United States Government Accountability Office

GAO

Report to Congressional Committees

July 2009

RECOVERY ACT

States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses

GAO

Accountability * Integrity * Reliability

GAO-09-829

July 2009

RECOVERY ACT

States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-09-829, a report to the Senate and House Committees on Appropriations, Senate Committee on Homeland Security and Governmental Affairs, and House Committee on Oversight and Government Reform

Why GAO Did This Study

This report, the second in response to a mandate under the American Recovery and Reinvestment Act of 2009 (Recovery Act), addresses the following objectives: (1) selected states' and localities' uses of Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they received. GAO's work for this report is focused on 16 states and certain localities in those jurisdictions as well as the District of Columbia—representing about 65 percent of the U.S. population and two-thirds of the intergovernmental federal assistance available. GAO collected documents and interviewed state and local officials. GAO analyzed federal agency guidance and spoke with Office of Management and Budget (OMB) officials and with relevant program officials at the Centers for Medicare and Medicaid Services (CMS), and the U.S. Departments of Education, Energy, Housing and Urban Development (HUD), Justice, Labor, and Transportation (DOT).

What GAO Recommends

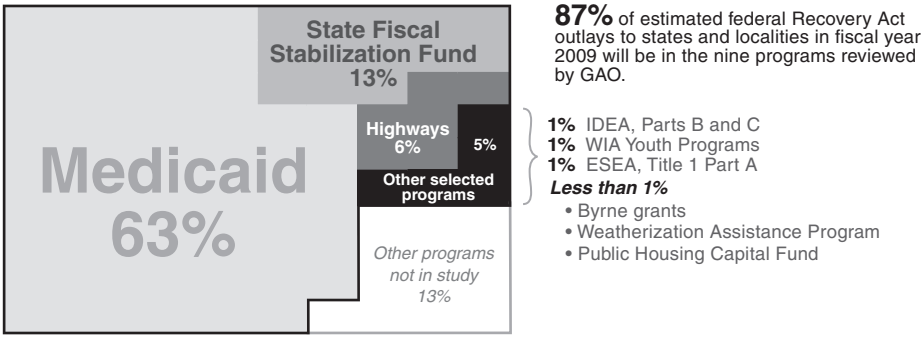
GAO makes recommendations and a matter for congressional consideration discussed on the next page. The report draft was discussed with federal and state officials who generally agreed with its contents. OMB officials generally agreed with GAO's recommendations to OMB; DOT agreed to consider GAO's recommendation.

View GAO-09-829 or key components.
For state summaries, see GAO-09-830SP.
For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What GAO Found

Across the United States, as of June 19, 2009, Treasury had outlayed about $29 billion of the estimated $49 billion in Recovery Act funds projected for use in states and localities in fiscal year 2009. More than 90 percent of the $29 billion in federal outlays has been provided through the increased Medicaid Federal Medical Assistance Percentage (FMAP) and the State Fiscal Stabilization Fund (SFSF) administered by the Department of Education.

GAO's work focused on nine federal programs that are estimated to account for approximately 87 percent of federal Recovery Act outlays in fiscal year 2009 for programs administered by states and localities. The following figure shows the distribution by program of anticipated federal Recovery Act spending in fiscal year 2009 for the nine programs discussed in this report.



Source: GAO analysis of Congressional Budget Office and Federal Funds Information for States data.

Increased Medicaid FMAP Funding

All 16 states and the District have drawn down increased Medicaid FMAP grant awards of just over $15 billion for October 1, 2008, through June 29, 2009, which amounted to almost 86 percent of funds available. Medicaid enrollment increased for most of the selected states and the District, and several states noted that the increased FMAP funds were critical in their efforts to maintain coverage at current levels. States and the District reported they are planning to use the increased federal funds to cover their increased Medicaid caseload and to maintain current benefits and eligibility levels. Due to the increased federal share of Medicaid funding, most state officials also said they would use freed-up state funds to help cope with fiscal stresses.

Highway Infrastructure Investment

As of June 25, DOT had obligated about $9.2 billion for almost 2,600 highway infrastructure and other eligible projects in the 16 states and the District and had reimbursed about $96.4 million. Across the nation, almost half of the obligations have been for pavement improvement projects because they did not require extensive environmental clearances, were quick to design, obligate and bid on, could employ people quickly, and could be completed within 3 years. Officials from most states considered project readiness,

including the 3-year completion requirement, when making project selections and only later identified to what extent these projects fulfilled the economically distressed area (EDA) requirement. We found substantial variation in how states identified areas in economically distressed areas and how they prioritized project selection for these areas.

State Fiscal Stabilization Fund

As of June 30, 2009, of the 16 states and the District, only Texas had not submitted an SFSF application. Pennsylvania recently submitted an application but had not yet received funding. The remaining 14 states and the District had been awarded a total of about $17 billion in initial funding from Education—of which about $4.3 billion has been drawn down. School districts said that they would use SFSF funds to maintain current levels of education funding, particularly for retaining staff and current education programs. They also said that SFSF funds would help offset state budget cuts.

Overall, states reported using Recovery Act funds to stabilize state budgets and to cope with fiscal stresses. The funds helped them maintain staffing for existing programs and minimize or avoid tax increases as well as reductions in services.

Accountability

States have implemented various internal control programs; however, federal Single Audit guidance and reporting does not fully address Recovery Act risk. The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies noted in Recovery Act programs. Moreover, current guidance does not achieve the level of accountability needed to effectively respond to Recovery Act risks. Finally, state auditors need additional flexibility and funding to undertake the added Single Audit responsibilities under the Recovery Act.

Impact

Direct recipients of Recovery Act funds, including states and localities, are expected to report quarterly on a number of measures, including the use of funds and estimates of the number of jobs created and the number of jobs retained. The first of these reports is due in October 2009. OMB—in consultation with a broad range of stakeholders—issued additional implementing guidance for recipient reporting on June 22, 2009, that clarifies some requirements and establishes a central reporting framework.

In addition to employment-related reporting, OMB requires reporting on the use of funds by recipients and nonfederal subrecipients receiving Recovery Act funds. The tracking of funds is consistent with the Federal Funding Accountability and Transparency Act (FFATA). Like the Recovery Act, FFATA requires a publicly available Web site—www.USAspending.gov—to report financial information about entities awarded federal funds. Yet, significant questions have been raised about the reliability of the data on www.USAspending.gov, primarily because what is reported by the prime recipients is dependent on the unknown data quality and reporting capabilities of subrecipients.

GAO's Recommendations

Accountability and Transparency

To leverage Single Audits as an effective oversight tool for Recovery Act programs, the Director of OMB should

- develop requirements for reporting on internal controls during 2009 before significant Recovery Act expenditures occur, as well as for ongoing reporting after the initial report;
- provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with high risk have audit coverage in the area of internal controls and compliance;
- evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act; and
- develop mechanisms to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs.

Matter for Congressional Consideration: Congress should consider a mechanism to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs.

Reporting on Impact

The Director of OMB should work with federal agencies to provide recipients with examples of the application of OMB's guidance on recipient reporting of jobs created and retained. In addition, the Director of OMB should work with agencies to clarify what new or existing program performance measures are needed to assess the impact of Recovery Act funding.

Communications and Guidance

To strengthen the effort to track funds and their uses, the Director of OMB should (1) ensure more direct communication with key state officials, (2) provide a long range time line on issuing federal guidance, (3) clarify what constitutes appropriate quality control and reconciliation by prime recipients, and (4) specify who should best provide formal certification and approval of the data reported.

The Secretary of Transportation should develop clear guidance on identifying and giving priority to economically distressed areas that are in accordance with the requirements of the Recovery Act and the Public Works and Economic Development Act of 1965, as amended, and more consistent procedures for the Federal Highway Administration to use in reviewing and approving states' criteria.

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GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

July 8, 2009

Report to Congressional Committees

As federal funds provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act)[1] flow into the U.S. economy, state fiscal conditions continue to be stressed. Actual declines in sales, personal income, and corporate income tax revenues influenced state actions to begin to fill an estimated $230 billion in budget gaps for fiscal years 2009 through 2011.[2] The national unemployment rate also increased to 9.5 percent in June 2009, and high unemployment can place greater stress on state budgets as demand for services, such as Medicaid, increases. Some economists have pointed to signs of economic improvement, although associations representing state officials have also reported that state fiscal conditions historically lag behind any national economic recovery.

The Recovery Act specifies several roles for GAO, including conducting bimonthly reviews of selected states' and localities' use of funds made available under the act.[3] This report, the second in response to the act's mandate, addresses the following objectives: (1) selected states' and localities' uses of Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they received.[4] The report provides overall findings, makes recommendations, and discusses the status of actions in response to the recommendations we made in our April 2009 report. Individual summaries for the 16 selected states and the District of Columbia (District) are accessible through GAO's recovery page at www.gao.gov/recovery. In addition, all of the summaries have been compiled into an electronic supplement, GAO-09-830SP.

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

[2]The estimated budget gaps are reported by associations representing state officials. See The National Governors Association and the National Association of State Budget Officers, *The Fiscal Survey of States* (Washington, D.C., June 2009).

[3]Recovery Act, div. A, title IX, §901.

[4]GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009).

As reported in our April 2009 review, to address these objectives, we selected a core group of 16 states and the District that we will follow over the next few years.[5] Our bimonthly reviews examine how Recovery Act funds are being used and whether they are achieving the stated purposes of the act. These purposes include

- to preserve and create jobs and promote economic recovery;
- to assist those most impacted by the recession;
- to provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and
- to stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The states selected for our bimonthly reviews contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental federal assistance funds available through the Recovery Act. We selected these states and the District on the basis of federal outlay projections, percentage of the U.S. population represented, unemployment rates and changes, and a mix of states' poverty levels, geographic coverage, and representation of both urban and rural areas. In addition, we visited a nonprobability sample of about 178 local entities within the 16 selected states and the District.[6]

GAO's work for this report focused on nine federal programs primarily because they have begun disbursing funds to states or have known or

[5]The states we are following as part of our analysis are Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas.

[6]This total includes two entities in the District of Columbia that received direct federal funding that was not passed through the District government.

potential risks.[7] These risks can include existing programs receiving significant amounts of Recovery Act funds or new programs. We collected documents from and conducted semistructured interviews with executive-level state and local officials and staff from state offices including governors' offices, "recovery czars," state auditors, and controllers. In addition, our work focused on federal, state, and local agencies administering the selected programs receiving Recovery Act funds. We analyzed guidance and interviewed officials from the federal Office of Management and Budget (OMB). We also analyzed other federal agency guidance on programs selected for this review and spoke with relevant program officials at the Centers for Medicare and Medicaid Services (CMS), the U.S. Departments of Education, Energy, Housing and Urban Development, Justice, Labor, and Transportation. Where attributed to state officials, we did not review state legal materials for this report, but relied on state officials and other state sources for description and interpretation of relevant state constitutions, statutes, legislative proposals, and other state legal materials. The information obtained from this review cannot be generalized to all states and localities receiving Recovery Act funding. A detailed description of our scope and methodology can be found in appendix I.

We conducted this performance audit from April 21, 2009, to July 2, 2009, 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.

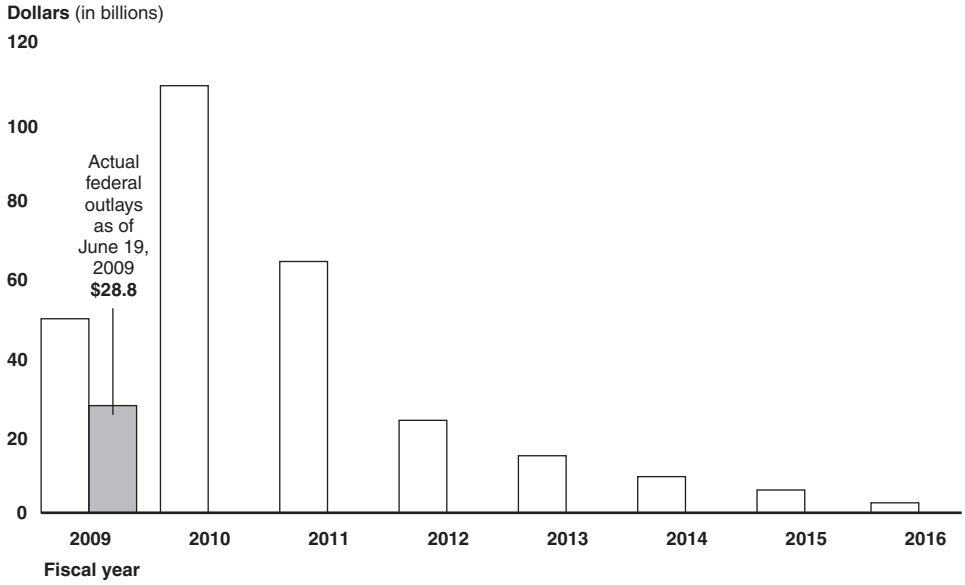
[7]For this report, GAO reviewed states' and localities' use of Recovery Act funds for (1) the Medicaid Federal Medical Assistance Percentage (FMAP), (2) the State Fiscal Stabilization Fund (SFSF), (3) the Federal-Aid Highway Surface Transportation Program, (4) the Public Housing Capital Fund, (5) Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA); (6) Parts B and C of the Individuals with Disabilities Education Act (IDEA); (7) the Weatherization Assistance Program; (8) the Edward Byrne Memorial Justice Assistance Grant (JAG) Program; and (9) the Workforce Investment Act (WIA) Youth Program.

Background

Our analysis of initial estimates of Recovery Act spending provided by the Congressional Budget Office (CBO) suggested that about $49 billion would be outlayed to states and localities by the federal government in fiscal year 2009, which runs through September 30. However, our analysis of the latest information available on actual federal outlays reported on www.recovery.gov[8] indicates that in the 4 months since enactment, the federal Treasury has paid out approximately $29 billion to states and localities, which is about 60 percent of payments estimated for fiscal year 2009. Although this pattern may not continue for the remaining 3-1/2 months, at present spending is slightly ahead of estimates. More than 90 percent of the $29 billion in federal outlays has been provided through the increased Federal Medical Assistance Percentage (FMAP) grant awards and the State Fiscal Stabilization Fund administered by the Department of Education. Figure 1 shows the original estimate of federal outlays to states and localities under the Recovery Act compared with actual federal outlays as reported by federal agencies on www.recovery.gov. The 16 states and the District of Columbia covered by our review account for about two-thirds of the Recovery Act funding available to states and localities. According to the Office of Management and Budget (OMB), an estimated $149 billion in Recovery Act funding will be obligated to states and localities in fiscal year 2009.

[8]The Web site www.recovery.gov is mandated by the Recovery Act to foster greater accountability and transparency in the use of the act's funds. The Web site is required to include plans from federal agencies; information on federal awards of formula grants and awards of competitive grants; and information on federal allocations for mandatory and other entitlement programs by state, county, or other appropriate geographical unit. The Web site is maintained by the Recovery Accountability and Transparency Board.

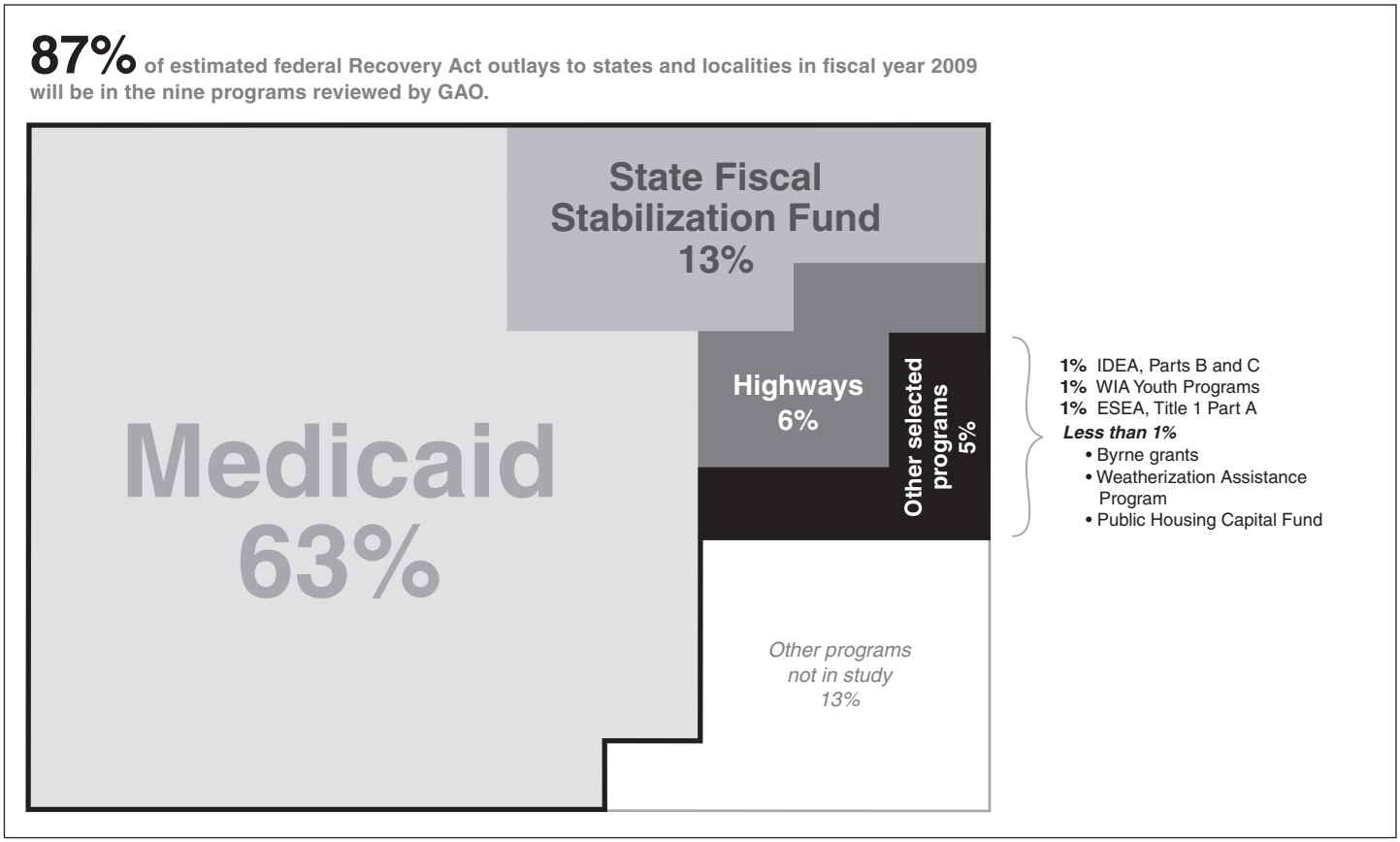
Figure 1: Projected versus Actual Federal Outlays to States and Localities under the Recovery Act



Source: GAO analysis of CBO, Federal Funds Information for States, and Recovery.gov data.

Our work for this bimonthly report focused on nine federal programs, selected primarily because they have begun disbursing funds to states and include programs with significant amounts of Recovery Act funds, programs receiving significant increases in funding, and new programs. Recovery Act funding of some of these programs is intended for further disbursement to localities. Together, these nine programs are estimated to account for approximately 87 percent of federal Recovery Act outlays to state and localities in fiscal year 2009. Figure 2 shows the distribution by program of anticipated federal Recovery Act spending in fiscal year 2009 to states and localities.

Figure 2: Programs in July Review, Estimated Federal Recovery Act Outlays to States and Localities in Fiscal Year 2009 as a Share of Total



Source: GAO analysis of data from CBO and Federal Funds Information for States.

States and Localities Are Using Recovery Act Funds for Purposes of the Act and to Help Address Fiscal Stresses

Increased FMAP Has Helped States Finance Their Growing Medicaid Programs, but Concerns Remain about Compliance with Recovery Act Provisions

Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures is known as the FMAP, which may range from 50 percent to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months between October 1, 2008, and December 31, 2010. [9] On February 25, 2009, CMS made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act. Generally, for fiscal year 2009 through the first quarter of fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for (1) the maintenance of states' prior year FMAPs, (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs, and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

For the third quarter of fiscal year 2009, the increases in FMAP for the 16 states and the District of Columbia compared with the original fiscal year 2009 levels are estimated to range from 6.2 percentage points in Iowa to 12.24 percentage points in Florida, with the FMAP increase averaging almost 10 percentage points. When compared with the first two quarters of fiscal year 2009, the FMAP in the third quarter of fiscal year 2009 is estimated to have increased in 12 of the 16 states and the District.

[9] Recovery Act, div. B, title V, § 5001.

Table 1: Percentage Point Increases in FMAP from Original Fiscal Year 2009 to Third Quarter 2009 (estimated), for 16 States and the District

State	Original fiscal year 2009 FMAP[a]	Adjusted fiscal year 2009 FMAP, third quarter (estimated)	Difference between original and adjusted FMAP, third quarter (estimated)
Arizona	65.77	75.01	9.24
California	50.00	61.59	11.59
Colorado	50.00	60.19	10.19
District of Columbia	70.00	79.29	9.29
Florida	55.40	67.64	12.24
Georgia	64.49	74.42	9.93
Illinois	50.32	61.88	11.56
Iowa	62.62	68.82	6.20
Massachusetts	50.00	60.19	10.19
Michigan	60.27	70.68	10.41
Mississippi	75.84	84.24	8.40
New Jersey	50.00	60.19	10.19
New York	50.00	60.19	10.19
North Carolina	64.60	74.51	9.91
Ohio	62.14	71.29	9.15
Pennsylvania	54.52	64.32	9.80
Texas	59.44	68.76	9.32

Source: GAO analysis of data from Federal Funds Information for States, as of April 8, 2009.

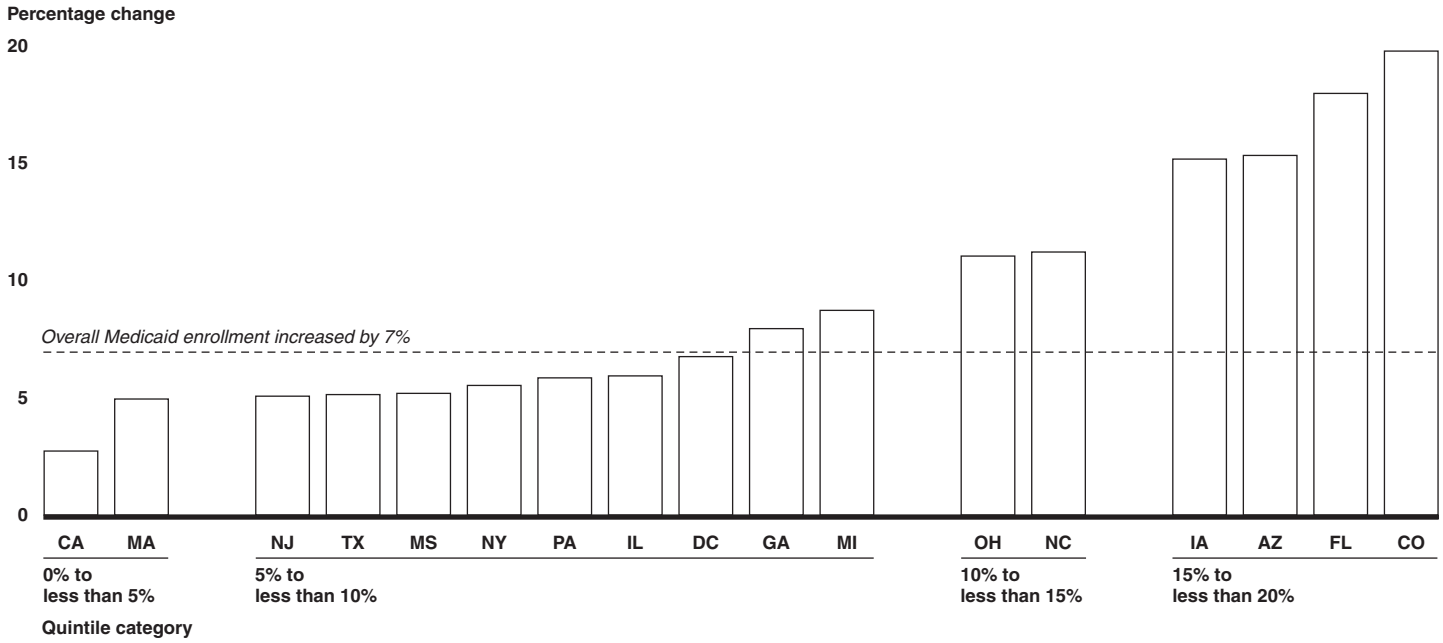
[a]The original fiscal year 2009 FMAP data were published in the Federal Register on November 28, 2007.

