COMPLIANCE AND CONTROL AUDIT REPORT

American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Moneys Won't Be Appropriately Accounted for or Spent

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2009

10CC02

Legislative Post Audit Committee
Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about $10 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

LEGISLATIVE POST AUDIT COMMITTEE

Representative Virgil Peck Jr., Chair
Representative Tom Burroughs
Representative John Grange
Representative Ann Mah
Representative Peggy Mast

Senator Terry Bruce, Vice-Chair
Senator Anthony Hensley
Senator Derek Schmidt
Senator Chris Steineger
Senator Dwayne Umbarger

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.ks.gov
Website: http://kslegislature.org/postaudit
Barbara J. Hinton, Legislative Post Auditor

DO YOU HAVE AN IDEA FOR IMPROVED GOVERNMENT EFFICIENCY OR COST SAVINGS?

The Legislative Post Audit Committee and the Legislative Division of Post Audit have launched an initiative to identify ways to help make State government more efficient. If you have an idea to share with us, send it to ideas@lpa.ks.gov, or write to us at the address above.

You won't receive an individual response, but all ideas will be reviewed, and Legislative Post Audit will pass along the best ones to the Legislative Post Audit Committee.

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.

LEGISLATURE OF KANSAS

LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.ks.gov

December 11, 2009

To: Members, Legislative Post Audit Committee

Representative Virgil Peck Jr., Chair	Senator Terry Bruce, Vice-Chair
Representative Tom Burroughs	Senator Anthony Hensley
Representative John Grange	Senator Derek Schmidt
Representative Ann Mah	Senator Chris Steineger
Representative Peggy Mast	Senator Dwayne Umbarger

This report contains the findings, conclusions, and recommendations from our completed performance audit, *American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Moneys Won't Be Appropriately Accounted for or Spent*.

The report also contains individual program summaries showing more information about each of the eight programs we reviewed. These program summaries begin on page 20.

The report includes several recommendations for the Corporation Commission, Department of Health and Environment, Kansas Housing Resources Corporation, and Department of Social and Rehabilitation Services. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton

Barbara J. Hinton
Legislative Post Auditor

READER'S GUIDE

The Big Picture

Audit Highlights	The highlights sheet, inserted in each report, provides an overview of the audit's key findings
Conclusions and Recommendations	Located at the end of the report sections, and referenced in the Executive Summary
Agency Response	Included as the last Appendix in the report
List of Figures	Lists all figures used in the report and their location (as shown at the end of the Executive Summary)

The Details

"At-a-Glance Box"	Used to describe key aspects of the audited agency; generally appears in the first few pages of the main report
Side Headings	Point out key issues and findings
Charts, Tables, and Graphs	Visually help tell the story of what we found
Narrative Text Boxes	Highlight interesting information or provide detailed examples

This audit was conducted by Amy Thompson and Lynn Retz. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Amy Thompson at the Division's offices.

Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612

(785) 296-3792
E-mail: LPA@lpa.ks.gov
Web: www.kslegislature.org/postaudit

Table of Contents

List of Figures

List of Appendices

American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Moneys Won't Be Appropriately Accounted for or Spent

The American Recovery and Reinvestment Act of 2009 was passed by the 111th Congress, and signed into law on February 17, 2009. The Recovery Act was intended to stimulate the U.S. economy in the wake of the worst economic downturn since the Great Depression. The Recovery Act contains $787 billion in domestic spending for items such as education, health care, infrastructure, and energy. It also provides for federal tax cuts and expansion of unemployment benefits and other social welfare provisions.

It's anticipated that, from fiscal year 2009 through fiscal year 2011, approximately $2 billion in funding will be distributed to 13 Kansas agencies under the Recovery Act. In some cases, the increases in funding will be dramatic. For example, the Governor's Grants Program, which administered approximately $3 million in federal funds for the Byrne-Justice Assistance Grant Program during fiscal year 2008, is expected to receive Recovery Act funding totaling more than $12 million for that program over the next three years.

The Recovery Act imposes a number of responsibilities on the states to separately account for the money, to ensure that it is spent in accordance with the requirements, and to report on the funds awarded and spent and the number of jobs created and retained. Given the risks associated with this huge inflow of funds, the Legislative Post Audit Committee authorized Legislative Post Audit to conduct preparedness reviews to provide an early indication of whether significant risks exist relating to the adequacy of agencies' systems for recording, using, monitoring, and reporting on Recovery Act moneys.

This performance audit answers the following questions:

1. **What procedural weaknesses related to programs receiving Recovery Act moneys were identified in the most recent Statewide Single Audit?**

2. **Have selected agencies receiving Recovery Act moneys taken adequate steps to ensure that the Recovery Act moneys they receive will be appropriately accounted for and spent?**

To answer these questions, we reviewed the most recent Statewide Single Audit to identify procedural weaknesses auditors had found for programs that will be spending Recovery Act moneys. Also, to identify potential risks that exist with the Recovery Act moneys, we reviewed audits the Government Accountability Office (GAO) has conducted of Recovery Act spending in other states.

We reviewed the amount of Recovery Act moneys going to State agencies in Kansas, and selected eight programs for more detailed review. For each program, we interviewed agency officials and reviewed the grant awards, policy and procedure manuals, and other documents they provided.

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in ***Appendix A***. The first question on the approved scope statement asked whether programs receiving Recovery Act Moneys had corrected significant weaknesses identified in the most recent Single Audit. As we started this audit, we learned that the accounting firms conducting the current Statewide Single Audit already were doing work to follow-up on recommendations from the previous Single Audit. To avoid duplicating their work, we didn't conduct work in this audit to determine whether previously identified deficiencies had been corrected. Instead, we modified the first audit question to read – *What procedural weaknesses related to programs receiving Recovery Act moneys were identified in the most recent Statewide Single Audit?*

Our purpose in conducting this audit was to provide a preliminary assessment of the risk that the policies and procedures implemented by selected State agencies wouldn't be sufficient to ensure compliance with the major requirements associated with the Recovery Act. Although we conducted a high-level review of each agency's procedures, we didn't conduct detailed tests to determine whether the procedures agencies described to us were being followed. In addition, the federal agencies that grant Recovery Act moneys have the authority to add specific program requirements related to those moneys. While we attempted to consider the major programmatic requirements we became aware of, we didn't attempt to identify all specific program requirements or ensure that the agencies have policies and procedures in place to meet them. Finally, some Recovery Act moneys are being provided directly to local units of government, not-for-profits, or others in Kansas. In this audit we didn't attempt to assess any risks that might exist in those programs.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

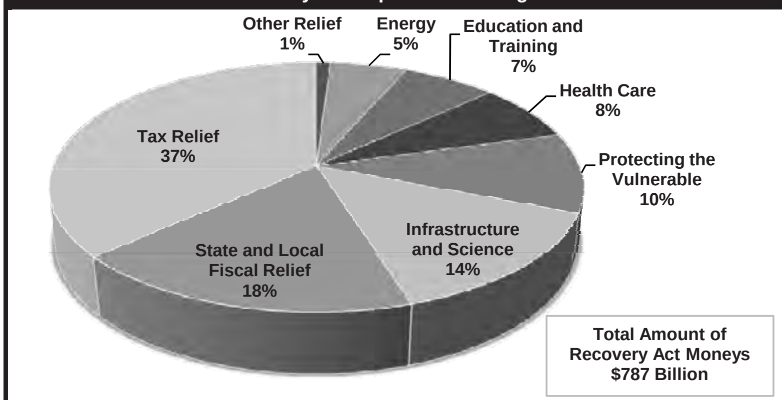
Our findings begin on page 9, following a brief overview.

Congress Will Provide $787 Billion in Recovery Act Moneys For Eight Major Categories of Spending

Congress passed the $787 billion American Recovery and Reinvestment Act in February 2009. It was created as a way to stimulate the economy and create jobs in response to the economic crisis, while fostering unprecedented levels of accountability and transparency in government spending.

The moneys distributed under the Recovery Act will be divided among the eight spending categories, shown in ***Figure OV-1***. More than half of the moneys will be used for tax relief or for state and local fiscal relief.

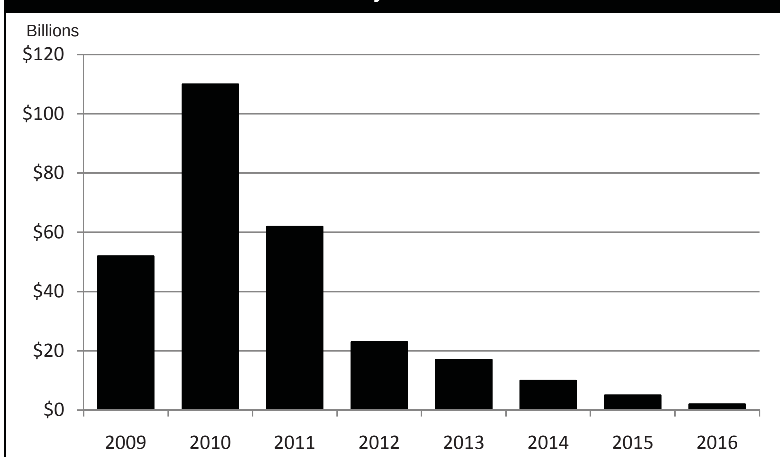
Figure OV-1
Recovery Act Expenditure Categories



Source: LPA analysis of Recovery.gov website.

The Recovery Act provides that the bulk of the moneys will be distributed over the next three years as shown in ***Figure OV-2***.

Figure OV-2
Projected Timing of Federal Recovery Act Moneys Made Available to States and Localities by Federal Fiscal Year



Source: GAO analysis of CBO and FFIS data

The Recovery Act Imposes Strict Requirements on States Receiving Recovery Act Moneys

One goal of the Recovery Act is to be transparent and accountable with the moneys spent. To oversee this, Congress created the Recovery Accountability and Transparency Board. The Board is made up of 13 current and former federal Inspectors General. This Board has two primary missions. The first is to prevent and detect fraud, waste, and mismanagement of Recovery Act moneys. The second goal is to ensure transparency in how Recovery Act moneys are spent.

Recipients of Recovery Act moneys are required to report expenditures and jobs created and retained on a quarterly basis. The federal government will distribute Recovery Act moneys directly to states, localities, not-for-profits, and other recipients. States may spend the moneys or distribute them to sub-recipients. All direct recipients, including states, must register with federalreporting.gov. This website allows recipients to report on funds received and spent and jobs created and retained. The reports are due 10 days after the end of each calendar quarter.

A second website, recovery.gov, is the federal government's official website for providing the public with access to the data submitted by recipients through federalreporting.gov. This website also allows the public to report potential fraud, waste, and abuse involving Recovery Act moneys.

Under the Recovery Act, Kansas Will Receive More Than $2 Billion In Formula Grants Through 2011

Recovery Act moneys are being awarded to states in two ways:

- **Formula grants** are awards based on factors such as population, rates of foreclosure, environmental pollution, or a variety of other factors related to each program. Formula grants are direct allocations to state and local entities that aren't competitive, though in many cases the federal agencies require grantees to develop a plan or proposal for the use of the moneys.

- **Competitive grants** require an application to the respective federal agency. They can be awarded to a variety of grantees such as states, parishes, cities, tribal governments, educational institutions, metropolitan planning organizations, non-profit and for-profit entities. These grants are based on the merits of the projects proposed in the application.

Based on information available from the Division of Budget and recovery.gov (a new federal website that provides access to Recovery Act data), 13 State agencies in Kansas are expected to receive more than $2 billion in Recovery Act formula grant awards over the next three years. These agencies, as well as the programs projected to receive Recovery Act moneys, are shown in ***Figure OV-3*** on page 6.

