



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

RECOVERY

RECOVERY OVERSIGHT ADVISORY

Transparency and Accountability of Recovery Act Funding to
the Insular Areas and Freely Associated States

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Results in Brief

Signed into law on February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act) has, among its goals, the stabilization of state, Insular Area and local government budgets to minimize reductions in essential services. As beneficiaries of the Act, the Insular Areas and Freely Associated State governments did not receive Recovery Act funding directly from the U.S. Department of the Interior (DOI), which has oversight responsibilities. Rather, approximately \$629.3 million in grants came from 11 other executive departments. Four Insular Area governments received the majority of the funding (99 percent or \$625 million), while the three Freely Associated States received the remainder (1 percent or \$4.3 million).

With statutory oversight for the Insular Areas and Freely Associated States, the DOI Office of Inspector General (OIG) developed a joint Recovery Act evaluation approach with the individual public auditors for these governments. Each audit office agreed to conduct uniform evaluations and issue a report, while the OIG agreed to produce an overarching report on cross-cutting issues and best practices.

The four Insular Area governments created oversight organizations to monitor Recovery Act funding compliance, but the organizational structure, scope of authority, and quality of oversight for each varied considerably. The three Freely Associated States did not create separate oversight functions, but conducted monitoring through existing organizations and internal controls.

The public auditors for American Samoa, Guam, and Commonwealth of the Northern Mariana Islands (CNMI) subsequently issued individual reports¹ to their governments. The reports made similar recommendations, emphasizing the need to:

- Perform a risk assessment using historical single audit deficiencies to identify control areas that need strengthening to safeguard Recovery Act funding;
- Increase oversight of the funding drawdown process;
- Provide greater accountability over each Recovery Act program;
- Improve the accuracy, timeliness, and transparency of the local government's Recovery Act Web sites; and
- Provide proactive outreach to local government agencies as well as Federal agencies.

¹ The respective reports for Guam and the CNMI can be viewed on the individual public auditor's Web site: Guam, [//www.guamopa.com](http://www.guamopa.com); and CNMI, [//www.opacnmi.com](http://www.opacnmi.com). To request a copy of the American Samoa report, call the Territorial Auditor at 684-633-5194.

Based on our observations during field work, we concur with these recommendations. We further recommend that Insular Areas and Freely Associated State governments develop comprehensive plans to identify how to achieve accountability and transparency over Federal funds received. These plans should include:

- A risk assessment, based on historical risks identified in the single audit report and identification of controls to mitigate those risks; and
- Implementation of procedures for monitoring or inspecting projects during execution.

Introduction

Objective

The objective of this evaluation was to identify and evaluate the system of internal controls implemented by Insular Area and Freely Associated State governments² to monitor implementation of and compliance with the American Recovery and Reinvestment Act of 2009.

Background

Insular Areas Recovery Act Funding

On February 17, 2009, President Obama signed into law U.S. Public Law (PL) 111-5, titled the American Recovery and Reinvestment Act of 2009 (Recovery Act). Among its goals, the Recovery Act included stabilizing state, Insular Area and local government budgets to minimize reductions in essential services.

The Insular Area governments did not receive Recovery Act funding directly from the U.S. Department of the Interior (DOI), which has oversight responsibility, but did receive approximately \$629.3 million from 11 other executive departments in the form of specific grants under existing domestic assistance programs. In at least once instance, an Insular Area government also received a loan.³