From October 2007 to May 2009, overall Medicaid enrollment in the 16 states and the District increased by 7 percent.[10] In addition, each of the states and the District experienced an enrollment increase during this period, with the highest number of programs experiencing an increase of 5 percent to 10 percent. However, the percentage increase in enrollment

[10]The percentage increase is based on actual state enrollment data for October 2007 to April 2009 and projected enrollment data for May 2009, with the exception of New York, which provided projected enrollment data for March, April and May 2009. Three states—Florida, Georgia, and Mississippi—did not provide projected enrollment data for May 2009. We estimated enrollment for these states for May 2009 to determine the total change in enrollment for October 2007 to May 2009.

varied widely ranging from just under 3 percent in California to nearly 20 percent in Colorado. (Figure 3.)

Figure 3: Percentage Increase in Medicaid Enrollment from October 2007 to May 2009, for 16 States and the District



Source: GAO analysis of state data.

Note: The percentage increase for each state is based on actual state enrollment data for October 2007 to April 2009 and projected enrollment data for May 2009, with the exception of New York, which provided projected enrollment data for March, April and May 2009. Three states—Florida, Georgia, and Mississippi—did not provide projected enrollment data for May 2009.

Overall enrollment growth was the most rapid in early 2009—generally from January through April 2009—an enrollment trend that was mirrored in several states and the District; however, variation existed. For example, while Colorado and Mississippi experienced a nearly 5 percent increase in Medicaid enrollment during this time, Medicaid enrollment in Illinois remained relatively stable, growing at less than 1 percent. Most of the increase in overall enrollment was attributable to populations that are sensitive to economic downturns—primarily children and families Nonetheless, enrollment growth in other population groups, such as disabled individuals, also contributed to enrollment growth.

With regard to the states' receipt of the increased FMAP, all 16 states and the District had drawn down increased FMAP grant awards totaling just over $15.0 billion for the period of October 1, 2008 through June 29, 2009

which amounted to 86 percent of funds available. [11] (See table 2.) In addition, except for the initial weeks that increased FMAP funds were available, the weekly rate at which the sample states and the District have drawn down these funds has remained relatively constant.

Table 2: FMAP Grant Awards and Funds Drawn Down, for 16 States and the District as of June 29, 2009

State	FMAP grant awards[a]	Funds drawn	Percentage of funds drawn
Dollars in thousands			
Arizona	$534,576	$512,550	96
California	3,330,010	2,753,245	83
Colorado	240,777	197,035	82
District of Columbia	98,339	89,344	91
Florida	1,394,946	1,263,179	91
Georgia	541,145	497,893	92
Illinois	1,040,031	867,909	83
Iowa	136,023	126,815	93
Massachusetts	1,229,501	833,031	68
Michigan	728,425	715,843	98
Mississippi	232,014	206,890	89
New Jersey	579,976	579,976	100
New York	3,312,089	2,643,136	80
North Carolina	710,243	710,243	100
Ohio	832,391	711,435	85
Pennsylvania	1,097,544	957,094	87
Texas	1,444,026	1,351,960	94
Total	**$17,482,055**	**$15,017,578**	**86**

Source: GAO analysis of HHS data.

[a]The FMAP grant awards listed are for the first three quarters of federal fiscal year 2009.

While the increased FMAP available under the Recovery Act is for state expenditures for Medicaid services, the receipt of these funds may reduce the state share for their Medicaid programs. As such, states reported that

[11]Colorado was the only state in GAO's sample of states that had not drawn down increased FMAP funds as of GAO's first report in April 2009. However, the state completed its first draw down of funds on April 30, 2009.

they are using or are planning to use the funds that have become freed up as a result of increased FMAP for a variety of purposes. Most commonly, states reported that they are using or planning to use freed-up funds to cover their increased Medicaid caseload, to maintain current benefits and eligibility levels, and to help finance their respective state budgets. Several states noted that given the poor economic climate in their respective states, these funds were critical in their efforts to maintain Medicaid coverage at current levels. For example, officials from Georgia, Michigan, and Pennsylvania reported that the increased FMAP funds have allowed their respective states to maintain their Medicaid programs, which could have been subject to cuts in eligibility or services without the increased funds. Additionally, Medicaid officials in five states and the District indicated that they used the funds made available as a result of the increased FMAP to maintain program expansions or local health care reform initiatives, which in some states would have otherwise been vulnerable to program cuts. Lastly, all but Texas and the District reported they are using or planning to use the freed-up funds to help finance their state budgets. Five states—Arizona, California, Colorado, North Carolina, and Ohio—-reported using or planning to use these funds solely for this purpose.

For states to qualify for the increased FMAP available under the Recovery Act, they must meet a number of requirements, including the following:

- States generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid programs on July 1, 2008.[12]

- States must comply with prompt payment requirements.[13]

[12]In order to qualify for the increased FMAP, states generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid plans or waivers on July 1, 2008. See Recovery Act, div. B, title V, §5001(f)(1)(A).

[13]Under the Recovery Act, states are not eligible to receive the increased FMAP for certain claims for days during any period in which that state has failed to meet the prompt payment requirement under the Medicaid statute as applied to those claims. See Recovery Act, div. B, title V, §5001(f)(2). Prompt payment requires states to pay 90 percent of clean claims from health care practitioners and certain other providers within 30 days of receipt and 99 percent of these claims within 90 days of receipt. See 42 U.S.C. §1396a(a)(37)(A).

- States cannot deposit or credit amounts attributable (either directly or indirectly) to certain elements of the increased FMAP into any reserve or rainy-day fund of the state.[14]

- States with political subdivisions—such as cities and counties—that contribute to the nonfederal share of Medicaid spending cannot require the subdivisions to pay a greater percentage of the nonfederal share than would have been required on September 30, 2008.[15]

Medicaid officials from many states and the District raised concerns about their ability to meet these requirements and, thus, maintain eligibility for the increased FMAP. While officials from several states spoke positively about CMS's guidance related to FMAP requirements, at least nine states and the District reported they wanted CMS to provide additional guidance regarding (1) how they report daily compliance with prompt pay requirements, (2) how they report monthly on increased FMAP spending, and (3) whether certain programmatic changes would affect their eligibility for funds. For example, Medicaid officials from several states told us they were hesitant to implement minor programmatic changes, such as changes to prior authorization requirements, pregnancy verifications, or ongoing rate changes, out of concern that doing so would jeopardize their eligibility for increased FMAP. In addition, at least three states raised concerns that glitches related to new or updated information systems used to generate provider payments could affect their eligibility for these funds. Specifically, Massachusetts Medicaid officials said they are implementing a new provider payment system that will generate payments to some providers on a monthly versus daily basis and would like guidance from CMS on the availability of waivers for the prompt payment requirement. A CMS official told us that the agency is in the process of finalizing its guidance to states on reporting compliance with the prompt payment requirement of the Recovery Act, but did not know when this guidance would be publicly available. However, the official noted that, in the near term, the agency intends to issue a new Fact Sheet,

[14]See Recovery Act, div. B, title V, §5001(f)(3).

[15]In some states, political subdivisions—such as cities and counties—may be required to help finance the state's share of Medicaid spending. Under the Recovery Act, a state that has such financing arrangements is not eligible for certain elements of the increased FMAP if it requires subdivisions to pay during a quarter of the recession adjustment period a greater percentage of the nonfederal share than the percentage that would have otherwise been required under the state plan on September 30, 2008. See Recovery Act, div. B., title V, § 5001(g)(2). The recession adjustment period is the period beginning October 1, 2008, and ending December 31, 2010.

which will include questions and answers on a variety of issues related to the increased FMAP.

Due to the variability of state operations, funding processes, and political structures, CMS has worked with states on a case-by-case basis to discuss and resolve issues that arise. Specifically, communications between CMS and several states indicate efforts to clarify issues related to the contributions to the state share of Medicaid spending by political subdivisions or to rainy-day funds. For example, in a May 20, 2009, letter, CMS clarified that California would not fail to meet the provision of the Recovery Act related to contributions by political subdivisions if a county voluntarily used its funds to make up for a decrease in the amount the state appropriated for the Medicaid payment of wages of personal care service providers. Similarly, Mississippi clarified with CMS its understanding that it would not be permissible to deposit general fund savings resulting from the increased FMAP into the rainy-day fund in state fiscal year 2010 in order to use those funds in state fiscal year 2011.[16]

Regarding the tracking of the increased FMAP, most of the states and the District use existing processes to track the receipt of the increased FMAP separately from regular FMAP, and almost half of the states reported using existing processes to reconcile these expenditures. In addition, we reviewed the 2007 Single Audits[17] for the states and the District and identified material weaknesses related to Medicaid, including weaknesses related to provider enrollment processes and subrecipient monitoring, for most of them.[18] The Single Audits indicated that many states and the District planned or implemented actions to correct identified weaknesses.

[16]A state is not eligible for certain elements of increased FMAP if any amounts attributable directly or indirectly to them are deposited or credited into a state reserve or rainy day fund. Recovery Act, div. B, title V, §5001(f)(3).

[17]Our review focused on the 2007 Single Audits because it is the most recent year for which single audits were completed for all our states and the District. However, as of June 10, 2009, 2008 Single Audits were available for eight states. For more information about the material weaknesses identified in the Single Audits for 2007 and 2008, refer to the individual state appendixes.

[18]The Single Audit Act of 1984, as amended (31 U.S.C. ch. 75), requires that each state, local government, or nonprofit organization that expends $500,000 or more a year in federal awards must have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in Office of Management and Budget Circular No. A-133, Audits of States, Local Governments and Non-Profit Organizations (June 27, 2003). If an entity expends federal awards under only one federal program, the entity may elect to have an audit of that program.

According to CMS officials, CMS regional offices work with states to address single audit findings related to Medicaid.

States Are Using Highway Infrastructure Funds Mainly For Pavement Improvements and Are Generally Complying with Recovery Act Requirements

The Recovery Act provides funding to the states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The act requires that 30 percent of these funds be suballocated for projects in metropolitan and other areas of the state. Highway funds are apportioned to the states through federal-aid highway program mechanisms, and states must follow the requirements of the existing program, which include ensuring the project meets all environmental requirements associated with the National Environmental Policy Act (NEPA), paying a prevailing wage in accordance with federal Davis-Bacon requirements, complying with goals to ensure disadvantaged businesses are not discriminated against in the awarding of construction contracts, and using American-made iron and steel in accordance with Buy America program requirements. However, the maximum federal fund share of highway infrastructure investment projects under the Recovery Act is 100 percent, while the federal share under the existing federal-aid highway program is generally 80 percent.

In March 2009, $26.7 billion was apportioned to all 50 states and the District of Columbia (District) for highway infrastructure and other eligible projects. As of June 25, 2009, $15.9 billion of the funds had been obligated[19] for over 5,000 projects nationwide, and $9.2 billion had been obligated for nearly 2,600 projects in the 16 states and the District that are the focus of our review.

[19]The U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

Table 3: Highway Apportionments and Obligations Nationwide and in Selected States as of June 25, 2009

Dollars in millions

		Obligations[a]	
State	**Apportionment**	**Obligated amount**	**Percentage of apportionment obligated**
Arizona	$522	$262	50.2
California	2,570	1,558	60.6
Colorado	404	244	60.4
District of Columbia	124	100	81.0
Florida	1,347	1,049	77.9
Georgia	932	449	48.2
Illinois	936	671	71.7
Iowa	358	319	89.2
Massachusetts	438	174	39.6
Michigan	847	421	49.7
Mississippi	355	276	77.9
New Jersey	652	410	62.9
New York	1,121	589	52.6
North Carolina	736	423	57.6
Ohio	936	384	41.1
Pennsylvania	1,026	729	71.0
Texas	2,250	1,163	51.7
Selected states total	$15,551	$9,222	59.3
U.S. total	**$26,660**	**$15,867**	**59.5**

Source: GAO analysis of Federal Highway Administration data.

Note: As of June 25, 2009, all states have met the Recovery Act requirement that 50 percent of apportioned funds be obligated within 120 days of apportionment (before June 30, 2009), as discussed later in this report. However, this requirement applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use or to funds transferred to FTA. This table shows the percentage of all apportioned funds that have been obligated, which is why some states show an obligation rate of less than 50 percent.

[a]This does not include obligations associated with $61 million of apportioned funds that were transferred from the Federal Highway Administration (FHWA) to the Federal Transit Administration (FTA) for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

Almost half of Recovery Act highway obligations have been for pavement improvements. Specifically, $7.8 billion of the $15.9 billion obligated

nationwide as of June 25, 2009, is being used for projects such as reconstructing or rehabilitating deteriorated roads, including $3.6 billion for road resurfacing projects. Many state officials told us they selected a large percentage of resurfacing and other pavement improvement projects because they did not require extensive environmental clearances, were quick to design, could be quickly obligated and bid, could employ people quickly, and could be completed within 3 years. For example, Michigan began a $22 million project on Interstate 196 in Allegan County that involves resurfacing about seven miles of road. Michigan Department of Transportation officials told us they focused primarily on pavement improvements for Recovery Act projects because they could be obligated quickly and could be under construction quickly, thereby employing people this calendar year. Since many of the environmental clearances had been completed, Michigan could accelerate the construction of these projects when Recovery Act funds became available. Table 4 shows obligations by the types of road and bridge improvements being made.

Table 4: Nationwide Highway Obligations by Project Improvement Type as of June 25, 2009

Dollars in millions

	Pavement projects			Bridge projects				
	New construction	Pavement improvement	Pavement widening	New construction	Replacement	Improvement	Other[a]	Total[b]
	$994	$7,765	$2,701	$418	$708	$851	$2,429	$15,867
Percent of total obligations	6.3	48.9	17.0	2.6	4.5	5.4	15.3	100.0

Source: GAO analysis of Federal Highway Administration data.

[a]Includes safety projects such as improving safety at railroad grade crossings, transportation enhancement projects such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

[b]Totals may not add because of rounding.

As table 4 shows, in addition to pavement improvements, $2.7 billion, or about 17 percent of Recovery Act funds nationally, has been obligated for pavement-widening projects. These projects provide for reconstructing and improving existing roads as well as increasing the capacity of the road to accommodate traffic, which can reduce congestion. In Florida, around 47 percent of Recovery Act funds were obligated for widening projects that increase capacity, while about 9 percent was obligated for pavement improvements such as resurfacing.

As of June 25, 2009, around 10 percent of the funds apportioned nationwide have been obligated for the replacement or improvement or rehabilitation of bridges. Funding for bridge rehabilitation and replacement has been a growing national concern since the I-35 bridge collapse in Minnesota in 2007.[20] Eleven of the states we visited had less than 10 percent of their Recovery Act funds obligated for bridge replacement and rehabilitation, while two states—New York and Pennsylvania—and the District each had more than one-quarter of their funds obligated for bridge replacement and rehabilitation. In the District, about 36 percent of its obligations are for rehabilitating bridges, including the District's largest Recovery Act project—a bridge that has been identified as having potentially significant safety concerns. Around 2.6 percent of apportioned funds have been obligated for construction of new bridges.

As of June 25, 2009, $233 million had been reimbursed nationwide by the Federal Highway Administration (FHWA) and $96.4 million had been reimbursed to the 16 states and the District. States are just beginning to get projects awarded so that contractors can begin work, and U.S. Department of Transportation officials told us that although funding has been obligated for more than 5,000 projects, it may be months before states can request reimbursement. Once contractors mobilize and begin work, states make payments to these contractors for completed work, and may request reimbursement from FHWA. FHWA told us that once funds are obligated for a project, it may take 2 or more months for a state to bid and award the work to a contractor and have work begin. According to FHWA, depending on the type of project, it can take days or years from the date of obligation for those funds to be reimbursed. For example, the North Carolina Department of Transportation (as of June 30, 2009) had advertised 65 contracts representing $335 million in Recovery Act funding. Of the 65 contracts, 55, representing $309 million, had been awarded; of these contracts, 33, representing $200 million, are under way. North Carolina has been reimbursed about $4 million of Recovery Act funding for projects as of June 25, 2009. Approximately 27 of the 65 projects, representing $70 million, are anticipated to be complete by December 1, 2009.

[20]GAO, *Highway Bridge Program: Clearer Goals and Performance Measures Needed for a More Focused and Sustainable Program*, GAO-08-1043 (Washington, D.C.: Sept. 10, 2008).

According to state officials, because an increasing number of contractors are looking for work, bids for Recovery Act contracts have come in under estimates. State officials told us that bids for the first Recovery Act contracts were ranging from around 5 percent to 30 percent below the estimated cost. For example in California, officials reported they have had 8 to 10 bidders for each contract bid, compared with 2 to 4 bids per contract prior to the economic downturn, and that bids are generally coming in 30 percent below estimates. Arizona officials told us that contractors are willing to bid for contracts with little profit margin in order to cover overhead and put people to work, while Mississippi officials told us that material costs had decreased. Several state officials told us they expect this trend to continue until the economy substantially improves and contractors begin taking on enough other work.

Funds appropriated for highway infrastructure spending must be used as required by the Recovery Act. States are required to do the following:

- Ensure that 50 percent of apportioned Recovery Act funds are obligated within 120 days of apportionment (before June 30, 2009) and that the remaining apportioned funds are obligated within 1 year. The 50 percent rule applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use. The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames.[21]

- Give priority to projects that can be completed within 3 years and to projects located in economically distressed areas (EDA). EDAs are defined by the Public Works and Economic Development Act of 1965, as amended.[22] According to this act, to qualify as an EDA, an area must meet

[21]Recovery Act, div. A, title XII, 123 Stat. 115, 206.

[22]*Id.*

one or more of three criteria related to income and unemployment based on the most recent federal or state data.[23]

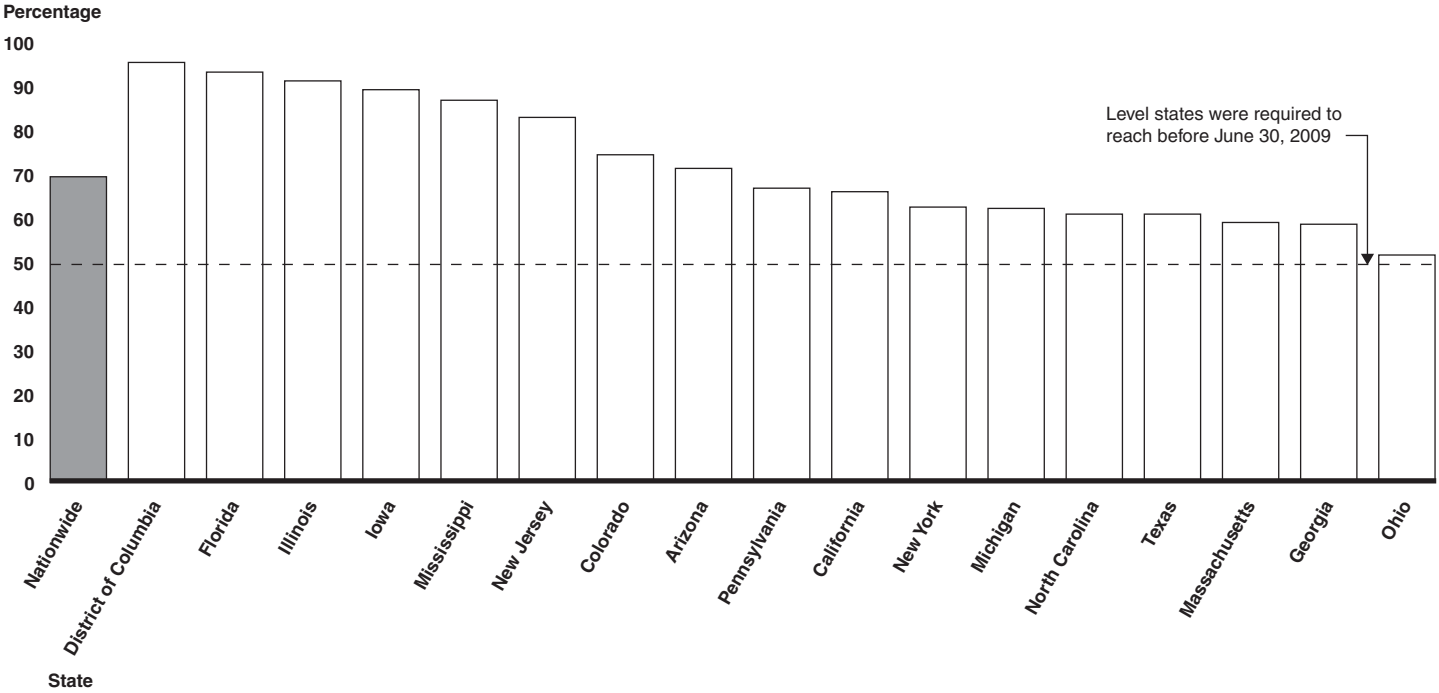
- Certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009, through September 30, 2010.[24]

All states have met the first Recovery Act requirement that 50 percent of their apportioned funds are obligated within 120 days. Of the $18.7 billion nationally that is subject to this provision, 69 percent was obligated as of June 25, 2009. The percentage of funds obligated nationwide and in each of the states included in our review is shown in figure 4.

[23]According to these criteria, to qualify as an EDA, the area must (1) have a per capita income of 80 percent or less of the national average; (2) have an unemployment rate that is, for the most recent 24-month period for which data are available, at least 1 percent greater than the national average unemployment rate; or (3) be an area the Secretary of Commerce determines has experienced or is about to experience a special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions (42 U.S.C. § 3161(a)). Eligibility must be supported using the most recent federal data available or, in the absence of recent federal data, by the most recent data available through the government of the state in which the area is located. Federal data that may be used include data reported by the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Census Bureau, the Bureau of Indian Affairs, or any other federal source determined by the Secretary of Commerce to be appropriate (42 U.S.C. § 3161(c)).

[24]Recovery Act, div. A, title XII, § 1201.

Figure 4: Percentage of Recovery Act Highway Funds Obligated as of June 25, 2009[a]



Source: GAO analysis of Federal Highway Adminstration data.

[a]This figure does not include obligations that are not subject to the 120-day redistribution requirement (including funds suballocated to localities) and obligations associated with apportioned funds that were transferred from FHWA to the Federal Transit Administration (FTA) for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

The second Recovery Act requirement is to give priority to projects that can be completed within 3 years and to projects located in economically distressed areas. Officials from almost all of the states said they considered project readiness, including the 3-year completion requirement, when making project selections, and, according to officials from just fewer than half of the states, project readiness was the single most important consideration for selecting projects. Officials from most states reported they expect all or most projects funded with Recovery Act funds to be completed within 3 years, with the exception of some larger or more complex projects that may take longer to complete. For example, Massachusetts chose to use Recovery Act funds to construct a new highway interchange in Fall River. Although this project will take longer than other projects to complete, Massachusetts officials said they selected it because it was located in the state's only EDA.