Figure OV-3
Estimated American Recovery and Reinvestment Act Formula Grants

State Agency/Program	Estimated Grand Total
Department on Aging	
Elderly Nutrition	**$865,164**
Attorney General	
Violence Against Women	**$114,840**
Department of Commerce	
Workforce Investment Act - Youth	$7,121,714
Dislocated Workers	$5,203,888
Community Development Block Grant Non-Entitlement	$4,600,348
Employment Services	$3,436,869
Workforce Investment Act - Adults	$2,702,158
Subtotal : Agency	**$23,064,977**
Department of Education	
Fiscal Stabilization - Education	$367,400,000
Special Education - Part B Grants	$106,872,000
Title 1 - Grants to Local Education Agencies	$70,868,000
Title 1 - School Improvement	$22,754,000
Enhancing Technology	$4,552,000
Special Education - Early Childhood	$4,496,577
Special Education - Part C	$3,900,000
School Lunch Equipment	$850,000
AmeriCorps	$631,000
McKinney-Vento Education for Homeless	$460,000
Subtotal : Agency	**$582,783,577**
Departments of Education/Corrections	
Fiscal Stabilization - General Purpose	**$81,700,000**
Governor's Grants Program	
Byrne-Justice Assistance Grants	$12,660,141
Violence Against Women	$1,569,660
Crime Victims Assistance Grants	$685,000
Subtotal : Agency	**$14,914,801**
Kansas Housing Resources Corp.	
Weatherization	$56,441,771
Credit Exchange Program	$45,098,154
Tax Credit Assistance Program	$17,121,110
Homelessness Prevention	$8,360,995
Community Services Block Grant	$8,161,336
Subtotal : Agency	**$135,183,366**
Kansas Housing Res. Corp./Kansas Corp. Comm.	
Appliance Rebates	**$2,688,559**
Kansas Corporation Commission	
State Energy Program (Efficiency Kansas)	$38,284,000
Energy Efficiency and Conservation	$9,593,500
Subtotal : Agency	**$47,877,500**
Department of Health and Environment	
Clean Water	$35,374,185
Drinking Water	$19,500,000
Immunization	$2,064,374
Subtotal : Agency	**$56,938,559**
Department of Transportation	
Highways and Bridges	$348,242,169
Transit Capital Grants - Urban	$17,146,464
Transit Capital Grants - Rural	$11,056,694
Subtotal : Agency	**$376,445,327**
Kansas Health Policy Authority	
Medicaid - Federal Medicaid Percentage Increase	$404,500,000
Medicaid - Disproportionate Share Hospitals	$2,120,815
Subtotal : Agency	**$406,620,815**
Kansas Department of Labor	
Unemployment Insurance Modernization	$68,970,143
Extended Unemployment Benefits	$65,000,000
Increased Unemployment Insurance Benefits	$65,000,000
Unemployment Insurance State Administration	$4,926,439
Subtotal : Agency	**$203,896,582**
SRS	
Food Stamp Benefits	$76,263,783
Child Care	$18,415,435
TANF Block Grant Increase	$5,120,000
Vocational Rehabilitation	$5,108,753
Foster Care and Adoption	$4,590,362
Food Stamp Administration	$1,708,276
The Emergency Food Assistance Program (TEFAP)	$1,354,000
Independent Living	$564,281
Subtotal : Agency	**$113,124,890**
Grand Total: Formula Grants	**$2,046,218,957**

Sources: Department of Administration, officials at State agencies receiving Recovery Act moneys, and recovery.gov website.

As the figure shows, the Department of Education, Health Policy Authority, and Department of Transportation will be receiving a significant portion of these moneys.

At the time of the audit, agencies were still applying for competitive grants. Two agencies had been awarded competitive grant moneys. The Department of Health and Environment will receive $2.4 million and the Arts Commission will receive nearly $302,000.

Kansas has established an American Recovery and Reinvestment Act Advisory Group to help oversee Recovery Act spending in Kansas. Former Governor Sebelius created the advisory group in January 2009 to plan for the Recovery Act's implementation. The Lieutenant Governor serves as chair. Other members include the Budget Director, cabinet secretaries, various agency directors, and four members of the Kansas Legislature.

The Advisory Group has established a web page on the Governor's website governor.ks.gov that shows Recovery Act projects in Kansas by county as well as project milestones. The Advisory Group continues to meet quarterly to discuss any issues agencies may be facing related to the Recovery Act, including quarterly reporting.

In August, 2009 the Division of Budget issued a memo advising State agencies slated to receive Recovery Act moneys to register with federalreporting.gov. Budget officials advised those agencies to separate Recovery Act moneys from other moneys, and worked with officials at the Division of Accounts and Reports to assist agencies with accounting for Recovery Act dollars separately.

The U.S. Government Accountability Office Is Reviewing the Use of Recovery Act Moneys in 16 States

The Recovery Act requires the U.S. Government Accountability Office (GAO) to conduct bi-monthly reviews of the use of funds by selected states and localities. GAO's work is focused on 16 states and the District of Columbia—representing about 65 percent of the U.S. population and two-thirds of the intergovernmental federal assistance available through the Recovery Act. Kansas is not one of the states selected for review.

Auditors focused on programs that received Recovery Act outlays in federal fiscal year 2009. They looked at how the selected states and localities have used (or plan to use) Recovery Act funds, how they will ensure accountability for the uses of the funds, and how they plan to evaluate the impact of the funds they've received.

Figure OV-4
Summary of GAO Audit Reviews of the Implementation of the Recovery Act
Through September 2009

Report	Key Findings	Key Recommendations
"Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential" April 2009	-- Officials in most of the states reviewed expressed concerns about the lack of Recovery Act funding for accountability and oversight. -- States reported significant declines in the number of oversight staff because of fiscal constraints. -- Officials in about half of the states reviewed expressed concerns about determining jobs created and retained.	Recommendations for the U.S. Office of Management and Budget: -- improve the Single Audit process. -- identify ways to determine jobs created and retained. -- evaluate current requirements before adding new data collection requirements. -- clarify what Recovery Act moneys can be used for oversight. -- provide notification about federal guidance.
"Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses" July 2009	-- Auditors found wide variation in how states identified economically distressed areas and prioritized projects. Officials in most states reviewed considered project readiness when making project selections for the Highway Infrastructure Investment program and considered economically distressed areas after the projects were selected. -- Auditors found Single Audit guidance and reporting doesn't fully address Recovery Act risk. -- Auditors questioned the reliability of data on USAspending.gov because information reported depends on sub-recipients.	Recommendations for the U.S. Secretary of Transportation: -- develop clear guidance on identifying and giving priority to economically distressed areas. Recommendations for the U.S. Office of Management and Budget: -- develop new guidance for Single Audits. -- work with federal agencies on reporting issues. -- strengthen efforts to track moneys and their uses. Recommendations for Congress: -- add funding for additional Single Audit costs and auditing Recovery Act programs.
"Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed" September 2009	-- Most states reviewed hadn't started to weatherize homes as part of the Weatherization Assistance Program because of concerns about prevailing-wage requirements. -- Highway and transit officials expressed concerns about reporting requirements. -- Auditors found the U.S. Department of Education hadn't completed monitoring plans for the State Fiscal Stabilization Fund. -- Auditors noted measuring outcomes of the Workforce Investment Act summer youth program were challenging.	Recommendations for the U.S. Secretary of Transportation: -- identify common problems in meeting reporting requirements and provide guidance as needed. Recommendations for the U.S. Secretary of Education: -- ensure states understand their responsibility to monitor sub-recipients. Recommendations for the U.S. Secretary of Labor: -- provide additional guidance on how to measure outcomes of the Workforce Investment Act summer youth program.

Source: LPA analysis of GAO audit reports.

Question 1: What Procedural Weaknesses Related to Programs Receiving Recovery Act Moneys Were Identified in the Most Recent Statewide Single Audit?

ANSWER IN BRIEF:	*The fiscal year 2008 Statewide Single Audit identified seven findings related to programs that will be receiving Recovery Act moneys. Three of the seven findings related to issues such as reconciling records and maintaining computer controls to prevent potentially improper payments in the Medicaid Program administered by the Kansas Health Policy Authority. Three of the findings related to problems with eligibility determination and potential misuse of moneys at SRS, and one related to the Department of Education not maintaining documentation for the Special Education Program. We noted that four of the findings—two at SRS and two at the Kansas Health Policy Authority—were repeated from the 2007 Statewide Single Audit because the agencies hadn't made corrections.*

The 2008 Statewide Single Audit Identified Seven Findings in Programs Receiving Recovery Act Moneys

In 1984, Congress passed the Single Audit Act. The Act was designed to avoid having multiple sets of auditors from both state and federal governments looking at federal programs, duplicating each other's work, and creating extra administrative burden for the agencies that administer the programs. Under the Act, a Single Audit generally is required for any entity that expends more than $500,000 in federal moneys in a year. Single Audits address compliance and control concerns for selected federal programs.

In Kansas, Legislative Post Audit contracts with certified public accounting firms to conduct the Single Audit. Since fiscal year 2001, that audit has been conducted by a joint venture of Berberich Trahan and Company of Topeka, and Allen, Gibbs, and Houlik of Wichita. Typically, the auditors conduct most of their work after the end of the fiscal year on June 30. The results of each year's audit are available by the end of the following March.

As mentioned in the Overview, 13 State agencies in Kansas are projected to receive more than $2 billion in Recovery Act funding over the next three years. As part of our work in this audit, we reviewed the findings from the 2008 Single Audit that related to those agencies. Findings could include things like deficiencies in internal controls or not complying with requirements.

The auditors identified findings in programs at four of the 13 agencies. ***Figure 1-1*** on page 10 provides a brief summary of the findings related to each of those programs.

Figure 1-1
Summary of Programs Receiving Recovery Act Moneys with Statewide Single Audit Findings
Fiscal Year 2008

Program	State Agency	Federal Granting Agency	Recovery Act Formula Award	Summary of Audit Findings (a)
Medicaid - pays the medical bills of low-income individuals and families who meet eligibility requirements.	Kansas Health Policy Authority	U.S. Department of Health and Human Services	$406,620,815	The State's "*Quarterly Statement of Expenditures for the Medical Assistance Program*" financial report is prepared using expenditures generated from the agency's fiscal agent. During fieldwork, auditors discovered that agency officials weren't reconciling the expenditures from their fiscal agent with the State's accounting system.
				The Medicaid Management Information System contained no controls to limit the number of surface repairs per tooth that Medicaid would pay dentists for.
				Officials at the Health Policy Authority didn't consistently request adequate supporting documentation from other State agencies before drawing down Medicaid moneys on the other State agencies' behalf. Also, the Health Policy Authority lacked a consistent level of review over the drawdown process.
Special Education - provides early intervention, special education, and related services to children with special learning needs	Department of Education	U.S. Department of Education	$115,268,577	The State didn't maintain the original supporting documentation for enrollment figures from the School Finance website used to prepare the Special Education allocations for the State fiscal year 2008. The State was able to query numbers during the audit fieldwork from the same system that prepared the underlying data for the allocations and the query resulted in immaterial variances to the numbers used to calculate the allocation. However, the underlying data wasn't maintained in accordance with reporting compliance requirements.
Temporary Assistance for Needy Families Block Grant - helps needy families achieve self-sufficiency by providing short-term financial assistance while aiming to get families off that assistance, primarily though employment.	SRS	U.S. Department of Health and Human Services	$5,120,000	In January 2007, the U.S. Department of Health and Human services received an allegation that SRS officials had been misusing moneys allocated for this program. State officials are working with federal officials to verify the allegation and determine the amount of misused funds.
Foster Care and Adoption Assistance - provides out-of-home care for children and finds placement for children with special circumstances with adoptive families.	SRS	U.S. Department of Health and Human Services	$4,590,362	1 of 23 (4%) individuals selected for eligibility test work was ineligible because the permanency hearing was not timely.
				2 of 23 (9%) individuals selected for eligibility test work were ineligible for assistance.

(a) Items highlighted in gray were repeated findings from the FY 2007 Statewide Single Audit that agency officials hadn't addressed.
Source: FY 2008 Statewide Single Audit

As shown in the figure, these four programs are scheduled to receive a total of about $532 million in Recovery Act formula grant awards. The Medicaid Program administered by the Kansas Health Policy Authority had three findings related to reconciling records and maintaining computer controls to prevent potentially improper payments. SRS had three findings related to two different programs, Foster Care and Adoption Assistance and Temporary Assistance for Needy Families. Those findings tended to relate to weaknesses in eligibility determinations or potential misuse of moneys. The Department of Education had one finding related to maintaining documentation for its Special Education Program.

We noted that two of the findings at SRS and two at the Kansas Health Policy Authority were repeated from the previous year because the agencies hadn't corrected the deficiencies to the auditors' satisfaction.

The accounting firms currently conducting the 2009 Statewide Single Audit are following-up on these findings and the results of their work will be available early in 2010. To avoid duplicating their work, in this audit we didn't check whether the agencies had corrected the weaknesses the auditors identified in 2008. None of the findings from the 2008 Statewide Single Audit related to any of the eight programs we selected for detailed review in Question 2 of this audit.

Question 2: Have Selected Agencies Receiving Recovery Act Moneys Taken Adequate Steps to Ensure That the Moneys They Receive Will Be Appropriately Accounted for and Spent?

ANSWER IN BRIEF:	*The requirements Congress and federal granting agencies have placed on Recovery Act moneys fall into three broad categories—accounting, monitoring, and reporting. Overall, the risk that agencies we reviewed won't be in compliance with Recovery Act requirements and best practices appears to be fairly low. We didn't identify any issues that need to be addressed with accounting for the Recovery Act moneys. In a few cases, program officials need to commit existing procedures to writing, further develop some monitoring procedures, or put additional resources in place to monitor Recovery Act spending. Some programs still need to provide written notification to sub-recipients about the information sub-recipients will need to report and, in other cases, procedures need to be developed to check the reasonableness of information sub-recipients will report, or those procedures need to be put into writing. We also found the Department of Transportation's process for selecting projects to be funded with Recovery Act moneys appears to comply with federal requirements. These and other findings are described in the sections that follow.*

The Requirements Congress and Granting Agencies Have Placed On Recovery Act Moneys Fall into Three Broad Areas

As mentioned in the Overview, in passing the Recovery Act, Congress not only wanted to stimulate the economy but also wanted to provide transparency and accountability over the use of the moneys it was providing to state and local governments. In doing so, strict requirements have been placed on the accounting and use of the moneys. The requirements Congress and federal agencies have placed on Recovery Act moneys generally fall into the following three areas:

- **Accounting** – States and localities receiving Recovery Act moneys are required to maintain accounting systems that will allow those moneys to be separately identified and tracked, both as they are received and as they are spent. State agencies that provide the moneys to sub-grantees are responsible for ensuring that those sub-grantees also maintain sufficient accounting systems that will allow the separate tracking of how those moneys are used.