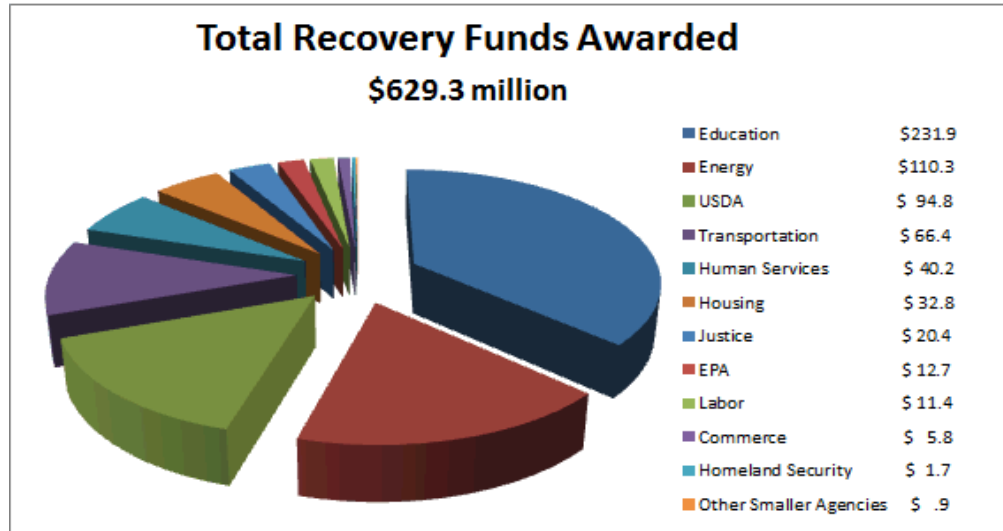


Figure I. Data compiled from information provided by the public auditors as of 6/30/2010, excluding any pass-through Recovery Act funds for such programs as food stamps and income tax credits for individuals.

² Insular Area governments are the governments of American Samoa, Commonwealth of the Northern Mariana Islands (CNMI), Government of Guam, and the U.S. Virgin Islands. The Freely Associated States are the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

³ The American Samoa Telecommunications Agency received a \$10 million loan from the U.S. Department of Agriculture Rural Development as part of a combination grant and loan competitive award to upgrade their broadband communications network.

Four Insular Area governments received the majority of the funding (99 percent or \$625 million), while the three Freely Associated States received the remainder (1 percent or \$4.3 million).

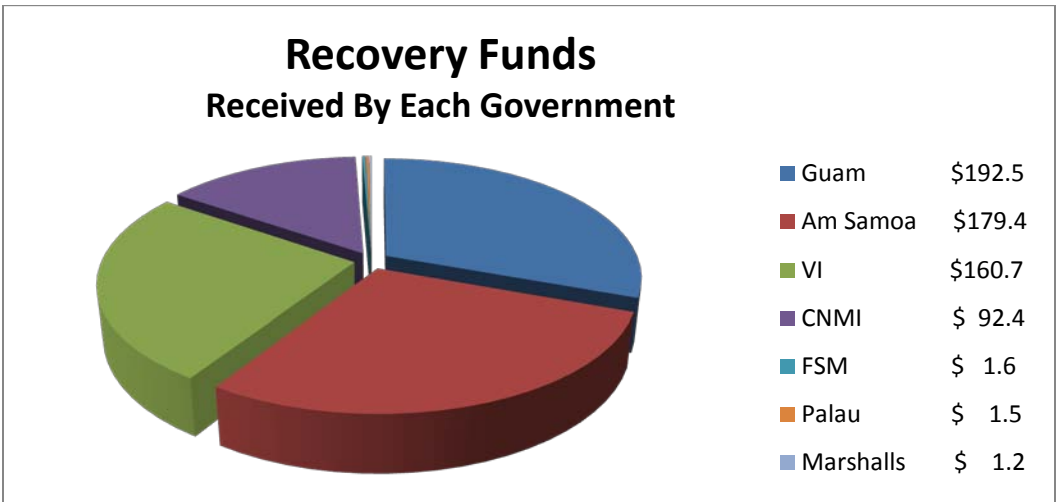


Figure 2. The amounts listed exclude any pass-through Recovery Act funds for such programs as food stamps and income tax credits for individuals.

Having statutory oversight for the Insular Areas and Freely Associated States, the DOI Office of Inspector General (OIG) developed a joint Recovery Act evaluation approach with the public auditors for these governments. Each audit office agreed to conduct uniform evaluations and issue a report. From these reports, the OIG would compile an overarching report focusing on cross-cutting issues and best practices.

This simultaneous, real-time evaluative process differed from the annual single audit in that we decided to identify potential problems and made suggestions for improvement early in the Recovery Act performance life.

Evaluation Questionnaires

Our evaluative approach used a five-questionnaire series focusing on specific functional areas to be completed by each audit office and to ensure consistency of information collected:

- Prior audits and Recovery Act funding;
- Oversight agency;
- Project verification (limited to 2 to 3 projects);
- Procurement agency; and
- Public Auditor.

The questionnaires focused on how individual governments monitored the core Recovery Act objectives. We did not test grant-specific terms and conditions

since these varied according to the Federal entity making the award, and solutions for one program could not be applied to other programs consistently.