We found that due to the need to select projects and obligate funds quickly, many states first selected projects based on other factors and only later identified to what extent these projects fulfilled the EDA requirement. According to the American Association of State Highway and Transportation Officials, in December 2008, states had already identified more than 5,000 "ready-to-go" projects as possible selections for federal stimulus funding, 2 months prior to enactment of the Recovery Act. Officials from several states also told us they had selected projects prior to the enactment of the Recovery Act and that they only gave consideration to EDAs after they received EDA guidance from DOT. For instance, officials in New York said that in anticipation of the Recovery Act being enacted the state initially selected projects that were ready to go and were distributed throughout the state, without regard to their location in EDAs. Since then, the state has emphasized the need to identify and fund projects in EDAs, pushing such projects to the "head of the line." Officials in Pennsylvania said they selected projects before federal guidance was available and that after reviewing project selections for compliance with the EDA requirement, decided to make no changes because their choices provided the greatest potential to provide jobs in an expeditious manner.

States also based project selection on priorities other than EDAs. State officials we met with said they considered factors based on their own state priorities, such as geographic distribution and a project's potential for job creation or other economic benefits. The use of state planning criteria or funding formulas to distribute federal and state highway funds was one factor that we found affected states' implementation of the Recovery Act's prioritization requirements. According to officials in North Carolina, for instance, the state used its statutory Equity Allocation Formula to determine how highway infrastructure investment funds would be distributed. Similarly, in Texas, state officials said they first selected highway preservation projects by allocating a specific amount of funding to each of the state's 25 districts, where projects were identified that addressed the most pressing needs. Officials then gave priority for funding to those projects that were in EDAs.

In commenting on a draft of this report, DOT agreed that states must give priority to projects located in EDAs, but said that states must balance all the Recovery Act project selection criteria when selecting projects including giving preference to activities that can be started and completed expeditiously, using funds in a manner that maximizes job creation and economic benefit, and other factors. DOT stated that the Recovery Act does not give EDA projects absolute primacy over projects not located in EDAs. However we would note that the Recovery Act contains both

general directives, such as using funds in a manner that maximizes job creation and economic benefit, and specific directives which we believe must be seen as taking precedence. While we agree with DOT that there is no absolute primacy of EDA projects in the sense that they must always be started first, the specific directives in the act that apply to highway infrastructure are that priority is to be given to projects that can be completed in 3 years, and are located in EDAs.

We also found some instances of states developing their own eligibility requirements using data or criteria not specified in the Public Works and Economic Development Act, as amended. According to the act, the Secretary of Commerce, not individual states, has the authority to determine the eligibility of an area that does not meet the first two criteria of the act. In each of these cases, FHWA approved the use of the states' alternative criteria, but it is not clear on what authority FHWA approved these criteria. For example:

- Arizona based the identification of EDAs on home foreclosure rates and disadvantaged business enterprises—data not specified in the Public Works Act. Arizona officials said they used alternative criteria because the initial determination of economic distress based on the act's criteria excluded three of Arizona's largest and most populous counties, which also contain substantial areas that, according to state officials, are clearly economically distressed and include all or substantial portions of major Indian reservations and many towns and cities hit especially hard by the economic downturn. The state of Arizona, in consultation with FHWA, developed additional criteria that resulted in these three counties being classified as economically distressed.

- Illinois based EDA classification on increases in the number of unemployed persons and the unemployment rate,[25] whereas the act bases this determination on how a county's unemployment rate compares with the national average unemployment rate. According to FHWA, Illinois opted to explore other means of measuring recent economic distress because the initial determination of economic distress based on the act's criteria was based on data not as current as information available within the state and did not appear to accurately reflect the recent economic

[25]The state based its EDA classification on (1) whether the 2008 year-end unemployment rate was at or above the statewide average, (2) whether the change in the unemployment rate between 2007 and 2008 was at or above the statewide average, or (3) whether the number of unemployed persons for 2008 had grown by 500 or more.

downturn in the state. Using the criteria established by the Public Works Act, 30 of the 102 counties in Illinois were identified as not economically distressed. Illinois's use of alternative criteria resulted in 21 counties being identified as EDAs that would not have been so classified following the act's criteria.[26]

In commenting on a draft of this report, DOT stated that the basic approach used in Arizona and Illinois is consistent with the Public Works Act and its implementing regulations on EDAs because it makes use of flexibilities provided by the Act to more accurately reflect changing economic conditions. DOT recognizes that the Public Works Act provides the definition of EDAs that states are to follow. DOT believes, however, that it is appropriate to interpret the requirements of the Public Works Act flexibly by applying the EDA special needs criteria to areas that are experiencing unemployment or economic adjustment problems. We recognize that states may want to reflect their own particular circumstances in defining EDAs. However, the Public Works Act states that to apply the definition to a special needs area, the area must be one "that the Secretary of Commerce determines has experienced or is about to experience a special need arising from actual or threatened severe unemployment or economic adjustment problems . . ." The result of DOT's interpretation would be to allow states to prioritize projects based on criteria that are not mentioned in the highway infrastructure investment portion of the Recovery or the Public Works Acts without the involvement of the Secretary or Department of Commerce. We plan to continue to monitor states' implementation of the EDA requirements and interagency coordination at the federal level in future reports.

Some states' circumstances served to largely ensure compliance with the EDA requirement. For instance, all areas within the District of Columbia, which the Recovery Act treats as a state, are a single EDA, assuring that the selection of any project that can be completed within 3 years satisfies the statutory priority rules. Mississippi has 75 of 82 counties that qualify as EDAs, and Mississippi reported to FHWA that 87 percent of the funds obligated to date had been obligated for to projects located in areas classified as economically distressed. Likewise in Ohio, where 90 percent

[26]Illinois's criteria resulted in 21 counties being classified as EDAs that were not so classified by FHWA and 8 counties not being classified as EDAs that were so classified by FHWA, for a net difference of 13 counties. The map tool that FHWA developed to help states identify which projects are located in EDAs is based on the criteria in the Public Works Act.

of all counties qualify as EDAs, a substantial number of Recovery Act highway projects are located in EDAs.

DOT and FHWA have yet to provide clear guidance regarding how states are to implement the EDA requirement. In February 2009, FHWA published replies to questions from state transportation departments on its Recovery Act Web site stating that because states have the authority to prioritize and select federal-aid projects, it did not intend to develop or prescribe a uniform procedure for applying the Recovery Act's priority rules. Nonetheless, FHWA provided a tool to help states identify whether projects were located in EDAs. Further, in March 2009, FHWA provided guidance to its division offices stating that FHWA would support the use of "whatever current, defensible, and reliable information is available to make the case that [a state] has made a good faith effort to consider EDAs" and directed its division offices to take appropriate action to ensure that the states gave adequate consideration to EDAs. FHWA officials we spoke with said they discussed the priority requirements with states and that the requirements were taken into consideration when approving projects. They also stated that whether a state has satisfied the EDA priority requirement will not be finally determined until the funds apportioned to the state under the Recovery Act are all obligated, which may not be completed until 2010. According to FHWA the states have until then to address future compliance with the EDA priority requirement. By 2010, however, it will be too late to take corrective action. In each of the cases where a state used its own criteria, state officials told us they did so with the approval of the FHWA division office in that state. Without clearer guidance to the states, it will be difficult to ensure that the act's priority provision is applied consistently.

Finally, the states are required to certify that they will maintain the level of state effort for programs covered by the Recovery Act. With one exception, the states have completed these certifications, but they face challenges. Maintaining a state's level of effort can be particularly important in the highway program. We have found that the preponderance of evidence suggests that increasing federal highway funds influences states and localities to substitute federal funds for funds they otherwise would have spent on highways. In 2004, we estimated that during the 1983 through 2000 period, states used roughly half of the increases in federal highway funds to substitute for funding they would otherwise have spent from their own resources and that the rate of substitution increased during

the 1990s. The federal-aid highway program creates the opportunity for substitution because states typically spend substantially more than the amount required to meet federal matching requirements.[27] As a consequence, when federal funding increases, states are able to reduce their own highway spending and still obtain increased federal funds.[28] As we previously reported, substitution makes it difficult to target an economic stimulus package so that it results in a dollar-for-dollar increase in infrastructure investment.[29]

Most states revised the initial certifications they submitted to DOT. As we reported in April, many states submitted explanatory certifications—such as stating that the certification was based on the "best information available at the time"—or conditional certifications, meaning that the certification was subject to conditions or assumptions, future legislative action, future revenues, or other conditions. The legal effect of such qualifications was being examined by DOT when we completed our review. On April 22, 2009, the Secretary of Transportation sent a letter to each of the nation's governors and provided additional guidance, including that conditional and explanatory certifications were not permitted, and gave states the option of amending their certifications by May 22. Each of the 16 states and District selected for our review resubmitted their certifications. According to DOT officials, the department has concluded that the form of each certification is consistent with the additional guidance, with the exception of Texas. Texas submitted an amended certification on May 27, 2009, which contained qualifying language explaining that the Governor could not certify any expenditure of funds until the legislature passed an appropriation act. According to DOT officials, as of June 25, 2009, the status of Texas' revised certification remains unresolved. Texas officials told us the state plans to submit a revised certification letter, removing the qualifying language. For the remaining states, while DOT has concluded that the form of the revised certifications is consistent with the additional guidance, it is currently

[27]The federal share under the existing federal-aid highway program is generally 80 percent and the matching requirement for states is usually 20 percent. In 2004, we reported that in 2002, states and localities contributed 54 percent of the nation's capital investment in highways, while the federal government contributed 46 percent (in 2001 dollars).

[28]GAO, *Federal-Aid Highways: Trends, Effect on State Spending, and Options for Future Program Design*, GAO-04-802 (Washington, D.C.: Aug. 31, 2004).

[29]GAO, *Physical Infrastructure: Challenges and Investment Options for the Nation's Infrastructure*, GAO-08-763T (Washington, D.C.: May 8, 2008).

evaluating whether the states' method of calculating the amounts they planned to expend for the covered programs is in compliance with DOT guidance.

States face drastic fiscal challenges, and most states are estimating that their fiscal year 2009 and 2010 revenue collections will be well below estimates. In the face of these challenges, some states told us that meeting the maintenance-of-effort requirements over time poses significant challenges. For example, federal and state transportation officials in Illinois told us that to meet its maintenance-of-effort requirements in the face of lower-than-expected fuel tax receipts, the state would have to use general fund or other revenues to cover any shortfall in the level of effort stated in its certification. Mississippi transportation officials are concerned about the possibility of statewide, across-the-board spending cuts in 2010. According to the Mississippi transportation department's budget director, the agency will try to absorb any budget reductions in 2010 by reducing administrative expenses to maintain the state's level of effort.

Other states have faced challenges calculating an appropriate level of effort. For example, Georgia officials told us the state does not routinely estimate future expenditures and had to develop an alternative method for its revised certification using past expenditures to extrapolate future expenditures. In Pennsylvania, transportation officials told us that calculating the amounts for the amended certification involved making estimates over three state fiscal years and making assumptions about proposed budgets that are subject to future legislative action.

As discussed earlier, states using Recovery Act funds must comply with the requirements of the federal-aid highway program, including environmental requirements, paying a prevailing wage in accordance with federal Davis-Bacon requirements, complying with goals to ensure disadvantaged business enterprises are not discriminated against in awarding construction contracts, and using American-made iron and steel in accordance with Buy America program requirements. We discussed the impact these requirements were having on project costs and time frames

with officials in three states.[30] Transportation officials in Arizona, Mississippi, and New Jersey each reported that these requirements were not causing increases in project costs and were not delaying projects from moving forward. For example, New Jersey officials stated that since these requirements apply to all highway construction using federal highway funds, not solely to Recovery Act funding, they were accustomed to complying with these requirements and had a process in place for quickly documenting compliance. In addition, these officials stated that to meet the Recovery Act's requirements to spend the funds quickly, the state selected projects that had already completed the environmental review process or that were relatively simple projects that would have limited environmental impact.

State Fiscal Stabilization Fund

The Recovery Act created a State Fiscal Stabilization Fund (SFSF) in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services, such as public safety. Stabilization funds for education distributed under the Recovery Act must be used to alleviate shortfalls in state support for education to school districts and public institutions of higher education (IHEs). The U.S. Department of Education (Education), the federal agency charged with administration and oversight of the SFSF, distributes the funds on a formula basis, with 81.8 percent of each state's allocation designated for the education stabilization fund for local educational agencies (LEA) and public IHEs. The remaining 18.2 percent of each state's allocation is designated for the government services fund for public safety and other government services, which may include education. Consistent with the purposes of the Recovery Act—which include, in addition to stabilizing state and local budgets, promoting economic recovery and preserving and creating jobs—the SFSF can be used by states to restore cuts to state education spending. In return for SFSF funding, a state must make several assurances, including that it will maintain state support for education at least at fiscal year 2006 levels. In order to receive SFSF funds, each state must also assure it will implement

[30]We reported on the impact of federal requirements in December 2008 (see GAO-09-36). We selected these three states because we did not include these states in the scope of our previous report and because these states have varying environmental planning and labor environments. For example, New Jersey has a state environmental planning law, while the other states do not, and, according to the Bureau of Labor Statistics, in 2008, union membership in New Jersey was 18.3 percent, while 8.8 percent of Arizona and 5.3 percent of Mississippi workers were union members.

strategies to advance education reform in four specific ways as described by Education:

1. Increase teacher effectiveness and address inequities in the distribution of highly qualified teachers;

2. Establish a pre-K-through-college data system to track student progress and foster improvement;

3. Make progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including students with limited English proficiency and students with disabilities; and

4. Provide targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring.[31]

Along with these education reform assurances, additional state assurances must address federal requirements concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations.

Beginning in March 2009, the Department of Education issued a series of fact sheets, letters, and other guidance to states on the SFSF. Specifically, a March fact sheet, the Secretary's April letter to Governors, and program guidance issued in April and May mention that the purposes of the SFSF include helping stabilize state and local budgets, avoiding reductions in education and other essential services, and ensuring LEAs and public IHEs have resources to "avert cuts and retain teachers and professors." The documents also link educational progress to economic recovery and growth and identify four principles to guide the distribution and use of Recovery Act funds: (1) spend funds quickly to retain and create jobs; (2) improve student achievement through school improvement and reform; (3) ensure transparency, public reporting, and accountability; and (4) invest one-time Recovery Act funds thoughtfully to avoid unsustainable continuing commitments after the funding expires, known as the "funding cliff."

[31]Schools identified for corrective action have missed academic targets for 4 consecutive years and schools implementing restructuring have missed academic targets for 6 consecutive years.

After meeting assurances to maintain state support for education at least at fiscal year 2006 levels, states are required to use the education stabilization fund to restore state support to the greater of fiscal year 2008 or 2009 levels for elementary and secondary education, public IHEs, and, if applicable, early childhood education programs. States must distribute these funds to school districts using the primary state education formula but maintain discretion in how funds are allocated to public IHEs. If, after restoring state support for education, additional funds remain, the state must allocate those funds to school districts according to the Elementary and Secondary Education Act of 1965 (ESEA), Title I, Part A funding formula. On the other hand, if a state's education stabilization fund allocation is insufficient to restore state support for education, then a state must allocate funds in proportion to the relative shortfall in state support to public school districts and public IHEs. Education stabilization funds must be allocated to school districts and public IHEs and cannot be retained at the state level.

Once education stabilization funds are awarded to school districts and public IHEs, they have considerable flexibility over how they use those funds. School districts are allowed to use education stabilization funds for any allowable purpose under ESEA, the Individuals with Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, or the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins Act), subject to some prohibitions on using funds for, among other things, sports facilities and vehicles. In particular, Education's guidance states that because allowable uses under the Impact Aid provisions of ESEA are broad, school districts have discretion to use education stabilization funds for a broad range of things, such as salaries of teachers, administrators, and support staff and purchases of textbooks, computers, and other equipment. The Recovery Act allows public IHEs to use education stabilization funds in such a way as to mitigate the need to raise tuition and fees, as well as for the modernization, renovation, and repair of facilities, subject to certain limitations. However, the Recovery Act prohibits public IHEs from using education stabilization funds for such things as increasing endowments; modernizing, renovating, or repairing sports facilities; or maintaining equipment. Education's SFSF guidance expressly prohibits states from placing restrictions on LEAs' use of education stabilization funds, beyond those in the law, but allows states some discretion in placing limits on how IHEs may use these funds.

The SFSF provides states and school districts with additional flexibility, subject to certain conditions, to help them address fiscal challenges. For example, the Secretary of Education is granted authority to permit waivers

of state maintenance-of-effort (MOE) requirements if a state certified that state education spending will not decrease as a percentage of total state revenues. Education issued guidance on the MOE requirement, including the waiver provision, on May 1, 2009. Also, the Secretary may permit a state or school district to treat education stabilization funds as nonfederal funds for the purpose of meeting MOE requirements for any program administered by Education, subject to certain conditions. Education, as of June 29, 2009, has not provided specific guidance on the process for states and school districts to apply for the Secretary's approval.

States have broad discretion over how the $8.8 billion in the SFSF government services fund are used. The Recovery Act provides that these funds must be used for public safety and other government services and that these services may include assistance for education, as well as modernization, renovation, and repairs of public schools or IHEs.

On April 1, 2009, Education made at least 67 percent of each state's SFSF funds[32] available, subject to the receipt of an application containing state assurances, information on state levels of support for education and estimates of restoration amounts, and baseline data demonstrating state status on each of the four education reform assurances. If a state could not certify that it would meet the MOE requirement, Education required it to certify that it will meet requirements for receiving a waiver—that is, that education spending would not decrease relative to total state revenues. In determining state level of support for elementary and secondary education, Education required states to use their primary formula for distributing funds to school districts but also allowed states some flexibility in broadening this definition. For IHEs, states have some discretion in how they establish the state level of support, with the provision that they cannot include support for capital projects, research and development, or amounts paid in tuition and fees by students. In order to meet statutory requirements for states to establish their current status regarding each of the four required programmatic assurances, Education provided each state with the option of using baseline data Education had identified or providing another source of baseline data. Some of the data provided by Education was derived from self-reported data submitted annually by the states to Education as part of their Consolidated State

[32]This was phase I funding. A state will receive the remaining allotment of its SFSF allocation in phase II after Education approves the state's comprehensive plan for making progress with respect to the four education reform assurances. Education anticipates that phase II funds will be awarded by September 30, 2009.

Performance Reports (CSPR), but Education also relied on data from third parties, including the Data Quality Campaign (DQC), the National Center for Educational Achievement (NCEA), and Achieve.[33] Education has reviewed applications as they arrive for completeness and has awarded states their funds once it determined all assurances and required information had been submitted. Education set the application deadline for July 1, 2009. On June 24, 2009, Education issued guidance to states informing them they must amend their applications if there are changes to the reported levels of state support that were used to determine maintenance of effort or to calculate restoration amounts.

Most States We Visited Have Received SFSF Funds and Have Planned to Allocate Most Education Stabilization Funds to LEAs.

As of June 30, 2009, of the 16 states and the District of Columbia covered by our review, only Texas had not submitted an SFSF application. Pennsylvania recently submitted an application but had not yet received funding. The remaining 14 states and the District of Columbia had submitted applications and Education had made available to them a total of about $17 billion in initial funding. As of June 26, 2009, only 5 of these states had drawn down SFSF Recovery Act funds. In total, about 25 percent of allocated funds had been drawn down by these states. (See table 5.)[34]

[33]DQC is a national collaborative effort involving more than 50 organizations working to encourage and support state policymakers to improve the availability and use of high-quality education data to improve student achievement. NCEA, a nonprofit organization owned by ACT Inc.—a company that develops and markets assessments—focuses on raising student achievement based on a higher college and career readiness standards. Achieve, created in 1996 by the nation's governors and corporate leaders, is an independent, bipartisan, nonprofit education reform organization focused on raising academic standards and graduation requirements, improving assessments, and strengthening accountability.

[34]GAO visited at least two LEAs per state and in the District of Columbia that were among the top ten LEAs in the state, or the District of Columbia, in terms of Title I appropriations, and that had schools in improvement status.

Table 5: SFSF Recovery Act Allocations and Drawdowns for the 16 States and the District of Columbia

State:	Total state allocation	Phase I funds made available to states as of June 30, 2009	Funds drawn down by states as of June 26, 2009	Percentage of available funds drawn down by states
Arizona	$1,016,955,172	$681,359,965	$0	0
California	5,960,267,431	3,993,379,179	2,867,792,114	71
Colorado	760,242,539	509,362,501	0	0
District of Columbia	89,377,071	59,882,637	0	0
Florida	2,700,292,474	1,809,195,958	0	0
Georgia	1,541,319,187	1,032,683,856	189,592,329	18
Illinois	2,055,171,987	1,376,965,231	1,038,987,579	75
Iowa	472,339,542	316,467,493	40,000,000	13
Massachusetts	994,258,205	666,152,997	0	0
Michigan	1,592,138,132	1,066,732,549	0	0
Mississippi	479,300,666	321,131,446	0	0
New Jersey	1,330,483,831	891,424,167	0	0
New York	3,017,796,810	2,021,923,863	0	0
North Carolina	1,420,454,235	1,011,164,552	150,867,275	16
Ohio	1,789,376,483	1,198,882,243	0	0
Pennsylvania	1,905,620,952		0	0
Texas	3,973,437,816		0	0
Total	**$31,098,832,533**	**$16,956,708,637**	**$4,287,239,297**	**25**

Source: U.S. Department of Education.

Three of these states—Florida, Massachusetts, and New Jersey—said they would not meet the maintenance-of-effort requirements but would meet the eligibility requirements for a waiver and that they would apply for a waiver. Most of the states' applications show that they plan to provide the majority of education stabilization funds to LEAs, with the remainder of funds going to IHEs. Several states and the District of Columbia estimated in their application that they would have funds remaining beyond those that would be used to restore education spending in fiscal years 2009 and 2010. These funds can be used to restore education spending in fiscal year 2011, with any amount left over to be distributed to LEAs. Table 6 shows the amount of SFSF funds received by states and how the states indicate they will divide education stabilization funds between LEAs and IHEs, based on the states' SFSF applications.

Table 6: Education Stabilization Funds Made Available to States and the Division of Education Stabilization Funds between LEAs and IHEs

State	Education stabilization funds made available as of June 30, 2009	Percentage of total available education stabilization funds between LEAs and IHEs to restore state support for elementary and secondary education and IHEs in 2009 and 2010		
		LEAs	IHEs	Remaining amount
Arizona	$557,352,452	57	43	0
California	3,266,584,168	75	25	0
Colorado	416,658,526	24	48	27
District of Columbia	48,983,997	24	2	74
Florida	1,479,922,294	79	21	0
Georgia	844,735,394	74	26	0
Iowa	258,870,409	67	27	7
Illinois	1,126,357,559	98	2	0
Massachusetts	544,913,152	60	26	14
Michigan	872,587,225	95	5	0
Mississippi	262,685,523	38	10	52
New Jersey	729,184,969	93	7	0
New York	1,653,933,720	95	3	2
North Carolina	778,494,148	62	11	27
Ohio	980,685,675	27	21	52
Pennsylvania	0	-	-	-
Texas	0	-	-	-

Source: GAO analysis of state applications for SFSF that were approved by Education as of June 30, 2009.