- **Monitoring** – Each federal agency that provides grants to state and local governments has rules and regulations specifying how those moneys can be spent. State or local agencies receiving Recovery Act moneys need to be familiar with those requirements to ensure that they spend the money for allowable purposes. When they pass those moneys on to sub-grantees or contractors, the agencies are responsible for setting up systems for monitoring those expenditures to ensure that they are spent for appropriate activities allowed under each grant.

- **Reporting** – The Recovery Act places special reporting requirements on those receiving moneys. Each state receiving moneys from the Recovery Act is required to register with the federalreporting.gov website and to report required information about how moneys have been used as well as information about the number of jobs created and retained as a result of that spending. Those reports have to be made quarterly and are due within 10 days of the end of each calendar quarter.

  States have the option of either aggregating all the information centrally and filing a single report for the state, or having each agency in the state that receives Recovery Act money report its own activities separately (likewise, agencies that pass Recovery Act moneys along to sub-grantees may either report centrally for all sub-grantees or require each sub-grantee to report separately). Kansas has chosen a decentralized approach to reporting and will have each agency file its own reports. The agencies we reviewed that have sub-grantees have chosen to collect the expenditure and jobs information from the sub-grantees and report it for all the sub-grantees at once.

Our review of State agency's uses of select Recovery Act moneys in Kansas touched on each of these three areas.

Overall, There Is a Fairly Low Risk That the Agencies We Reviewed Won't Be in Compliance With Recovery Act Requirements

Agencies have had to act very quickly to be ready to spend the Recovery Act moneys. As mentioned in the Overview, the Recovery Act was passed in February 2009 and moneys began flowing to the states later in the spring. The Recovery Act results in states receiving unprecedented amounts of money for a very short period of time.

In some cases, the deadlines have been very short. For example, Kansas Department of Transportation officials had to commit 50% of the Highway Infrastructure Investment moneys that could be used in any area of the State within 120 days of when the moneys were awarded.

In other instances, agencies have had to create entirely new programs. For example, the Kansas Corporation Commission has recently started a program called Efficiency Kansas to spend the $38 million in Recovery Act moneys they are receiving. A large part of that program involves coordinating with banks and utility companies to make loans to consumers to fund energy improvements to their homes that will pay for themselves through decreased utility use.

For this audit, we selected eight programs administered by the Kansas Housing Resources Corporation and four State agencies that will receive large amounts of Recovery Act moneys. The programs are either new programs or existing programs that will receive far more money than they have spent in the past.

However, we also reviewed the Department of Transportation's systems for handling the funding it will receive for highway infrastructure investment, even though it has received and spent large amounts of federal highway funding in the past. We selected it for review because auditors from the U.S. Government Accountability Office identified issues in other states where transportation departments hadn't followed specific requirements for selecting highway projects, and we wanted to know whether similar problems may exist in Kansas.

For the most part, Kansas agencies appear to be aware of requirements they have to meet to be in compliance with the Recovery Act, and have taken reasonable steps to comply. ***Figure 2-1*** summarizes the requirements or best practices we looked at for each program. Grey shaded boxes mean we found no issues in those areas. Check marks indicate areas where we found issues that the agencies needed to address. Check marks don't necessarily indicate a total lack of procedures. In fact, in some cases, agencies simply need to clarify procedures or add a few steps to make them more complete. More detail about issues that need to be addressed is provided in the individual program summaries beginning on page 20. In some cases, after our review agencies took steps to address some of the issues we identified. Those actions also are described in the individual program summaries. In brief, we found the following:

- **<u>Accounting</u> – We didn't identify any issues that need to be addressed from the standpoint of how agencies will account for the Recovery Act moneys**.

- **<u>Monitoring</u> – We identified a few cases where program officials will need to commit existing procedures to writing, further develop other procedures, or hire additional staff to monitor Recovery Act spending.** The Homelessness Prevention and Rapid Re-Housing Program at Kansas Housing Resources Corporation hadn't committed their monitoring procedures to writing. Having written procedures helps to ensure uniformity in the monitoring process by making sure that staff know what to look for and that they check the same things consistently.

  We also noted the Weatherization Program administered by the Kansas Housing Resources Corporation lacked fully developed procedures to make sure sub-recipients are in compliance with wage requirements of the Davis-Bacon Act. The Davis-Bacon Act requires that contractors pay prevailing wages for projects that are funded with federal moneys. Program officials told us it has been difficult to get those procedures developed because information from the federal granting agency has been slow in coming or has changed frequently.

Finally, Department of Health and Environment officials told us they needed several additional staff to monitor Recovery Act spending, but due to the budget crisis, it may be several months or longer before those staff can be hired. They told us that existing staff would assume the monitoring responsibilities in the interim. The risk in that situation is that staff will be stretched too thin and the monitoring may not get done as well as it should.

- **<u>Quarterly Reporting</u> – We identified cases where program officials need to provide or clarify written notification to sub-recipients about Recovery Act quarterly reporting requirements, and other cases where procedures to check the reasonableness of sub-recipient reports either need to be developed or put in writing.** The two programs that had issues related to notifying sub-recipients about reporting requirements included Efficiency Kansas at the Corporation Commission and the Weatherization Program at the Kansas Housing Resources Corporation.

The Corporation Commission had included written information about quarterly reporting requirements in the Memorandum of Agreement with participating utilities but not in the Lender Participation Agreement it has with banks participating in the program.

For its Weatherization Program, the language in the Housing Resources Corporation's contracts with sub-recipients wasn't in agreement with instructions Corporation officials provided to sub-receipents. Corporation officials included reporting instructions in contracts with its sub-recipients that appear to tell the sub-recipients to go to the federal website and report by the 10^{th} day following the end of a quarter. Corporation officials issued instructions to have the sub-recipients report directly to them within five days of the end of the quarter. The risk is that some sub-recipients might try to report directly to the federal website or that they won't report the information to the Corporation by the 5^{th}.

Officials at the Efficiency Kansas Program at the Corporation Commission haven't developed procedures for checking the reasonableness of information that sub-recipients report. They told us they have been waiting until an internal auditor was hired. That position was recently filled. Two other programs—Clean Water at the Department of Health and Environment and Tax Credit Assistance at the Kansas Housing Resources Corporation—have some procedures for checking the reasonableness of information sub-recipients report but those procedures don't go far enough to address the reasonableness of information about jobs created and retained. This creates a risk that errors in the information submitted by sub-recipients could go undetected.

Five programs didn't have procedures in writing. This includes the three programs mentioned above that that didn't have complete procedures and the Homelessness Prevention and Rapid Re-Housing and Weatherization programs which had reporting procedures, but didn't have them written. Having written procedures minimizes the risk that steps in the process will be skipped or overlooked, and that the procedures won't be consistently carried out if there is turnover in employees.

Figure 2-1
Summary of the 8 Recovery Act Programs Reviewed

NOTE: *Grey shaded boxes mean we found no issues in those areas. Check marks indicate areas where we found issues that the agencies needed to address.* ***Check marks don't necessarily indicate a total lack of procedures.*** *In fact, in some cases, agencies simply need to clarify procedures or add a few steps to make them more complete. More detail about issues that need to be addressed is provided in the individual program summaries beginning on page 20. In some cases, after our review agencies took steps to address some of the issues we identified. Those actions also are described in the individual program summaries.*	**Corporation Commission**	**Department of Health and Environment**
	Efficiency Kansas	**Clean Water**
	$38,284,000	**$35,374,185**
Accounting for Recovery Act Moneys		
Agency officials have established separate funds or accounting codes.		
Agency officials have notified any sub-recipients in writing about the need to separately account for Recovery Act moneys.		
Agency officials have assessed the capacity of the accounting systems to handle the increased level of transactions.		
Agency officials have assessed whether they have sufficient accounting staff to handle the increased transactions.		
Agency officials have added or adjusted accounting staff if needed.		
Monitoring Spending of Recovery Act Moneys		
Agency officials have an established contact with the granting agency who can answer questions about allowable uses of Recovery Act moneys.		
Agency officials have a copy of the grant award to refer to, and appear to be familiar with its terms.		
Agency officials have notified any sub-recipients of the Recovery Act moneys in writing about the allowable uses of the moneys.		
Agency officials appear to have reasonable procedures in place to monitor sub-recipients' use of Recovery Act moneys.		
The agency's sub-recipient monitoring procedures are recorded in writing for employee reference.		
The agency has assessed whether it has sufficient staff to monitor any sub-recipients' use of Recovery Act moneys.		
The agency has hired additional employees to monitor sub-recipients' use of Recovery Act moneys if needed.		✓
Quarterly Reporting on Recovery Act Moneys		
Agency officials have registered with the federal website federalreporting.gov.		
Agency officials have downloaded spreadsheets from the website and appear to be familiar with the reporting requirements.		
Agency officials met the first deadline (October 10,2009) for reporting information about the use of Recovery Act moneys.		
Agency officials notified sub-recipients of Recovery Act moneys in writing about the information they will need to report to the agency.	✓	
Agency officials have established reasonable procedures for checking the reasonableness of the information reported by sub-recipients.	✓	✓
The agency's procedures for checking the reasonableness of information reported by sub-recipients are recorded in writing for employee reference.	✓	✓

(a) Because a series of one-time projects were in the early planning stages, our assessment focused solely on increases and retroactive adjustments SRS made to benefits paid to recipients of child care assistance. This part of the program accounted for about $7.9 million or 43% of the total Recovery Act funding SRS received for child care assistance.

Source: LPA analysis of agency records and interviews.

	Department of Transportation	Governor's Grants Program	Kansas Housing Resources Corporation			Department of Social and Rehabilitation Services
	Highway Infrastructure Investment	Byrne Justice Assistance Grant	Homelessness Prevention and Rapid Re-Housing	Tax Credit Assistance Program	Weatherization	Child Care Development Grant (a)
	$348,242,169	$12,660,141	$8,360,995	$17,151,110	$56,441,771	$18,415,435
					✓	
			✓			
					✓	
				✓		
			✓	✓	✓	

The Department of Transportation's process for selecting highway projects to fund with Recovery Act moneys appears to comply with federal requirements. As previously mentioned, we selected the Department of Transportation for review because auditors from the GAO had found that, in some cases, transportation departments in other states didn't appear to meet the federal requirements for selecting projects to fund with Recovery Act moneys. These requirements specify that priority be given to projects that could be completed within three years and are located in economically distressed areas (as defined by the Public Works Economic Development Act of 1965). To meet the Act's definition of economically distressed, an area had to meet one or more of the following:

- have a per-capita income of 80% of the national average or less.
- have an unemployment rate that, for the most recent 24-month period, is at least 1% greater than the national average.
- be determined by the U.S. Secretary of Commerce to have experienced, or be about to experience, a special need arising from actual or threatened severe unemployment or economic adjustment problems.

Auditors from the GAO found that in some of the 16 states it reviewed, transportation departments first selected their projects, then identified whether those projects met the definition of economically distressed after the fact. Auditors also found that some states used definitions of economically distressed areas that didn't conform to the law.

Kansas Department of Transportation officials told us that their process for selecting highway projects for Recovery Act funding began as the Recovery Act legislation was still being considered by Congress. They told us that, based on the information they had available at the time, the main emphasis was to be on projects that were "shovel ready" meaning those projects that could be started quickly and be completed within three years. Officials told us it was only right before the Recovery Act passed in February that the requirement for consideration to be given to economically distressed areas was inserted in the legislation.

Despite the short notice, the Department's process for selecting Recovery Act projects did appear to give priority to projects located in economically distressed areas. The process assigned points to potential highway projects based on a number of factors such as having complete plans or having acquired any needed land. <u>Projects located in economically distressed areas were given 10 additional</u>

points. The Recovery Act didn't specify how much weight had to be given to projects in economically distressed areas, only that they had to be given priority. Assigning additional points to such projects in the rating scale clearly seems to have moved them higher on the priority list.

Also, the definition of economically distressed areas Kansas used in its selection process seems to have met the requirements of the legislation. Kansas identified areas where per-capita income was 80% of the national average or less, which is one of the criteria specified in the Public Works Economic Development Act of 1965.