Findings

Oversight – Individual Government Approaches

Each Insular Area government created an oversight organization to monitor compliance with the Recovery Act for all funds received. Insular Area public auditor reports indicated that organizational structure, scope of authority, and quality of oversight varied considerably among these government organizations. The three Freely Associated States did not create separate oversight functions for Recovery Act grants, but relied on the existing government organizations that traditionally received grant funds and on internal controls already in place.

Government	Name	Enabling Authority	Scope of Oversight
American Samoa	American Samoa Economic Stimulus and Recovery Office (ASESRO)	Governor's Executive Order No. 003-2009, dated 3/6/09	Executive Branch and Autonomous Agencies
Commonwealth of the Northern Mariana Islands (CNMI)	CNMI ARRA Office	Created by the Governor 8/09	Executive Branch
Guam	Bureau of Budget and Management Research (BBMR) (Guam's Budget Office)	Governor designated BBMR as the lead agency 3/09	Executive Branch and Autonomous Agencies
Virgin Islands	Office of Economic Opportunity (OEO) thru a contractor	Public Finance Authority passed Resolution 09-018, dated 6/12/09 creating the OEO	Executive Branch and Autonomous Agencies

Figure 3. Government agencies formed with oversight responsibility for Recovery Act funds.

American Samoa

The Governor of American Samoa created the American Samoa Economic Stimulus and Recovery Office (ASESRO) through an executive order, dated March 6, 2009, to monitor and track Recovery Act projects and expenditures. The Samoa public auditor found that although ASESRO set up office space, monitored some projects, and reviewed project expenditures, it still demonstrated significant weaknesses. These included, but were not limited to, the creation of unreliable expenditure reports, failure to monitor reconciliation of drawdown and receipt of Recovery Act funds, and failure to completely inspect projects.

CNMI

Initially, the CNMI Governor assigned Recovery Act oversight and monitoring of executive branch departments and agencies to a state lead with the dual responsibility of also directing an executive branch agency. One person on a part-time basis could not manage the job and in August 2009, the Governor created a dedicated oversight office to handle the workload associated with monitoring quarterly reporting and competitive procurement. Drawdown and reconciliation of Recovery Act funds by CNMI's Finance Department were not monitored by this office. Instead, the Department functioned without oversight, even though the Single Audit had identified that one-third of the findings could be attributed to a lack of documentation and record retention for grant expenditures.

Guam

The Governor of Guam designated the Bureau of Budget and Management Research (BBMR) as the lead Recovery Act oversight agency. Assisting BBMR was the Guam State Clearinghouse, which publicized Recovery Act grant opportunities and reviewed grant applications. According to the public auditor's report, BBMR primarily compiled a government-wide quarterly report on the status of Recovery Act funds by agency that was posted on Guam's Recovery Act Web site. This effort duplicated the internet-based quarterly reporting that each agency receiving funds had to comply with as part of the Recovery Act and grant-specific requirements.

Virgin Islands

In May 2009, the Virgin Islands Legislature required the Governor to submit data on Recovery Act funds accepted and declined, as well as detailed reports on the use of funds received. On June 12, 2009, the Virgin Islands Public Finance Authority established the Office of Economic Opportunity (OEO) as the focal point for all Recovery Act tracking, monitoring, and accounting, but the OEO lacked a full-time staff. Subsequently, the Finance Authority contracted with a consultant in Washington, DC, to perform the OEO's duties. As a result, the consultant only used indirect means such as emails, fax transmissions and telephone conversations to monitor the Recovery Act programs.

Freely Associated States

The individual governments of the Federated States of Micronesia (FSM) and the Republics of the Marshall Islands and Palau relied on existing government organizations and internal grant controls to monitor Recovery Act grants. Direct outreach by Federal grants personnel to their counterparts in the individual Freely Associated State governments reinforced this approach. During OIG fieldwork in Palau and the Marshall Islands, program officials stated that their Federal counterparts notified them of funding availability and the special requirements of the Recovery Act.

We found that not establishing a separate oversight agency may have been justified due to the small amount of Recovery Act funds received. Nevertheless, agencies receiving such funds still needed to inform the national government. For example, FSM's public auditor identified that the FSM agency responsible for obtaining U.S. and foreign assistance did know that the Department of Health applied for and received \$351,656 in Recovery Act funds from the Health and Human Services (HHS) Centers for Disease Control. We also identified additional Recovery grants totaling \$1,234,236 from HHS Health Resources and Services Administration (\$1,141,236) and U.S. Forest Service (\$93,000) unknown to both FSM and the public auditor.

