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GAO

Report to the Congress

May 2010

RECOVERY ACT

States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Georgia)

GAO

Accountability * Integrity * Reliability

GAO-10-605SP

Appendix VI: Georgia

Overview

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

What We Did

We reviewed these programs funded under the Recovery Act—the Weatherization Assistance Program, the Clean and Drinking Water State Revolving Funds, the Public Housing Capital Fund, and the Tax Credit Assistance and Section 1602 Tax Credit Exchange Programs. We looked in more depth at the Weatherization Assistance Program because the Recovery Act funds were a large increase over Georgia's annual allocations and work had been under way for several months. We began work on the Clean and Drinking Water State Revolving Funds and continued work on the Public Housing Capital Fund because key Recovery Act deadlines passed during the review period. We began work on the Tax Credit Assistance and 1602 Tax Credit Exchange Programs—which provide capital investments in low-income housing tax credit projects—because significant Recovery Act funds had been obligated. For descriptions and requirements of the programs covered in our review, see appendix XVIII of GAO-10-605SP. Finally, we focused on the use of Recovery Act funds by selected localities and the state's efforts to ensure accountability over funds.

What We Found

Following are highlights of our review.

- **Weatherization Assistance Program.** The U.S. Department of Energy (Energy) allocated about $125 million in Recovery Act weatherization funding to Georgia for a 3-year period. As of the end of March 2010, the 22 contracted service providers in the state had completed 1,538 (about 11 percent) of the 13,617 homes to be weatherized with these funds by March 2012. The state has taken a number of steps to increase production, including providing additional training for new weatherization workers. While monitoring has been slow to start, the state has taken measures to address deficiencies we identified in providers' procedures for determining client income eligibility and prioritizing work.

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

- **Clean and Drinking Water State Revolving Funds.** The Environmental Protection Agency (EPA) allocated about $122 million in Recovery Act funding to Georgia for the Clean and Drinking Water State Revolving Funds. The state used most of these funds to provide assistance to 59 projects. It reserved 21 percent of its Clean Water funds and 22 percent of its Drinking Water funds for green projects (such as those that increase energy or water efficiency) and ensured that subrecipients entered into construction contracts by February 17, 2010.

- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development (HUD) allocated about $113 million in Recovery Act funding to 184 public housing agencies in Georgia to improve the physical condition of their properties. As of May 1, 2010, these agencies had obligated all of their funds and drawn down about $35 million. All met the Recovery Act requirement to obligate their funds within 1 year of the date they were made available.

- **Tax Credit Assistance and Section 1602 Tax Credit Exchange Programs.** Georgia received about $54.5 million in Tax Credit Assistance Program funds and approximately $195.6 million in Section 1602 Tax Credit Exchange Program funds. As of April 30, 2010, the state had committed $184.3 million (about 74 percent) under both programs for 31 projects, including the rehabilitation of 300 units for the elderly and persons with disabilities in Atlanta, Georgia, and the construction of 52 units for persons over age 55 in Sandersville, Georgia. The state expects to commit the remainder of its funds by June 2010.

- **Selected localities' use of Recovery Act funds.** DeKalb County, the City of Savannah, and the City of Albany had been awarded $25.4 million, $9.6 million, and $5.9 million, respectively, as of May 4, 2010. These localities received funds for purposes ranging from improving energy efficiency to hiring police officers.

- **Accountability efforts.** The State Auditor participated in the U.S. Office of Management and Budget's (OMB) Single Audit Internal Control Project, which required earlier communication of significant deficiencies and material weaknesses in internal controls over Recovery Act funds. The resulting report identified several deficiencies at the Georgia Department of Transportation that the department has implemented changes to address. Further, the State Inspector General investigated two Recovery Act complaints, and several internal audit departments have plans to audit or are already auditing Recovery Act funds.

Georgia Has Been Taking Steps to Increase Production in the Weatherization Assistance Program and Address Program Deficiencies

Under the Recovery Act, the Georgia Environmental Facilities Authority (GEFA), the agency that administers the Weatherization Assistance Program, will receive approximately $125 million to weatherize 13,617 homes by March 2012.[2] Energy approved Georgia's weatherization plan on June 26, 2009, for the period April 1, 2009, through March 31, 2012. GEFA awarded contracts to 22 service providers—community action agencies, nonprofit agencies, or local governments—which were in place prior to the Recovery Act. We visited three providers—the City of Albany (Albany), Economic Opportunity Authority for Savannah-Chatham County Area, Inc. (EOA-Savannah), and Ninth District Opportunity, Inc. (Ninth District).[3]

Although Production Has Increased in Recent Months, Georgia's Recovery Act Weatherization Program Has Not Met Goals

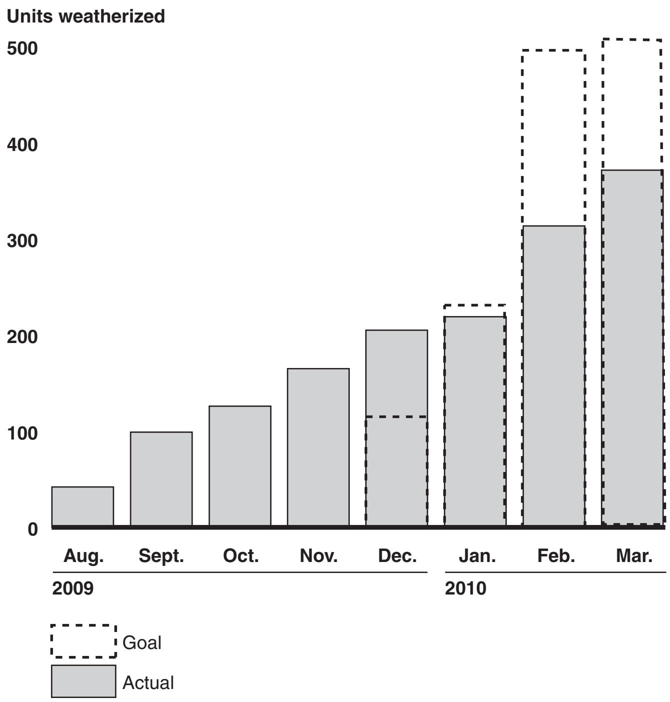
As of the end of March 2010, 1,538 homes (about 11 percent) had been weatherized and about $15.3 million of the $99.7 million awarded to service providers (about 15 percent) had been spent.[4] In March 2010, providers weatherized 370 units, below the monthly production goal of about 500 homes (see fig. 1). Although Georgia did not meet this goal, Energy asked the state to increase its monthly production to 700 units from April through September 2010.