In the end, the Department's process resulted in 93 out of 150 projects funded with Recovery Act money being located in economically distressed areas. These 93 projects accounted for 70% of the estimated total project costs of the Recovery Act projects.

Conclusion:

The Recovery Act will provide more than $2 billion to Kansas agencies over the next few years. Compared to the State's General Fund budget of just over $6 billion, this represents an enormous transfer of moneys to the State. With those moneys come significant requirements for ensuring that they are used appropriately and transparently. Overall, the risk appears to be fairly low that the programs we reviewed won't be in compliance with the main requirements of the Recovery Act. Officials administering the programs appear to be making concerted efforts to ensure that Kansas is in compliance with all the requirements of the Act. We did find some areas that need improvement, but most of the issues we identified can be addressed relatively easily by putting existing policies and procedures in writing, further developing some procedures, or modifying existing documents. Our recommendations related to each program can be found in the detailed program summaries beginning on page 20.

Kansas Corporation Commission
Efficiency Kansas

Amount Awarded: $38.3 million

Deadline for Obligating the Money: September 30, 2010

Deadline for Spending the Money: March 31, 2012

Program Description: This program, called Efficiency Kansas, is intended to finance cost-effective, energy-efficient improvements to existing homes, rental units, and small businesses Statewide.

Commission officials told us they plan to use the Recovery Act moneys as follows:

- **($34.0 million)** Creating a revolving loan fund. Recovery Act moneys will be used to make loans to finance energy-efficient improvements.
- **($1.4 million)** Administering the program. Recovery Act moneys will be used to cover the cost of administering and monitoring the program.
- **($1.0 million)** Redesigning utility rate structures. Recovery Act moneys will be used to employ a consultant to assist in redesigning utility rate structures to achieve new goals of energy efficiency and environmental protection.
- **($500,000)** Providing incentives for new energy auditors. Recovery Act moneys will be used for energy audit equipment, scholarships, and training to encourage more people to become qualified energy auditors.
- **($500,000)** Marketing the program. Recovery Act moneys will be used to inform the public about the loan program.
- **($481,000)** Providing loan fee rebates. Recovery Act moneys will be used for rebates to help defray the upfront administrative costs for lenders which will reduce costs for borrowers who choose to finance improvements through local banks.
- **($350,000)** Providing energy audit rebates to homeowners, renters, and business owners. Recovery Act moneys will be used for rebates to help defray the cost of energy audits for the first 1,000 Program participants.

The largest of these components is a revolving-loan fund which will be used to finance energy improvements to homes, rental units, or businesses. To get a loan, the homeowner, renter, or business owner has to get an energy audit conducted by an energy auditor certified by the Corporation Commission. The purpose of the audit is to identify potential energy improvements, such as new windows, added insulation, or new furnaces that will pay for themselves over a period not exceeding 15 years. Those who want to participate in the program then obtain loans from participating banks or utility companies to make the identified improvements to their dwellings or businesses. The loan is then repaid over 15 years through charges tacked onto the customer's utility bill. Program officials indicated that the reduction in energy costs should offset the amount of the loan repayment that is added to the customer's monthly bill. The program provides the money to the banks at no cost and they are allowed to charge the borrower up to 4% interest on the loan. Utilities will be allowed to charge a tariff, which will have to be approved by the KCC. The maximum loan amount is $20,000 for a residence and $30,000 for a small business.

Impact on the Program/Agency: This is a new program. It is likely to have a significant impact on the Corporation Commission because it is a large program and will require several staff to oversee it. Commission officials anticipate the average loan will be approximately $5,500, which would allow a total of just over 6,000 loans in the 36 months of the program.

Accounting

Summary Comments

- Commission officials added a new fund with several budget units to the Commission's accounting system to separately identify and account for Recovery Act moneys.
- Commission officials notified the utilities and lenders that they will have to segregate the Recovery Act moneys from all other moneys.
- Commission officials have assessed the capacity of their financial systems to handle the increase in transactions related to Recovery Act moneys and determined they didn't need additional accounting staff to handle this program.

Accounting Issues That Need To Be Addressed - None

Monitoring

Summary Comments

- Commission officials have an established contact person at the federal granting agency (The U.S. Department of Energy) if they have questions.
- Commission officials have a copy of the grant award and appear to be aware of its requirements.
- Commission officials have an Efficiency Kansas Lender Participation Agreement that each partner bank must sign. This agreement requires that all participants submit each loan application to the Corporation Commission for its certification that the borrower is eligible for the program.
- Commission officials have a draft memorandum of agreement that each partner utility must sign. This agreement details that the utility is required to submit the Energy Conservation Plan to the Corporation Commission for each customer. Commission officials told us they will review the Plan for adherence to Efficiency Kansas criteria.
- Commission officials have established reasonable processes and procedures for monitoring and reviewing expenditures of Recovery Act moneys by requiring an energy auditor to review and approve the Energy Conservation Plan for each project, reviewing weekly payroll reports from contractors to check for prevailing wage requirements, reviewing project invoices and certifications submitted by contractors, and conducting on-site visits for at least 10% of all projects.
- Commission officials have assessed whether they have sufficient staff to oversee the spending of Recovery Act moneys. Based on that assessment, they have added two energy auditor positions and one internal auditor position.

Monitoring Issues That Need To Be Addressed - None

Reporting

Summary Comments

- Commission officials have registered on the federalreporting.gov website.

- Commission officials have downloaded the spreadsheets from federalreporting.gov and appear to be aware of the information they will need to gather and report.

- Commission officials met the first reporting deadline in October 2009.

- Commission officials have taken steps to notify utilities of reporting requirements by detailing those requirements in the memorandum of agreement with participating utilities. However, we didn't find similar guidance for banks in the Lender Participation Agreement.

- Commission officials still are in the process of creating procedures to oversee that utilities and lenders report reasonable information for quarterly reports. Commission officials recently hired an internal auditor and plan to contract with an accounting firm to help create the data-collection and reporting infrastructure necessary to meet the reporting requirements.

Reporting Issues That Need To Be Addressed

- The Lender Participation Agreement doesn't inform lenders that they will need to provide quarterly reports to the Commission about the loans made and number of jobs created and retained. This creates a risk that lenders will not be aware of the information they will need to submit for quarterly reports and as a result, they may not collect or submit the information.

- Procedures need to be put into place to oversee the reporting process. Commission officials recently have hired an internal auditor to be responsible for ensuring that utilities and lenders report reasonable information for quarterly reports. This internal auditor will be creating procedures to oversee the reporting process. Until these procedures are in place, there's a risk that errors in information reported by participating banks or utilities will go undetected.

Recommendations for this Program

Recommendations Related to Reporting

1. To ensure that lenders know what types of information they will need to submit quarterly, Corporation Commission officials should incorporate reporting requirements into the Lender Participation Agreement. For those lenders that have already signed the existing agreement, they should issue an addendum that contains the reporting requirements.

2. To help ensure that the information contained in utility and lender quarterly reports are reasonable, Kansas Corporation Commission officials should develop written procedures for checking those reports, and incorporate those procedures into their program manual.

Kansas Department of Health & Environment
Clean Water State Revolving Fund

Amount Awarded: $35.4 million

Deadline for Obligating the Money: February 17, 2010

Deadline for Spending the Money: September 30, 2013

Program Description: The Clean Water State Revolving Fund is an existing program that helps to finance water quality protection projects for wastewater treatment, stopping pollution caused by rainfall or snowmelt moving over and through the ground, and managing areas of land that are linked by a common water source. This program offers low-interest loans to municipalities with flexible rates and terms.

The Recovery Act grant requires that a minimum of 20% be made available for "green infrastructure" projects to improve water efficiency and reuse, energy efficiency and on-site energy production, "green infrastructure" approaches to storm water quality improvements, and "environmentally innovative green" projects. The grant also requires that at least half of the moneys used for loans be given away. To accomplish this, the Department of Health and Environment is offering principal forgiveness equal to half of the moneys loaned to sub-recipients.

Impact on the Program/Agency: The Clean Water State Revolving Fund is an existing program that the Department of Health and Environment has administered for a number of years. Consequently, systems already are in place to select projects and reimburse sub-recipients for the work they complete on these projects. The Recovery Act moneys will allow the Department to increase the number of projects they will be able to finance. Program officials told us this program typically makes loans for 10 to 15 projects per year with total budgets ranging from $40 to $100 million. Recovery Act moneys will finance an additional 27 projects worth $35 million.

Accounting

<u>Summary Comments</u>

- Department officials added a new budget unit to separately identify and account for Recovery Act moneys.

- Through their loan agreements, Department officials have notified loan recipients that they will have to segregate the Recovery Act moneys from all other moneys.

- Department officials have assessed the capacity of their financial systems to handle the increase in transactions related to Recovery Act moneys and determined those systems are adequate.

- Department officials have assessed the number of fiscal staff needed and based on that assessment determined that they wouldn't need additional fiscal staff.

<u>Accounting Issues That Need To Be Addressed</u> - None

Monitoring

<u>Summary Comments</u>

- Department officials have an established contact person at the federal granting agency (The U.S. Environmental Protection Agency) if they have questions.

- Department officials have a copy of the grant award and appear to be aware of its requirements.

- Department officials have notified loan recipients about allowable uses of the Recovery Act moneys through a loan agreement that recipients are required to sign.

- Department officials told us they have established processes and procedures for monitoring and reviewing Recovery Act expenditures such as requiring engineers to review expenditures and supporting documentation against the approved contract before payments are made and conducting on-site inspections of the projects.

- Department officials have assessed whether they have sufficient staff to oversee the spending of Recovery Act moneys. Based on that assessment, they determined they will need three additional monitoring staff. These positions include an additional inspector for on-site inspections, a staff engineer or project manager, and an administrative assistant.

Monitoring Issues That Need To Be Addressed

- The Department may not have the additional resources it needs to monitor the spending of Recovery Act moneys. Department officials told us they either will request three new unclassified positions for this program or reassign current staff, but estimate it will take several months before these positions are filled. Because these projects will be beginning before these additional staff are in place, there's a risk projects may not be receiving the oversight they need.

Reporting

Summary Comments

- Department officials have registered on the federalreporting.gov website.

- Department officials have downloaded the spreadsheets from federalreporting.gov and appear to be aware of the information they will need to gather and report.

- Department officials met the first reporting deadline in October 2009.

- Program officials have taken steps to notify loan recipients of reporting requirements by documenting them in the loan agreement.

- Department officials told us they will oversee that loan recipients report reasonable expenditure information by requiring engineers to review expenditures and supporting documentation against the approved contract. They also told us inspectors will conduct on-site inspections of the projects to get first-hand knowledge of how the moneys were spent. None of these procedures have been documented in writing. Officials also told us they don't have procedures to determine whether job information submitted for quarterly reports is reasonable.

Reporting Issues That Need To Be Addressed

- Department officials need to develop procedures to determine whether job information submitted for quarterly reports by loan recipients is reasonable. Then Department officials need to commit to writing all procedures that describe how they will oversee that developers report reasonable information for quarterly reports. Not having written procedures to address these issues creates a risk that errors in information submitted by loan recipients could go undetected and that steps in the process will be skipped or overlooked, and that they process won't be consistently carried out if there is turnover in employees.

Recommendations for this Program

Recommendations Related to Monitoring

1. To ensure they have sufficient staff to monitor spending of Recovery Act moneys, Department of Health and Environment officials should hire or reassign the additional staff they need as soon as possible.

Recommendations Related to Reporting

2. To help ensure that the information contained in loan recipients quarterly reports are reasonable, Department officials should develop procedures for checking the reasonableness of the job information submitted by loan recipients and incorporate those procedures in their program manual.

Kansas Department of Transportation
Highway Infrastructure Investment

Amount Awarded: $348.2 million

Deadline for Obligating the Money: 50% of the moneys that could be used by the Department of Transportation anywhere in the State within 120 days of the award; the remainder of the Statewide moneys and all moneys allocated to local governments by March 2, 2010

Deadline for Spending the Money: September 30, 2015

Program Description: These moneys are eligible for restoration, repair and construction related to roads and bridges. The major requirements of Recovery Act moneys appropriated for highway infrastructure are as follows:

- Priority had to be given to projects that could be completed within 3 years

- Priority had to be given to projects located in economically distressed areas as defined in the Public Works and Economic Development Act of 1965. The Act defines an economically distressed area as meeting one of the following three criteria related to income and unemployment based on the most recent federal or state data:
  a. The area must have a per-capita income of 80% of the national average or less.
  b. The area must have an unemployment rate that is, for the most recent 24-month period, at least 1% greater than the national average unemployment rate.
  c. The area must be determined by the U.S. Secretary of Commerce to have experienced, or be about to experience, a special need arising from actual or threatened severe unemployment or economic adjustment problems.

- States also had to certify that they would maintain the same level of State spending for the types of transportation projects funded by the Recovery Act that they planned to spend the day the Act was enacted.