States have flexibility in how they allocate education stabilization funds among IHEs but, once they establish their state funding formula, not in how they allocate the funds among LEAs. Florida and Mississippi allocated funds among their IHEs, including universities and community colleges, using formulas based on factors such as enrollment levels. Other states allocated SFSF funds taking into consideration the budget conditions of the IHEs. For example, Georgia allocated funds to universities based on the degree to which each institution's budget had been cut, and Illinois allocated funds among universities to provide each university a share of

SFSF funds proportionate to its share of state support in fiscal year 2006. New York provided all SFSF funds slated for IHEs to community colleges to avoid cutting community college budgets. On the other hand, California planned to provide SFSF funds to its state university systems and not to community colleges because the universities had received significant budget cuts. However, California may change this plan because budget cuts at community colleges are now likely.

Regarding LEAs, most states planned to allocate funds based on states' primary funding formulae. Many states are using a state formula based on student enrollment weighted by characteristics of students and LEAs. For example, Colorado's formula accounts for the number of students at risk while the formula used by the District of Columbia allocates funds to LEAs using weights for each student based on the relative cost of educating students with specific characteristics. For example, an official from Washington, D.C., Public Schools said a student who is an English language learner may cost more to educate than a similar student who is fluent in English.

States may use the government services portion of SFSF for education but have discretion to use the funds for a variety of purposes. Officials from Florida, Illinois, New Jersey, and New York reported that their states plan to use some or most of their government services funds for educational purposes. Other states are applying the funds to public safety. For example, according to state officials, California is using the government services fund for it corrections system, and Georgia will use the funds for salaries of state troopers and staff of forensic laboratories and state prisons.

Plans for SFSF Funds Usually Target Restoring Funding, and Many School Districts Reported It Would Be Challenging to Use SFSF Funds for Educational Reform

Officials in many school districts told us that SFSF funds would help offset state budget cuts and would be used to maintain current levels of education funding. However, many school district officials also reported that using SFSF funds for education reforms was challenging given the other more pressing fiscal needs.

Although their plans are generally not finalized, officials in many school districts we visited reported that their districts are preparing to use SFSF funds to prevent teacher layoffs, hire new teachers, and provide professional development programs. Most school districts will use the funding to help retain jobs that would have been cut without SFSF funding. For example, Miami Dade officials estimate that the stabilization funds will help them save nearly two thousand teaching positions. State and school district officials in eight states we visited (California, Colorado,

Florida, Georgia, Massachusetts, Michigan, New York, and North Carolina) also reported that SFSF funding will allow their state to retain positions, including teaching positions that would have been eliminated without the funding. In the Richmond County School System in Georgia, officials noted they plan to retain positions that support its schools, such as teachers, paraprofessionals, nurses, media specialists and guidance counselors. Local officials in Mississippi reported that budget-related hiring freezes had hindered their ability to hire new staff, but because of SFSF funding, they now plan to hire. In addition, local officials in a few states told us they plan to use the funding to support teachers. For example, officials in Waterloo Community and Ottumwa Community School Districts in Iowa as well as officials from Miami-Dade County in Florida cited professional development as a potential use of funding to support teachers.

Although school districts are preventing layoffs and continuing to provide educational services with the SFSF funding, most did not indicate they would use these funds to pursue educational reform. School district officials cited a number of barriers, which include budget shortfalls, lack of guidance from states, and insufficient planning time. In addition to retaining and creating jobs, school districts have considerable flexibility to use these resources over the next 2 years to advance reforms that could have long-term impact. However, a few school district officials reported that addressing reform efforts was not in their capacity when faced with teacher layoffs and deep budget cuts. In Flint, Michigan, officials reported that SFSF funds will be used to cope with budget deficits rather than to advance programs, such as early childhood education or repairing public school facilities. According to the Superintendent of Flint Community Schools, the infrastructure in Flint is deteriorating, and no new school buildings have been built in over 30 years. Flint officials said they would like to use SFSF funds for renovating buildings and other programs, but the SFSF funds are needed to maintain current education programs.

Officials in many school districts we visited reported having inadequate guidance from their state on using SFSF funding, making reform efforts more difficult to pursue. School district officials in most states we visited reported they lacked adequate guidance from their state to plan and report on the use of SFSF funding. Without adequate guidance and time for planning, school district officials told us that preparing for the funds was difficult. At the time of our visits, several school districts were unaware of their funding amounts, which, officials in two school districts said, created additional challenges in planning for the 2009-2010 school year. One charter school we visited in North Carolina reported that layoffs will be

required unless their state notifies them soon how much SFSF funding they will receive. State officials in North Carolina, as well as in several other states, told us they are waiting for the state legislature to pass the state budget before finalizing SFSF funding amounts for school districts.

IHEs Plan to Use SFSF Funds for Faculty Salaries and Other Purposes and Expect the Funds to Save Jobs and Mitigate Tuition Increases

Although many IHEs had not finalized plans for using SFSF funds, the most common expected use for the funds at the IHEs we visited was to pay salaries of IHE faculty and staff.[35] Officials at most of the IHEs we visited told us that, due to budget cuts, their institutions would have faced difficult reductions in faculty and staff if they were not receiving SFSF funds. In California and North Carolina, according to the IHE officials, the states instructed their IHEs to use the funds to cover IHE payroll expenses in certain months in spring 2009. Other IHEs expected to use SFSF funds in the future to pay salaries of certain employees during the year. For example, according to an official at Hillsborough Community College in Florida, to avoid using the nonrecurring SFSF money for recurring expenses, the IHE expects to use the funds to pay salaries of about 400 nonpermanent adjunct faculty members. Georgia Perimeter College plans to use its SFSF funds to retain 51 full-time and 17 part-time positions in its science department, and the University of Georgia plans to use the funds to retain approximately 160 full-time positions in various departments.

Several IHEs we visited are considering other uses for SFSF funds. Officials at the Borough of Manhattan Community College in New York City want to use some of their SFSF funds to buy energy saving light bulbs and to make improvements in the college's very limited space such as, by creating tutoring areas and study lounges. Northwest Mississippi Community College wants to use some of the funds to increase e-learning capacity to serve the institution's rapidly increasing number of students. Several other IHEs plan to use some of the SFSF funds for student financial aid. For example, Hudson Valley Community College plans to use some SFSF funds to provide financial aid to 500 or more low-income students who do not qualify for federal Pell Grants or New York's Tuition Assistance Program.

Because many IHEs expect to use SFSF funds to pay salaries of current employees that they likely would not have been able to pay without the

[35]During our review, we met with IHEs and state officials responsible for IHE oversight in 8 states—California, Florida, Georgia, Illinois, Mississippi, New York, North Carolina, and Ohio. Of the 16 states covered by our review, 6 had received approval from Education for phase I SFSF funding as of May 8, 2009.

SFSF funds, IHEs officials said that SFSF funds will save jobs. Officials at several IHEs noted that this will have a positive impact on the educational environment such as, by preventing increases in class size and enabling the institutions to offer the classes that students need to graduate. In addition to preserving existing jobs, some IHEs anticipate creating jobs with SFSF funds. For example, New York IHEs we spoke with plan to use SFSF funds to hire additional staff and faculty. The University of South Florida is considering using some SFSF money to hire postdoctoral fellows to conduct scientific research, and Florida A&M University plans to use the funds to hire students for assistantships. Besides saving and creating jobs at IHEs, officials noted that SFSF monies will have an indirect impact on jobs in the community. For example, University of Mississippi officials noted that, without the SFSF funds, the university probably would have shut down ongoing capital projects building dormitories and upgrading campus heating and cooling systems, and this would have had a negative impact on construction and engineering jobs in the community. Jackson State University officials said SFSF monies will help local contractors and vendors who conduct business with the university because the funds will enable the university to recover from severe budget cuts and resume normal spending. IHE officials also noted that SFSF funds will indirectly improve employment because some faculty being paid with the funds will help unemployed workers develop new skills, including skills in fields, such as health care, that have a high demand for trained workers.

State and IHE officials also believe that SFSF funds are reducing the size of tuition and fee increases. For example, Florida officials said that the 8 percent tuition increase approved by the Florida Legislature likely would have been much higher if the state had not received SFSF funds. Officials estimated that without SFSF funds, the increase in tuition necessary to compensate for decreases in state funding would have been 21 percent for students at community colleges and 35 percent for students at universities. A University of California official stated that, if the university system had not received SFSF funds and had to use fee increases to cover its budget shortfall, system-wide fees would have increased by about 24 percent instead of the approved 9.3 percent increase.

Education Provided Preliminary Baseline Data to States to Ease the Application Process but Plans to Implement a New Approach for the Second Round of Applications

U.S. Department of Education officials told us that to benchmark states' current position on the four education reform assurances and to ease the application process, they had provided base-line data for each state and asked states to certify their acceptance of these data as part of their application for SFSF funding, or provide alternate data. In their applications to Education for SFSF funds, states were required to provide

assurances that they were committed to advancing education reform in these four areas. The table below lists the four assurances and the data elements and sources Education chose to set base-line benchmarks for states. Education officials told us that these data, while not perfect, were the best available. Officials also told us that the data in the application package were preliminary, and that they plan to develop a more complete set of performance measures under each assurance for states to use or develop for the final SFSF application.

Table 7: Data Source and Data Elements for the Four SFSF Education Reform Assurances

Assurance	Data source	Data element
1. Increasing Equity in Teacher Distribution	States report these data annually on their Consolidated State Performance Report (CSPR)	The number and percentage of core academic courses that are taught by highly qualified teachers in high-poverty schools and low-poverty schools (presented separately for elementary and high schools)
2. Improving Collection and Use of Data	• The Data Quality Campaign and National Center for Education Achievement 2008 survey assessing the status of state educational data systems • State officials, primarily K-12 state data managers, self-report on the capabilities of their data systems	• The survey identifies 10 essential elements of a longitudinal data system • Survey results indicate which states have achieved which elements (e.g., 28 states reported being able to match student-level preschool-12 data with higher education data.)
3. Standards and Assessments		
3-1. Enhancing the Quality of Academic Assessments	1. State information chart, available at www.ed.gov/policy/elsec/guid/stateletters/ssc.xls 2. State-specific letters the U.S. Department of Education sent to state education agency officials in January and February 2009	1. This chart identifies whether a state's assessment systems are "approved" or "pending" or not yet approved or pending for reading and mathematics and for science, based on the results of Education's peer review process 2. These letters describe what states must do to satisfy assessment requirements set forth in NCLB
3.2 Inclusion of Children with Disabilities and Limited English Proficient Student	State information chart, available at www.ed.gov/policy/elsec/guid/stateletters/ssc.xls	1. This chart identifies whether a state's assessment systems are "approved," "not approved" or "pending" 2. These letters describe the state's current status related to the inclusion of children with disabilities and limited English proficient students in state assessments, the validity and reliability of the assessments for such children, and the provision of accommodations

Assurance	Data source	Data element
3.3 Improving State Academic Content and Achievement Standards	Achieve's 2009 report *Closing the Expectations Gap*, a report based on a survey of state policymakers to assess states' policies regarding standards and assessments	The survey provides information on what states are currently doing to align their standards, graduation requirements, and assessments with college and career expectations
4. Supporting Struggling Schools	States report these data annually on their Consolidated State Performance Report (CSPR)	The number and names of schools in corrective action and restructuring for the 2008-2009 school year These data are based on assessments in the 2007-2008 school year

Source: GAO analysis of SFSF applications and descriptions of Achieve and Data Quality Campaigns Surveys.

While Education officials told us that the base-line data are preliminary, staff working at Achieve and the Data Quality Campaign—the two educational advocacy groups whose survey data are being used to measure two of the assurances—told us that while they believed their data set appropriate baselines, they did not believe measuring change against these baselines would be the best accountability mechanism. One staff member said that since many states were already poised to make substantial progress in implementing improved data systems in the next two years, it would not be appropriate to automatically attribute state progress in implementing the elements of a longitudinal data system to Recovery Act funds. Staff at the Data Quality Campaign said that they have told Education that it was fine to use their survey as a baseline, but that they were not comfortable with the survey becoming a primary auditing tool; doing so could change the incentives for states to respond to the survey. Moreover, staff at the Data Quality Campaign believe the more appropriate way to monitor progress is to ask states to publicly post information and analyses on a series of metrics, because by posting such information states would be verifying the capacity of their longitudinal data systems.

Education officials told us that in making phase II SFSF funding available to states, Education will ask states to report on a series of performance measures for each of the four major themes for reform, which align with the education reform assurances. According to these officials, the performance measures developed for the second and final application will allow Education to fulfill three main purposes: (1) to get a status report on states' progress in developing performance measures, (2) to put plans in place to gather the relevant information if performance measures are not available, and 3) to be able to track how states are progressing over time with respect to education reform. Education officials also said that they were aware of potential issues regarding data quality and that they plan to

conduct an initial staff review and may later conduct an external review of the reliability of data used for its performance measures.

Seven States We Visited Have Drawn Down Title I Recovery Act Funds and Made Funds Available to Local Educational Agencies

The Recovery Act provides $10 billion to help local educational agencies educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act (ESEA) of 1965.[36] The Recovery Act requires these additional funds to be distributed through states to local educational agencies (LEAs) using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, local educational agencies are required to comply with current statutory and regulatory requirements and must obligate 85 percent of these funds by September 30, 2010.[37] The Department of Education is advising LEAs to use the funds in ways that will build the agencies' long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers.[38] The Department of Education made the first half of states' Recovery Act Title I, Part A funding available on April 1, 2009, with the 16 states and the District in our review receiving more than $3 billion of the $5 billion released to all of the states and territories. The initial state allocations and amounts drawn down as of June 26, 2009, are shown in table 8 below.

[36]The Recovery Act also makes $3 billion in school improvement funds available under Title I.

[37]LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and must grant all of their funds by September 30, 2011—provisions referred to as carryover limitations.

[38]Education provided examples of allowable uses such as teacher training, using longitudinal data systems to improve achievement, and providing high-quality online courseware in mathematics and science for secondary school students.

Table 8: Title I, Part A Recovery Act Allocations and Drawdowns for 16 States and the District of Columbia

State	Total state allocation	Funds made available to states as of April 1, 2009	Funds drawn down by states as of June 26, 2009	Percentage of available funds drawn down by states
Arizona	$195,087,322	$ 97,543,661	$16,000	<1
California	1,124,920,474	562,460,237	450,284,592	80
Colorado	111,135,922	55,567,961	0	0
District of Columbia	37,602,324	18,801,162	0	0
Florida	490,575,352	245,287,676	247,713	<1
Georgia	351,008,292	175,504,146	0	0
Illinois	420,263,562	210,131,781	120,476	<1
Iowa	51,497,022	25,748,511	8,111,953	31.5
Massachusetts	163,680,278	81,840,139	0	0
Michigan	389,902,874	194,951,437	0	0
Mississippi	132,888,490	66,444,245	0	0
New Jersey	182,971,300	91,485,650	0	0
New York	907,152,150	453,576,075		0
North Carolina	257,444,956	128,722,478	780,237	<1
Ohio	372,673,474	186,336,737	0	0
Pennsylvania	400,603,678	200,301,839	0	0
Texas	948,737,780	474,368,890	58,060	<1
Total for 16 states and the District	**$6,538,145,250**	**$3,269,072,625**	**$459,619,032**	**14**
Total Nationwide	**$10,000,000,000**	**$5,000,000,000**		

Source: U.S. Department of Education data.

As shown in table 8, as of June 26, education officials in seven states—Arizona, California, Florida, Illinois, Iowa, North Carolina, and Texas—had drawn down a portion of their Title I Recovery Act funds. As of June 26, Arizona had drawn down $16,000 in Title I Recovery Act funds. California authorized the funds to be released to LEAs on May 28, 2009 and has drawn down 80 percent of its available funds. According to local officials, both of the LEAs we visited in California received funds the week of June 1, 2009.

According to U.S. Department of Education officials, they monitor state drawdowns of Recovery Act funds and will meet with state officials if they notice anything unusual. As a result of California's large drawdown, Education officials met with California state officials to discuss their

justification, especially given recent findings by the department's Inspector General (IG) that the state lacked adequate oversight over cash management practices of school districts.[39] According to department officials, California officials informed the department that the drawdown of Title I Recovery Act funds was in lieu of its normally scheduled drawdown of school year 2008-2009 Title I funds. As a result, officials told us the school districts were ready to use these funds quickly as they would be used under approved plans for the current school year. However, the department remains concerned over the state's cash management system. Further, the California State Auditor has cited continued concerns about the California Department of Education's (CDE) internal controls in both the most recent statewide Single Audit issued on May 27, 2009, and a Recovery Act funding review issued on June 24, 2009. The Single Audit identified a number of significant deficiencies or material weaknesses, including continued problems with CDE ESEA Title I cash management—specifically, that CDE routinely disburses Title I funds to districts without determining whether the LEAs need program cash at the time of the disbursement.

According to California officials, the California Department of Education has developed an improvement plan to address cash management concerns. It involves LEAs reporting federal cash balances on a quarterly basis using a Web-based reporting system. According to Education officials, the first phase of this plan will be piloted beginning this summer. CDE officials stated that the pilot project includes cash management fiscal monitoring procedures to verify LEAs' reported cash balances, ensure compliance with cash management practices, and ensure that interest earned on federal dollars is properly accounted for. Education officials told us that, given the cash management concerns, they would work with the California State Auditor and the Education Inspector General to develop a monitoring and assistance plan to ensure that California properly followed cash management requirements.

[39]U.S. Department of Education, Final Audit Report ED-OIG/A09H0020, *California Department of Education Advances of Federal Funding to Local Educational Areas* (Washington, D.C., March 2009). The department's IG noted, among other findings, that California does not have an adequate system in place to ensure that LEAs comply with the federal cash management rules requiring LEAs to remit on a timely basis interest earned on cash advances for any amounts exceeding $100. The IG estimated that statewide, LEAs earned about $11 million in interest on Title I cash balances and found that most LEAs the IG reviewed did not calculate and remit their interest earnings.

According to state education officials, Illinois allowed districts to complete an application due May 29 to receive funds for summer programming use and has started to draw down funds. State officials told us that on June 2, Iowa made the first of six payments of Title I Recovery funds available to LEAs. Florida allowed LEAs to begin obligating and spending funds in late April or early May, according to a state official. In North Carolina, a state official told us that Recovery Act Title I funds have been available since May 4 for all LEAs with a current Title I application on file and that as of June 19, 31 LEAs had submitted planning budgets to the state's Department of Public Instruction and the budgets have been approved; these LEAs, in turn, can now obligate and spend funds. As of June 26, Texas had drawn down $58,060 in Title I Recovery Act funds.

State Application Procedures and Budget Deliberations Have Affected the Release of Title I, Part A Recovery Act Funds

Officials in Colorado and New Jersey were planning to release some Title I Recovery Act funds to a small number of their districts in June to allow them to fund summer programming and to release the rest of their funds later in the summer. In the remaining states we visited, funds will not be released to LEAs until July, August, or September.[40] Officials in the District of Columbia, Massachusetts, Michigan, and New York said they expected to release funds to LEAs in July.

Nearly all of the 16 states and the District of Columbia have required (or will require) LEAs to submit an application, a budget, or a detailed plan as a condition for receiving Recovery Act funding,[41] but the amount of time needed to complete these processes has varied. For example, in Florida, the State Educational Agency made available an online, abbreviated application to receive funds on April 9, 2009, according to a state official. The application asked LEAs to describe how they planned to spend the funds, submit a budget, and make assurances specific to Title I. The state sent award notices to LEAs the last week of April and the first week of May 2009, allowing LEAs to begin obligating and expending funds, according to a state official. In contrast, when we spoke with Mississippi educational officials in early June, the state was still in the process of developing a new application for Title I Recovery Act funds. Mississippi

[40]Georgia did not set a specific application deadline, but once applications are approved, LEAs will be asked to submit their budgets for fiscal year 2010 and cannot draw down their allocated funds until their budgets have been approved.

[41]California granted initial funding eligibility to all LEAs that had elected to receive Title I, Part A funds in school year 2008-2009 and asked LEAs to finalize their eligibility by applying for Title I funds in school year 2009-2010.

planned to release the application within several weeks, provide LEAs with training and a handbook on the application, and hoped to release funds to LEAs by August 2009. Similarly, New York plans to require school districts to agree to a number of assurances regarding the use of the Title I Recovery Act funds before funds are disbursed; however, the application was in draft form as of June 17, 2009 according to a state official.

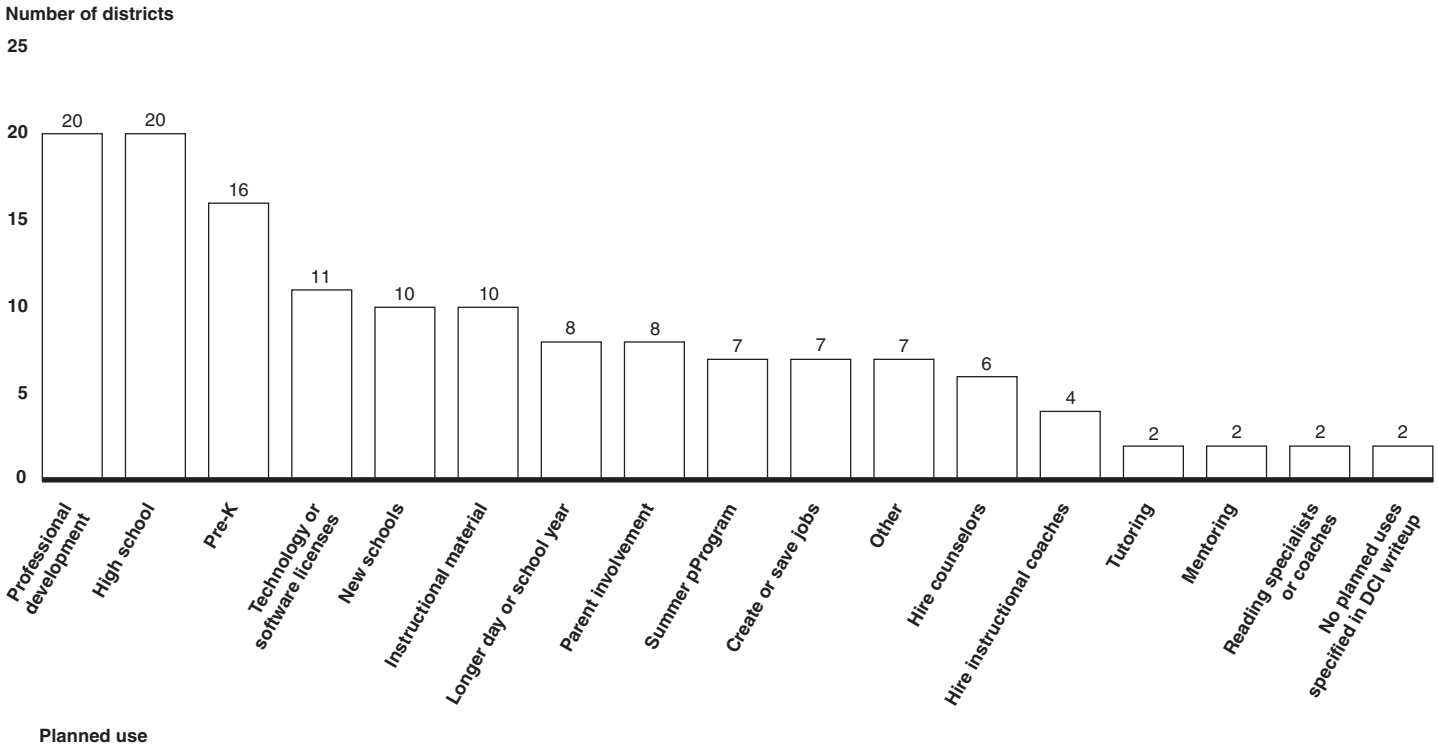
Three of the states we visited (Colorado, Illinois, and New Jersey) issued early applications inviting districts to apply to receive Recovery Act funding for school year 2008-2009, such as to fund summer school programs. Other states have tied the release of funds into their annual application for regular Title I funding. For example, Georgia added seven additional questions to its consolidated application and expects to release funds on a rolling basis once LEA applications and budgets have been approved.