Administrative Cost Recovery

To help local governments build capacities to meet Recovery Act responsibilities, OMB issued guidance (Memorandum M-09-18, dated May 11, 2009) allowing Recovery Act administrative costs to be recouped through state-wide cost allocation plans, submitted to HHS annually for review and approval. Only CNMI has submitted and received an approved cost allocation rate that includes a percentage for Recovery Act-specific administrative costs. The other Insular Areas and the Freely Associated States have funded their oversight costs through local appropriations or a Governor's Office grant (Guam).

Cross-Cutting Issues

Although Insular Areas and Freely Associated States identified problematic oversight functionality issues, the following cross-cutting topics impacted all the governments:

- Single audits – historical risks;
- Project inspection;
- Recovery Act Web sites (project funding, procurement, and autonomous agencies issues); and
- Federal oversight.

Single Audits – Historical Risks

Using internal controls in response to Recovery Act responsibilities serves as a way to manage risk upfront. Identification of historical control weaknesses

through single audits⁴ and assessments of how best to mitigate the risks associated with these weaknesses could benefit Insular Areas and Freely Associated States. These governments did not perform this assessment.

The single audit is the only review of Federal assistance performed annually at the end of each fiscal year. The audit tests transaction cycle controls over cash management, expenditures, reporting and property procurement, which are the same areas required for monitoring Recovery Act funds. Risk assessments using single audit results were not performed, however, by Insular Areas or Freely Associated States. Consequently, control areas demonstrating previous weaknesses went unmonitored when such monitoring might have prevented similar problems from occurring with Recovery Act funds.

For example, American Samoa's fiscal year 2007 single audit identified insufficient detail to justify grant reimbursement requests for allowable expenditures. ASESRO reviewed Recovery Act grant expenditures for allowability and allocability. The office did not periodically reconcile the drawdown and receipt of Recovery Act funds by the Treasurer's Office to ensure that the funds received matched the expenditures incurred.

The Virgin Island's public auditor reported that single audits for fiscal years 2004 through 2008 consistently found weak internal controls that left Federal funds at "high risk." The public auditor found that only the respective Federal grantor agencies monitored the funds. Further, the consultant hired by OEO stated that they used after-the-fact as opposed to concurrent monitoring.

We found that failure to perform a risk assessment in the early days of Recovery Act funding resulted from several factors:

- OMB Recovery Act guidance only emphasized the need for Federal agencies to perform risk assessments;
- Insular Area and Freely Associated State governments and Federal agencies have relied on and paid for the annual single audit since 1986, which emphasized corrective action *after* each annual audit; and
- Employees staffing oversight offices either lacked experience in performing risk assessments or the manpower to conduct risk assessments.

Further, individual public auditor offices could not have performed a risk assessment because of limited staff resources and an emphasis on auditing locally funded programs and government entities.

⁴ The Single Audit Act of 1984, as amended, requires state and local governments that spend \$500,000 or more a year in financial assistance to undergo annual reviews known as a single audit. These audits help to provide assurance that the Federal funds were used appropriately and identify internal control weaknesses in an entity's transaction cycles.

Project Inspection

Inspections documenting the attainment of program objectives were limited to construction projects and typically performed by public works departments' personnel. The CNMI recovery office tracked projects through the project manager's weekly reports without visiting individual sites. Guam's BBMR office lacked staff to perform inspections and, therefore, delegated inspection responsibility to agencies receiving the funds. The Virgin Islands contractor hired by OEO also did not perform project inspections. Only American Samoa's ASERO hired actual inspectors to monitor completion of construction and non-construction projects, including testing for compliance with Davis-Bacon and Buy American provisions.

Recovery Act Web Sites

Transparency in Use of Recovery Funds

The Governments of American Samoa, CNMI, Guam, and the Virgin Islands established Web sites to demonstrate transparency in Recovery Act activities. We question the usefulness of these sites that public auditors reported to contain generally outdated or limited financial and program performance information. The Freely Associated States did not establish specific Web sites for Recovery Act information and their existing national government Web sites contained very little financial information on Federal grants and no information on Recovery Act grants.