Impact on the Program/Agency: These are additional moneys for activities that the Department of Transportation already conducts (designing, maintaining, and building roads and bridges). As a result, the Department already has systems in place to administer and account for the moneys. Department officials told us that administering the Recovery Act moneys hasn't created a noticeable increase in workload for the agency as a whole because the agency is nearing the end of a 10-year Highway Program that had similar requirements.

Accounting

Summary Comments

- Department officials added a new budget unit to separately identify and account for Recovery Act moneys.

- All costs associated with highway projects are tracked in the Department's financial system under unique federal appropriation codes.

- Department officials have assessed the capacity of their financial systems and staffing and determined they are capable of handling the transactions related to the Recovery Act moneys.

Accounting Issues That Need To Be Addressed - None

Monitoring

Summary Comments

- Department officials have an established contact person at the federal granting agency (The U.S. Department of Transportation Federal Highway Administration) if they have questions.

- Department officials have a copy of the grant award and appear to be aware of the requirements.

- Department officials have notified sub-recipients about allowable uses of the Recovery Act moneys through a contract that recipients are required to sign.

- Department officials have established reasonable processes and procedures for monitoring and reviewing expenditures of Recovery Act moneys by requiring Field Engineers to review each contractor's work and determine whether the work is acceptable. Based on that determination, the Field Engineer will recommend whether to pay contract prices, reduced contract prices, or have the contractor pay to repair, restore, remove, or replace the work. The Field Engineer also performs a final inspection to determine if the work is complete or needs corrective action. Employees in the Bureau of Fiscal Services audit the project after final payment to look for any quantity, measurement, or certification errors.

- Department officials have assessed whether they have sufficient staff to oversee the spending of Recovery Act moneys. Based on that assessment, officials determined no additional staff are needed. Officials told us they don't anticipate monitoring volume will be greater than what they have already been doing.

Monitoring Issues That Need To Be Addressed - None

Reporting

Summary Comments

- Department officials have registered on the federalreporting.gov website.

- Department officials have downloaded the spreadsheets from federalreporting.gov and appear to be aware of the information they will need to gather and report.

- Department officials met the first reporting deadline in October 2009.

- Program officials have taken steps to notify cities and contractors of reporting requirements by providing a list of items that must be reported including the monthly employment report.

- Program officials have taken adequate steps to oversee that cities and contractors report reasonable information by requiring the Field Engineers to review the contractors' work and ensure that expenditure information is reasonable. Field Engineers also are required to review payroll information to ensure it is reasonable and the wages paid comply with the Davis-Bacon Act.

Reporting Issues That Need To Be Addressed - None

Special Considerations
Complying with Requirements to Give Priority to Projects in Economically Distressed Areas

The Government Accountability Office (GAO) has conducted reviews of the use of Recovery Act moneys in 16 states and the District of Columbia. These 16 states and the District represent 65% of the U.S. population and two-thirds of the federal assistance available through the Act. In a report it issued in July 2009 – "States' Use of Highway Infrastructure Funds and Compliance with the Act's Requirements" – the GAO raised issues related to states' selection of highway projects.

They reported some of the 16 states they reviewed initially selected the highway projects to be paid for with Recovery Act moneys, and only after the fact identified whether those projects fulfilled the economically distressed area requirement. The GAO also found that some states used definitions of economically distressed areas that didn't conform to the law. The GAO recommended that the Secretary of Transportation develop clear guidance for identifying and giving priority to economically distressed areas.

We reviewed the process Kansas' Department of Transportation used to select highway projects to be paid for with Recovery Act moneys to determine whether Kansas had the same issues the GAO found in other states. Our findings were as follows:

- Department of Transportation officials have selected 150 highway and bridge projects to be paid for with Recovery Act moneys. Of the 150 projects, 93 or 62% are located in economically distressed areas. Those 93 projects account for 70% of estimated total project costs of the Recovery Act projects. The cost of these 150 projects totals more than $348 million because Department officials have selected additional projects in order to insure that all Recovery Act moneys are used within the timeframe of the legislation.

- Department officials did give priority to economically distressed areas as part of its initial selection process. Department officials solicited requests for projects from cities and counties. The Department created project evaluation criteria. Using that criteria, officials assigned points to various factors such as having complete plans, already acquiring Right of Way if needed, the status of the project plans, and whether the project was located in an economically distressed area. If a project was in an economically distressed area, it was given 10 additional points which increased the likelihood that the project would be chosen. Officials acknowledged that before the Recovery Act was passed, federal officials put more emphasis on "shovel ready" projects than economically distressed areas. However, the process used by the agency seems to meet the general intent of giving priority to projects in economically distressed areas and, as mentioned above, 70% of the dollars went to projects in economically distressed areas.

- The definition of economically distressed area Department officials used appears to conform to the federal definition. The Public Works and Development Act of 1965 requires one of three criteria to be used when determining whether a project is located in an economically distressed area. Department officials told us they used the first criteria—areas having a per-capita income less than 80% of the national average—to designate which projects were in economically distressed areas.

Recommendations for this Program

- None

Governor's Grants Program
Byrne Justice Assistance Grants

Amount Awarded: $12.7 million

Deadline for Obligating the Money: February 28, 2013

Deadline for Spending the Money: May 29, 2013

Program Description: The Edward Byrne Memorial Justice Assistance Grant (JAG) Program uses grants to support a broad range of activities to prevent and control crime and to improve the criminal justice system at the state and local levels.

These grants address areas such as:

- law enforcement
- prosecution and court programs
- crime prevention and education
- corrections and community corrections
- drug treatment and enforcement
- planning, evaluation, and technology improvement
- crime victim and witness protection (other than compensation)

Impact on the Program/Agency: This is an existing program. The Governor's grants office monitors a number of grants in addition to Byrne-JAG. Officials estimate the Byrne-JAG Recovery Act moneys will increase the workload for the entire agency only by about 12%. Agency officials have made adjustments in staffing to meet the slight increase in workload.

Accounting

Summary Comments

- Program officials added a new budget unit to separately identify and account for Recovery Act moneys.
- Program officials notified sub-recipients that they will have to segregate the Byrne-JAG Recovery Act grant moneys from all other moneys.
- Program officials have assessed the capacity of their financial systems to handle the increase in transactions related to Recovery Act moneys and determined they are adequate.
- The duties of the Financial Officer were adjusted slightly (0.11 to 0.14 FTE) to accommodate a slight increase in duties because of Recovery Act transactions.

Accounting Issues That Need To Be Addressed - None

Monitoring

Summary Comments

- Program officials have an established contact person at the federal granting agency (The U.S. Department of Justice) if they have questions.

- Program officials have a copy of the grant award and appear to be aware of the requirements.

- Program officials have notified sub-recipients about allowable uses of the Recovery Act moneys through a grant assurance document that recipients are required to sign.

- Program officials have established reasonable processes and procedures for monitoring and reviewing expenditures of Recovery Act moneys. The program requires monthly and quarterly financial status reports which include expenditures. On-site compliance reviews will be performed at least once a year. During these reviews, program staff will review three months of financial documentation to determine if expenditures are approved and allowable. Desk reviews will be performed if additional oversight is needed.

- Program officials have assessed whether they have sufficient staff to oversee the spending of Recovery Act moneys. Based on that assessment, one full-time analyst has been hired to work exclusively on this program.

Monitoring Issues That Need To Be Addressed - None

Reporting

Summary Comments

- Program officials have registered on the federalreporting.gov website.

- Program officials have downloaded the spreadsheets from federalreporting.gov and appear to be aware of the information they will need to gather and report.

- Program officials met the first reporting deadline in October 2009.

- Program officials have taken steps to notify sub-recipients of reporting requirements by providing a Reporting Requirements Manual and requiring quarterly job creation and financial status supplemental reports.

- Program officials have taken adequate steps to oversee that sub-recipients report reasonable information. Program staff will be required to sign and date quarterly Financial Status Supplemental Reports, Program Income/Expenditure Reports, Grant Projects Statistical/Narrative Reports, and Job Creation and Retention Reports and monthly Financial Status Reports to show they have reviewed these documents from grantees. Also, program staff will conduct on-site compliance reviews at least once a year.

Reporting Issues That Need To Be Addressed - None

Recommendations for this Program

None

Kansas Housing Resources Corporation
Homelessness Prevention and Rapid Re-Housing Program

Amount Awarded: $8.4 million

Deadline for Obligating the Money: No deadline

Deadline for Spending the Money: 60% by July 2011; remaining 40% by July 2012.

Program Description: This program dedicates moneys for homelessness prevention and rapid re-housing activities for people who recently have become homeless or who are in danger of becoming homeless. This is not a mortgage assistance program.

Program activities include:

- providing short-term or medium-term rental assistance (1-to-18 months)
- providing housing search and security deposit assistance
- providing credit counseling
- making utility payments (18-month maximum)
- providing assistance with moving costs
- case management
- other appropriate activities to help households achieve stable housing

Impact on the Program/Agency: This is a new program, but it is similar to another program Corporation officials already were administering, the Emergency Shelter Grant Program, which is designed to prevent homelessness and to enable homeless individuals to move toward independent living. Because it is a new program, Corporation officials aren't certain how much it will increase their workload. They estimate an average of 30 payments per month associated with this program, which will increase the Corporation's normal workload. For now, Corporation officials have added one accounting position, which is shared with several other programs, to help handle the anticipated increase in workload associated with this program. Corporation officials said they would continue to assess their staffing needs.

Accounting

Summary Comments

- Corporation officials added a new fund in the Corporation's accounting system to separately identify and account for Recovery Act moneys.
- Corporation officials have notified sub-recipients in the grant application that they will have to segregate the Recovery Act moneys from all other moneys.
- Corporation officials have assessed the capacity of their financial systems to handle the increase in transactions related to Recovery Act moneys. Corporation officials told us they had upgraded their accounting software shortly before the Recovery Act was passed, which will improve the corporation's ability to track and report on the use of Recovery Act moneys.

- Corporation officials told us they have added one full-time accounting position to meet the increased accounting demand related to this program and the four other Recovery Act programs the Corporation administers.

Accounting Issues That Need To Be Addressed - None

Monitoring

Summary Comments

- Corporation officials have an established contact person at the federal granting agency (The U.S. Department of Housing and Urban Development) if they have questions.

- Corporation officials have a copy of the award and appear to be aware of the award requirements.

- Corporation officials have notified sub-recipients about allowable uses of the Recovery Act moneys through a grant contract that recipients are required to sign. The description of allowable uses is at a very high level in the contract. However, the contract also specifies that grantees should use the Program moneys solely on eligible Program activities that are outlined in the grantee's application and that are specifically approved by Housing Resources Corporation staff.

- Corporation officials told us they have established processes and procedures for monitoring and reviewing Recovery Act expenditures by using the Homeless Management Information System (HMIS) to record and review all data before payments are made. Corporation officials also said they will review a minimum of 5% of active files, and that they plan to make at least two on-site monitoring visits per year to each grantee. These procedures are reasonable, but they haven't been documented in writing.

- Corporation officials have assessed whether they have sufficient staff to oversee the spending of Recovery Act moneys. Based on that assessment, no additional staff have been added. Corporation officials told us they would continue to monitor staffing levels for this program.

Monitoring Issues That Need To Be Addressed

- At the time of our review, the Corporation's monitoring procedures weren't recorded in writing. Not having written procedures increases the likelihood that steps in the process will be skipped or overlooked, and that the process won't be consistently carried out if there is turnover in employees. After our review, officials created written monitoring procedures.

Reporting

Summary Comments

- Corporation officials have registered on the federalreporting.gov website.

- Corporation officials have downloaded the spreadsheets from federalreporting.gov and appear to be aware of the information they will need to gather and report.

- Corporation officials met the first reporting deadline in October 2009.

- Corporation officials have taken steps to notify sub-recipients of reporting requirements by describing them in the grant application and contract.

- Corporation officials told us they will oversee that sub-recipients report reasonable quarterly report information by reviewing reports to ensure the information submitted follows the program budget submitted by the sub-recipient. They also told us they plan to conduct on-site compliance monitoring. These procedures are reasonable, but they haven't been documented in writing.

Reporting Issues That Need To Be Addressed

- Corporation officials didn't have written procedures in place at the time of our review to oversee that sub-recipients report reasonable information for quarterly reports. Not having the procedures written increases the likelihood that steps in the process will be skipped or overlooked, and that the process won't be consistently carried out if there is turnover in employees. After our review, officials created written procedures to check the reasonableness of the information sub-recipients report. While these procedures include steps for reviewing expenditure information, they don't offer specific instructions to Corporation officials regarding how to review job information submitted by sub-recipients.

Recommendations for this Program

Recommendation Related to Reporting

1. To help ensure that the information contained in sub-recipients quarterly reports are reasonable, Kansas Housing Resources Corporation officials should add details to newly developed written policies that indicate how they will review the job information submitted by sub-recipients.