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

[3]Ninth District Opportunity, Inc. is located in Gainesville, Georgia. We selected these three providers based on their location, the size of the weatherization program, and progress as of the end of January 2010.

[4]GEFA will use the balance of the $125 million allocation for monitoring, training, and technical assistance, among other things.

Figure 1: Homes Weatherized in Georgia, August 2009 through March 2010



Source: GEFA.

Progress made by individual providers varied. Four providers, including the three largest, had completed 5 percent or less of their targeted number of homes as of the end of March 2010. The highest rate was 21 percent. Table 1 shows the percentage of funds spent and homes weatherized by all 22 service providers, as of the end of March 2010.

Table 1: Percentage of Funds Expended and Homes Weatherized by Service Provider, as of the end of March 2010

Service provider	Counties served	Contract amount	Percentage drawn down	Homes to be weatherized	Homes weatherized through March	Percentage of homes weatherized
Coastal Plain Area Economic Opportunity Authority, Inc.	10	$4,886,875	18%	590	125	21%
Tallatoona Community Action Partnership, Inc.	6	4,103,205	25	563	119	21
EOA for Savannah-Chatham County Area, Inc.	1	2,743,978	12	371	76	20
West Central Georgia Community Action Council, Inc.	8	2,448,384	23	336	63	19
Southwest Georgia Community Action Council, Inc.	14	5,469,280	17	753	140	19
Concerted Services, Inc. – Waycross	8	3,455,919	23	478	78	16
Middle Georgia Community Action Agency, Inc.	12	6,358,846	22	870	130	15
Concerted Services, Inc. – Reidsville	9	4,163,318	19	574	83	14
Heart of Georgia Community Action Council, Inc.	9	2,764,125	21	379	54	14
Coastal Georgia Area Community Action Authority, Inc.	6	3,384,006	30	468	66	14
Clayton County Community Action Authority, Inc.	3	3,250,251	11	452	56	12
North Georgia Community Action, Inc.	10	5,471,460	9	752	91	12
City of Albany	1	1,546,104	15	209	25	12
Overview, Inc.	7	2,463,271	21	340	38	11
Area Committee to Improve Opportunities Now, Inc.	10	5,010,500	13	687	70	10
Partnership for Community Action, Inc.	3	6,926,773	8	956	92	10
Gwinnett County Board of Commissioners	1	3,284,888	7	461	44	10
Community Action for Improvement, Inc.	6	4,138,220	16	569	44	8
Central Savannah River Area EOA, Inc.	13	7,000,302	12	962	50	5
Enrichment Services Program, Inc.	8	3,758,994	11	512	25	5
Southeast Energy Assistance	1	8,196,838	16	1,112	40	4

Service provider	Counties served	Contract amount	Percentage drawn down	Homes to be weatherized	Homes weatherized through March	Percentage of homes weatherized
Ninth District Opportunity, Inc.	14	8,837,469	9	1,223	29	2
Total	**160**	**$99,663,006**	**15%**	**13,617**	**1,538**	**11%**

Source: GAO analysis of GEFA data.

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

Weatherization work has been delayed for a variety of reasons. GEFA officials explained that work has been delayed at the largest providers primarily because of the need to hire and train new crews. GEFA is coordinating training for all of the providers and has contracted out its Recovery Act training.[5] As of early April 2010, the contractor had offered 16 training classes to about 300 students.[6] However, GEFA officials explained that there was still an unmet need for training. The large provider we visited explained that delays were due to changes in the way services were provided. To help meet the increased Recovery Act production targets, Ninth District officials began contracting out services that it had previously performed using in-house crews. They are still refining their contracting procedures, but expect them to be fully implemented by June 2010.

According to GEFA officials, they have taken steps to increase production. First, GEFA has encouraged its training contractor to add classes and required at least one person from each provider to be trained to help provide on-the-job training to new staff. The contractor also plans to visit each provider to offer on-site technical assistance. Second, GEFA required each provider to create a monthly production plan. Third, it modified the

[5]GEFA contracted with Southface Energy Institute—a nonprofit that promotes comfortable, energy-, water-, and resource-efficient homes, workplaces, and communities—to provide training to weatherization workers.

[6]At the end of each class, each student must pass a written exam. Members that fail portions of the classes are given remedial instruction by GEFA or are limited in the work that they can undertake until they successfully pass the course.

providers' contracts to include actions it could take if the provider did not meet production goals or work quality standards.[7]

GEFA Expanded its Planned Oversight of the Weatherization Program, but Has Been Slow to Start Monitoring

GEFA has expanded its oversight of the Recovery Act Weatherization Assistance Program by hiring a senior program manager and fiscal monitor, buying a new Web-based reporting tool, and hiring contractors for field and desk monitoring. The senior program manager works with providers and ensures compliance with contracts, regulations, and program goals. The fiscal monitor will visit each service provider to review policies, practices, and internal controls; examine invoices and payroll records; and identify problems. As of April 2, 2010, the fiscal monitor had conducted three site visits. GEFA officials expect a new Web-based reporting tool for managing weatherization assistance programs, which will provide real-time information on production and energy savings and standardized reporting, to be in place by July 2010. Currently, GEFA relies on monthly paper reports.

GEFA also has contracted with the University of Georgia Cooperative Extension (UGA) for program oversight to be conducted by 26 monitors—13 desk monitors and 13 field monitors.[8] Prior to the Recovery Act, GEFA's goal was to visit providers once a year. For the Recovery Act program, UGA's desk and field monitors are to conduct weekly visits to each provider to review file documentation and inspect at least 10 percent of individual projects each month.[9] However, monitoring did not start until March 2010, and 5 of the 26 positions were vacant as of April 1, 2010.

[7]According to GEFA officials, if a sub-grantee is not meeting production goals and/or work quality standards GEFA may: (1) allow the recipient to continue operations at the existing funding level and thereafter conduct weekly performance reviews; (2) reduce the funding level for the recipient and provide unexpended dollars to another sub-grantee; (3) require the sub-grantee to select a nonprofit delegate in cooperation and with assistance from GEFA to meet production goals in a specified time frame; or (4) reduce the funding to the sub-grantee and provide the dollars on a competitive basis to a qualified nonprofit to serve the defined geographic territory.

[8]The Cooperative Extension provides research-based education in agriculture, the environment, communities, and youth and families, and has the ability and authority to conduct monitoring.