Although the Recovery Act emphasized transparency and accountability, it did not require agencies receiving grants to establish Recovery Act-specific Web sites. Instead, state and local governments receiving infrastructure funds only had to make a certification on "a website [sic]"⁵ as well as the Recovery Oversight and Transparency Board (RATB) Web site that funds received for infrastructure investment were used for these purposes. The lack of specific Web requirements and standards led either to inaccurate or to no information concerning project funding, procurement activity, and autonomous agencies.

Project Funding

Grant information available on Web sites specifically created to provide Recovery Act data generally tended to be either inaccurate or old data. ASERO initially developed its site with contractor assistance, but the public auditor found that poor cooperation between the two entities allowed posting of inaccurate information. CNMI's public auditor reported that for a 6-month period the CNMI Recovery Act site had not been updated. The Guam public auditor also reported that BBMR did not verify the accuracy of data submitted by agencies. As of September 30, 2010, a \$2.0 million variance was identified on the Web site, Recovery.Guam.gov (\$234.6 million) as compared to Federal.Recovery.gov (\$236.6 million), which had not been resolved. In addition, the public auditor for the four entities reviewed during their evaluation identified a \$679,313 difference in program awards between the Guam and Federal Recovery Act Web sites. The

⁵ Section 1511, Certifications, Subtitle A-Transparency and Oversight Requirements, Recovery Act.

Virgin Islands public auditor noted that received funds displayed on the Virgin Islands site had been underestimated by \$6.5 million. Only after the Web site consultant received notification was the error corrected.

Procurement

The four Insular Area governments and the three Freely Associated States used established procurement codes that emphasized competitive procurement of materials, equipment, and contractual services. Procurement solicitations and awards funded through Recovery Act dollars were inconsistently posted on Recovery Act Web sites. For example, the RATB received a formal complaint from an American Samoa business owner concerning the lack of openness and transparency by the Samoa Recovery Act office, because ASESRO's Web site did not list projects and related procurement opportunities. The CNMI public auditor identified a similar lack of transparency surrounding procurement. Guam's Recovery site did not report any procurement activity. In contrast, Virgin Islands' OEO site posted upcoming procurements and contract awards, but offered no way to determine how the vendors who were awarded the contracts were selected.

Autonomous Agencies

Information on project awards and expenditures plus procurement activities for autonomous agencies also was posted inconsistently on either the autonomous agencies' or the oversight agencies' Web sites. Samoa's telecommunications agency received more than \$91 million (an \$81.04 million grant and a \$10 million loan) from the Rural Development Agency's Broadband Initiatives Program, although neither the agency nor ASESRO posted award and potential follow-on procurement information on their respective Web sites.

The CNMI public auditor reported that Recovery Act information for autonomous agencies either went unmentioned or was not updated on the respective agencies' sites. BBMR's Recovery.Guam.gov presented awards and expenditures information in a spreadsheet format for all departments and agencies, including autonomous agencies. The Web site also provided links to the autonomous agencies' sites. The Department of Education, an autonomous agency and Guam's largest recipient of Recovery Act funds (\$89.2 million), listed procurement activity on its site, but failed to identify procurement solicitations and awards for Recovery Act programs. Further, the department provided only minimal information about programs benefitting from these funds.

We found that the absence of a specific requirement to post Recovery Act award and expenditure information, as well as related procurement opportunities and project descriptions on a local government Web site undermined transparency for the funds awarded to the Insular Areas and Freely Associated States. Further, the absence of a similar requirement for Federal grants awarded prior to the Recovery Act contributed to the problem.

Federal Oversight

The quarterly reporting requirements established under Section 1512 of the Recovery Act increased those previously required by grantor agencies before the Recovery Act. Outreach by Federal personnel played a key role in ensuring that quarterly reports appeared on the Recovery Act reporting Web site (www.Recovery.gov). Overall, we noted that positive relationships among the Federal agencies, the Insular Area governments, and the Freely Associated State governments generally enhanced implementation of Recovery Act programs.

The effects of this interaction are illustrated by the HHS Centers for Disease Control and the Health Resources and Services Administration whose personnel worked closely with the Republics of Palau and the Marshall Islands' Ministries of Health to implement Recovery Act grants. Their activities included providing training, as well as encouraging questions from local agency officials.

In another example, the Guam public auditor reported that the U.S. Federal Highway Administration established a level of oversight that required their approval of all procurement documents pertaining to a \$6.5 million road infrastructure project. We observed the same level of oversight with a \$4.5 million road resurfacing project in American Samoa. This high level of control reinforced correct use of road infrastructure funds.