Kansas Housing Resources Corporation
Tax Credit Assistance Program (TCAP)

Amount Awarded: $17.1 million

Deadline for Obligating the Money: 75% of the grant moneys must be committed by February 16, 2010.

Deadline for Spending the Money: February 16, 2012

Program Description: This program will provide additional financing grants for developers who are building housing units under the Low-Income Housing Tax Credit Program. The Housing Resources Corporation is awarding these moneys to developers of low-income housing projects on a competitive basis. There is no expectation that the moneys will be repaid.

Impact on the Program/Agency: This is a new program, but it works in conjunction with the Low-Income Housing Tax Credit Program the Corporation already administers. Kansas Housing Resources Corporation already had procedures in place under the existing program to review expenditures related to the construction of low-income housing units and to visit construction sites to review construction activities. As a result, Corporation officials told us they don't think this program will generate a great deal of additional work for them. They will, however, need to meet some new requirements such as ensuring that contractors pay prevailing wages as called for under the Davis-Bacon Act, complete an environmental review as called for by the National Environmental Protection Act (NEPA), and meet Section 504 accessibility requirements if the project is large enough. Kansas Housing Resources Corporation officials told us it is difficult for them to estimate the volume of work these new requirements will generate until they have more experience with the program.

Accounting

Summary Comments

- Corporation officials added a new fund in the Corporation's accounting system to separately identify and account for Recovery Act moneys.

- Corporation officials have assessed the capacity of their financial systems to handle the increase in transactions related to Recovery Act moneys. Corporation officials told us they had upgraded their accounting software shortly before the Recovery Act was passed, which will improve the Corporation's ability to track and report on the use of Recovery Act moneys.

- Corporation officials told us they have added one additional full-time accounting position to meet the increased accounting demand related to this program and the four other Recovery Act programs the Corporation administers.

- Because the program operates on a reimbursement basis where Corporation officials pay out moneys after sub-recipients have submitted receipts, there is no need to notify the sub-recipients to keep the Recovery Act moneys separate.

Accounting Issues That Need To Be Addressed - None

Monitoring

Summary Comments

- Corporation officials have an established contact person at the federal granting agency (U.S. Department of Housing and Urban Development) if they have questions.

- Corporation officials have a copy of the grant award and appear to be aware of the award requirements.

- Corporation officials have notified developers about allowable uses of the Recovery Act moneys through a grant-assurance document that developers are required to sign.

- Corporation officials told us they have established processes and procedures for monitoring and reviewing Recovery Act expenditures by reviewing documentation of expenditures, using benchmarks to ensure expenditures are reasonable, and conducting monthly construction inspections.

- Corporation officials have assessed whether they have sufficient staff to oversee the spending of Recovery Act moneys. Based on that assessment, Corporation officials have determined that staffing levels are adequate at this time.

Monitoring Issues That Need To Be Addressed - None

Reporting

Summary Comments

- Corporation officials have registered on the federalreporting.gov website.

- Corporation officials have downloaded the spreadsheets from federalreporting.gov.

- Corporation officials met the first reporting deadline in October 2009.

- Corporation officials have taken steps to notify developers of reporting requirements by providing a list of elements required in the contract. In addition, the contract specifies the due date for these reports.

- Corporation officials told us they will oversee developers reporting of expenditure information for quarterly reports by reviewing documentation and using benchmarks to ensure expenditures are reasonable. However, officials told us they haven't finalized how they will determine whether job information submitted for quarterly reports by developers is reasonable. None of these processes have been documented in writing.

Reporting Issues That Need To Be Addressed

- At the time of our review, Corporation officials hadn't finalized the process they will use to determine whether job information submitted for quarterly reports by developers was reasonable. They also hadn't created written procedures that describe how they will oversee that developers report reasonable information for quarterly reports at the time of our review. Not having these procedures finalized and documented in writing creates a risk that any errors in information submitted by developers could go undetected. Officials have reasonable procedures in place to oversee that developers report reasonable expenditure information, but not having the procedures written increases the likelihood that steps in the process will be skipped or overlooked, and that the process won't be consistently carried out if there is turnover in employees. After our review, officials created written procedures that document this process.

Recommendations for this Program

None

Kansas Housing Resources Corporation
Weatherization Program

Amount Awarded: $56.4 million

Deadline for Obligating the Money: No deadline

Deadline for Spending the Money: March 31, 2012

Program Description: The Weatherization Program provides housing improvements that increase energy efficiency in income-eligible, single- or multi-family dwellings, including manufactured homes. The money provided through the Recovery Act allowed the maximum amount that could be spent weatherizing a particular home to be increased from $2,500 to $6,500.

Corporation officials told us they plan to use the Recovery Act moneys as follows:

- **($44.2 million)** Providing weatherization improvements. Recovery Act moneys will be used by eight sub-recipients and the Corporation to make weatherization improvements to qualifying single-family and multi-family dwellings.

- **($9.1 million)** Providing training, monitoring, and equipment for Corporation staff and sub-recipients. The Corporation will use Recovery Act moneys to help its staff and sub-recipients become Certified Weatherization Inspectors and maintain that certification. The moneys also will provide training and technical assistance to its staff and sub-recipients about program requirements. The Corporation will use the moneys to pay for salaries and travel of three staff to monitor sub-recipients. The Corporation will be using the moneys to purchase equipment and vehicles that will be used to help make weatherization improvements. According to Corporation officials, any moneys remaining as the spending deadline approaches may be used to make additional weatherization improvements.

- **($3.1 million)** Administering the program. Recovery Act moneys will be used by the Corporation to cover the cost of administering the program.

Impact on the Program/Agency: Weatherization is an existing program. As described above, the Recovery Act Funding will allow the Corporation to spend more per dwelling than in past years. In addition, Corporation officials will begin offering weatherization improvements to multi-family housing projects, which they weren't doing in the past. Corporation officials will need to meet some new requirements such as ensuring that sub-recipients pay prevailing wages as called for under the Davis-Bacon Act. Because this is an existing program, many of the processes for monitoring expenditures and making payments already are in place. However, Corporation officials will be overseeing new multi-family housing projects and complying with new requirements.

Accounting

Summary Comments

- Corporation officials have added a new fund to separately identify and account for Recovery Act moneys.

- Corporation officials have notified sub-recipients in the contract that they will have to segregate the Recovery Act moneys from all other moneys.

- Corporation officials have assessed the capacity of their financial systems to handle the increase in transactions related to Recovery Act moneys. Corporation officials told us they had upgraded their accounting software shortly before the Recovery Act was passed, which will improve the corporation's ability to track and report on the use of Recovery Act moneys.

- Corporation officials told us they have added one full-time accounting position to meet the increased accounting demand related to this program and the four other Recovery Act programs the Corporation administers.

Accounting Issues That Need To Be Addressed - None

Monitoring

Summary Comments

- Corporation officials have an established contact person at the federal granting agency (The U.S. Department of Energy) if they have questions.

- Corporation officials have a copy of the grant award and appear to be aware of the requirements.

- Corporation officials have notified sub-recipients about allowable uses of the Recovery Act moneys through the contracts they have with sub-recipients.

- Corporation officials have established processes and procedures for monitoring and reviewing Recovery Act expenditures by tracking expenditures in a database to ensure the activities and amounts are allowable, making two or more monitoring visits per year to each sub-grantee, reviewing at least 5% of all completed homes, and requiring sub-recipients to submit weekly payroll information to check for Davis-Bacon requirements.

- Corporation officials have assessed whether they have sufficient staff to oversee the spending of Recovery Act moneys. Based on that assessment, five new employees have been added. Two will work as full-time monitors. The other three will help with the multi-family weatherization project the Corporation is starting and will assist with monitoring as needed.

Monitoring Issues That Need To Be Addressed

- Corporation officials didn't have fully developed monitoring procedures related to compliance with Davis-Bacon requirements at the time of our review. After our review, officials developed forms to check for compliance with Davis-Bacon. However, they haven't provided detailed instructions to their staff to show a minimum number or percent of employees to check on each project.

Reporting

Summary Comments

- Corporation officials have registered on the federalreporting.gov website.

- Corporation officials have downloaded the spreadsheets from federalreporting.gov and appear to be aware of the information they will need to gather and report.

- Corporation officials met the first reporting deadline in October 2009.

- Corporation officials have taken steps to notify sub-recipients of reporting requirements by describing them in the contract with sub-recipients.

- Corporation officials told us they will oversee that sub-recipients report reasonable information for quarterly reports by tracking expenditures in a database to ensure the activities and amounts are allowable, making at least two monitoring visits per year to each sub-grantee, reviewing at least 5% of all completed homes, and requiring sub-recipients to submit weekly payroll information to check for Davis-Bacon requirements. These procedures are reasonable, but they haven't been documented in writing.

Reporting Issues That Need To Be Addressed

- Corporation officials had included terms in the contracts with sub-recipients that weren't in agreement with other instructions Corporation officials provided to sub-recipients. As a condition of receiving the Recovery Act moneys, the Housing Resources Corporation is required to report information about expenditures and about jobs created and retained. That information has to be reported to the federalreporting.gov website by the 10th day of the month following the end of each calendar quarter. State agencies or entities such as the Housing Resources Corporation that receive Recovery Act money directly from the federal government have the option of reporting the information themselves, or delegating the reporting to the sub-recipients. Kansas Housing Resources Corporation officials told us they haven't delegated reporting requirements to the sub-recipients. Officials have directed the sub-recipients to provide the information to the Corporation by the 5th day after the end of each quarter, so that Corporation officials could compile it and report into to the federal website. However, when we reviewed the contract with the sub-recipients it appeared to be telling sub-recipients to go the federalreporting.gov website by the 10th day after the end of each quarter to report information. The risk of having this language in the contract is that sub-recipients may try to register and report the information themselves, rather than reporting it to the Corporation as intended, and they may think they have until the 10th day of the quarter rather than the 5th to submit information. After our review, Corporation officials modified the terms of the contract to clear up these issues.

- Corporation officials don't have written procedures in place to oversee that sub-recipients report reasonable information for quarterly reports. Although the procedures they've established for checking the reasonableness of information are reasonable, not having them written increases the likelihood that steps in the process will be skipped or overlooked, and that the process won't be consistently carried out if there is turnover in employees.

Recommendations for this Program

Recommendations Related to Monitoring

1. To ensure that sub-recipients receiving Recovery Act moneys through the Weatherization Program are complying with Davis-Bacon requirements, the Kansas Housing Resources Corporation should provide detailed written guidance to its staff about the number or percent of employees to check on each project.

Recommendations Related to Reporting

2. To help ensure that the information contained in sub-recipients' quarterly reports are reasonable, Kansas Housing Resources Corporation officials should write down their procedures for reviewing those reports, and incorporate them in their program manual.

Department of Social and Rehabilitation Services
Child Care Development Grant

Amount Awarded: $18.4 million

Deadline for Obligating the Money: September 30, 2010

Deadline for Spending the Money: September 30, 2011

Program Description: In general, the Child Care Assistance Program provides financial assistance for families below a certain income level who need help with their child care expenses to allow them to maintain employment or to attend school or training. The Recovery Act money SRS is receiving for this program comes from the Department of Health and Human Services and represents an increase in the regular funding the agency gets from the federal Child Care Development Fund. The moneys the Child Care Assistance Program receives falls into two components—child care assistance and child care quality. Child care assistance moneys may be used to help low-income families pay for child care. Child care quality moneys are used to provide training to child care providers and information to parents about child care options in their communities. The $18 million the agency received from the Recovery Act is considered a supplemental discretionary award under the grant. It can be used for purposes such as special, one-time projects that will enhance child care.

Agency officials told us they plan to use the Recovery Act moneys as follows:

- **($4.8 million)** Increasing the benefits for families receiving child care assistance for the period October 1, 2009 through September 30, 2010. Recovery Act moneys will be used to reduce the amount families receiving child care assistance will be expected to pay. Families with incomes below 100% of the federal poverty level may not have to pay any out-of-pocket expenses. In addition, it will reduce the out-of-pocket expenses for families with incomes between 100% and 185% of the federal poverty level by up to 50%.

- **($3.1 million)** Retroactively adjusting the benefits for families who received child care assistance for the period March 1, 2009 through September 30, 2009. The retroactive refund may equal the entire portion of child care costs that households with incomes between 71% and 100% of the federal poverty level paid during the period. It will equal up to 50% of the share paid by families with incomes between 101% and 185% of the federal poverty level.

- **($10.5 million)** Funding a series of one-time projects related to child care issues.
    - Designing, developing and implementing an online child care provider enrollment system.
    - Designing, developing and implementing enhancements to fully automate inspections of child care facilities.
    - Various provider-support projects and grants.
    - Designing, developing and implementing a block of professional development opportunities for new child care providers.
    - Designing, developing and implementing a professional development database to record the approved professional development of child care providers.
    - Exploring how technology can be used to provide professional development opportunities to child care providers.
    - SRS tactical initiatives to make the web site experience more user friendly for the child care assistance customers and to facilitate self service for families applying for new services.