[9]The desk monitors will review contracting documents, compliance with Davis-Bacon requirements, and file documentation. In addition, desk monitors will educate clients on energy saving tips and customer behaviors and track the results of those efforts. The field monitors will inspect 10 percent of the homes weatherized each month for overall effectiveness, workmanship, appearance, and compliance with installation standards.

GEFA staff have conducted technical assistance visits, but no formal on-site monitoring occurred before monitors were hired.

UGA submitted its first monthly monitoring report, which consisted of desk and field reports, on April 2, 2010. Because desk monitors had not been hired for the three providers we visited, no desk reports were submitted. The field reports for the three providers we visited summarized insufficiencies for each house inspected, but did not describe the provider's overall performance or major findings. In addition, some individual inspection reports were incomplete. According to GEFA and UGA officials, future monitoring reports will include on-site assessment reports that rate each provider as very good, good, or unacceptable in 17 areas, such as file documentation, subcontractor administration, and program and financial reporting. The reports also will describe issues that are of significant concern, such as violations of eligibility guidelines or health and safety problems.

File Reviews Identified Some Deficiencies

Our review of 25 files and other documentation during site visits conducted at three service providers found that providers inconsistently followed Energy and GEFA guidance for procuring contractors, prioritizing clients for service, determining client eligibility, and prioritizing work.[10] We raised these issues with GEFA, and officials said they are taking steps to address them.

Procuring Contractors

GEFA's Weatherization Procedures Manual and the contract the providers signed with GEFA include guidelines about contractor procurement and compliance with Recovery Act provisions such as Davis-Bacon wage

[10]In Albany and Savannah, we reviewed the files for 10 completed homes. We selected a simple random sample from among the completed homes. At the Ninth District, we reviewed five files because only five homes had been completed at the time of our visit. At all three locations, we also inspected five homes (three completed homes, one where work was ongoing, and one undergoing an energy audit).

requirements.[11] We found that some of these requirements were not consistently followed.

Ninth District: According to GEFA and Ninth District officials, the Ninth District did not initially use a competitive process to determine the contract price for each house, a GEFA requirement. Rather, officials explained that they solicited bids from contractors and developed a standard price for each item. On the basis of guidance from GEFA, the Ninth District changed its procurement methods in February 2010. According to officials, work now is competitively bid from a pool of three to five subcontractors, and contracts awarded per home based on price, timelines, and previous performance and workmanship history.

Albany: We reviewed four contracts and did not find language requiring compliance with Recovery Act requirements, including Davis-Bacon prevailing wages. We also found and Albany officials agreed that the contracts did not include GEFA's requirement that each contractor have liability insurance of at least $3 million in aggregate and $1 million per occurrence; instead, each included a $300,000 threshold.

EOA-Savannah: EOA-Savannah officials confirmed that the contracts we reviewed were awarded competitively and included Recovery Act provisions. However, they were not awarded for a specified amount.[12] Savannah officials told us they used a competitive process to identify the lowest bidder, but the contracts did not include the prices negotiated with the contractor. According to the officials, contractors provide a verbal price for approval before beginning work, with a final invoice payable after completing work. Further, we found and EOA-Savannah officials confirmed that Savannah's contractors did not carry the state-required

[11]Historically, the Weatherization Assistance Program funded through the regular appropriations process has not been subject to the Davis-Bacon Act. However, the Recovery Act does require compliance with Davis-Bacon provisions. Under section 1606, division A, of the Recovery Act, all contractors and subcontractors performing work on projects funded in whole or in part by Recovery Act funds must pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area. The Secretary of Labor determines the prevailing wage rates and fringe benefits for inclusion in covered contracts.

[12]EOA-Savannah uses in-house crews to conduct the majority of weatherization work, but uses contractors to install heating systems and perform electrical work. The provider issued a request for proposals for installation of five items—heating and air systems, water heaters, stoves, bathroom exhaust fans, and kitchen vents and hoods.

level of liability insurance, with coverage ranging from $1 million to $2 million in aggregate.

According to GEFA officials, they have identified issues related to procurement, such as a need for more education on contracting requirements. GEFA plans to provide procurement training for providers, but has not yet found a contractor to lead the training. UGA monitors also will review each provider's contracts and procurement processes to ensure compliance with GEFA policies.

Prioritizing Clients

GEFA identified populations to be given priority for assistance in the Recovery Act weatherization plan it submitted to Energy: the elderly, elderly with a disability, and persons with disabilities. Households containing children and households with high energy use or burden also were given priority. GEFA included the priorities in its contract with service providers, which also lists other criteria including potential energy savings and benefits directed to unit occupants.

EOA-Savannah and Albany officials explained that they prioritized clients based on age, disability status, presence of children, and energy burden, but there was no documentation in the files we reviewed that supported this. The Ninth District had developed a prioritization sheet for each client that awarded points based on demographics (elderly, family status, income, house type), with the most points awarded to elderly clients and persons with disabilities. Ninth District officials were able to provide this sheet for four of the five homes in our file review.[13]

While GEFA's guidance for client prioritization may not be implemented consistently, GEFA officials stated that their new Web-based reporting tool (scheduled for release in July) should automate and standardize prioritization. More specifically, the system will prioritize applicants based on age (households with people under 12 or over 60), disability status, household size, waiting time, high energy use or burden, and poverty level.

Determining Client Income Eligibility

A home is eligible for the Recovery Act Weatherization Assistance Program if household income is at or below 200 percent of the poverty level.[14] Energy provided guidance to states on how to determine income

[13]A Ninth District official explained the fifth home was a test case used for training purposes.

[14]The pre-Recovery Act Weatherization Assistance Program had an income limit of 150 percent of the poverty level.

eligibility, and GEFA distributed that guidance to providers and included a checklist on its application form.[15] However, the GEFA form does not include all the types of income in Energy's guidance. It includes public assistance payments, wages and self-employment income, and retirement payments such as Social Security but excludes interest, dividends, rental property, and annuities and other types of nonretirement income. The 25 files we reviewed did not include evidence that interest or dividend information (or other types of income excluded from the application) was considered during application.

UGA officials stated two monitors had identified problems with income verification and conducted additional training with providers. In addition, UGA monitors developed a sample file with the types of documentation that providers' files should contain; it includes a comprehensive checklist of sources of income to consider for income eligibility. The checklist should help providers, but none of the files we reviewed contained it.

