 million in grants from the Lead-Based Paint Hazard Control Program to eliminate lead-based paint, replace leaded windows, and repaint residences eligible for renovations through the program (see table 5). Marshalltown officials noted that the city worked extensively with partners from surrounding counties, educational institutions, and other agencies to administer funds for this program.²⁴ City officials also reported that they coordinated with Marshall County to purchase radios for law enforcement through the Edward Byrne Memorial Justice Assistance Grant (JAG) program because Marshalltown and Marshall County have an integrated system of communications.

²⁴Marshalltown obtained and administered funding for the Lead-Based Paint Hazard Control Program in coordination with Hardin, Marshall, and Tama counties in Iowa. Additionally, Marshalltown coordinated with Iowa Valley Continuing Education and Marshalltown Community College to administer training, and signed an agreement with Primary Health Care to test children potentially affected by lead poisoning. Marshalltown also partnered with Friends of the Library and Habitat for Humanity to use their properties to temporarily relocate families affected by housing renovations.

Table 5: Select Sources of Recovery Act Funding to Marshalltown

Agency	Program	Use of funds	Amount awarded	Amount expended ^a
Iowa Department of Transportation	Highway Infrastructure Investment Funds	Resurfacing a segment of Iowa Avenue, a major roadway in Marshalltown, to improve driving quality and safety	\$449,377	\$449,377
Iowa Department of Transportation	Transit Capital Assistance Program	Purchasing one 30-foot bus for Marshalltown Municipal Transit in order to reduce the agency's maintenance costs for its bus fleet	328,666	0
U.S. Department of Housing and Urban Development	Lead-Based Paint Hazard Control Grant Program	Eliminating lead-based paint, replacing leaded windows and repainting residences, and housing citizens affected by renovations in temporary quarters	2,591,227 ^b	614,070
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant (JAG)	Purchasing portable radios for law enforcement purposes	155,546 ^c	49,872

Sources: City of Marshalltown (as of May 31, 2010), Recovery.gov (as of June 3, 2010).

^aAmounts expended for the Highway Infrastructure Investment Funds, Transit Capital Assistance Program, and Edward Byrne Memorial Justice Assistance Grant (JAG) programs are updated as of May 31, 2010. Amounts expended for the Lead-Based Hazard Control Grant Program are updated as of June 3, 2010. All amounts rounded to the nearest dollar.

^bFunds were shared among Marshalltown and other entities in Hardin, Marshall, and Tama counties in Iowa.

^cFunds were shared between Marshalltown and Marshall County to purchase portable radios for law enforcement purposes.

Marshalltown officials said they encountered some difficulties in applying for and administering Recovery Act competitive grants. For instance, Marshalltown's efforts to renovate homes with Lead-Based Paint Hazard Control funds were initially slowed by issues concerning the Buy American and Davis-Bacon provisions, such as helping small contractors meet Davis-Bacon requirements.

According to Marshalltown officials, the city projects total revenues of about \$32.7 million for fiscal year 2011, a 14.2 percent decrease from total revenues of about \$38.1 million in fiscal year 2010.²⁵ Marshalltown officials noted that the city has experienced a decline in property values since 2009, leading to a reduction in the growth of property tax revenues. Additionally, city officials said that revenues from the city's local option sales tax have

²⁵According to Marshalltown officials, the total revenues for fiscal years 2010 and 2011 do not include transfers from other city funds (e.g., capital improvement funds).

slowed since 2008, and city employees' wages have increased in recent years. Because the city does not have the authority to increase property tax rates above current levels,²⁶ it needed to reduce expenditures in several areas. For instance, the city eliminated its full-time city attorney position and delayed expenditures for training and equipment. However, Marshalltown officials also expect some positive economic growth from the recent establishment and expansion of new business facilities within the city, which could lead to job creation.

Owing to the current state of the economy, Marshalltown officials said that they anticipate the city will not have enough resources to maintain its lead abatement program following the depletion of Recovery Act funds; as a result, the program would likely be shut down. However, according to city officials, the depletion of such funds should otherwise not have a significant impact on Marshalltown's operating budget because they used most of the Recovery Act funds for one-time capital expenditures, such as the planned purchase of a new bus and portable radios for law enforcement. Marshalltown officials added that the city's budget and long-term fiscal stability benefited from the receipt of Recovery Act funds because the city was able to implement various capital projects that otherwise would have been delayed for several years.

Iowa's State Auditor and the Iowa Accountability and Transparency Board Continue to Monitor Recovery Act Funds

For fiscal year 2009, the State of Iowa issued a Comprehensive Annual Financial Report dated December 18, 2009 and a Single Audit report dated March 17, 2010. The Office of Auditor of State (Auditor's office) issued a qualified audit opinion on the state of Iowa's financial statements because the Auditor's office could not sufficiently audit the State's General Fund and other governmental activities due to a reduction in audit work caused by a significant (34 percent) reduction in its fiscal year 2010 appropriation. In the State's fiscal year 2009 Single Audit report, the Auditor's office did not identify any material weaknesses. Approximately 11 percent of the fiscal year 2010 budget reduction was restored for fiscal year 2011.