According to officials in three of the states we visited, the state budget process is slowing the release of funds and the ability of local and state educational agencies to finalize their plans for using Title I Recovery Act funds. For example, in Pennsylvania, funds have been allocated and obligated but cannot be expended until the legislature passes a budget, according to state officials. Similarly, in Ohio, a state official told us that LEAs cannot yet spend their allocated funds because state law requires the state legislature to pass a final budget before federal funds are made available for use by state and local agencies. Education officials in Chicago told us that because the General Assembly had not yet finalized the state budget, they do not know exactly how much state funding they will receive in fiscal year 2010 and have not been able to make final decisions as to how they will spend Recovery Act Title I funds.

Many LEAs We Visited Plan to Use Title I Recovery Act Funds for Professional Development to Build Capacity and Avoid the "Funding Cliff" or to Fund High School Programs

As shown in figure 5 below, local officials most frequently reported planning to use their Title I Recovery Act funds for professional development or to fund high school programs; officials in nearly half of the districts we visited[42] said they planned to use funds for these purposes. Approximately one-third of these local officials indicated that spending on professional development would allow them to build their long-term capacity and avoid the "funding cliff."

Figure 5: Planned Uses of Title I Recovery Act Funds in the School Districts We Visited



Source: GAO analysis of site visit interviews.

Note: Many local officials we spoke with mentioned more than one planned use of funds.

Nearly one-half of the districts we visited plan to use funds to serve high school students, and nearly 40 percent plan to use funds to serve preschool students—purposes that the Department of Education gave as

[42]GAO visited at least 2 LEAs in each of the 16 States and the District of Columbia. We selected LEAs based on the size of their Title I allocations and the number of schools in improvement in the district. The above analysis is based on 42 LEAs we visited.

examples of uses that are allowable under Title I and consistent with the goals of the Recovery Act. About one quarter of the districts planned to fund schools that did not previously receive Title I funding, purchase technology or software licenses, or purchase instructional materials. About 20 percent planned to make the school day or year longer, fund programs to increase parent involvement, or create or save jobs.

State and Local Education Officials Express Interest in Securing Flexibility, Such as through Waivers

A common theme in our discussions with state education officials was the desire to secure flexibility in using Title I Recovery Act funds. For example, of the 16 states and the District in our review, officials from 14 states expressed interest in at least one waiver. Specifically, state officials in 8 states planned to apply for at least one waiver: All of these officials planned to apply for the carryover waiver, and 3 also planned to apply for a maintenance-of-effort waiver. In addition, officials in 6 other states we visited had not yet decided whether to apply for a waiver, but all mentioned considering the carryover waiver and 3 mentioned considering the maintenance-of-effort waiver. Officials in the remaining 3 states did not plan to request a waiver. The most common waivers mentioned were carryover waivers[43] (14 states), maintenance-of-effort waivers (6 states),[44] and waivers for required spending for supplemental educational services or school choice transportation (3 states).[45]

Local education officials were similarly interested in securing flexibility in the uses of Title I Recovery Act Funds. Of the local officials we interviewed, more than 40 percent said they planned to request at least

[43]LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and all of their funds by September 30, 2011.

[44]Generally, States are required to demonstrate "maintenance of effort" by showing that either their combined fiscal effort per student or the aggregate expenditures within the state with respect to the provision of free public education for the preceding fiscal year were not less than 90 percent of such combined fiscal effort or aggregate expenditures for the second preceding fiscal year.

[45]Under ESEA Title I, supplemental educational services must be available to students in schools that have not met state targets for increasing student achievement (adequate yearly progress) for 3 or more years. Districts with schools in improvement are required to provide an amount no less than 20 percent of their Title I, Part A allocations for supplemental educational services and public school transportation. The term supplemental educational services means tutoring and other supplemental academic enrichment services that are in addition to instruction provided during the school day, are specifically designed to increase the academic achievement of eligible students as measured by the state's assessment system, and enable these children to attain proficiency in meeting state academic achievement standards.

one waiver and approximately one quarter said they did not plan to request a waiver. The remaining officials were undecided at the time of our interviews. The particular waivers most frequently mentioned by local officials were carryover waivers, waivers of requirements for supplemental educational services (SES) funding, and maintenance-of-effort waivers. Nearly 40 percent of officials said they would request a waiver on maintenance-of-effort, over half said they would request a waiver for SES, and nearly 75 percent of these officials said they would request a carryover waiver. Of those officials planning to request a waiver for SES, officials in two school districts mentioned they did not typically need all of the funds they were required to set aside for supplemental services and wanted the flexibility to spend the funds more quickly and on purposes that would most benefit disadvantaged students.

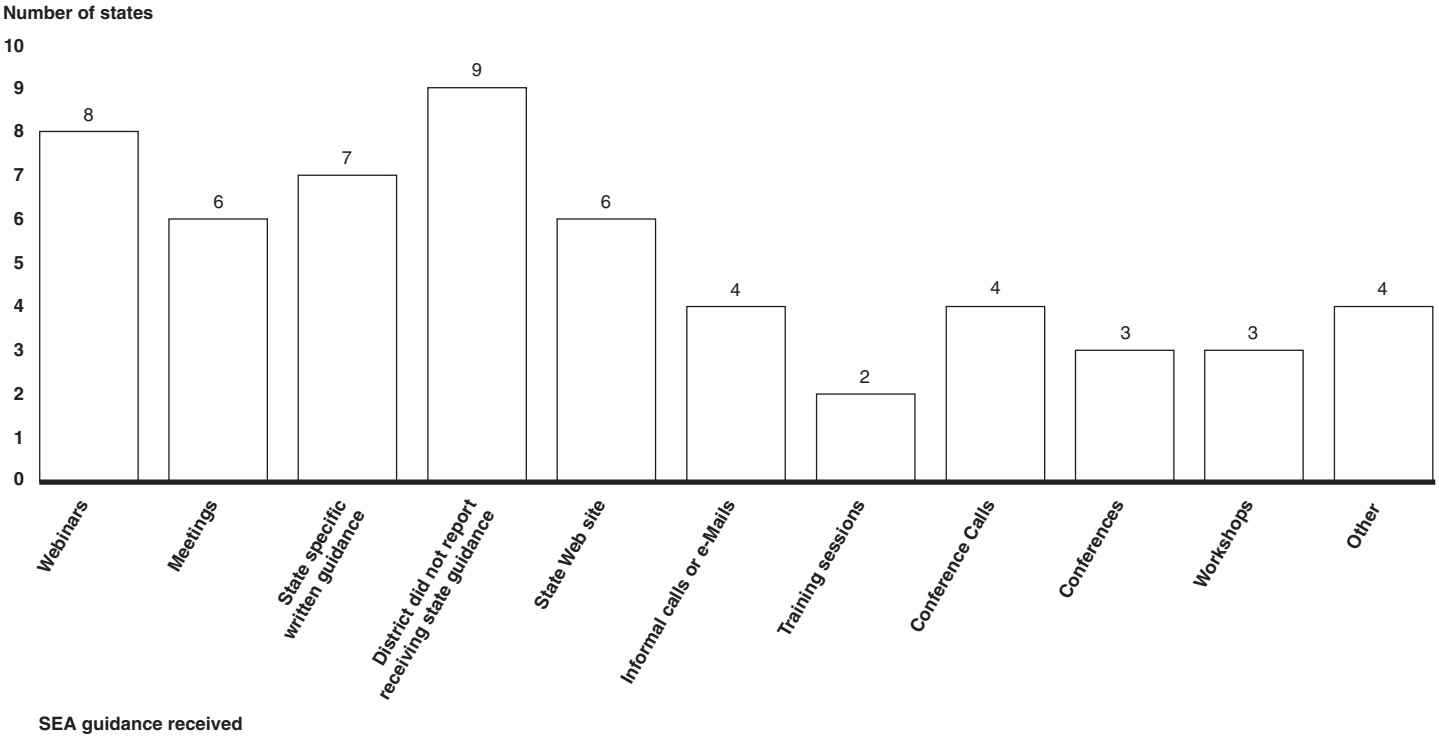
State and Local Officials Do Not Want to Finalize Plans before Receiving More Guidance

On April 1, 2009, Education released policy guidance that included principles, goals, and possible uses of funds. This guidance also included information on allocations from Education to state educational agencies and from states and the District of Columbia to their LEAs, addressed fiscal issues such as the carryover limitation, and explained the process for obtaining a waiver. Education officials told us they hosted three conference calls with state Title I directors after releasing the guidance to answer questions from state officials. Education officials also told us they have made a number of presentations around the country on using Recovery Act Title I funds and have planned a meeting for state Title I directors for this July, by which time they hope to have released additional written guidance on waivers and allowable uses of Title I Recovery Act funds.

In addition to guidance from Education, LEAs report receiving various forms of guidance from their state agencies on Title I Recovery Act funding. Figure 6 shows the number of states we visited in which local educational officials in at least one district we visited told us they had received particular forms of guidance. In particular, local education officials reported participating in webinars hosted by the state educational agency (officials in eight states), participating in meetings (officials in six states), receiving state-specific written guidance (officials in seven states), obtaining information from the state educational agency Web site (officials in six states), calling or e-mailing state officials (officials in four states), participating in training sessions provided by state officials (officials in two states), and participating in conference calls with state officials

(officials in four states). In at least one LEA in nine of the states we visited, local officials did not mention receiving any guidance from the state.[46]

Figure 6: Officials in Districts We Visited Reported Receiving Guidance in Many Forms



Source: GAO analysis of site visit interviews.

Note: Officials in many districts reported receiving more than one form of guidance from their state educational agency.

Officials in one state and one district said that local officials are fearful of missteps with the funds. For example, officials in one LEA said they wanted more specific guidance on how the Title I Recovery Act funds can be spent in order to be sure they are doing things correctly. Given these examples and the fact that nearly half of officials in districts we visited reported wanting more guidance on allowable uses of Title I funds that

[46]This does not necessarily mean that no guidance was received. The official could have known about state guidance and not mentioned it in our interview or not been aware of guidance that had been provided.

meet the priorities of the Recovery Act, it seems likely that the lack of guidance may be slowing LEA's planning processes.

When asked about guidance they would particularly like to receive, state education officials most frequently said they wanted more information regarding guidance on waivers (nine states), reporting requirements (five states), and how to define jobs created or saved (three states). Local officials most frequently said they wanted guidance on reporting requirements and on allowable uses of Title I funds that would be in accordance with the priorities of the Recovery Act. They also reported wanting more guidance on waivers, flexibility in spending, and the "supplement-supplant" provision.[47]

U.S. Department of Education Has Allocated Half of Recovery Act IDEA Funding, but States and Localities Have Drawn Down Few Funds, and Await Guidance on Reporting and Other Issues

The Recovery Act provided supplemental funding for programs authorized by Parts B and C of the Individuals with Disabilities Education Act (IDEA), the major federal statute that supports the provisions of early intervention and special education and related services for infants, toddlers, children, and youth with disabilities. Part B funds programs that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education and Part C funds programs that provide early intervention and related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families. IDEA formula grants and Recovery Act funds are allocated to states through 3 grants—Part B grants to states (for school-age children), Part B preschool grants (section 619), and Part C grants for infants and families. The U.S. Department of Education made the first half of states' Recovery Act IDEA allocations to state agencies on April 1, 2009. As of June 26, 2009, of the sixteen states and District of Columbia that we visited, only seven states had drawn down IDEA Recovery Act funds. In total, just over eight percent of allocated funds had been drawn down in these states.[48]

[47]LEAs must use federal funds to supplement state and local funds and cannot use federal funds to supplant state or local spending.

[48]States were not required to submit an application to Education in order to receive the initial Recovery Act funding for IDEA Parts B and C, funding that represents 50 percent of the total IDEA funding provided in the Recovery Act for each jurisdiction. States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements.

(See table 9.) Most states that we visited are requiring LEAs to submit an application to receive the IDEA Part B Recovery Act funding.[49]

Table 9: IDEA, Parts B and C Recovery Act Allocations and Draw Downs for the 16 States and the District of Columbia

State:	Total State Allocation	Funds made available to states as of April 1, 2009	Funds drawn down by states as of June 26	Percentage of available funds drawn down by states
Arizona	$194,166,881	$97,083,441	0	0
California	1,321,205,578	660,602,789	$241,541,985	37
Colorado	160,962,162	80,481,081	50,066	<1
DC	18,842,253	9,421,127	0	0
Florida	670,040,593	335,020,297	38,138,170	11
Georgia	338,853,225	169,426,613	0	0
Illinois	542,335,730	271,167,865	$10,300,720	<4
Iowa	130,107,550	65,053,775	$25,866,684	40
Massachusetts	298,176,851	149,088,426	1,026,497	<1
Michigan	426,350,589	213,175,295	0	0
Mississippi	126,728,366	63,364,183	0	0
New Jersey	383,296,050	191,648,025	0	0
New York	817,897,473	408,948,737	0	0
North Carolina	339,211,862	169,605,931	12,636,562	7
Ohio	465,505,019	232,752,510	0	0
Pennsylvania	455,939,209	227,969,605	0	0
Texas	1,009,383,291	504,691,646	0	0
Total	**$7,699,002,682**	**$3,849,501,341**	**$320,169,074**	**8.3**

Source: Department of Education.

State and local officials report receiving general guidance from the U.S. Department of Education (Education) but additional clarifications are needed in key areas. In April 2009, Education released policy guidance describing principles and goals of IDEA Recovery Act funds, and written guidance with information on the timing of allocations of funds to states, indirect costs, waivers, and authorized uses of IDEA Recovery Act funds. According to Education officials, Education has also provided assistance

[49]For the IDEA Part B Recovery Act funds, for each state covered by our review, GAO visited at least two LEAs that were among the top ten LEAs in the state in terms of Title I appropriations and that had schools in improvement status. In the District of Columbia, GAO visited the District of Columbia Public Schools and a charter school company.

and guidance to states and school districts in a variety of other ways, including conference calls with state agencies administering Parts B and C, presentations at conferences, and webinars on specific issues such as IDEA maintenance-of-effort requirements. While Education officials provided guidance with examples of allowable uses of Recovery Act IDEA funds on April 24, states and LEAs indicate the need for further guidance in this area. For example, several states and LEAs report needing clearer guidance on allowable uses, including construction costs, and Education officials said they have heard questions about allowable uses for buses for students with disabilities. Education officials said that they are working on a more detailed document on innovative strategies for increasing student academic achievement and avoiding funding commitments that will be unsustainable after the Recovery Act funding expires. Several states reported offering various forms of guidance to LEAs, including holding webinars, direct communication, and providing written guidance on potential uses of Recovery Act IDEA funding.

At the time of our site visits neither Education nor the U.S. Office of Management and Budget (OMB) had issued final guidance on Recovery Act reporting.[50] Many state officials told us that it will be difficult to plan how they will report the impact of Recovery Act funding until they receive further guidance from OMB or Education. Education is planning to supplement the guidance OMB provides, to help state agencies report the proper data. In particular, Education officials noted that draft OMB guidance on recipient reporting would require some additional Education guidance to clarify issues for recipients of formula grants, such as the IDEA grants.

Various state and local officials had concerns about whether their LEAs would be able to exercise the flexibility allowed under IDEA Part B's maintenance-of-effort requirements. Generally, in any fiscal year that an LEA's IDEA, Part B section 611 or grants to states allocation exceeds the amount the LEA received in the previous year, the LEA may reduce its local spending on disabled students by up to 50 percent of the amount of the increase, as long as the LEA (1) uses those freed-up funds for activities that could be supported under the Elementary and Secondary Education Act of 1965, (2) meets the requirements of the IDEA, including the

[50]In response to requests for more guidance on the recipient reporting process and required data, OMB issued additional implementing guidance for recipient reporting on June 22, 2009.

performance targets in its state's performance plan, and (3) can provide a free appropriate public education. Pennsylvania officials said that this rule has been a source of confusion for LEAs in their state, and state officials said they have discussed it in great detail in webinars, conferences, and other communication with LEAs. Education officials said that in developing Education's guidelines, in addition to reviewing and interpreting the statutes, they have met with state and local educational agencies and interest groups who have raised concerns. Education officials told us that some interest groups have asked them to reconsider the requirement that LEAs meet requirements of the IDEA, including performance targets in state performance plans in order to qualify for the MOE flexibility, but agency officials believe this requirement was statutorily mandated. Another concern involves LEAs that have been determined to have significant disproportionality based on race and ethnicity,[51] because these districts are required to set aside 15 percent of their total IDEA, Part B funds, including Recovery Act IDEA, Part B funds, for comprehensive early intervention services. This limits their ability to exercise MOE flexibility. According to Education officials, interest groups have asked Education to reconsider its interpretation of this IDEA provision.

States and LEAs plan to spend IDEA Part B Recovery Act funding for a variety of services and initiatives. Most LEAs planned to offer professional development activities and several noted that such activities could avoid unsustainable funding commitments after Recovery Act funds expire. LEA officials in the District of Columbia and Philadelphia said that their goal with their IDEA Part B Recovery Act expenditures is to expand their districts' ability to serve more students with disabilities, which would mean that the LEAs would receive IDEA funds for serving students with disabilities who are currently served by going to schools outside the LEAs. Other examples of areas in which LEAs plan to spend Recovery Act funds include: acquiring and improving the use of assistive technologies; improving transitions for students with disabilities, from preschool to K-12, and from school to jobs; and increasing capacity to collect and utilize data.

[51]States are required to collect and examine data to determine if LEAs have significant disproportionality based on race and ethnicity in the identification of children as children with disabilities, the placement in particular education settings of such children, and the incidence, duration, and type of disciplinary actions.

States may use IDEA, Part C Recovery Act funds for any allowable purpose under IDEA, Part C, including the direct provision of early intervention services to infants and toddlers with disabilities and their families, and implementing a statewide, comprehensive, coordinated, multidisciplinary, interagency system to provide early intervention services.[52] At the time of our interview, Illinois Department of Human Services officials said that the department had already received and expended its initial allocation of IDEA, Part C Recovery Act funds and that the funds had been used to avert a 7 to 8 percent cut in its caseload. Pennsylvania officials plan to spend most of the state's IDEA, Part C Recovery Act funds on basic services, but they also plan to spend $1 million in IDEA, Part C Recovery Act funds for an early childhood integrated data system. In Arizona, officials told us that these services are provided by entities that contract with the Arizona Department of Economic Security (DES). DES officials maintain that these IDEA Part C Recovery Act funds will be used to address funding shortfalls created by an increasing caseload without a commensurate increase in base federal or state funding for Part C services. In Colorado, state officials said that the IDEA Part C Recovery Act funds would generally go to contracts with community centered boards and some universities that provide professional and paraprofessional development as well as technology and services.

States and Localities Are Using Recovery Act Funds in an Effort to Provide Summer Employment Activities to Greater Numbers of Youth

The Recovery Act provides an additional $1.2 billion in funds nationwide for the Workforce Investment Act (WIA) Youth program to facilitate the employment and training of youth. The WIA Youth program is designed to provide low-income in-school and out-of-school youth age 14 to 21, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. The Recovery Act extended eligibility through age 24 for youth receiving services funded by the act. In addition, the Recovery Act provided that, of the WIA Youth performance measures, only the work readiness measure is required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. Within the parameters set forth in federal agency guidance, local areas may determine the methodology for measuring work readiness gains. The WIA Youth program is administered

[52]IDEA, Part C provides funds to each state lead agency designated by the governor. The state lead agency can be a state educational agency, but it can also be another state agency. For example, in Colorado and Illinois, the Part C lead agency is the state's Department of Human Services, and in Ohio, the Part C lead agency is the state Department of Health.

by the Department of Labor (Labor), and funds are distributed to states based on a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving up to 15 percent for statewide activities. The local areas, through their local workforce investment boards, have flexibility to decide how they will use these funds to provide required services.

In the conference report accompanying the bill that became the Recovery Act,[53] the conferees stated they were particularly interested in states using these funds to create summer employment opportunities for youth. While the WIA Youth program requires a summer employment component to be included in its year-round program, Labor has issued guidance indicating that local areas have the program design flexibility to implement stand-alone summer youth employment activities with Recovery Act funds.[54] Local areas may design summer employment opportunities to include any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work experience component. Labor has also encouraged states and local areas to develop work experiences that introduce youth to opportunities in "green" educational and career pathways. Work experience may be provided at public sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines, as well as federal and state wage laws.[55]

States Have Allocated Recovery Act WIA Youth Funds to Local Workforce Areas

For this report, we focused on the WIA Youth program in 13 of our 16 states (all except Arizona, Colorado, and Iowa)[56] and the District of Columbia (District). The 13 states and the District received nearly two-thirds of the Recovery Act WIA Youth funds allotted by Labor. In turn, the 13 states have allocated at least 85 percent of these funds to their local

[53]H.R. Rep. No. 111-16, at 448 (2009).

[54]Department of Labor, Training and Employment Guidance Letter No. 14-08 (Mar. 18, 2009).

[55]Current federal wage law specifies a minimum wage of $6.55 per hour until July 24, 2009, when it becomes $7.25 per hour. Where federal and state law have different minimum wage rates, the higher standard applies.

[56]We did not include these three states in our review due to workload considerations.

workforce areas, as shown in table 10.[57] As allowed, the 13 states generally reserved 15 percent of the Recovery Act WIA Youth funds for statewide uses, although Florida and New Jersey instead allocated their entire allotments to local workforce areas.

Table 10: Allocations of Recovery Act WIA Youth Funds for 13 States and the District, as of June 30, 2009

Dollars in millions

State	Allotment from Department of Labor	Amount state allocated to local areas	Percentage of allotment to local areas
California	$186.6	$158.6	85
District of Columbia	4.0	Not applicable	Not applicable
Florida	42.9	42.9	100
Georgia	31.4	26.7	85
Illinois	62.2	52.9	85
Massachusetts	24.8	21.1	85
Michigan	73.9	62.9	85
Mississippi	18.7	15.9	85
New Jersey	20.8	20.8	100
New York	71.5	60.8	85
North Carolina	25.1	21.3	85
Ohio	56.2	47.7	85
Pennsylvania[a]	40.6	34.6	85
Texas	82.0	69.7	85
Total	**$740.7**	**$635.9**	

Source: Department of Labor and state workforce agencies.

[a]In Pennsylvania, only 40 percent of the allocation is available for the local areas to spend before July 1; Pennsylvania officials expect the balance to be available on or after July 1, when they expect the state to enact its budget.

As of June 25, 2009, about 6 percent of Recovery Act WIA Youth funds had been drawn down nationwide, according to Department of Labor data. Draw downs represent cash transactions: funds drawn down by states and

[57]In Pennsylvania, only 40 percent of the allocation is available for the local areas to spend before July 1; Pennsylvania officials expect the balance to be available on or after July 1, when they expect the state to enact its budget.

localities to pay their bills.[58] Among the 13 states and the District of Columbia, the percent drawn down generally ranged from zero for the District to 10 percent for Ohio. However, one state—Mississippi—had drawn down 39 percent of its funds. Draw downs do not provide a complete picture of the extent to which states and localities have used Recovery Act WIA Youth funds to provide services since payment for services can occur after funds are obligated and services are provided. The Department of Labor receives quarterly reports from states on their WIA Youth expenditures for services that have been provided, but there is a time lag before these data become available. For example, states' reports for the quarter ending June 30 are due to Labor 45 days after the end of the quarter, or August 15, and Labor then reviews the data before releasing them.