Impact on the Program/Agency: Child Care Assistance is an existing program that SRS has administered for a number of years. Consequently, systems are already in place to determine applicants' eligibility for the Program and to process payments on their behalf. The Recovery Act funding essentially has allowed the Department to adjust the amount of benefits it pays. In addition, it has allowed SRS to use moneys for a number of one-time projects related to child care. Program officials currently manage

32 contracts and grants. Program officials estimate 9 to 10 new contracts and grants will be executed as a result of the Recovery Act Funding. In order to oversee these new contracts and reporting required by the Recovery Act, one temporary, full-time project manager has been hired recently.

Legislative Post Audit Note: Because the series of one-time projects were in the early planning stages we were unable to assess whether SRS has adequate controls in place to ensure that the Recovery Act Moneys spent on these projects will meet requirements. Our assessment focuses solely on the first two items – the adjustments of child care benefits going forward, and the retroactive adjustment of child care benefits paid from March 2009 through September 2009.

Accounting

Summary Comments

- Agency officials added a new budget unit to separately identify and account for Recovery Act moneys.
- Because SRS is spending the money directly to increase the benefits of families who have received or will receive child care assistance, there are no sub-recipients to notify about requirements to separately account for Recovery Act moneys.
- Agency officials have assessed the capacity of their financial systems to handle the increase in transactions related to Recovery Act moneys and determined they were adequate to handle the transactions.
- Agency officials also determined they would not need any additional accounting staff to handle these Recovery Act transactions because there will not be a large increase in transactions.

Accounting Issues That Need To Be Addressed - None

Monitoring

Summary Comments

- Agency officials have an established contact person at the federal granting agency (The U.S. Department of Health and Human Services) if they have questions.
- Program officials have a copy of the grant award and appear to be aware of the requirements.
- For the portion of the Recovery Act moneys that we were able to review (specifically the increases in funding for child care assistance benefits) there are no sub-recipients to monitor because the payments are going through client accounts to the day care centers who provide services, or directly to Program participants in the form of refunds. The existing procedures SRS has established to monitor the program for improper payments recently have been audited by Legislative Post Audit and generally were found to be adequate.
- Agency officials have assessed whether they have sufficient staff to oversee the spending of the benefit adjustments. Because the adjustments will be done using a process already in place, no additional staff will be needed.

Monitoring Issues That Need To Be Addressed - None

Reporting

Summary Comments

- Agency officials have registered on the federalreporting.gov website.
- Agency officials have downloaded the spreadsheets from federalreporting.gov and appear to be aware of the information they will need to gather and report.
- Agency officials met the first reporting deadline in October 2009.
- Agency officials have been advised by the U.S. Department of Health and Human Services not to report the number of jobs created or retained as a result of parents receiving child care benefit adjustments. Health and Human Services officials noted that while these adjustments may support a parent's ability to obtain or maintain employment, jobs were not created or retained as a direct result of these adjustments. Guidance provided by the federal Office of Management and Budget states that jobs indirectly created or retained should not be reported.

Reporting Issues That Need To Be Addressed - None

Recommendations for this Program

1. To ensure that all the requirements for spending, accounting for, monitoring, and reporting Recovery Act moneys are met for the one-time projects that are still in the planning stages, the Department should ensure the following:

   a. that any sub-recipients receiving Recovery Act moneys are notified in writing about the need to separately account for the moneys, about allowable uses of the moneys, and about the types of information they will be required to report to the Department about how those moneys were used and the results produced.

   b. that written procedures are developed for Department staff to follow in monitoring the sub-recipient's spending of the Recovery Act moneys, and to check the reasonableness of spending or job creation information any sub-recipients provide to the Department to be reported to the federalreporting.gov website.

APPENDIX A

Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee for this audit on July 1, 2009. The audit was requested by the Legislative Post Audit Committee.

SCOPE STATEMENT

American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Funds Won't Be Appropriately Accounted for or Spent

The American Recovery and Reinvestment Act of 2009 (ARRA) was passed by the 111th Congress, and signed into law on February 17, 2009. The Act was intended to provide a stimulus to the U.S economy in the wake of the worst economic downturn since the Great Depression. The Act contains $787 billion in domestic spending for items such as education, health care, infrastructure, and energy. It also provides for federal tax cuts and expansion of unemployment benefits and other social welfare provisions.

It is anticipated that, from fiscal year 2009 through fiscal year 2011, approximately $2 billion in funding will be distributed to 17 Kansas agencies under the Act. In some cases, the increases in funding will be dramatic. For example, the Governor's Grants Office, which administered approximately $3 million in federal funds for the Byrne Juvenile Assistance Grant Program during fiscal year 2008, is expected to receive funding totaling more than $12 million for that program over the next three years.

The Act imposes a number of responsibilities on the states to separately account for the money, to ensure that it is spent in accordance with the requirements of the Act and other provisions of law, and to report on the funds awarded and spent, the number of jobs created and retained, etc. Given the risks associated with this huge inflow of funds, the Legislative Post Audit Committee authorized Legislative Post Audit to conduct preparedness reviews to provide an early indication of whether significant risks exist relating to the adequacy of agencies' systems for recording, using, monitoring, and reporting on ARRA funds.

This audit will answer the following questions:

1. **Have programs receiving ARRA moneys corrected significant weaknesses identified in the most recent Single Audit?** To answer this question, we would review the fiscal year 2008 Single Audit to identify significant compliance or control weaknesses at State agencies that will be receiving ARRA moneys. We will follow-up with officials in each agency to determine what steps they have taken to address those weaknesses. We would assess the reasonableness of their actions, and report on any weaknesses that haven't been addressed or that need further actions to resolve the issues identified.

2. **Have selected agencies receiving ARRA moneys taken adequate steps to ensure that the ARRA moneys they receive will be appropriately accounted for and spent?** To answer this question, we would select a number of programs in Kansas

agencies that have received major increases in funding for existing programs, or large amounts of funding for new programs, that have been identified as risky programs in other states by the U.S. Government Accountability Office or other federal auditors, or that appear to have a higher risk that ARRA funds may not be handled appropriately. For the programs we select, we would conduct interviews with agency officials and review documents as needed to assess whether they have met or are prepared to meet the accountability, appropriate use, and reporting requirements of the Recovery Act. We would conduct other test work as needed.

Estimated time to complete: 10-12 weeks

APPENDIX B

Agency Response

On November 30, 2009 we provided copies of the draft audit report to the Lieutenant Governor, Corporation Commission, Department of Health and Environment, Department of Transportation, Governor's Grants Program, Kansas Housing Resources Corporation, and Department of Social and Rehabilitation Services. Their responses are included as this Appendix.

In its response, the Department of Health and Environment indicated that they did have written monitoring policies already in place. After talking with Department staff and reviewing additional supporting documentation, we made changes to the final audit that affected our findings in Question 2 related to the Department's written monitoring procedures.

In its response, the Department of Health and Environment raised the issue of its responsibility for reviewing the accuracy of the job information submitted for quarterly reports by loan recipients. After carefully reviewing the response, guidance created by the Office of Management and Budget, and our audit working papers, we changed the word accurate to reasonable in our report and recommendation. The Department also indicated that the EPA has "retained job reporting responsibility" for the jobs information reported. However, guidance from the Office of Management and Budget dated June 22, 2009, states "prime recipients [in this case, the Department] are responsible for verifying submitted information for all Recovery funds for which they are responsible." Federal officials have indicated that prime recipient need to assess the reasonableness of jobs reported. Federal officials have acknowledged the difficulty prime recipient might have in verifying the accuracy of the job information that sub-recipient report, but have indicated that they expect prime recipients to review this information for reasonableness.

KANSAS
OFFICE OF THE LIEUTENANT GOVERNOR

Mark Parkinson, Governor
Troy Findley, Lt. Governor

RECEIVED
DEC - 7 2009
LEGISLATIVE DIVISION OF POST AUDIT

December 3, 2009

Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 SE Jackson, Suite 1200
Topeka, KS 66612-2212

Dear Barbara:

As Chairman of Governor Parkinson's American Recovery and Reinvestment Advisory Group I sincerely appreciate the opportunity to comment on the draft performance audit entitled, *American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Money's Won't Be Appropriately Accounted for or Spent* that was received by this Office on November 30, 2009.

I am pleased the performance audit demonstrates that Kansas agencies are substantially meeting the requirements and following the guidelines set out by the Federal Recovery Act. The collective response to this audit continues to highlight the commitment by each agency to transparency. The recommendations made by the performance audit are extremely helpful in our efforts to continually evolve and improve operations. I will work with agencies to ensure, when possible, the recommended procedures and policies are developed and implemented.

Please do not hesitate to contact me if I can be of further assistance or if there is any additional related information you would like to share.

Sincerely,

Troy Findley

Troy Findley
Lt. Governor
State of Kansas

State Capitol, 2nd Floor, 300 SW 10th Ave, Topeka, KS 66612
(785) 296-2213 • Fax: (785) 296-5669 • lt.governor@ks.gov

KANSAS
CORPORATION COMMISSION

Mark Parkinson, Governor
Thomas E. Wright, Chairman
Michael C. Moffet, Commissioner
Joseph F. Harkins, Commissioner

RECEIVED
DEC 10 2009
LEGISLATIVE DIVISION OF POST AUDIT

December 7, 2009

Barbara J. Hinton, Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Ms. Hinton:

The Kansas Corporation Commission appreciates the opportunity to respond to the draft copy of the Legislative Division of Post Audit's performance audit, *American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Moneys Won't Be Appropriately Accounted For or Spent*. In reference to the two findings associated with the Kansas Corporation Commission's Efficiency Kansas Program, we provide the following response.

1) To ensure that lenders know what types of information they will need to submit quarterly, Corporation Commission officials should incorporate reporting requirements into the Lender Participation Agreement. For those lenders that have already signed the existing agreement, they should issue an addendum that contains the reporting requirements.

Kansas Corporation Commission response: The State Energy Office is adding an addendum to the participation agreement with banks to require reporting *job creation and jobs retained,* as required by Department of Energy (DOE). It is our estimation this constitutes the reporting requirements of participating banks to DOE.

2) To help ensure that the information contained in utility and lender quarterly reports are accurate, Kansas Corporation Commission officials should develop written procedures for checking those reports, and incorporate those procedures into their program manual.

Kansas Corporation Commission response: On November 4, 2009, the Kansas Corporation Commission hired an internal auditor who is currently developing the procedures to verify accuracy of information that sub-recipients report. Further, the KCC will close on a Request For Proposal (RFP) on December 29, 2009, for the retention of an external auditing firm to assist the Internal Auditor with all ARRA verification and compliance procedures.

We appreciate the cooperation and professionalism of the Legislative Post Audit staff during their review of this program.

Sincerely,

Thomas E. Wright
Chairman

1500 SW Arrowhead Road, Topeka, KS 66604-4027 • (785) 271-3100 • Fax: (785) 271-3354 • http://kcc.ks.gov/

KANSAS

DEPARTMENT OF HEALTH
AND ENVIRONMENT

Mark Parkinson, Governor
Roderick L. Bremby, Secretary

www.kdheks.gov

RECEIVED
DEC 4 2009
LEGISLATIVE DIVISION
OF POST AUDIT

December 4, 2009

Ms. Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Ms. Hinton:

This response is provided to your letter dated November 30, 2009, transmitting the draft copy of the performance audit, *American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Moneys Won't Be Appropriately Accounted for or Spent.* This letter addresses the section applicable to the Clean Water State Revolving Fund" on pages 23 to 25.

I. Page 23: The "Deadline for Spending the Money"
   a. Can be September 30, 2016 rather than 2013.
   b. ARRA allows 7 years to actually spend the money. However, EPA restricted the initial "Budget Period" of the ARRA grant award to 5 years, thus the September 20, 2013 date. This "Budget Period" date can be extended if needed, which is unlikely.

II. Page 24 - Monitoring Issues That Need to Be Addressed:
   a. KDHE agrees with the comments regarding written procedures. KDHE is implementing ARRA through the existing program requirements of the State Revolving Fund (SRF). The existing SRF program operates within written procedures. The additional requirements imposed on the ARRA monies are consistent across the nation and EPA is preparing a handbook for guidance to the states to implement these additional ARRA requirements. When the final "handbook" document is available KDHE will access and utilize these recommended written procedures.

   EPA continues to modify guidance and provide "questions and answers" documents for the new ARRA requirement such as buy American, Davis/Bacon, and jobs reporting. The publication of a national handbook by EPA should resolve any ongoing uncertainties at EPA regarding implementation requirements, and hopefully reduce future changes by EPA. KDHE is developing certification forms and summary report forms to be utilized by ARRA loan recipients. These forms will be available for recipients when requesting disbursement payments.