Prioritizing Weatherization Work

Energy guidance allows states to use priority lists (subject to Energy's approval) in conjunction with an energy audit to prioritize weatherization activities.[16] GEFA's approved list includes air sealing and attic insulation as the highest priority items and heating and cooling systems and water heaters as the lowest priorities.

According to GEFA officials, GEFA's provider contract requires that the priority list be followed and that an assessment form relating to the list be completed for each home. However, two of the three providers we visited did not consistently use this form. In Albany, 3 of the 10 files included the completed form, while in Savannah 5 of the 10 files did. All 5 Ninth District files we reviewed had the form. Albany and EOA-Savannah used other methods to document their assessment of work required. In Albany, staff prepared a summary sheet of major items identified that was also used as a work order to solicit bids from contractors. EOA-Savannah officials used handwritten notes from the initial inspection to document major leaks or items to repair. However, without the GEFA form, it was difficult to

[15]Energy guidance lists the dollar amount of the 200 percent poverty threshold for various family sizes, along with the types of income to consider when determining eligibility.

[16]Energy allows states to use the National Energy Audit Tool (NEAT), a computer-based audit that applies engineering and economic calculations to evaluate energy conservation measures, or an energy audit based on an approved priority list. According to GEFA officials, Georgia has permission from Energy to use a priority list instead of a NEAT audit for similar, single-family homes.

determine if the state's priority list had been followed. According to Albany officials, they were revising procedures to include GEFA's form. EOA-Savannah officials stated that they had started using GEFA's form. According to GEFA officials, in March 2010 they made the assessment form more user-friendly, reducing the number of pages from 16 to 8.

Georgia Used Clean and Drinking Water State Revolving Funds to Assist Almost 60 Projects and Ensured That Subrecipients Met Milestones

Georgia received about $122 million in Recovery Act funding from EPA for the Clean and Drinking Water State Revolving Funds (SRF).[17] GEFA and the Georgia Environmental Protection Division (EPD) administer both SRFs. GEFA applies for and receives funds, complies with reporting requirements, and finances SRF loans, and has designated EPD to perform monitoring and compliance reviews for SRF loans.

Despite Challenges, Georgia Met the Recovery Act SRF Funding Requirements and Contract Deadline

GEFA allocated approximately $84.3 million in Recovery Act funds for the Clean Water SRF and approximately $36.7 million in Recovery Act funds for the Drinking Water SRF.[18] GEFA used Recovery Act funds to provide assistance to 59 projects in 54 communities.[19] As shown in figure 2, 34 of these projects serve disadvantaged communities.[20]

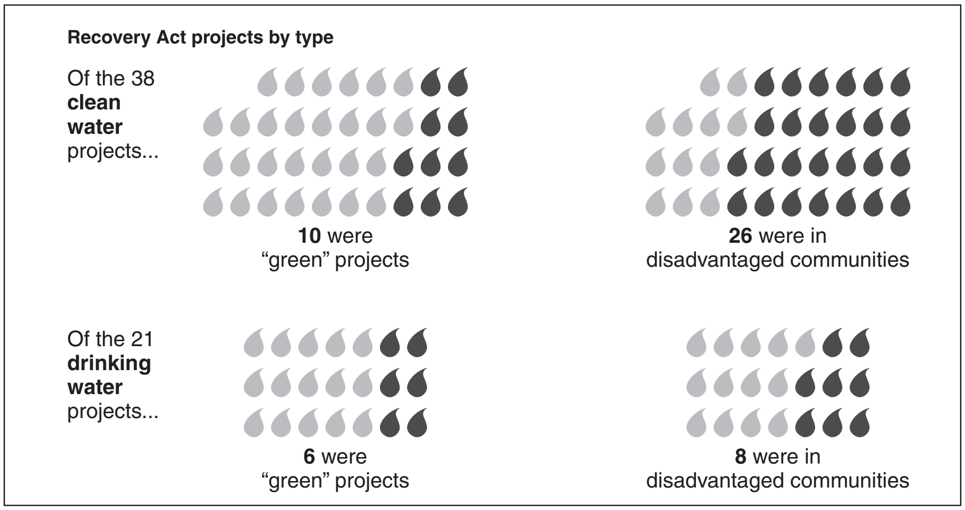
[17]The Clean and Drinking Water SRFs provide states and local communities independent and permanent sources of subsidized financial assistance, such as low- or no-interest loans for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations.

[18]The remainder of the Recovery Act funding ($669,600) will be used for water quality management planning.

[19]The majority of SRF projects receiving Recovery Act funds will receive additional base SRF funding, and subrecipients will be required to comply with the requirements of the Recovery Act for any projects wholly or partially funded by the Recovery Act.

[20]GEFA defined disadvantaged communities as rural communities—or those that have less than 50,000 residents and a poverty rate of 10 percent or higher—for the purposes of our reporting.

Figure 2: Projects Funded with Georgia's Recovery Act Clean and Drinking Water SRFs



Source: GEFA.

GEFA considered SRF loan applications for three categories—rural, nonrural, and green.[21] GEFA verified that all applications met basic SRF eligibility requirements, such as eligible project types. Eligible projects were reviewed and prioritized based on information such as the status of project design, environmental reviews required or completed, and the anticipated construction schedule. Additionally, officials considered whether the Drinking Water SRF projects directly addressed public health issues. Officials explained that the agency received 1,311 preapplications, about seven times the number GEFA received for the 2008 base SRF programs.

The Recovery Act requires states to meet certain funding targets. They must reserve at least 20 percent of SRF funds for green projects. States also must use at least 50 percent of SRF funds for additional subsidization (additional financial assistance beyond a low- or no-interest loan), which could include forgiveness of SRF loan principal, negative interest SRF loans, or SRF grants. GEFA exceeded these targets:

[21]Applicants (communities) could receive only one loan under either the rural fund or the nonrural fund, whichever was applicable. Applicants could also receive one loan under the green project fund.

- Twenty-one percent of Clean Water SRF funds and 22 percent of Drinking Water SRF funds were awarded to green projects, such as green infrastructure and projects that increase energy and water efficiency.

- The state awarded 65 percent of Clean Water SRF funds and 60 percent of Drinking Water SRF funds in the form of principal forgiveness (to address the additional subsidization requirement).