States Plan to Use Funds to Provide More Youth with Summer Employment Activities

Consistent with congressional intent that a substantial portion of these funds be used for summer youth employment activities, our states generally plan to use these funds to increase the number of youth served through summer activities. For example, Michigan anticipates serving about 25,000 youth in the summer of 2009, compared with about 4,000 youth served with WIA funds in the summer of 2008. Illinois plans to spend about $50 million of its $62 million Recovery Act Youth allotment on youth employment activities in the summer of 2009 and has set a target of serving about 15,000 youth through these activities. Texas set a target of spending 60 percent of Recovery Act WIA Youth funds allocated to local areas on summer employment activities and serving about 14,400 youth in the summer of 2009 (compared with 918 youth actually served in the summer of 2008 with WIA funds). In contrast to these states, the District plans to use its Recovery Act WIA Youth funds on its year-round WIA Youth program. District officials told us that, before receiving the Recovery Act funds, they had already allocated $45 million for the district's locally funded 2009 summer youth employment program, which they said is the second-largest summer youth employment program in the nation, serving about 23,000 youth.

Several states, including Massachusetts, Ohio, Pennsylvania, and Texas, have required their local workforce areas to spend from 50 percent to 70 percent of their Recovery Act WIA Youth funds by September or October

[58]These are cash draw downs from the Department of Health and Human Services' Payment Management System. Under the procedures for using these funds, funds are to be drawn down no more than 3 days in advance of paying bills.

2009. For example, Ohio requires local areas to spend at least 70 percent of these funds by October 31, 2009, and 90 percent of funds by January 31, 2010, or risk having funds recaptured by the state. Massachusetts requires local areas to spend at least 60 percent of their funds by September 30, 2009.

Local Flexibility Is Evident in the Different Approaches Planned for Providing Services to Youth This Summer

States and local areas we visited varied in the approaches they planned to use in providing summer youth employment activities.[59] While public sector work sites were frequently mentioned, so, too, were private sector and nonprofit organizations. Across the spectrum of work sites, work activities ranged widely. Local areas were varied in the role that academic and occupational skills training is playing in the summer activities and in the extent to which contracted providers will administer the summer activities.

Type of work experience. Planned work sites for the Recovery Act-funded summer youth activities varied widely across the local areas we visited and included public sector, private sector, and nonprofit organizations. Most local areas expected at least some public sector jobs, and in some areas the majority of the work sites are expected to be in the public sector. These sites often included local government offices; public parks, recreation centers, and camps; and public schools and community colleges, public libraries, and animal shelters. Local areas in several states were planning to place youth in private sector work sites, as well, including supermarkets, pharmacies, health care institutions, and private learning centers. Officials in two local areas we visited expected the majority of their work sites to be in the private sector. In addition, at least one local area in nearly all of the states we visited expects to make use of nonprofit work sites, including community action agencies, boys and girls clubs, and the YMCA. Across the different types of work sites, the specific work activities planned for the youth ranged from clerical work, grounds keeping, animal care, and kitchen support to customer service and serving as camp counselors or radiology technicians' assistants.

Labor encouraged states to develop work experiences in "green" jobs, and officials reported that green jobs were available in nearly all local areas we visited. The jobs they cited included landscape maintenance, recycling, and green construction, and an automotive fuel technology project at a university, as well as jobs in energy efficiency and weatherization.

[59]We visited from two to four local workforce areas in each of our states.

However, officials told us they were not always clear what constituted a green job. For example, officials in Pennsylvania's South Central local area questioned whether a youth working in a plastics factory that makes parts for a windmill is working in a "green" job. Labor has provided some discussion of green jobs in its guidance letters to states on Recovery Act funds. For example, Labor's March 18, 2009, guidance letter highlights areas within the energy efficiency and renewable energy industries that will receive large Recovery Act investments, such as energy-efficiency home retrofitting and biofuel development, and also provides examples of occupations that could be impacted by "green" technologies, including power plant operators, electrical engineers, and roofers and construction managers.[60] Labor officials told us that their reporting requirements for Recovery Act funds do not include any tracking of green jobs.

Role of academic and occupational skills training. While not all local areas had completed their plans for the summer activities at the time of our review, in about half of the states at least some local areas were planning to provide academic or occupational skills training along with work experience. For example, Buffalo, New York, plans several projects that will combine green jobs with academic training, as well as weatherization and construction skills. In one such program, youth will work to earn their General Equivalency Diplomas (GED) while also learning "green" construction skills. Participants will earn $7.25 an hour for their work experience and $3 an hour while working on their GEDs. Another of Buffalo's projects will help youth who are at-risk of dropping out of school by providing them with an opportunity to recover the high school credits they need for graduation while also taking part in work experience.

Even when local areas are focusing most of their efforts on work experience, many are also planning to provide work readiness training as part of an initial orientation to the summer activities, but the nature of the work readiness training varied widely. In Mercer County, New Jersey, for example, youth will be given a short workshop on interviewing skills prior to a job fair. In addition to employment, youth age 14 to 17 will receive 21

[60]Department of Labor, Training and Employment Guidance Letter No. 14-08 (Mar. 18, 2009). This guidance also makes reference to the $750 million in separate Recovery Act funds made available to Labor to award competitive grants for training and placing workers in the energy efficiency, renewable energy, and other industries and indicates that about $500 million of this funding will be used for activities that prepare individuals for careers in industries as defined in the Green Jobs Act of 2007.

hours of job readiness training, and those age 18 to 24 will receive 28 hours of job readiness training. In another New Jersey example, youth in Camden County will receive 8 hours of life skills training using a standard curriculum, followed by financial literacy training based on curricula developed for youth by the Federal Deposit Insurance Corporation. Other local areas we visited also plan to provide financial literacy training as part of their orientation. Ohio's Franklin and Montgomery Counties, for example, have arranged for a local bank to help participating youth set up bank accounts, into which their paychecks will be automatically deposited. Youth will receive debit cards to access the account and will receive basic financial counseling.

Administration of summer employment activities. Many local areas are using contracted providers to operate key aspects of the WIA summer youth employment activities, such as recruiting youth and work sites and administering payroll. In some cases, officials report they have been able to extend existing contracts with their WIA year-round program service providers to cover the stand-alone summer employment activities. In other cases, they have conducted new competitions, in part, because they needed additional contractors to cover the expansion of services. All thirteen of our states applied for and received a waiver from Labor relating to procurement requirements for youth summer employment providers. The waivers allow local areas to expand existing competitively procured contracts or conduct an expedited, limited competition to select service providers. Labor approved 10 of these waivers in April or May 2009, and the other 3 in June 2009.

While using contracted providers to operate the program was more common, in a few states at least some local areas were operating the entire program in-house. In New Jersey, for example, the local areas we visited are relying mostly on internal staff to carry out program responsibilities; however, one area plans to use contracted providers for some specific roles. In Ohio, two of the four local areas we visited had decided to operate the program in-house. Officials in one of the local areas in Ohio told us they made the decision for two reasons—they wanted to be able to exercise greater control over the program and they were seeking to avert staff layoffs due to funding cuts in other programs.

States and Local Areas Experienced Multiple Challenges in Quickly Implementing Summer Youth Employment Activities

State and local officials reported challenges in implementing their stand-alone summer youth employment activities that generally reflected three key themes—tight time frames for implementing the program, lack of staffing capacity to meet the expanding needs, and difficulty in determining and documenting youth eligibility.

Tight time frames. Many state and local officials commented that the biggest challenge in implementing the program was the limited time frame they had for making the program operational. Once the Recovery Act was passed, states and local areas had only about 4 months to get their new summer youth employment activities up and running—a process that officials told us would normally begin many months earlier. And local areas often lacked recent experience in operating such a stand-alone program. In implementing the year-round service requirements of WIA (in which summer employment is a component rather than a stand-alone program), many states and local areas had greatly reduced their summer youth employment programs and no longer offered a stand-alone summer program—or they had found other funding sources, such as state, local, or foundation funds, to cover it. Unlike WIA, its predecessor, the Job Training Partnership Act, required local areas to provide a stand-alone summer youth employment program. The local areas we reviewed represented a mix of experiences. Those without recent experience had to build the program from the ground up. These areas had to quickly confront many basic decisions—how to structure the program, how to recruit work sites and participants, whether to use contracted providers (and for what functions) or whether to administer the program in house. Other areas, however, had well-developed summer youth employment programs. These areas already had some of these basic structures in place, but often still found it challenging to quickly expand their existing programs.

Staffing capacity. Across the local areas we visited, many officials told us staff were challenged to address the needs of the growing number of youth they needed to serve. In some cases, states had been downsizing or did not have the flexibility to hire additional staff due to hiring freezes and budget cuts. For example, Essex County, New Jersey, operating with two full-time staff, said the inability to hire additional staff posed challenges for recruiting youth and monitoring the program. In the local areas we visited in Ohio, the expected increases in enrollments were leaving local areas' staff stretched thin. To address this challenge, some counties were reassigning employees from other programs to work on WIA summer youth employment activities. One county had arranged for additional staff to monitor the summer program by using a temporary placement agency. Similarly, Chicago officials said that, despite having had experience in implementing a stand-alone summer program, they found implementing the WIA summer youth employment activities challenging because, in order to adequately ramp up their programs and prepare for implementation, they had to borrow staff from other sections who do not typically work on the WIA Youth program.

Determining and documenting youth eligibility. Several states and local areas commented that it was challenging to determine youth applicants' eligibility and to obtain supporting documentation, especially for the increased number of youth they are planning to serve. New Jersey officials told us that the youth targeted for the program generally have difficulty providing the kinds of documents required in order to prove WIA Youth program eligibility. For example, to determine that youth meet the eligibility requirements, local officials in New Jersey require documentation that includes public assistance identification cards to support total household income, birth certificates for proof of citizenship, Social Security numbers, and documentation of selective service registration for males age 18 and over. Officials in a few states also expressed concern that the income eligibility standards were more restrictive than for other programs, particularly those operated using state funds, and that the standards may be excluding a significant number of youth who need the services. For example, officials in Philadelphia reported that some of their youth applicants whose parents had recently lost their jobs were not eligible for the program because eligibility was based on income earned during the period just prior to dislocation.

States Plan to Use Various Procedures to Monitor Local Areas' Summer Youth Activities

With regard to program oversight, all 13 of our states and the District reported they had the capacity to track and report on Recovery Act funded WIA Youth expenditures separately from those not funded by the Recovery Act. The states also reported plans to use a variety of procedures to monitor local areas' summer youth employment activities, such as risk assessments, on-site monitoring, and periodic meetings with local program directors. For example, Ohio state officials sent a survey to the local workforce areas in May 2009 to help identify local areas with greater risk due to factors such as critical timing issues, larger program scope, or substantial changes from past programs, and the state planned to initially focus its attention on these local areas. Massachusetts state officials said they planned to conduct on-site visits to each local workforce area at least twice during the summer and that the state's monitoring efforts would include file reviews of information pertaining to topics such as eligibility, standard operating procedures, contracts, statements of work, and subrecipient monitoring. Michigan state officials said they planned to hold monthly meetings with all local program directors to encourage the reporting of consistent information and that their on-site monitoring would focus especially on private sector components of the program, such as private sector worksites.

Department of Labor officials said that they have efforts underway to understand the experiences of those operating summer youth activities

through regular interaction with state and local service providers, monitoring, identifying any issues, and providing assistance to address the issues. For example, they said that Labor's regional offices have begun visiting local areas to monitor and gather information and will be visiting about two areas in each of their states this summer. Beginning the week of June 29, each of the six regional offices will begin providing weekly narrative reports on the Recovery Act summer youth employment activities from at least two local areas each week.

Measuring the Effects of the Summer Youth Activities Will Focus Largely on Work Readiness Improvements

To assess the effects of the summer youth employment activities, states will be required to report a work readiness attainment rate—defined as the percentage of participants in summer employment who attain a work readiness skill goal. Under Department of Labor guidelines, states and local areas are permitted to determine the specific assessment tools and the methodology they use to determine improvements in work readiness, but it must be measured at the beginning and completion of the summer experience. Not all areas had finalized their plans for assessing work readiness at the time of our visits but were considering various pre- and post-test options. For example, officials in Mississippi plan to do a written pre- and post-test but will also assess youth at the midpoint through an interview with an employment adviser. All three areas we visited in Florida plan to supplement the pre- and post-tests with feedback from businesses and work site supervisors.

To monitor and report on progress made in implementing the program, Labor has instituted new reporting requirements on youth participating in Recovery Act-funded activities. Under WIA, states have been required to report quarterly to Labor on aggregate counts of youth participants, activities, and outcomes. However, since these reports are not submitted in time for Labor to comply with Recovery Act requirements to make information readily available to the public, states will be required, beginning on July 15, to submit a supplemental monthly report on youth. In this supplemental report, states will submit aggregate counts of all Recovery Act youth participants, including the characteristics of participants, the number of participants in summer employment, services received, attainment of a work readiness skill, and completion of summer youth employment.

In addition to Labor's reporting requirements, a few states were developing plans for additional assessments of the program. Georgia officials, for example, reported that they are considering tracking whether youth return to school or obtain full-time employment after the summer program is over. Similarly, officials in Illinois are currently designing a

tracking system that will allow them to assess the long-term impacts of the program, including job placement and job retention of participants.

Many Public Housing Agencies Have Obligated, but Few have Drawn Down, Recovery Act Funds

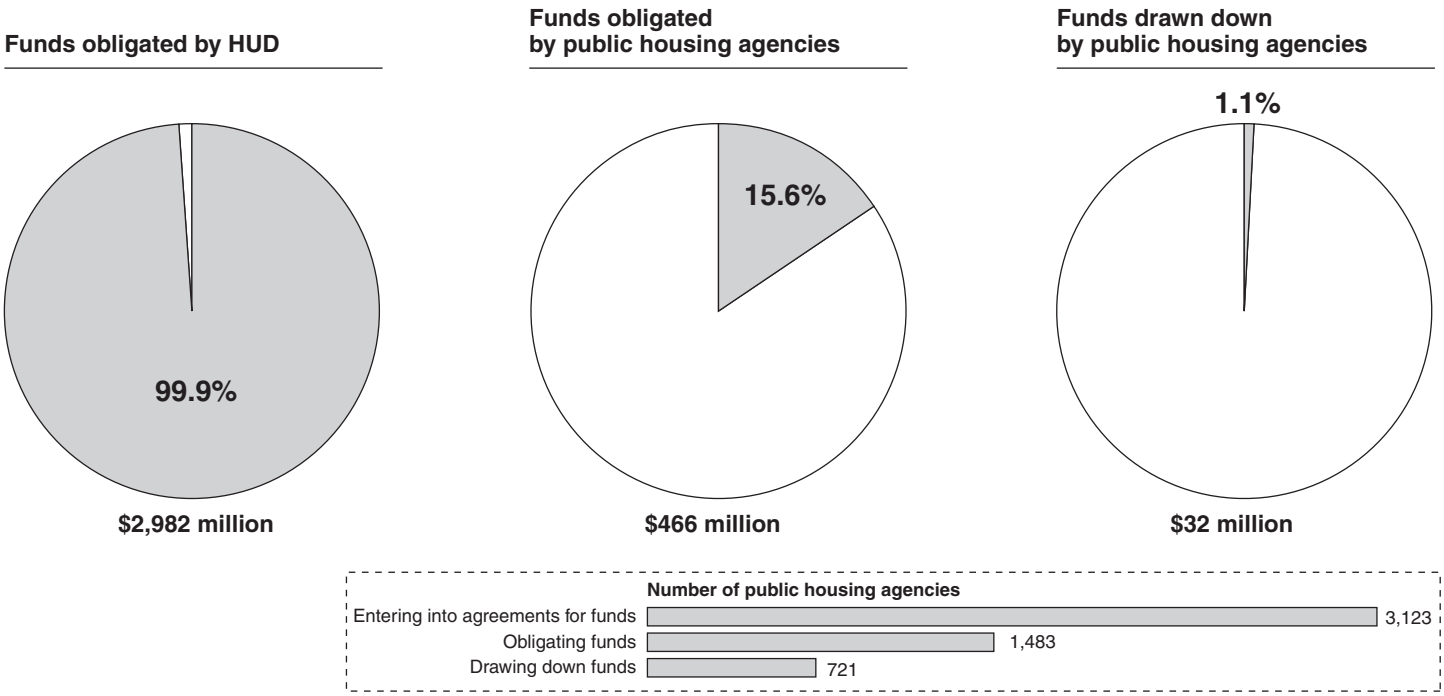
The Recovery Act requires the U.S. Department of Housing and Urban Development (HUD) to allocate $3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. HUD allocated Capital Fund formula dollars to public housing agencies shortly after passage of the Recovery Act and, after entering into agreements with over 3,100 public housing agencies, obligated these funds to public housing agencies on March 18, 2009.[61] Although HUD has allocated and obligated almost $3 billion in formula capital grants to 3,123 public housing agencies,[62] and 1,483 agencies have begun obligating relatively less, little funding has been drawn down by housing agencies.[63] Specifically, as of June 20, 2009, $466 million, or 16 percent, of the funds allocated by HUD to the housing agencies has actually been obligated by the housing agencies, and $32 million, or 1.1 percent, has been drawn down (see figure 7).

[61]HUD is also required to award $1 billion to public housing agencies based on competition for priority investments, including investments that leverage private sector funding/financing for renovations and energy conservation retrofit investments. HUD expects to begin awarding competitive bids in July or August 2009.

[62]HUD allocated Capital Fund formula dollars from the Recovery Act to 11 additional public housing agencies, but these housing agencies chose not to accept Recovery Act funding, no longer had eligible public housing projects that could utilize the funds, or had not yet entered into an agreement with HUD for the funds. As a result, these funds have not been obligated by HUD.

[63]When housing agencies sign contracts for Capital Fund projects, they report obligations of these funds in HUD's Electronic Line of Credit and Control System (ELOCCS). As invoices are submitted for actual work done, these funds are drawn from ELOCCS and expended in payment of invoices.

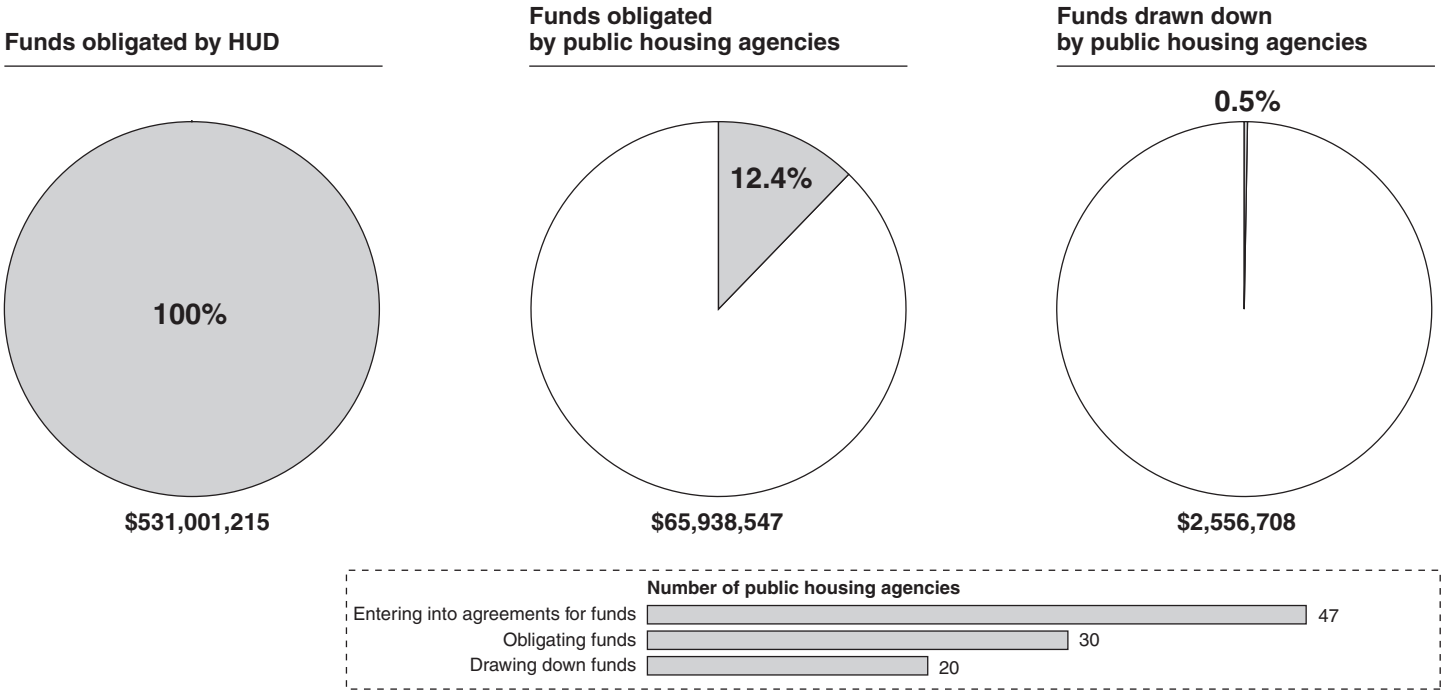
Figure 7: Percent of Public Housing Capital Fund Formula Grants Allocated by HUD that Have Been Obligated and Drawn Down Nationwide, as of June 20, 2009



Source: GAO analysis of HUD data.

For this report, we visited 47 public housing agencies in the 16 states and the District of Columbia, which had received formula grant awards totaling $531 million. These housing agencies have identified projects and are just beginning to obligate and draw down Recovery Act funds for project expenses. As of June 20, 2009, these public housing agencies had obligated almost $66 million, or about 12 percent of their $531 million allocation, and had drawn down $2.6 million, or 0.5 percent of the $531 million. Thirty of the 47 agencies had obligated funds (including 3 small agencies and 1 medium agency that had obligated 100 percent of their funds), indicating that contracts had been awarded and signed and that work was beginning, of which 20 had drawn down funds (see figure 8).

Figure 8: Percent of Public Housing Capital Fund Formula Grants Allocated by HUD that Have Been Obligated and Drawn Down by 47 Public Housing Agencies Visited by GAO, as of June 20, 2009



Source: GAO analysis of HUD data.

Several of the 17 public housing agencies we spoke to that had neither obligated nor drawn down any funds stated that they had not done so because they were awaiting approval from HUD on their plans for using Recovery Act funds, or they were still soliciting bids and finalizing contracts. Others were developing project plans or completing environmental reviews. In addition, some public housing agency officials stated that their status as a "troubled performer"—based on HUD's Public Housing Assessment System (PHAS)[64]—meant they faced more oversight and monitoring from HUD, which was preventing them from obligating the Recovery Act funds as quickly as they would like. However, many of these 17 agencies expected to begin awarding contracts, obligating funds, and

[64]HUD developed PHAS to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of the housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

working on projects by July 2009. This timeline is in line with HUD headquarters officials' expectations that activity involving obligating Recovery Act funds will increase substantially during the next quarter (July to September 2009).

Planned Use of Recovery Act Funds by Housing Agencies

For the 47 housing agencies that we visited, officials indicated that they were planning to use their Recovery Act funds for various types of activities, ranging from parking lot repaving to complete rehabilitation of multi-unit structures. Among the most common Recovery Act project types mentioned by public housing agency officials were roof and window replacements; heating, ventilation, and air conditioning (HVAC) system upgrades or replacements; and interior rehabilitation work, such as kitchen or bathroom renovations and flooring or carpet replacements. For example, Athens Housing Authority in Georgia plans to replace water heaters and kitchen cabinets at 23 scattered sites (see figure 9). According to the public housing agencies we visited, more than 15,000 units will be rehabilitated, including more than 1,500 vacant units.