CURTIS STATE OFFICE BUILDING, 1000 SW JACKSON ST., STE. 540, TOPEKA, KS 66612-1367
Voice 785-296-0461 Fax 785-368-6368

b. KDHE agrees additional staff are needed to deal with the additional paperwork, information gathering, and data entry as required by the Federal ARRA program.

III. Page 24, Summary Comments, Reporting Issues That Need To Be Addressed:

a. KDHE is concerned with the issue of reporting the number of jobs created. However, KDHE is not responsible for verifying the accuracy of jobs reported information. EPA has retained job reporting responsibility. Knowing the number of jobs created would be difficult for a state agency to determine. Congress recognized this when writing Section 1512(c) (3) (D) – (the Recipient must provide) "an estimate of the number of jobs created and the number of jobs retained by the project or activity" (emphasis added). EPA has indicated that the "Recipient" responsible for reporting this information is the construction company or engineering firm actually utilizing the ARRA funds. The construction company or engineering firm will have the responsibility to report accurately. KDHE will insure the information is completed, submitted, and uploaded into the data tracking systems. Some written procedures will be necessary for this work and in describing working with EPA-OIG inspectors and auditors when they review and audit the records of the construction companies and engineering firms.

KDHE appreciates the review by the Legislative Division of Post Audit to assure ARRA funding is fully and productively utilized in Kansas. Presently KDHE staff is busy with the tasks related to meeting the February 17, 2010, deadline to have construction projects under contract. KDHE will proceed with implementing the recommendations of the audit.

Respectfully,

Roderick Bremby, Secretary
Kansas Department of Health & Environment

KANSAS
DEPARTMENT OF TRANSPORTATION

Mark Parkinson, Governor
Deb Miller, Secretary

http://www.ksdot.org

December 7, 2009

RECEIVED
DEC - 7 2009
LEGISLATIVE DIVISION
OF POST AUDIT

Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson St., Suite 1200
Topeka, KS 66612-2212

Dear Ms. Hinton:

I appreciate the opportunity to review the draft performance audit, "American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk that Recovery Act Moneys Won't Be Appropriately Accounted for or Spent." I was very pleased to learn that the review indicated no issues with KDOT's management of the ARRA program and made no recommendations for improvement.

The Kansas Department of Transportation will continue to be diligent in the accounting, monitoring, and reporting of the Recovery Act funds as required by the legislation and our federal partners.

Sincerely,

Deb Miller
Secretary of Transportation

OFFICE OF THE SECRETARY OF TRANSPORTATION
Dwight D. Eisenhower State Office Building
700 S.W. Harrison Street; Topeka, KS 66603-3745 • (785) 296-3461 • Fax: (785) 296-1095
Hearing Impaired - 711 • e-mail: publicinfo@ksdot.org • Public Access at North Entrance of Building

KANSAS
OFFICE OF THE GOVERNOR

Mark Parkinson, Governor

www.governor.ks.gov

RECEIVED
DEC - 8 2009
LEGISLATIVE DIVISION OF POST AUDIT

December 8, 2009

Barbara J. Hinton
Legislative Post Auditor
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Ms. Hinton:

Thank you for the opportunity to respond to the Legislative Post Audit's report on *American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk that Recovery Act Moneys Won't Be Appropriately Accounted for or Spent.*

We agree with the findings and summary of the Governor's Grants Program process for administering the ARRA Byrne/Justice Assistance Grant Program. We will continue to monitor the funds closely and the procedural requirements to ensure appropriate accounting for these funds.

We appreciate the opportunity to respond to the recommendations and the cooperation provided by the Legislative Division of Post Audit staff during the review process.

Sincerely,

Juliene Maska

Juliene Maska, Administrator
Governor's Grants Program

GOVERNOR'S GRANTS PROGRAM
(785) 291-3205 • Fax: (785) 291-3204

KANSAS HOUSING
RESOURCES CORPORATION

RECEIVED
DEC - 7 2009
LEGISLATIVE DIVISION OF POST AUDIT

December 4, 2009

Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 Southwest Jackson Street, Suite 1200
Topeka, KS 66612-2212

Re: Response to ARRA Post Audit

Dear Ms. Hinton:

Please find attached Kansas Housing Resources Corporation (KHRC)'s formal response to Legislative Post Audit's completed performance audit of our three selected ARRA programs. I appreciate your staff's thoughtful review and helpful recommendations for our programs.

I plan to attend the Post Audit Committee meeting on December 17th. Please do not hesitate to call if you have any questions.

Sincerely,

Gary Allsup
Executive Director

Enclosure

611 S. Kansas Ave., Ste. 300, Topeka, Kansas 66603-3803 / (785) 296-5865 fax (785) 296-8985 / www.kshousingcorp.org

Kansas Housing Resources Corporation (KHRC) is proud to be a leader among housing finance agencies (HFA)'s nationwide in implementing and administering American Recovery and Reinvestment Act (ARRA) funded programs. In response to the Governor's directives and the Administration's emphasis to rapidly implement ARRA programs, within a matter of weeks of obtaining access to ARRA funds, KHRC drafted program documents, set up accounting reporting structures, and began distributing program dollars into Kansas communities. This rapid implementation met ARRA's dual goals of stimulating the economy and meeting unmet housing needs.

KHRC was the very first agency in the country to complete a multifamily housing development with the ARRA-funded Housing Credit Exchange Program. The U.S. Department of Treasury held a national press event recognizing KHRC for its achievement. KHRC was one of the earliest states to draft ARRA-funded Tax Credit Assistance Program documents, which have served as templates for housing finance agencies nationwide. Our novel approaches to efficiently implement and administer the influx of ARRA weatherization money and the upcoming ARRA-funded State Energy Efficient Appliance Replacement Program have served as models hailed by the U.S. Department of Energy.

In response to Legislative Post Audit's review, KHRC recognizes the value of internal written procedures and appreciates this opportunity to review and identify potential risks as it implements these young programs. While in KHRC's opinion, Post Audit's recommendations did not identify any significant risk areas, the audit did provide a valuable, objective assessment of where KHRC still needed more fully developed internal procedures. Each of Post Audit's recommendations for reducing risks associates with these programs have subsequently been addressed.

KHRC has not only met its Federal requirements, but served as a national example in partnering with our Federal, State, and local partners in meeting the needs of Kansas communities during these difficult economic times. KHRC is proud of its track record with ARRA and looks forward to continuing to serve the citizens of Kansas to meet their housing needs in the future.

KANSAS
DEPARTMENT OF SOCIAL
AND REHABILITATION SERVICES

Mark Parkinson, Governor
Don Jordan, Secretary

www.srskansas.org

December 4, 2009

RECEIVED
DEC - 4 2009
LEGISLATIVE DIVISION OF POST AUDIT

Ms. Barbara Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Re: Draft Performance Audit Report: *American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Monies Won't Be Appropriately Accounted for or Spent*

Dear Ms. Hinton:

Thank you for the opportunity to respond to the draft performance audit report *American Recovery and Reinvestment Act: A Preliminary Assessment of the Risk That Recovery Act Monies Won't Be Appropriately Accounted for or Spent.* We always appreciate the professionalism of your staff and their efforts to learn about the programs of SRS and the customers we serve.

In answering question 1, *"What Procedural Weaknesses Related to Programs Receiving Recovery Act Moneys Were Identified in the Most Recent Statewide Single Audit?"* the report noted three single audit findings from the 2008 audit that pertained to SRS. Since the time of the audit, corrective actions have been taken to address the deficiencies noted:

- **Temporary Assistance for Needy Families (TANF).** After the finding was repeated in the FY 2007 single audit, SRS contacted the State of Kansas Legislative Division of Post Audit and the Department of Health and Human Services Office Administration for Children and Families (ACF) to determine an acceptable solution to the finding. ACF program and fiscal staff agreed to SRS conducting an audit of the issues noted in the finding. That audit was completed in SFY 2009 and ACF staff in the Kansas City offices were contacted and supplied copies of the final audit report in July 2009.

  The SRS audit found no evidence of intentional misuse of program funds. The audit noted that during the period July 2005 to April 2008 three SRS Regional Offices established contracts to assist clients in obtaining federal disability benefits. Although the contracts were funded by the TANF Block Grant, requiring the services to be limited to TANF clients, non-TANF clients were served when the contractor was not busy with TANF clients. A total of $173,461 in TANF funds was improperly spent on non-TANF clients during the entire period noted, which was, in fact, a small percentage of total TANF Block Grant dollars.

OFFICE OF THE SECRETARY – DON JORDAN, SECRETARY
Docking State Office Building, 915 SW Harrison Street, 6th Floor, Topeka, KS 66612-1570
Voice: (785) 296-3271 •Fax: (785) 296-2173

SRS has implemented a number of corrective actions to ensure this doesn't occur again and these are being monitored by regional staff, central office program staff and audit staff.

- **Foster Care and Adoption Assistance.** The eligibility was determined incorrectly in all three cases. The eligibility for all three cases was corrected in the case files and the agency's information system. Federal funds claimed in error were repaid. Eligibility staff has been directed to review cases for similar errors. In addition, the SRS audit office initiated a review of the IV-E eligibility process to review policies and procedures related to IV-E eligibility to determine what changes are needed to prevent future errors. Additional training will also be provided to staff responsible for the process. Corrective actions resulting from both the single audit and the SRS internal audit are being monitored and tracked by audit staff.

In addition to providing updates to the single audit findings, we also wanted to provide additional information related to the monitoring of the **ARRA Child Care and Development Fund (CCDF)** monitoring.

Staff have developed a "Terms and Conditions" Document to be given to any recipient of the ARRA funds through grants or contracts which contains clear instructions for the reporting and tracking requirements. The document covers in detail: (1) Program Standards, (2) Administrative Requirements including audits, duty to report fraud, inspection of records, and segregation of funds, (3) Financial and Program Progress Reporting, and (4) Quarterly Reporting Requirements. Staff also developed reporting templates to provide for consistent submission of information on all ARRA funds expended and to accurately and timely report information to the federal government. The ARRA Project Coordinator will monitor those reports as they are received as well as provide technical assistant to recipients to ensure appropriate expenditures of the funds as well as accurate reporting of those expenditures.

Should there be any further questions about our corrective actions to this audit, please do not hesitate to contact us for further clarification.

Sincerely,

Don Jordan
Secretary

cc: Laura Howard, Deputy Secretary, Administration, SRS
Candace Shively, Deputy Secretary, ISD, SRS
Bobbi Mariani, Economic and Employment Services Director, SRS
Tanya Keys, Children and Family Services Director, SRS
Mary S. Hoover, Chief Audit Executive/Director, SRS

OFFICE OF AUDIT AND CONSULTING SERVICES – MARY HOOVER, CHIEF AUDIT EXECUTIVE
Docking State Office Building, 915 SW Harrison Street, 8th Floor, Topeka, KS 66612-1570
Voice: (785) 296-3836 •Fax: (785) 368-6498

Legislative Division of Post Audit
Performance Audit Reports on

Financial Management

Issued In Recent Years

05PA21	Reviewing Operations of the State Treasurer's Office Fiscal Year 2005	December 2005
05PA20	Reviewing Operations of the Pooled Money Investment Board Fiscal Year 2005	December 2005
07PA15	Reviewing Operations of the State Treasurer's Office	December 2006
07PA16	Reviewing Operations of the Pooled Money Investment Board	December 2006
07PA17	Kansas Public Employees Retirement System	December 2006
07PA14	K-12 Education: Comparing the Centralization of School District Accounting in Different States	February 2007
07PA13	Reviewing the Department of Wildlife and Parks' Lease for Its Northeast Regional Office	February 2007
07PA20	Reviewing Official State Travel Since the Decision to Disband the State's Motor Pool	April 2007
08PA01	Thomas County Economic Development Alliance's Procedures for Recording and Depositing Loan Payments	October 2007
07CC32	Statewide Expenditures: Reviewing Transactions in the STARS System for Fraud & Abuse	December 2007
08PA12	State Treasurer's Office: Reviewing Operations of the State Treasurer's Office, Fiscal Year 2007	December 2007
08PA13	Reviewing Operations of the Pooled Money Investment Board, Fiscal Year 2007	December 2007
07DM01	Business Procurement Card Program	May 2007
08PA22	Financial Regulatory Agencies in Kansas: A K-GOAL Audit Determining Whether Functions Could Be Combined	September 2008
09PA10	Reviewing Operations of the State Treasurer's Office, Fiscal Year 2008	December 2008
08CC02	Statewide Medical Expenditures: Reviewing Medicaid Expenditures for Fraud and Abuse	December 2008
09PA09	Reviewing the Operations of the Pooled Money Investment Board, Fiscal Year 2008	December 2008
09PA05	Low-Priority Programs in Kansas and the Cost Associated with Operating Them	February 2009
09CC02.1	Business Procurement Cards: Expanding Their Use To Increase Cash Rebates to the State	March 2009
09PA07	Determining Whether the State's Office-Supply Vendor Is Providing Products to State Agencies at Agreed-Upon Prices	March 2009