According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing single audit results, it received Iowa's single audit reporting package for the year ending June 30, 2009, on March 31, 2010. This was the first Single Audit for Iowa that included

²⁶According to Marshalltown officials, the property tax rate for the city's general fund levy is \$8.10 per \$1,000 valuation.

Recovery Act programs, and it included only 4 months of Recovery Act expenditures. Iowa's Single Audit report for fiscal year 2009 identified 58 significant internal control deficiencies related to compliance with Federal Program requirements, none of which were classified as material weaknesses. Some of these significant deficiencies occurred in programs that included Recovery Act funds.

- A state audit official told us that Iowa's single audit covered almost all Recovery Act funds received in fiscal year 2009 and that the office tested some recipient reports for fiscal year 2010. Furthermore, this official told us that the audit found that some departments receiving Recovery Act funds, such as the Department of Education, lacked formal written policies for reviewing and approving subrecipient reports. The official also found that although subrecipient reports are reviewed for reasonableness, specific procedures were not applied by the Department of Education to determine whether the financial amounts and number of jobs reported were supported by adequate documentation. The state auditor's office recommended that the Department of Education implement written policies and procedures to review section 1512 recipient reports submitted by school districts to determine allowability and completeness. In March 2010, the Iowa Department of Education submitted a Recovery Act Funds Monitoring Plan to the U.S. Department of Education.
- According to an Iowa Audit official, an embezzlement of funds at the Clinton, Iowa, school district totaling approximately \$500,000 was discovered in March 2010 when an accounting supervisor was replaced. According to state audit officials, Recovery Act funds were commingled with other school district revenues. Although the Iowa Office of the State Auditor and others investigated the misappropriation, they could not determine if Recovery Act funds were misused because the district's financial records were in poor condition.
- Iowa's Office of the State Auditor is preparing its fiscal year 2010 audit plan. It plans to audit almost all programs receiving Recovery Act funds. According to a state audit official, the office has not yet identified any significant fiscal year 2010 audit risks for Recovery Act programs.
- Iowa's Accountability and Transparency Board surveyed 82 programs and identified 6 high-priority programs—such as the Weatherization Assistance Program and SFSF—that it expects may have some difficulty in fully complying with the Recovery Act's accountability and

transparency requirements. These high-priority programs submitted comprehensive accountability plans for the board's review by December 2009. The board plans to establish an ongoing audit process, assess needs for additional oversight, and develop a method to confirm Recovery Act information reported on the state's Web site. Despite budget cuts and layoffs, the state is taking steps to achieve some of these goals, including the use of targeted site visits and recipient surveys.

- At the recommendation of State Audit and Department of Management officials, the Iowa Department of Public Health held additional training on subrecipient reporting for high-priority programs and other Recovery Act programs on May 3, 2010.

Iowa Reported on Jobs Funded Using Recovery Act Funds

We found that Iowa has established a centralized database and validation and certification processes to help ensure the accuracy of data, reported jobs, and other information related to the use of Recovery Act funds to the federal government, as described below:

- Iowa reported to the federal government on Recovery Act funds that the state received directly from federal agencies, including information on Recovery Act expenditures and the number of jobs funded by the Recovery Act. The Iowa Department of Management used a centralized database that it created with the Iowa Department of Administrative Services to report the state's Recovery Act information to www.federalreporting.gov. Through its centralized database, Iowa reported that 9,696 jobs were funded by the Recovery Act for the period April 1 to June 30, 2010 as of July 29, 2010. However, some local agencies, such as public housing and urban transit agencies, which receive their funding directly from federal agencies and not through the state, report Recovery Act information to www.federalreporting.gov and not through the state's centralized reporting database.
- Beginning with the quarter ending March 31, 2010, state officials required departments to perform quarterly reconciliations of Recovery Act revenues and expenditures reported to the federal government with amounts reported to the state's centralized accounting system. These reconciliations, when summarized across the state agencies, resulted in increases to the state's reported Recovery Act revenues and expenditures. Some state agencies, such as the Board of Regents, do not report to the state's centralized accounting system and are not included in this reconciliation process.

-
- For the July 2010 recipient reporting period, state officials said that their centralized reporting process worked well. As of July 30, 2010, 100 percent of the prime recipient reports submitted by Iowa were successfully validated by the Office of Management and Budget. A state official noted one issue where a subrecipient improperly reported on vendors; however, the subrecipient plans to file a corrected report. Overall, an Iowa state official noted, the system illustrates for the public how Recovery Act funds are spent and could be used to report the use of non-Recovery Act funds in the future. For example, the centralized Recovery Act reporting system has been expanded to facilitate reporting on Iowa's I-JOBS program, the state's infrastructure investment initiative.

State Comments on This Summary

We provided the Governor of Iowa with a draft of this appendix on August 12, 2010. We also provided relevant excerpts to state and local agencies that we visited. The Deputy Director of the Iowa Department of Economic Development responded for the Governor on August 16, 2010, and agreed with our findings. The Governor's office as well as state and local agency officials also offered clarifying and technical suggestions, which we have incorporated, as appropriate.

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