Figure 9: Unit That the Athens Housing Authority Plans to Renovate with Recovery Act Funds

Source: GAO.

Single space heater to be replaced with central heat (left) and kitchen (right).

Relatively small-scale projects were already underway or had been completed, such as the 10 bathroom remodels and 105 window replacements that Ferris Housing Authority in Texas had finished. In contrast, some major projects requiring planning and design work had yet to begin. In fact, some public housing agencies avoided large, complex projects because they believed the projects would take too long. However, some of the large public housing agencies are funding major activities, such as demolishing a public housing structure, constructing new structures, or completely renovating hundreds of units across many properties. For example, Philadelphia Housing Authority plans to spend over $29 million to rehabilitate 300 vacant units at various sites—one of which is shown in figure 10—and another $14.6 million to completely reconfigure a 71-unit mid-rise building into a 53-unit building with new community spaces, elevators, and energy-efficient electrical and mechanical systems. Cuyahoga Metropolitan Housing Authority in Ohio is using $12 million of Recovery Act funds to pay for part of a $65 million redevelopment initiative that involves demolishing existing structures and building new structures. HUD has informed housing agencies that they may use the Recovery Act funds for demolition and construction of new units, provided that they can meet the Act's obligation and expenditure deadlines.

Figure 10: Philadelphia, Pennsylvania, Plans to Rehabilitate Vacant Units at Scattered Sites

Source: Philadelphia Housing Authority.

Prioritization: The Recovery Act requires public housing agencies to give priority to projects involving the rehabilitation of vacant units, projects already underway or on the agency's latest 5-year plan, and projects that could be awarded based on bids within 120 days of the Recovery Act funds becoming available. Public housing agency officials we spoke to generally prioritized projects that were on their 5-year plan, that could be initiated quickly, and that were, in their judgment, the most critical projects to be completed.

Only a few of the largest public housing agencies we visited stated that they had relatively large numbers of vacant units they were going to rehabilitate. More than 1,200 of the over 1,500 vacant units that agencies we visited had slated for rehabilitation using Recovery Act funds were identified by just five public housing agencies: Chicago Housing Authority, Philadelphia Housing Authority, San Francisco Housing Authority, Cuyahoga Metropolitan Housing Authority in Ohio, and Newark Housing Authority. However, for some agencies facing relatively few vacancies, rehabilitating vacant units was not the highest priority in selecting projects. Instead, they focused on meeting other Recovery Act priorities, such as selecting projects already underway or selecting projects for which contracts could be awarded within 120 days.

An additional priority for public housing agencies in selecting projects was finding ways to improve energy efficiency in their buildings. Some are seeking to accomplish this by making exterior improvements, such as replacing roofs, siding, or windows, while others will be replacing appliances or HVAC equipment with more energy-efficient models. For example, Rahway Housing Authority in New Jersey is in the process of replacing siding on some of its buildings to increase the energy efficiency (see figure 11). Another example of an exterior improvement is from the District of Columbia Housing Authority. Agency officials told us they used Recovery Act funds to install solar panels on top of one of the residential buildings as part of its effort to "green retrofit" all the housing units in the complex. These panels will help heat water for the building.

Figure 11: Siding in the process of completion using Rahway Housing Authority's Recovery Act funds

Source: GAO.

Barriers and Challenges: Public housing agency officials noted a few barriers and challenges they had confronted or anticipated related to Recovery Act funds and projects, but in most cases no single concern was widely shared among the officials with whom we spoke. In a few cases, public housing agencies mentioned that they had experienced delays in accessing their funds in HUD's Electronic Line of Credit Control System (ELOCCS) due to problems with or confusion about the requirement to obtain a Data Universal Numbering System (DUNS) number and to register in the Central Contractor Registration (CCR) system. For example, two housing agencies had trouble registering because their actual location (city or county) was different from the information associated with the DUNS number in the system. However, once agencies were properly registered, they did not anticipate any problems using the system. According to HUD officials, registering in the CCR has been a substantial problem nationwide, despite efforts by HUD to communicate these requirements to public housing agencies. HUD officials estimated that about 380 public housing agencies (out of approximately 3,100) had

not properly registered in CCR and were therefore unable to obligate or draw down Recovery Act funds as of June 15, 2009. HUD officials are working with these agencies to resolve the problems as quickly as possible.

Another challenge raised by public housing agency officials and HUD officials was the "Buy American" provision of the Recovery Act. Several officials noted that depending on how this provision was interpreted, it could pose a barrier to getting contracts in place and completing projects. For example, HUD officials noted that agencies may have difficulty in finding an adequate selection of goods and materials for improving energy efficiency that meet the "Buy American" requirement and are competitively priced. For other public housing agencies, however, this provision was not a concern. For example, two agencies stated they had revised their procurement policy to include "Buy American" requirements, while another agency required its contractors to certify the materials they use are American-made.

An additional potential challenge that some officials had identified involved the requirements HUD had placed on agencies in order to use Recovery Act funds for administration. HUD's guidance states that public housing agencies may use 10 percent of their grant funds for administration but that agencies can only draw down 10 percent of each invoice submitted for administration. In addition, one public housing agency official stated that he expected the documentation requirements for drawing down these funds would require so much extra work that he believed it would be better to use non-Recovery Act funds to cover all administration expenses and devote his agency's entire Recovery Act award to the identified projects. HUD officials stated that these requirements were intended to provide public housing agencies with an incentive to use Recovery Act funds immediately on projects that would create jobs.

Troubled housing agencies may also experience delays in obligating and expending Recovery Act funds. Some officials from public housing agencies that HUD has identified as troubled performers in PHAS stated that additional requirements placed on them by HUD had hindered these agencies' ability to obligate and expend funds as quickly as they believe necessary. At one public housing agency, officials stated that they were designated as troubled because of the physical condition of their housing units and that they were in need of the Recovery Act funding to address these deficiencies. HUD has identified 172 housing agencies as troubled under PHAS that will be subject to increased monitoring for the Recovery

Act. These 172 troubled housing agencies have obligated and expended Recovery Act funds at a slower rate than the overall group of housing agencies receiving Recovery Act funding. Specifically, troubled performing public housing agencies were allocated nearly $186 million of Recovery Act funding, and as of June 20, 2009, 61 (35.5 percent) of these housing agencies had obligated $15.1 million (8 percent) and 22 (13 percent) of these housing agencies had drawn down almost $926,000 (0.5 percent). Overall housing agencies have obligated and expended funds at about double this rate.

One reason for these delays is the additional monitoring required by HUD for housing agencies that are designated as troubled performers under PHAS. HUD has informed these troubled public housing agencies that for Recovery Act purposes they would receive increased monitoring and placed them in either a high, medium, or low-risk category. Of these 172 troubled housing agencies, 106 (61.6 percent) were considered low-risk troubled, 53 (30.8 percent) were considered medium-risk troubled, and the remaining 13 (7.6 percent) were considered high-risk troubled. HUD has established and is implementing a strategy for monitoring these troubled housing agencies that have received Recovery Act funds. HUD stated to us that they have disseminated this strategy to its field offices and it is currently being administered to the 172 troubled housing agencies. For example, according to HUD, all 172 troubled public housing agencies—regardless of risk category—have been placed on a "zero threshold" status and therefore cannot draw down Recovery Act funds without HUD Field Office approval. HUD stated to us that the ability to place housing agencies on "zero threshold" has always been available, and has been used for housing agencies that have had problems obligating and expending their Capital Fund grants appropriately. However, HUD has stated that housing agencies that are troubled will be subject to additional monitoring and oversight as deemed necessary to ensure proper uses of Recovery Act funds.[65] Specifically, HUD Field Offices notified troubled housing agencies that prior to obligation of Recovery Act funding, all award documents (i.e., solicitations, contracts, or board resolutions, where applicable) must be submitted to their respective Field Office for review. Further, housing agencies that HUD considers to be high-risk troubled are to be assigned to

[65]The Recovery Act provided HUD the authority to decide whether to provide troubled housing agencies Recovery Act funds. Although HUD determined that troubled housing agencies have a need for Recovery Act funding, it acknowledged that troubled housing agencies would require increased monitoring and oversight in order to meet the Recovery Act requirements.

a HUD designated team that will provide additional monitoring, oversight and technical assistance. HUD further stated that the effect of any increased requirements on obligating Recovery Act funds should be short-lived since Recovery Act funds must be obligated within one year, and much of the funds should be obligated in the next few months.

The officials with whom we spoke generally did not anticipate that they would face internal challenges with meeting the accelerated obligation and expenditure requirements under the Recovery Act. Several cited the large backlogs of projects that were ready to begin in welcoming the additional funds. In Ohio, Columbus Metropolitan Housing Authority officials stated that they began preparing projects in December 2008 in anticipation of the Recovery Act's passage. Two of the larger agencies, Tampa Housing Authority and the District of Columbia Housing Authority, stated that they had in place "job order contracting," which establishes long-term contracts with several contractors for a variety of routine construction projects, and they had found that this strategy aided in their ability to award contracts quickly and begin projects. Similarly, housing agency officials we interviewed generally did not expect to encounter any challenges meeting the Davis-Bacon local prevailing wage requirements because they were used to complying with Davis-Bacon.

Most Agencies Expect Few Monitoring Problems, and HUD Systems Can Monitor Controls And Safeguards Over Recovery Act Funds

For public housing agencies, the responsibility for establishing and maintaining internal controls rests with each housing agency and is typically not part of the state's overall system of internal controls that is discussed in other parts of the report. GAO visited 47 housing agencies in the 16 states plus the District of Columbia to discuss what internal controls were in place to track the appropriate use of Recovery Act funds. The housing agencies stated that they did not anticipate internal control problems as a result of receiving Recovery Act funds because they would use their existing accounting systems to track the use of these funds. They noted that they have experience with tracking funding—including Capital Fund grants awarded prior to the Recovery Act—and would simply add specific funding codes to their system to track the use of the Recovery Act funds.

Many housing agencies are subject to the Single Audit requirements that have been discussed in this report. Single Audits provide federal agencies with information on the use of federal funds, internal control deficiencies, and compliance with federal program requirements. In addition, the HUD Inspector General (HUD OIG) conducts audits of individual housing agencies. Although we did not systematically review audit reports for those housing agencies we visited and they did not anticipate problems

with monitoring Recovery Act funds, it is important to note that both single audits and HUD OIG's audits have identified instances of internal control deficiencies and noncompliance with HUD programs—including the Capital Fund grants provided prior to the Recovery Act. In our June 2009 report, we reported that housing agency audits do report findings of inappropriate use and mismanagement of public housing funds, including problems with accounting, documentation, and internal controls.[66] That report recommended that HUD better leverage the information in housing agency audits to identify emerging issues, and evaluate its overall monitoring and oversight processes. In addition to implementing its strategy for monitoring troubled housing agencies, HUD stated to us that they are in the process of developing a strategy to monitor non-troubled housing agencies' use of Recovery Act funds.

Public Housing Agencies Are Taking Steps to Measure the Impact of Recovery Act Funds

Preserving existing jobs, stimulating job creation, and promoting economic recovery are among the Recovery Act's key objectives. Public housing agencies are taking steps to measure the extent to which Recovery Act funds are achieving these objectives, though agencies are waiting for guidance from HUD. As recipients of Recovery Act funds, public housing agencies are expected to track and report on jobs created and jobs retained through projects funded by the agency. Most public housing agencies told us they plan to collect payroll data from contractors, existing project management systems, or Davis-Bacon wage reports to calculate the number of jobs created and retained. Some of the public housing agencies told us they would include job-measurement requirements in bid specifications, so that prospective contractors would be aware that they would have to measure jobs if they won the bid. Other agencies said they plan to employ agency employees or public housing residents—whose jobs could be easily counted—on projects funded by the Recovery Act. While some public housing agencies viewed calculating jobs created or retained as straightforward, others expressed concerns about the number of work hours defining jobs created or retained. One agency reported that they had hired a third-party firm to provide tracking and reporting services related to the Recovery Act. The firm will provide analyses of construction-related items and contractor payroll records to satisfy the requirement to report on jobs created and retained with Recovery Act funding. Three public housing agencies reported they have not yet made plans to track the effects of Recovery Act funds.

[66]GAO, *Public Housing: HUD's Oversight of Housing Agencies Should Focus More on Inappropriate Use of Program Funds*, GAO-09-33 (Washington, D.C.: Jun. 11, 2009).

Public housing agencies are also taking steps to report on another Recovery Act objective—promoting energy conservation measures. Public housing agencies are selecting projects that they expect will reduce energy costs, support energy efficiency, and decrease usage of electricity and water. For example, one public housing agency plans to replace older appliances with newer, more energy-efficient models. Another agency plans to replace all light bulbs with energy-efficient bulbs. To measure the impact of these projects, several public housing agencies plan to compare utility bills over time to assess the amount of dollar savings realized. One public housing agency official told us that she plans to read the electric meters in the public housing development to determine the change in energy usage.

Public housing agencies also plan to track a number of other performance measures. Many public housing agencies told us they regularly track the budget control, timeliness, and quality of work of projects they fund and that they plan to continue tracking these measures with Recovery Act-funded projects. In addition, some public housing agencies monitor the number of contracts they have with minority- and women-owned businesses, and they expect to be able to use Recovery Act-funded projects to continue to meet their goals of contracting with such entities. Lastly, public housing agencies anticipate that they may see improvement in other measures—such as tenant satisfaction, occupancy rates, crime rates, and employment among residents—as a result of the projects funded through Recovery Act funds. For example, one public housing agency official hoped that a new community center in one development will lead to less apartment turnover, less maintenance expense, lower crime, more efficient use of utilities, and more cooperation with residents.

Public housing agencies reported that they have not received guidance from HUD on how to measure jobs created and retained. Most public housing agency officials told us they would like guidance on how to accomplish this objective. In the absence of centralized guidance, public housing agencies are following individual strategies to track and report on jobs. OMB's June 2009 guidance provided this centralized guidance.[67]

[67]After soliciting responses from a broad array of stakeholders, OMB issued additional implementing guidance for recipient reporting on June 22, 2009. See, OMB Memorandum, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*.

Quarterly reporting to HUD is another requirement of the Recovery Act. A number of public housing agencies thought that meeting the quarterly reporting requirement could be accomplished because they are already reporting to HUD on a quarterly basis for other programs, such as HOPE VI. Some agencies, however, told us they had neither heard of the quarterly reporting requirement nor received guidance about what was to be included. However, since OMB issued new guidance in June 2009, HUD officials said they are finalizing work on designing and developing a Recovery Act Management and Performance System for reporting jobs created and other effects of the Recovery Act. OMB is also working on a system it plans to have available by October 10, 2009. OMB's June 2009 guidance clarified the reporting requirements for recipients and sub-recipients.

The Edward Byrne Memorial Justice Assistance Grant (JAG) Program

The Edward Byrne Memorial Justice Assistance Grant (JAG) Program within the Department of Justice's Bureau of Justice Assistance (BJA) provides federal grants to state and local governments for law enforcement and other criminal justice activities, such as corrections and domestic violence programs.[68] The JAG program was established in law in 2006 to, among other things, provide state and local agencies with the flexibility to prioritize and place justice funds where they are most needed to prevent and control crime based on local needs and conditions.[69] JAG funds can be used to support a range of activities in seven broad program areas, including law enforcement; prosecution and courts; crime prevention and education; corrections; drug treatment and enforcement; program planning, evaluation, and technology improvement; and crime victim and witness programs. Within these areas, JAG funds can be used for state and local initiatives, training, personnel, equipment, supplies, contractual support, research, and information systems for criminal justice.

The procedure for allocating JAG funds is based on a statutory formula of population and violent crime statistics, in combination with a minimum

[68]State awards are provided to all states, the District of Columbia, Guam, American Samoa, the Commonwealth of Puerto Rico, the Virgin Islands, and the Northern Mariana Islands.

[69]As part of the Violence Against Women and Department of Justice Reauthorization Act of 2005 (Pub. L. No. 109-162, 119 Stat. 2960 (2006)), the JAG program was established by, in general, blending the previous Byrne Grant and Local Law Enforcement Block Grant programs.

allocation to ensure that each state and territory receives some funding.[70] Using this formula, 60 percent of a state's JAG allocation is awarded by BJA directly to the state, which must in turn allocate a formula-based share of those funds—a variable pass-through requirement—to local governments within the state.[71] For Recovery Act JAG funds, the percentage share that states are required to pass through to local governments varies across the 16 states and the District of Columbia (District) in our review, ranging from 36.52 percent (Massachusetts) to 100 percent (District). Further, states may use up to 10 percent of their state award to cover costs associated with administering JAG funds. The remaining 40 percent of funds is awarded directly by BJA to eligible units of local government within the state.[72] Although allocations for JAG funding are determined by formula, state and local governments must apply to BJA to receive JAG funding.

Table 11 shows BJA's Recovery Act JAG state allocations and variable pass-through percentages for the 16 states and the District, as well as BJA's Recovery Act JAG allocations to localities within the 16 states and the District and total Recovery Act JAG allocations.

[70]DOJ's Bureau of Justice Statistics calculates a minimum base allocation for each state and territory, which, based on the statutory JAG formula, can be enhanced by (1) the state's share of the national population and (2) the state's share of the country's Part 1 violent crime statistics. Part 1 violent crime statistics are computed as a 3-year average using figures published in the FBI's annual *Crime in the United States* and include murder, nonnegligent manslaughter, forcible rape, robbery, and aggravated assault.

[71]This amount is calculated by the Census Bureau for the Bureau of Justice Statistics and is based on each state's criminal justice expenditures.

[72]For JAG program purposes, a unit of local government is a town, township, village, parish, city, county, or other general purpose political subdivision of a state; any law enforcement district or judicial enforcement district that is established under applicable state law and has authority to, in a manner independent of other state entities, establish a budget and impose taxes; or a federally recognized Indian tribe or Alaskan Native organization that performs law enforcement functions as determined by the Secretary of the Interior. For the JAG Recovery program, local governments were not eligible for direct awards from BJA if they did not submit at least 3 years of crime data to the FBI for the most recent 10-year period (1998-2007) or if their level of crime did not meet a certain threshold to be eligible.

Table 11: Recovery Act Edward Byrne Memorial Justice Assistance Grant Program's State Allocations and Pass-Through Percentages, Local Allocations and Total Allocations for 16 States and the District

State	Recovery Act JAG state allocation	Recovery Act JAG state variable pass through percentage	Recovery Act JAG local allocation	Recovery Act total allocation
Arizona	$25,306,956	61.86%	$16,659,310	$41,966,266
California	135,641,945	67.34	89,712,677	225,354,622
Colorado	18,323,383	59.56	11,534,788	29,858,171
District of Columbia	11,741,539	100	N/A[a]	11,741,539
Florida	81,537,096	64.85	53,582,326	135,119,422
Georgia	36,210,659	59.56	22,835,094	59,045,753
Illinois	50,198,081	65.51	33,465,389	83,663,470
Iowa	11,777,401	48.19	6,925,317	18,702,718
Massachusetts	25,044,649	36.52	15,749,229	40,793,878
Michigan	41,198,830	57.83	25,807,514	67,006,344
Mississippi	11,199,389	56.93	7,194,656	18,394,045
New Jersey	29,754,315	59.23	17,994,820	47,749,135
New York	67,280,689	65.16	43,311,580	110,592,269
North Carolina	34,491,558	42.41	21,853,798	56,345,356
Ohio	38,048,939	64.06	23,596,436	61,645,375
Pennsylvania	45,453,997	56.04	26,918,846	72,372,843
Texas	90,295,773	60.42	57,234,982	147,530,755

Source: Bureau of Justice Assistance data.

[a]For the District of Columbia, all JAG funds are awarded directly to the District.

Federal funding for JAG has fluctuated significantly in recent years. From fiscal years 2007 through 2008, federal JAG appropriations were reduced by about 68 percent, from about $525 million to about $170 million. The Recovery Act provides $2 billion in JAG funds nationwide for state and local governments (see table 12).

Table 12: Allocation of Edward Byrne Memorial Justice Assistance Grants for 16 States and the District for Fiscal Years 2007 and 2008, as well as a Result of the Recovery Act

State	Fiscal year 2007	Fiscal year 2008	Recovery Act
Arizona	$9,138,401	$3,079,906	$41,966,266
California	52,556,190	17,115,576	225,354,622
Colorado	6,588,179	2,224,265	29,858,171
District of Columbia	2,647,465	872,084	11,741,539

State	Fiscal year 2007	Fiscal year 2008	Recovery Act
Florida	30,272,528	10,054,495	135,119,422
Georgia	12,699,080	4,297,073	59,045,753
Illinois	19,302,761	6,326,515	83,663,470
Iowa	4,226,284	1,396,960	18,702,718
Massachusetts	9,476,365	3,093,460	40,793,878
Michigan	15,098,595	5,024,283	67,006,344
Mississippi	4,262,895	1,386,088	18,394,045
New Jersey	11,207,725	3,661,286	47,749,135
New York	25,894,653	8,415,640	110,592,269
North Carolina	12,293,577	4,126,580	56,345,356
Ohio	14,130,523	4,666,868	61,645,375
Pennsylvania	16,420,810	5,467,997	72,372,843
Texas	33,159,568	10,992,438	147,530,755
Total	**$279,375,599**	**$92,201,514**	**$1,227,881,961**

Source: Bureau of Justice Assistance data.

Office of Justice Programs Has Plans to Oversee, Monitor, and Measure Results Achieved by Recovery Act JAG Funds

Using many of its existing grant award and oversight processes and procedures, BJA and the Office of Justice Programs (OJP)—which oversees BJA and establishes minimum standards for grant monitoring—have reported plans and taken steps to oversee, measure, and monitor Recovery Act JAG funds. For example, as part of BJA's review of applications for JAG funding, BJA reviewed states' grant funding history with OJP to identify any outstanding audit deficiencies, such as delinquent financial and programmatic reports regarding OJP funding. If any such deficiencies were identified, they were highlighted in the states' award letter from BJA for Recovery Act JAG funding as special conditions requiring resolution by the state. According to BJA, 4 of the 16 states and the District in our review had at least one special condition requiring resolution that prohibited them from obligating or expending funds until the specific issues were resolved. As of June 30, 2009, 3 of these states and the District had resolved the issues and had received written approval from BJA releasing the funds. OJP is working with the remaining state to resolve the issues to release the special conditions.

With respect to monitoring grants once they are awarded, OJP's plans include, among others, taking steps to track Recovery Act funds and assessing the performance of projects funded by these grants. For example, OJP's financial system allows it to track grantees' use of funds by program and project code, where project codes align with a grantee's program areas. As of June 30, 2009, project codes have been developed for

the JAG program for Recovery Act funds. In addition, OJP plans to conduct programmatic, administrative, and financial monitoring of its Recovery Act grantees.[73] This monitoring, among other activities, includes ongoing reviews of grantee compliance with program guidelines, as well as on-site monitoring of grantee performance. OJP has reported plans to conduct on-site monitoring of no less than 30 percent of open, active Recovery Act grant funding. Further, the Office of Audit, Assessment, and Management, within OJP, plans to collaborate with BJA to update monitoring procedures.[74] For example, the office plans to develop guidance that focuses on monitoring Recovery Act grants by July 31, 2009. In addition, this office plans to complete quarterly reports on grantee data, such as reporting compliance with requirements to submit performance measure data and how grantees are obligating funds, to identify grantees not complying with reporting requirements or program guidelines to enable timely follow-up with grantees to correct such deficiencies. In addition to other available courses, OJP plans to develop Web-accessible training for grantees, which are to cover topics such as Recovery Act reporting requirements, writing grant applications, and an orientation for new grantees. OJP also reported that it facilitated training sessions in the spring of 2009 for its employees on topics such as grant fraud detection and how to create grant award packages, and it has plans to facilitate training on monitoring Recovery Act grantees during fiscal year 2009.