The Recovery Act also required each state to prioritize funds for projects that were ready to proceed to construction within 12 months of enactment (Feb. 17, 2010) and directed EPA to reallocate any funds for projects that were not under contract by this date. GEFA set interim deadlines to ensure that projects in Georgia met this deadline. More specifically, GEFA required applicants to certify that they could instruct contractors to begin work for proposed projects by November 1, 2009.[22] Officials stated they faced challenges in meeting the deadline due to the increased workload and changes to the guidance on the green reserve requirement. EPA revised its guidance on the green reserve requirement after the state had approved its final list of Clean and Drinking Water SRF projects. This resulted in two previously approved projects no longer meeting the green reserve requirement. According to officials, this change required GEFA to take additional time to (1) ensure that its green projects met the green reserve requirement and (2) obtain EPA's approval of its list.

Georgia Modified Its Oversight of SRF Projects to Address Recovery Act Requirements

In addition to applying base SRF program oversight policies and procedures to all Recovery Act SRF projects, GEFA and EPD have added unique procedures. For example, GEFA implemented a Web-based reporting tool for SRF subrecipients to provide data on direct jobs created and retained with Recovery Act funds. EPD added procedures to monitor subrecipients' compliance with Buy American requirements. Subrecipients are now required to maintain adequate source documentation for project components, such as certifications from manufacturers, shipping manifests, and documentation that a project owner determined that manufactured goods were assembled in the United States.

[22]A number of applicants sought extensions, and after determining that all applicants that made such requests had made strong progress and a good faith effort to comply with the requirement, GEFA granted the requests received.

As with base SRF projects, EPD officials stated they conduct oversight of Recovery Act projects from initial application through completion. All subrecipients must attend a preconstruction conference, and EPD conducts monthly site visits to ensure work is consistent with approved project plans and contract requirements. EPD officials said that during the on-site inspections, they review Buy American documentation and examine country of origin labels. EPD also reviews invoices before GEFA reimburses subrecipients.

SRF Projects Have Provided Economic and Other Benefits in Georgia

GEFA collects some environmental and health performance measures for base and Recovery Act SRF projects. For example, it requests information from subrecipients on energy conservation and solid waste and pollution reduction. For Recovery Act projects, GEFA also reports on direct jobs created and retained with the funds. GEFA reported that 343.8 full-time equivalents (FTE) were created or retained from January 2010 to March 2010.[23] During our site visit to the City of Tennille, officials provided examples of SRF benefits:[24]

- The city used a green Drinking Water SRF loan for new residential and commercial water meters, which officials said would help (1) identify sources of water loss (they had more than 44 percent water loss in 2007 through 2009), (2) increase revenues, and (3) encourage conservation.
- A Clean Water SRF loan partially funded an upgrade to the wastewater facility that officials believe will reduce system failures and sewage overflow into storm water facilities.

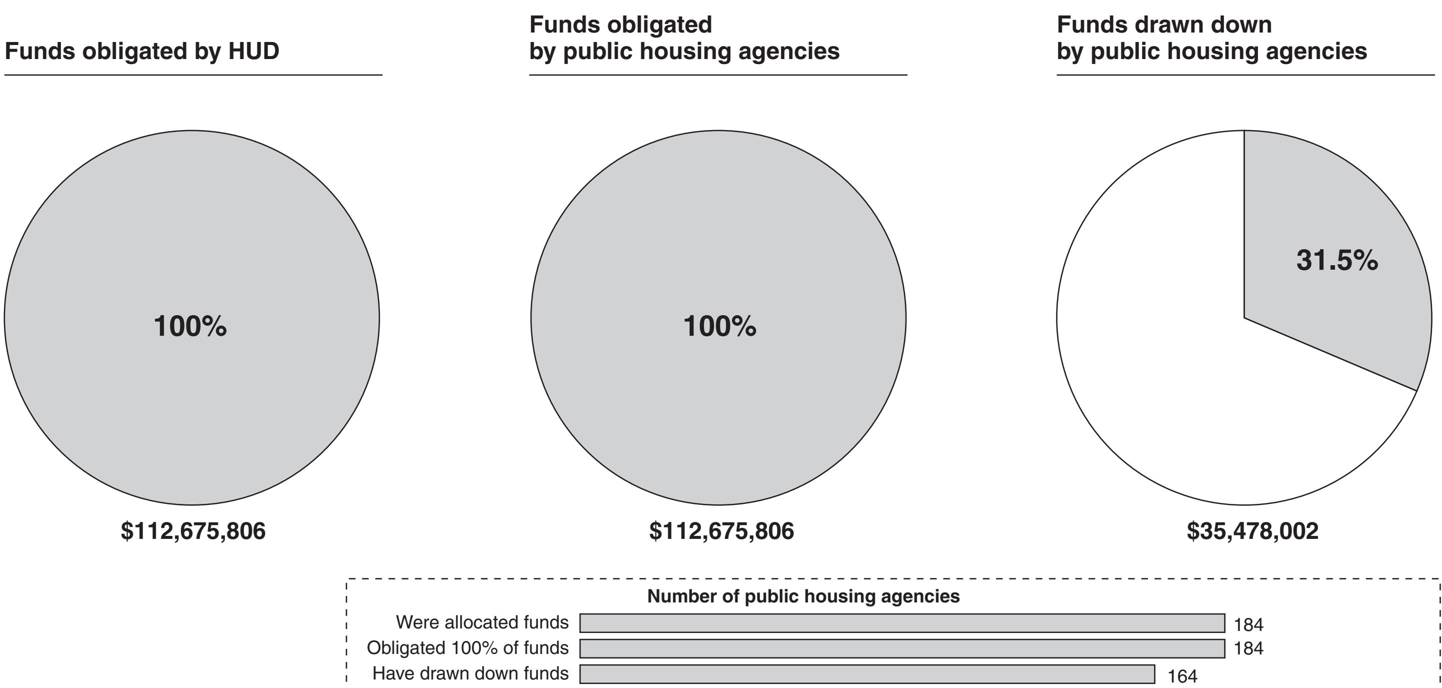
[23]Full-time equivalents are the total number of hours worked and funded by Recovery Act dollars divided by the number of hours in a full-time schedule, as defined by the recipient.

[24]We selected a mix of SRF projects to visit: a green Drinking Water SRF project in Tennille and Clean Water SRF projects in Tennille and Cobb County.