Areas for Improvement

The public auditors for American Samoa, Guam, and CNMI issued individual reports⁶ to their governments based on their field work during this joint evaluation effort. Each report contained individual recommendations aimed at strengthening the government's oversight of Recovery Act funds received. Their recommendations addressed the need to:

- Perform an overall risk assessment using historical single audit deficiencies to identify control areas that need strengthening to safeguard Recovery Act funding;
- Increase oversight of the funding drawdown process;
- Provide greater accountability over each Recovery Act program;
- Improve the accuracy, timeliness, and transparency of the local government's Recovery Act Web sites; and
- Provide proactive outreach to local government agencies as well as Federal agencies.

Based on our review of their reports, as well as our observations during field work, we concur with these recommendations. We further recommend that Insular Area and Freely Associated State governments develop comprehensive plans to

⁶ The respective reports for Guam and the CNMI can be viewed on the individual public auditor's Web site: Guam, [//www.guamopa.com](http://www.guamopa.com); and CNMI, [//www.opacnmi.com](http://www.opacnmi.com). To request a copy of the American Samoa report, call the Territorial Auditor at 684-633-5194.

identify how to effectively achieve accountability and transparency over Federal funds received. These plans should include:

- A risk assessment, based on historical risks identified in annual single audits and identification of controls to mitigate those risks; and
- Implementation of procedures for monitoring or inspecting projects during execution.

Appendix I: Scope and Methodology

Scope

The public auditors conducted their field work from April 1, 2010 to September 30, 2010, which included completion of specific questionnaires addressed to their governments' Recovery Act oversight agencies, selected Recovery Act program managers, and senior procurement officers, as well as the public auditors' own anticipated oversight.

Each public auditor identified Recovery Act grants, loans, and contracts, as well as expenditures dating to June 30, 2010. Prior single audit report deficiencies in the following categories were identified for areas of potential risk to Recovery Act funds:

Grant accounting and unallowable costs;
Procurement;
Sub recipient monitoring; and
Property management.

Due to existing workload and staffing limitations with the public auditor offices in the Republics of the Marshall Islands and Palau, U.S. Virgin Islands, and American Samoa, OIG staff assisted with completion of the questionnaires for those respective governments. As of April 15, 2011, the public auditors for American Samoa, Guam, and CNMI had issued their respective final reports.

Methodology

Development of questionnaires helped ensure consistency of Recovery Act data collected from each of the governments reviewed. Specific topics included:

- Oversight office (creation, mission, and staffing);
- Project accounting (funding receipt/disbursement);
- Risk assessment;
- Procurement (acquisition planning and open procurement);
- Review of expenditures;
- Quarterly reporting;
- Project inspection; and
- Program transparency (public access to program information).

Since Recovery Act grants, loans, and contracts awarded to the respective governments of the Insular Areas and Freely Associated States have program-specific terms and conditions in addition to their Recovery Act-specific terms, evaluations did not determine compliance with individual program-specific requirements, but rather collected data on the oversight that was being provided.

This joint evaluation effort was conducted in accordance with the Quality Standards for Inspection and Evaluation as put forth by the Council of the Inspectors General on Integrity and Efficiency. Accordingly, tests of records that were considered necessary under the individual circumstances were included.

Appendix 2: Public Auditors for the Insular Areas and Freely Associated States

Insular Areas

Territory of American Samoa

Mr. Robert Paul Dantini, CPA
Territorial Auditor
Territorial Audit Office

Commonwealth of the Northern Mariana Islands

Mr. Michael Pai, CPA
Public Auditor,
Office of Public Auditor

Territory of Guam

Ms. Doris Flores Brooks, CPA, CGFM
Public Auditor
Office of Public Accountability - Guam

U.S. Virgin Islands

Mr. Steven van Beverhoudt, CFE, CGFM
Virgin Islands Inspector General,
Office of the Virgin Islands Inspector General

Freely Associated States

Federated States of Micronesia

Mr. Haser Hainrick
Public Auditor
Office of National Public Auditor

Republic of the Marshall Islands

Mr. Junior Patrick
Auditor-General
Office of the Auditor General

Republic of Palau

Mr. Saturino Tewid
Public Auditor, Acting
Office of Public Auditor

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