Housing Agencies in Georgia Have Obligated All of Their Recovery Act Formula Grants

In Georgia, 184 public housing agencies received about $113 million in Public Housing Capital Fund formula grants (see fig. 3). These grant funds were provided to the agencies to improve the physical condition of their properties. As of May 1, 2010, these agencies had obligated 100 percent of the funds and drawn down about $35 million (31.5 percent). We interviewed four: the Housing Authority of the City of Atlanta (Atlanta Housing Authority), the Housing Authority of the City of Macon (Macon Housing Authority), the Housing Authority of the City of McDonough (McDonough Housing Authority), and the Housing Authority of the City of Villa Rica (Villa Rica Housing Authority).[25]

Figure 3: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Had Been Obligated and Drawn Down in Georgia, as of May 1, 2010



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

[25]We interviewed officials from the Atlanta and Macon Housing Authorities because they did not have difficulty meeting the March 17, 2010, deadline for obligating Public Housing Capital Fund formula grants. We visited the McDonough and Villa Rica Housing Authorities because they were slow to obligate their funds.

The Recovery Act requires public housing agencies to obligate their funds within 1 year of the date they were made available, or by March 17, 2010. In Georgia, all public housing agencies obligated their funds by that date. However, 21 agencies had not obligated any funds as of mid-February 2010 and were in danger of missing the deadline, as the following examples illustrate.

- According to the McDonough Housing Authority, it obligated the approximately $215,000 it received by awarding a contract on February 18, 2010. An agency official explained that the delay was due to the small size of the housing agency and the busy schedule of the consultant hired to manage the contract bidding process. The agency awarded the contract for new doors, windows, blinds, and screens at 27 housing units.

- The Villa Rica Housing Authority obligated the approximately $276,000 it received on March 8, 2010. An agency official explained that the challenge in obligating Recovery Act capital funds was identifying the best use of the funds. Because the housing agency was seeking HUD approval to demolish its existing units and replace them with a midrise housing development for seniors, the official did not want to put capital into units scheduled for demolition. Ultimately, the agency obligated its funds for construction of a new maintenance building and new sidewalks that could remain in place for the planned senior development.

HUD field office staff in Atlanta took measures to ensure that the public housing agencies in Georgia met the obligation deadline. Specifically, the officials actively monitored obligation rates and conducted outreach through e-mails, phone calls, and site visits to agencies that were slow to obligate the funds. For the 21 agencies that had not obligated any funds as of mid-February 2010, HUD field staff made calls to the agencies' boards of directors and the mayors of the cities in which agencies were located to inform them about the potential loss of Recovery Act funds if their local housing agency did not act quickly to meet the obligation deadline.

Despite Some Challenges, Georgia Has Committed the Majority of Its Tax Credit Assistance Program and Section 1602 Tax Credit Exchange Program Funds

The Recovery Act established two funding programs that provide capital investments in low-income housing tax credit projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Section 1602 Tax Credit Exchange Program (Section 1602 Program) administered by the U. S. Department of the Treasury (Treasury).[26] TCAP and the Section 1602 Program were designed to fill financing gaps in planned tax credit projects and jumpstart stalled projects. According to Georgia officials, such funding was needed because of a decline in pricing and a lack of investors in the tax credit market. They reported that actual prices paid per dollar of tax credit declined on average from $0.91 in 2007, to $0.88 in 2008, and to $0.65 in 2009.[27] According to our survey of housing finance agencies, this compared to the national average of $0.67 in 2009. Officials also noted investors were reluctant to participate in projects in rural areas and metropolitan Atlanta due to the large number of foreclosures.

Georgia Awarded Funding to 31 Projects and Expects to Commit the Rest of Its Funds by June 2010

Georgia received about $54.5 million in TCAP funds. As of April 30, 2010, the Georgia Department of Community Affairs (DCA)—which administers the low-income housing tax credit program—had approved TCAP funding for seven projects containing 970 units (including 875 tax credit units).[28] For these projects, Georgia had committed $44.1 million (81 percent) and disbursed $13.3 million (24 percent). Under the Recovery Act, 75 percent of TCAP funds had to be committed by February 2010. Georgia met this deadline successfully. Seventy-five percent of TCAP funds must be expended by February 2011, and 100 percent must be expended by February 2012. Georgia also received about $195.6 million in Section 1602 Program funds. As of April 30, 2010, DCA had approved Section 1602 Program funding for 24 projects containing 1,514 units (including 1,308 tax

[26] State housing finance agencies allocate low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low-income tenants. Once awarded tax credits, owners attempt to sell them to investors to obtain funding for their projects. Investors can then claim tax credits for 10 years if the property continues to comply with program requirements.

[27] We sent a survey to the 50 state housing finance agencies, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands in November and early December of 2009. We asked about the status of program delivery, design, safeguards and controls, expected results, and challenges to implementation. The response rate was 100 percent (54 agencies).

[28] Because tax credit projects have multiple sources of financing, they sometimes include other types of units.

credit units). For these projects, Georgia had committed $140.2 million (72 percent) and disbursed about $28 million (14 percent). Under Section 1602 Program rules, all subawards must be made by December 2010, or the housing finance agency must return the funds to Treasury. Housing finance agencies must disburse 100 percent of Section 1602 Program funds by December 2011. DCA expects to select additional projects and commit the remainder of its TCAP and Section 1602 Program funds by June 2010.

When selecting projects to fund, DCA first considered projects that had received 2008 tax credits, but did not have adequate financing to proceed. Once all the 2008 projects had been awarded funds, DCA then considered 2009 tax-credit projects. Priority for funding was based on several factors, including project readiness; improvements to the quality, sustainability, and energy efficiency of affordable housing; financial sustainability; and ability to meet federal wage and environment requirements and create jobs.

We reviewed documentation on or visited three TCAP projects and four Section 1602 Program projects.[29] See table 2 for information on each of these projects.

[29]We selected Riverview Heights and Baptist Towers Apartments because they were TCAP projects that had been awarded by December 31, 2009. We selected Antigua Place because it was a Section 1602 Program project with a tax-credit investor and The Landing at Southlake because it was a Section 1602 Program project without an investor. We selected Camellia Lane because it was a rural green project. In addition, we visited Sustainable Fellwood because DCA suggested it as an interesting example of an urban green project and Waterford Estates because of its proximity to Riverview Heights.

Table 2: Selected TCAP and Section 1602 Program Projects in Georgia

Project name	Type of funding	Recovery Act funds committed	Type of construction	Type of housing	Total number of housing units	Number of tax credit units
Baptist Towers Apartments, Atlanta	TCAP	$1,850,000	Rehabilitation	Elderly	300	268
Riverview Heights (also known as Oconee Park), Dublin	TCAP	8,311,921	Rehabilitation	Family	117	115
Sustainable Fellwood, Phase II, Savannah	TCAP	4,300,000	New	Family	110	99
Antigua Place, Moultrie	Section 1602 Program	2,102,746	New	Over age 55	40	36
Camellia Lane, Sandersville	Section 1602 Program	8,348,674	New	Over age 55	52	52
The Landing at Southlake, Albany	Section 1602 Program	5,125,000	New	Over age 55	40	36
Waterford Estates, Dublin	Section 1602 Program	9,500,000	New	Family	56	50

Source: DCA.

According to Georgia officials, none of the projects awarded Recovery Act funding could have proceeded without these funds. With TCAP funding, the developer of the stalled Riverview Heights project is now converting an outdated development in an economically challenged area into modern Section 8 housing. Similarly, the Baptist Towers Apartments, an older high-rise for the elderly and disabled, is now undergoing significant renovation and modernization with TCAP funding. (See fig. 4 for pictures of the rehabilitation ongoing at Riverview Heights and Baptist Towers Apartments.) The Camellia Lane developer said that the project could not have started without Section 1602 Program funding because no investors were willing to finance the rural project. Camellia Lane will provide 52 new residences with geothermal heating and cooling for persons over age 55 in an area with limited housing for seniors.

Figure 4: Rehabilitation of Riverview Heights and Baptist Towers Apartments

Bathroom and kitchen at Baptist Towers Apartments prior to renovation

Bathroom and kitchen at Baptist Towers Apartments after renovation

Riverview Heights community center under construction

Source: GAO.

Although Progress Has Been Made, Georgia Faced Some Implementation Challenges

Although DCA officials were pleased with overall progress, they reported some challenges relating to increased workloads, reporting, and cost certification. To manage the increased workload, they delayed the 2010 round of low-income housing tax credits by 60 days to complete processing of Recovery Act projects. They also hired a temporary staff person to help with loan processing.

DCA officials also reported that complying with some Recovery Act reporting requirements was difficult. For example, they initially experienced some challenges in reporting on environmental requirements in HUD's Recovery Act Management and Performance System. In addition, they reported that it required two staff to comply with recipient reporting requirements. To ensure the reliability of job data, DCA officials said they compare the numbers to payroll records. When discussing the procedure for calculating jobs created, the officials said that the reported job numbers were understated. They believed prorating job numbers based on the percentage of project funding provided by the Recovery Act was misleading because the project might not have been completed without those funds.

A new process that DCA used to ensure that project costs were reasonable also was time-consuming. DCA worked with a local university on comprehensive cost and energy efficiency analyses for funded projects. The analyses were based on actual bids from subcontractors for the projects and resulted in increased energy efficiency and reduced costs of $5 million, according to DCA officials. While acknowledging the utility of the cost certification process, one developer we interviewed estimated it took 6 months to complete.

Georgia Accelerated Its Use of Recovery Act Funds, and Selected Localities Have Begun to Receive Recovery Act Funds

Georgia moved Recovery Act funds planned for use in the fiscal 2011 budget to the 2010 budget because of declining revenues.[30] Localities we visited began receiving Recovery Act funds, and they had varying budget situations.

[30]The state's fiscal year begins on July 1.

Declining Revenues Forced Georgia to Accelerate Its Use of Recovery Act Funds

Georgia's year-to-date revenues as of March 2010 were almost 12 percent less than they were as of March 2009. To cover part of the shortfall, the Governor proposed amending the fiscal year 2010 budget by accelerating use of State Fiscal Stabilization Fund monies. According to state officials, the legislature approved moving $342.6 million planned for use in fiscal year 2011 to fiscal year 2010. The state's fiscal year 2011 budget included about $2 billion in Recovery Act funds, and also eliminated vacant positions and reduced expenditures in multiple departments. Georgia drew down its reserve fund to $103.7 million from a high of $1.5 billion in fiscal year 2007. Georgia is preparing for the cessation of Recovery Act funds by continuing to reduce spending levels.

Selected Localities in Georgia Also Received Recovery Act Funds

We visited three local governments—DeKalb County, the City of Savannah, and the City of Albany—to discuss their use of Recovery Act funds and fiscal condition.[31] See table 3 for demographic and economic overview information.

Table 3: Information on Three Localities Visited by GAO

Locality	Locality type	Population[a]	Unemployment rate (percentage)[b]	FY 2010 budget (in millions)[c]
DeKalb County	County	747,274	10.4	$1,231
Savannah	City	132,410	9.8	324
Albany	City	75,831	12.5	104

Sources: GAO analysis of U.S. Census Bureau data; U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; and budget documents.

[a]City population data are from the latest available estimate, July 1, 2008. County population data are from the latest available estimate, July 1, 2009.

[b]Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

[c]DeKalb County officials provided their operating budget. DeKalb County and Savannah have a fiscal year ending on December 31, while Albany has a fiscal year ending June 30.

DeKalb County, Georgia

According to county officials, DeKalb County had been awarded about $25.4 million in Recovery Act funds as of May 4, 2010. The largest award was a $6.5 million Energy Efficiency and Conservation Block Grant from Energy. Other funding came from programs such as the Edward Byrne

[31]We chose these locations because they represented a mix of cities and counties, population sizes, unemployment rates, and amount of Recovery Act funds received.

Memorial Justice Assistance Grant Program, the Homelessness Prevention and Rapid Re-housing Program, and the Community Oriented Policing Services (COPS) Hiring Recovery Program. County officials stated that because Recovery Act funds were used mostly for one-time capital projects, the county's strategy for winding down their use will be to rely on prior capital funding sources. DeKalb County had a balanced fiscal year 2010 operating budget of approximately $1.2 billion. To balance the budget, the county reduced overtime payments, limited purchasing, and began an early retirement program. DeKalb County has an internal auditor who plans to review Recovery Act expenditures as of April 7, 2010. Reviews of various programs that expended Recovery Act funds began in April 2010 and will end by May 2010.

Savannah, Georgia

According to city officials, Savannah had been awarded $9.6 million in Recovery Act funds as of May 4, 2010. The city's largest award was a $1.7 million Port Security Grant for supporting emergency management and response at the city's port. The city also was awarded funds under the Homelessness Prevention and Rapid Re-housing Program and Energy Efficiency and Conservation Block Grant Program, among others.[32] City officials stated that since most of the Recovery Act funds were for one-time expenses, they did not need to develop a strategy for winding down their use of the funds.

Savannah had a balanced fiscal year 2010 budget of about $324 million. To balance its budget, Savannah froze hiring and salaries and eliminated vacant positions. According to city officials, they planned for an economic downturn by setting up a special reserve funded with excess proceeds from the sales tax. These funds helped fill revenue gaps during the downturn.

The finance and internal audit departments have oversight over Savannah's Recovery Act funds. The internal audit department's plans for fiscal year 2010 include overseeing grants as a whole, rather than Recovery Act funds specifically. If a grant at a city department is reviewed, the internal auditor will also review associated Recovery Act spending. The internal auditor has not issued any reports on Recovery Act funding to date.

[32]Funding that the City of Savannah received to provide summer youth employment and adult and dislocated workers programs will be used to serve a nine-county area.

Albany, Georgia

According to city officials, Albany had been awarded approximately $5.9 million in Recovery Act funding as of May 4, 2010, including about $1.4 million under the COPS Hiring Recovery Program grant. The city also received about $771,000 in Energy Efficiency and Conservation Block Grant funds and about $310,000 in Community Development Block Grant funds, among other grants. While the Recovery Act provided additional funding for Albany, city officials stated the funds were not essential for operations because they expanded current operations rather than created new services. When the Recovery Act funds have been used, officials stated they would scale back their operations to the previous level. Albany has a fiscal year 2010 budget of about $104 million, and officials characterized its fiscal condition as stable. However, city officials planned to use $3 million to $4 million from cash reserves for budget shortfalls. Officials said absent Recovery Act funds, essential city projects could have been funded either by the special local options sales tax, an increase of property taxes, or draw downs from cash reserves. Although the city does not have an internal auditor, a staff person in the finance department coordinates Recovery Act grants and has oversight responsibilities. Officials expect that the city's 2010 Single Audit performed by an external auditor will cover Recovery Act funds.[33]

[33]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending $500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

Georgia's Accountability Community Is Auditing Recovery Act Funding

The State Auditor, the State Inspector General, and agencies' internal audit departments are responsible for auditing and investigating Recovery Act funds. The State Auditor's oversight of Recovery Act funds occurs primarily through the Single Audit, as the following examples illustrate:

- The State Auditor participated in OMB's Single Audit Internal Control Project.[34] On December 28, 2009, the State Auditor issued an internal control letter based on an audit of the State Fiscal Stabilization Fund Cluster and the Highway Planning and Construction Cluster.[35] It did not identify any findings related to its review of the State Fiscal Stabilization Fund cluster. However, it identified three significant deficiencies and one material weakness at the Georgia Department of Transportation. The significant deficiencies were noted for the following control categories: cash management, reporting, and special tests and provisions. These involved inconsistencies in the reporting of disbursement dates and the reimbursement request dates, failure to submit an accurate Schedule of Expenditures of Federal Awards, and failure to complete and maintain quarterly materials certificate checklists. The deficiency in cash management and reporting was a material weakness. The State Auditor noted that failure to have adequate cash management policies and procedures in place could result in noncompliance with federal regulations and may affect the proper recording of federal program revenues, causing misstatements within the financial statements. The Georgia Department of Transportation agreed with the findings and stated that it had implemented changes to address them.

[34]OMB implemented a Single Audit Internal Control Project (project) in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states volunteered for the project including Georgia, whose auditors issued their interim reports on internal control for selected major Recovery Act programs by December 31, 2009, and a corrective action plan to the appropriate federal agency by January 31, 2010.

[35]The State Fiscal Stabilization Fund Cluster includes Recovery Act education stabilization and government services funds. The Highway Planning and Construction Cluster includes Recovery Act and non-Recovery Act funding for highway planning and construction and repairs to recreational trails.

- For the final fiscal year 2009 Single Audit report, the State Auditor included audits of Recovery Act programs administered by GEFA and the Georgia Departments of Community Health, Education, Human Resources, Labor, and Transportation. According to the State Auditor and other independent auditors, there were 19 findings related to programs with Recovery Act expenditures. For example, the Georgia Department of Human Resources did not record Recovery Act expenditures separate from regular expenditures on its Schedule of Expenditures of Federal Awards, which could result in material misstatements in the agency's financial statements.[36] According to department officials, this error was corrected prior to being reported in the final Schedule of Expenditures of Federal Awards.

- The State Auditor plans to conduct additional audits of Recovery Act programs for the fiscal years 2010 and 2011 Single Audits.

Due to limited staffing, the State Inspector General has taken a complaint-based approach to investigate alleged misuse of Recovery Act funds. Each state agency must notify the Inspector General when a complaint has been filed with the agency. Citizens can submit complaints directly to the Inspector General using a form on its Web site. To date, the Inspector General has received two complaints directly. A complaint received in Fall 2009 was based on citizen dissatisfaction with Recovery Act funds being used to purchase road signs for Georgia Department of Transportation projects. As of September 2009, the department had stopped the practice of posting these signs. Upon further investigation, the second complaint turned out not to be related to Recovery Act funds.

A number of state agencies, including the Board of Regents of the University System of Georgia, the Georgia Departments of Transportation and Human Services, and GEFA, have internal audit departments that plan to audit or are already auditing Recovery Act funds. For example, the Board of Regents of the University System of Georgia, which oversees 35 public colleges and universities in the state, has audited institutions directly or reviewed reports completed by institutions following an audit plan it provided. The 10 audit reports we reviewed did not find any significant weaknesses with Recovery Act funds. However, one report found that the institution could make improvements to its written documentation for specific procedures.

[36]The Georgia Department of Human Resources has since been reorganized and renamed the Georgia Department of Human Services.

The State Accounting Office continues to monitor Recovery Act recipient reporting by reviewing the data each state agency submits for reasonableness and potential inaccuracies. In addition, it is tracking state agencies' progress in addressing Single Audit findings and plans to produce quarterly reports. Beginning in May 2010, the office plans to start an internal control initiative working with state agencies, particularly those identified as high risk in the Single Audit, to provide additional internal control training on topics such as subrecipient monitoring and cash management issues. In addition to internal control training, the State Accounting Office is working with the Recovery and Transparency Board to conduct fraud, waste, and abuse prevention training for selected agencies in June 2010.

State Comments on This Summary

We provided the Governor of Georgia with a draft of this appendix on May 7, 2010, and a representative from the Governor's office responded that same day. The official agreed with our draft, stating that it accurately reflects the current status of the Recovery Act program in Georgia.

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