In addition to two performance measures on the number of jobs created and preserved that are to be collected under the Recovery Act, BJA requires JAG grantees to report on additional performance measures for the specific activities that apply to the programs being funded through the Recovery Act. As of June 30, 2009, OJP has updated JAG program performance measures for grants awarded with Recovery Act funds. For example, if JAG Recovery funds are used to support a drug treatment program, the grantee would be required to report on the number of

[73]During programmatic monitoring, grant managers are to assess the performance of grant programs by addressing the content and substance of a program. Administrative monitoring addresses compliance with grant terms and grantee reporting and documentation requirements, and financial monitoring reviews expenditures compared to an approved budget.

[74]The Office of Audit, Assessment, and Management serves as the central source for grant management policy and procedures and oversees the programmatic monitoring activities within OJP. In addition, this office ensures financial grant compliance and auditing of OJP's internal controls to prevent waste, fraud, and abuse; and conducts programmatic assessments of Department of Justice grant programs.

participants who completed the program, among other measures. BJA requires that these reports be submitted by grant recipients within 30 days after the end of each quarter. OJP has also developed an online performance measurement tool for JAG grantees to use to report these data, which it anticipates JAG fund recipients can begin to use to report on updated measures in July 2009.

BJA Has Approved State-Level Recovery Act JAG Awards for the District of Columbia and All States in Our Review, and Eight States Have Obligated Funds

As of June 30, 2009, all 16 states and the District in our review have received their state award letter from BJA. Further, as of that date, 8 states reported having obligated a share of these funds:[75]

- Arizona (about $23.1 million obligated, or about 91 percent of its state award),
- Colorado (about $13,700 obligated, or about .08 percent of its state award),
- Florida (about $8,300 obligated, or about .01 percent of its state award),
- Illinois (about $12.4 million obligated, or about 25 percent of its state award),
- Massachusetts (about $12.7 million obligated, or about 51 percent of its state award),
- Michigan (about $41.2 million obligated, or 100 percent of its state award),
- Mississippi (about $57,000 obligated, or about 0.5 percent of its state award), and
- Texas (about $4.6 million obligated, or about 5 percent of its state award).

The remaining 8 states and the District reported that no state Recovery Act JAG funds had yet been obligated.[76]

According to officials from the states' administering agencies (SAA), who are responsible for, among other things, administering and setting

[75]Texas officials provided information on state Recovery Act JAG funds obligated as of June 25, 2009. Colorado and Massachusetts officials provided information on state Recovery Act JAG funds obligated as of June 26, 2009.

[76]Georgia officials provided information on state Recovery Act JAG funds obligated as of June 25, 2009.

priorities for the use of JAG funds for the state, they are in various stages of finalizing how these funds will be used—primarily the portion that is to be passed through to local entities, or subrecipients.[77] Specifically:

- Four states are early in the request for proposal (RFP) process for local entities to apply for state pass-through funds. For example, Mississippi and New Jersey are developing their RFPs, while Pennsylvania and Illinois are beginning to collect proposals. New Jersey officials stated they are in the process of developing RFPs for local jurisdictions while Mississippi officials similarly stated they plan to have a final RFP done in time to make awards by August 1, 2009. Pennsylvania issued its RFP on June 18, 2009, and plans to collect proposals from local entities until July 24, 2009, while Illinois officials stated they plan to begin soliciting applications from local law enforcement agencies in the first part of July 2009 and plan to notify applicants of funding recommendations in early August 2009.

- Eight states—Colorado, Florida, Georgia, Iowa, Massachusetts, New York, Ohio, and Texas—and the District of Columbia have received applications or letters of intent submitted by local entities for pass-through funding and are in the process of reviewing and in some cases also approving them. For example, according to Colorado officials, the state received 193 applications and is reviewing them for allowable costs, budgets, and a description of how the funds are to help create or retain jobs, among other items. Staff are also ranking the applications in preparation for their presentation and scoring by the state's JAG board in early July 2009. In Massachusetts, an official noted the state is in different stages of reviewing and finalizing agreements with state agencies that are to receive a share of JAG funds and, for some funds, are awaiting final processing through the state comptroller. In Ohio, officials stated they are performing compliance reviews on the more than 500 applications received for JAG funding and plan to notify subrecipients of their awards by July 31, 2009.

- Three states have selected potential projects for funding and are awaiting final governing body approval. For example, according to state officials in California, the Legislature must approve the planning document for how JAG funds are to be used in the state in order for funds to be allocated to local agencies, and this approval has not yet occurred as of June 30, 2009. In North Carolina, the SAA has selected 85 eligible projects for JAG funding and is awaiting approval by the governor to proceed with

[77]State administering agencies are also responsible for coordinating JAG funds among state and local initiatives, monitoring subrecipients' compliance with JAG requirements, and submitting financial and programmatic reports to BJA.

allocating those funds. Similarly, in Michigan, an official stated that recommendations for grant awards have been sent to the Governor's office for final approval and that contracts are to have a July 1, 2009, start date.

- One state has finalized and approved a list of projects to receive the state's JAG award. Specifically, Arizona has selected and approved 36 projects that are to receive state Recovery Act JAG funds, and subrecipients are to have those funds available on July 1, 2009.

However, all 16 states and the District of Columbia have reported uses for their state Recovery Act JAG awards that are consistent with their states' priorities and allowable uses of those funds, as determined by BJA. Table 13 shows planned uses of these funds for the 16 states and the District.

Table 13: Planned Use of Recovery Act JAG Funds for 16 States and the District

State	Examples of planned use of JAG funding
Arizona	To supplement current state law enforcement and criminal justice efforts in areas such as drug forensics, drug and gang prosecution, rural law enforcement, and information sharing.
California	To support local drug reduction efforts and concentrate on the widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders by enabling law enforcement agencies to create and retain between 275 and 300 positions over the next 4 years.
Colorado	To support initiatives such as the purchase of basic law enforcement equipment and supplies, information sharing, the establishment of specialized courts addressing substance abuse and mental health, and drug treatment and enforcement.
District of Columbia	To support programs focused on prisoners, criminal and juvenile justice research, and court diversion services for at-risk youth.
Florida	To expand existing drug court programs, provide detention and treatment services for youth, purchase radio equipment upgrades for the Department of Corrections, and to develop a database that enables seaport security authorities to determine if individuals meet Florida statutory requirements to enter secure or restricted areas of the seaport.
Georgia	To support positions at state agencies with criminal justice missions and fund assistance for victims of crime, among other things.
Illinois	To support areas including programs that pursue violent and predatory criminals, efforts that focus on prosecuting violent and predatory criminals and drug offenders, juvenile and adult re-entry programs, programs that enhance jail or correctional facility security and safety, and programs that combat and disrupt criminal drug networks and provide substance abuse treatment.
Iowa	To support a broad range of activities to prevent and control crime and improve the criminal justice system, with an emphasis on violent crime, drug offenses and serious offenders.
Massachusetts	To supplement current state public safety programs, retain jobs, and support core services. Additional funds are to support local police departments adversely affected by local budget conditions and a summer jobs program targeted to at-risk youth.
Michigan	To continue planned technology enhancements, provide prescription drug abuse awareness programs, and add courts focusing on crime areas, including domestic violence.
Mississippi	To fund programs for juvenile justice, as well as local drug treatment and enforcement through adult, family, and juvenile drug courts, as well as crime laboratory enhancements.

State	Examples of planned use of JAG funding
New Jersey	To support the state in funding new and existing programs for state and local law enforcement agencies in enforcement (intelligence-led, data-driven policing), prevention (decreasing youth involvement in crime), and re-entry of released prisoners into communities (reducing recidivism).
New York	To expand personnel and services in connection with recent drug law reform legislation, as well as to provide transitional jobs and permanent job placement services for the formerly incarcerated.
North Carolina	To support criminal justice improvement and crime victims' services. Criminal justice improvement funding priorities include overtime requests to ensure that departments can maintain full coverage and requests for equipment, such as weapons, uniforms, and communications devices; sexual assault and domestic violence services; child abuse and neglect services; law enforcement, prosecutors' office and court officials; underserved crime victims' services; and supervised visitation centers.
Ohio	To fund initiatives that support the state's nine purpose areas: law enforcement, prevention and education, corrections and community corrections, prosecution, court and victims' services, research, evaluation, technology improvement, and law enforcement programs.
Pennsylvania	To fund initiatives such as criminal records improvement, law enforcement, public awareness of victim compensation and services, assistance with local criminal justice strategic planning, gun violence reduction, mental health initiatives, and training.
Texas	To increase programs that divert juveniles away from criminal activities and toward productive lifestyles, reduce crime and enhance resources for prosecution of offenders, and support solutions for restoring victims of crime, reintegrating offenders into the community, and reducing the potential for recidivism.

Sources: Bureau of Justice Assistance, states, and the District of Columbia.

BJA Has Started to Make Recovery Act JAG Awards to Localities

BJA is in the process of reviewing and processing applications from local governments for Recovery Act JAG funding. The solicitation for this funding was closed on June 17, 2009. As of June 30, 2009, BJA has awarded about 44 percent of allocated funds to local governments within the 16 states (see table 14).[78] BJA officials stated they intend to award all of these local JAG funds by September 30, 2009.

Table 14: Recovery Act Edward Byrne Memorial Justice Assistance Grants Awarded by the Bureau of Justice Assistance to Localities in 16 States and the District

State	Recovery Act JAG local awards made[a]	Total Recovery Act JAG local allocation	Percentage awarded[a]
Arizona	$865,559	$16,659,310	5.2
California	29,324,123	89,712,677	32.7
Colorado	8,474,100	11,534,788	73.5
District of Columbia[b]	N/A	N/A	N/A
Florida	8,813,275	53,582,326	16.4
Georgia	15,445,135	22,835,094	67.6

[78]For the District of Columbia, all JAG funds are awarded directly to the District.

State	Recovery Act JAG local awards made[a]	Total Recovery Act JAG local allocation	Percentage awarded[a]
Illinois	29,986,076	33,465,389	89.6
Iowa	3,347,457	6,925,317	48.3
Massachusetts	6,877,332	15,749,229	43.7
Michigan	18,246,124	25,807,514	70.7
Mississippi	203,873	7,194,656	2.8
New Jersey	979,950	17,994,820	5.4
New York	39,621,699	43,311,580	91.5
North Carolina	9,329,683	21,853,798	42.7
Ohio	20,079,913	23,596,436	85.1
Pennsylvania	412,080	26,918,846	1.5
Texas	14,439,818	57,234,982	25.2
Total	**$206,446,197**	**$474,376,762**	**43.5**

Source: GAO analysis of Bureau of Justice Assistance data.

[a]As of June 30, 2009.

[b]All JAG funds are awarded directly to the District of Columbia, thus, no local funds are allocated.

State Administering Agencies Cited Challenges to Meeting Recovery Act Reporting Requirements

While Recovery Act JAG funds are calculated and administered using the same rules and structure of the existing JAG program, the Recovery Act introduces some new requirements for recipients. For example, recipients are required to track performance measures on the number of jobs created and preserved as a result of Recovery Act funds and must report certain financial and programmatic information—such as the amount of Recovery Act funds expended or obligated and an evaluation of the project's completion status—to the Recovery Act central reporting Web site 10 days after the end of each quarter.

Officials from several of the 17 state administering agencies we visited noted concerns about subrecipients' ability to meet the act's reporting requirements for determining the number of jobs created and preserved, and the majority noted challenges to meeting the 10-day deadline for submitting quarterly reports on Recovery Act data. For example, state officials noted the need for additional guidance on how to determine whether JAG funds are contributing to job creation or job preservation. Specifically, officials in three states raised questions about how, if at all, grantees were to measure jobs that may be indirectly related to JAG fund expenditures. For example, if a grantee purchased three new police cruisers, how might it determine how many secondary jobs were retained or created at the car manufacturer. On June 22, 2009, the Office of Management and Budget (OMB) issued guidance on, among other things,

how to report on job creation performance measures, which included clarification that recipients should not attempt to report on the employment impact on material suppliers and central service providers (i.e., indirect jobs) that may be related to Recovery Act supported activities.[79]

Further, officials from the majority of states shared concerns over the Recovery Act requirement that recipients submit reports within 10 days of the end of each quarter. In previous years, JAG award recipients were required to provide programmatic reports to BJA on an annual basis—rather than on a quarterly basis, as required by the Recovery Act. Specifically, state officials were concerned that subrecipients would not be able to meet that deadline or that they may do so at the risk of quality and accuracy of reporting. For example, officials in North Carolina stated they were concerned about programs, specifically first-time subrecipients from nonprofit and faith-based organizations, not being prepared for compliance responsibilities, due to limitations in the numbers and experience of staff that are to complete the reports. Officials stated that many of the subrecipients' offices do not have the resources to prepare detailed reporting documents. Officials in Iowa expressed similar concerns about the 10-day reporting requirement and noted that some potential recipients—small law enforcement agencies with five or fewer officers or staff—may not apply for Recovery Act funds if they believe the reporting requirements are burdensome relative to the amount of JAG funds they might receive. Alternatively, officials noted that some recipients may choose to apply for funds and then spend them quickly because the reporting requirement ends after the funds have been expended, reported on, and the grant closed. Officials stated they are concerned about the accuracy of the information the administering agencies are to receive if the data are reported so quickly. For example, officials in Michigan noted that to meet performance measurement reporting on time, subrecipients are to submit reports within 5 days of the end of the quarter to allow time for the state administering agency to prepare and submit these reports. Officials in North Carolina noted that with an increased number of localities receiving the awards compared with previous years, compliance with tracking and consolidating reporting requirements is expected to be more difficult. BJA officials stated they

[79]See, OMB Memorandum, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009.*

recognized these concerns and agreed that states may face challenges should they have hundreds of subrecipients for pass-through funds.

To help facilitate subrecipients in meeting the reporting requirements, officials in many of the states and the District described plans to prepare entities for reporting, such as conducting training, implementing Web-based reporting, and clarifying the requirements with potential subrecipients. For instance, officials in North Carolina stated they plan to sponsor workshops to provide additional information about the Recovery Act reporting requirements to potential subrecipients. Officials in Illinois stated that while they had some concerns about timely reporting, they plan to require subrecipients to report on a monthly basis to the SAA, conduct training for subrecipients, and transition to an electronic system to facilitate tracking and reporting of funds.

The District of Columbia and States Reported Plans to Use Existing Processes to Safeguard the Use of JAG Funds

The District of Columbia and states in our review reported they plan to use existing grants management processes to ensure that subrecipients are using JAG funds in accordance with BJA and Recovery Act requirements, as can be seen in the following examples:

- Arizona SAA officials reported that as an established process they used a peer-reviewed, risk-based scoring matrix to select subrecipients that considered, among other things, the applicant's most recent Single Audit results, plans for evaluating the impact resulting from the use of such funds, and funding history with the SAA including any past compliance issues. Once grants are awarded, SAA officials stated that they have a compliance team of six staff that are to perform ongoing financial and programmatic compliance reviews to ensure that subrecipients comply with grant guidance. For example, program compliance staff are to review subrecipients' monthly and quarterly financial reports and identify any areas of concern, such as if funds are expended too slowly or too quickly, if there are questionable expenses, or if monthly and quarterly reports do not agree. Financial compliance staff are to also perform annual on-site visits that include financial audits in addition to internal controls inspections of, among other things, the accounting system and key financial documentation. Officials estimated that the workload is likely to double as a result of receiving additional funds through the Recovery Act and plan to use some of the state's administrative JAG funds to hire additional staff to help manage the heightened Recovery Act requirements and increased number of subrecipients.

- District of Columbia SAA officials reported that they have established programmatic and financial procedures for separately tracking and reporting on all federal grant funding programs. The SAA requires

subrecipients to provide detailed, separate monthly or quarterly financial reports on their federal funding that includes supporting documentation on all expenses. These financial reports and reimbursement requests are tracked separately by the SAA in a grants management database as well as through the District's financial system; additionally, the Office of the Chief Financial Officer is responsible for completing separate financial reports on each federal grant and for drawing down funds in line with grant expenditures.

- New Jersey SAA officials reported that they plan to monitor the use of JAG funds in several ways. First, the SAA plans to track expenditures through a separate code in its accounting system for Recovery Act funds, as required by the state and federal government. Second, the SAA plans to educate subrecipients on how to comply with funding rules by holding postaward conferences with subrecipients prior to the receipt of funds. Subsequently, subrecipients are to be required to submit monthly financial and programmatic reports to the SAA. Internally, the SAA plans to use existing program and fiscal analysts to track spending and compliance with financial and programmatic requirements. Officials said that they are exploring ways to increase the number of staff monitoring subrecipients, but because New Jersey is under a hiring freeze, any increase in staff to conduct this monitoring would likely come as a result of reassignments from other agencies or offices. Finally, SAA officials noted that an audit by the Office of the State Auditor should provide another layer of review regarding the use of JAG Recovery Act funds.

- Texas SAA officials report that they plan to monitor performance and financial aspects of awarded funds to ensure that funds are used for authorized purposes. Also, the SAA, in coordination with the Office of the Governor's Financial Services Division, plans to able to account for, track, and report on federal funds resulting from the Recovery Act separately from other fund sources. According to the SAA officials, this will allow each award to be directly tied to accounting codes to give the Governor's office the ability to account for, track, and report separately on these funds. Texas also contracts with the Public Policy Research Institute at Texas A&M University to maintain a Web-based data collection system that can retrieve and analyze program performance data, and the state plans to continue to do so to support Recovery Act reporting requirements.

DOE's Weatherization Assistance Program

The Recovery Act appropriated $5 billion over a 3-year period for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) administers through each of the states, the District of Columbia (District), and seven territories and Indian tribes. According to DOE, during the past 32 years, the program has assisted more than 6.2 million low-income families to reduce their utility bills by making long-term energy-efficiency improvements to homes. For example, by installing insulation, sealing leaks around doors and windows, or modernizing heating equipment, the weatherization program allows these households to spend their money on more pressing family needs. The Recovery Act appropriation represents a significant increase for a program that has received about $225 million per year in recent years.

DOE Has Provided the States with Initial Funds, but Most States Report Using Little if Any of the These Funds

In response to the Recovery Act, DOE announced on March 12, 2009, that the 50 states, the District, and seven U.S. territories and Indian tribes are eligible to receive weatherization formula grants.[80] Each of the 16 states and the District in our review submitted an initial grant application. As shown in table 15, DOE then provided each with an initial 10 percent of its formula funds with the stipulation that the funds could be used only for such start-up activities as preparing a state weatherization plan, hiring and training staff, and purchasing needed equipment but could not be used for the production of weatherized homes. Subsequently, on June 9, 2009, DOE lifted this prohibition for local agencies that have previously provided services and are included in a state's plan, in response to states' concern that their local agencies were ready to begin weatherization activities but lacked funding.

Table 15: DOE's Allocation of the Recovery Act's Weatherization Funds for 16 States and the District

State	Total allocation	Initial allocation	Date received
Arizona	**$57,023,278**[a]	$5,702,328	April 10, 2009
California	**185,811,061**	18,581,106	April 10, 2009
Colorado	**79,531,213**	7,953,121	April 1, 2009
District of Columbia	**8,089,022**	808,902	March 30, 2009
Florida	**175,984,474**	17,598,447	April 10, 2009
Georgia	**124,756,312**	12,475,631	April 20, 2009

[80]Our discussion on weatherization is primarily limited to the 16 states and the District of Columbia that are the focus of this report.

State	Total allocation	Initial allocation	Date received
Illinois	**242,526,619**	24,252,662	April 1, 2009
Iowa	**80,834,411**	8,083,441	March 27, 2009
Massachusetts	**122,077,457**	12,207,746	April 3, 2009
Michigan	**243,398,975**	24,339,898	March 27, 2009
Mississippi	**49,421,193**	4,942,119	April 3, 2009
New Jersey	**118,821,296**	11,882,130	April 7, 2009
New York	**394,686,513**	39,468,651	April 13, 2009
North Carolina	**131,954,536**	13,195,454	April 1, 2009
Ohio	**266,781,409**	26,678,141	March 27, 2009
Pennsylvania	**252,793,062**	25,279,306	March 27, 2009
Texas	**326,975,732**	32,697,573	April 10, 2009

Source: DOE.

Notes: DOE allocated the Recovery Act's weatherization funds among the eligible states, territories, and Indian tribes using (1) a fixed, base allocation and (2) a formula allocation for the remaining funds that is based on each state's low-income households, climate conditions, and expenditures by low-income households on residential energy.

[a]DOE allocated an additional $6 million to the Navajo Indian tribal areas in Arizona.

Most of the states reported that they have used little if any of the initial 10 percent allocation of Recovery Act funds.[81] In fact, some state weatherization agencies have not received any of their DOE allocation because the funds are being held at the state level. For example, Georgia has not spent the 10 percent allocation because the action plan required by the governor is still under review. In Pennsylvania, the funds must be appropriated through the state budget process, and the budget has not yet been approved. Other states decided not to use the funds until July 1, 2009 for a variety of reasons. Illinois waited until July 1 to begin spending the weatherization funds because of DOE's initial guidance that funds could not be used for weatherization production activities. Massachusetts did not spend any of the initial allocation until the beginning of the state's fiscal year on July 1. Furthermore, as of June 30, 2009, Florida reports obligating $113,000 of its $17.6 million initial allocation for start-up activities, such as hiring and training staff.

[81]States also have the fiscal year 2009 appropriation and prior year balances available.

DOE Is Reviewing State Plans and Providing the Next 40 Percent of Weatherization Funds

All of the states in our review submitted state weatherization plans to DOE by May 12, 2009. State officials told us that DOE's funding announcement and e-mail messages had provided them with the guidance needed to complete their weatherization plans, which outline the states' plans for using the weatherization funds and for monitoring and measuring performance, among other things. DOE's goal is to approve 80 percent of all state weatherization plans by the end of July 2009. DOE is providing the next 40 percent of weatherization funds to a state once the weatherization plan is approved. DOE plans to release the final 50 percent of the funding to each state based on the department's progress reviews examining each state's performance in spending its first 50 percent of the funds and the state's compliance with the Recovery Act's reporting and other requirements.

As shown in table 16, as of June 30, 2009, DOE had approved the state weatherization plans for Arizona, California, Florida, Georgia, Illinois, Mississippi, New York, North Carolina, Ohio, and the District, enabling them to receive the next 40 percent of their funds.[82] Most states expect DOE approval of their plans by mid-July. However, the timing of DOE's approval could be an issue for some states. For example, Colorado officials in the Governor's Energy Office expressed concern about the timing of DOE's approval because their plan is designed to begin on July 1, the beginning of the state's fiscal year. DOE's June 9 revised guidance provided the states with some additional flexibility for using the initial 10 percent of funds. DOE's continued communication with the states on the timing of the approval of state plans will be important in minimizing possible disruptions of states' efforts to implement their weatherization programs.

[82]DOE has also approved state weatherization plans for Delaware, Kansas, Maryland, Montana, Nebraska, Nevada, North Dakota, Oregon, South Carolina, South Dakota, Utah, and West Virginia.

Table 16: DOE's Approval of State Plans and Second Allocation of the Recovery Act's Weatherization Funds for 16 States and the District

State	Date state plan was submitted (2009)	Date state plan was approved (2009)	Second allocation of funds
Arizona	April 28	June 8	$22,809,311
California	May 12	June 18	74,324,424
Colorado	May 8	[a]	[a]
District of Columbia	May 12	June 18	3,235,609
Florida	May 11	June 18	70,393,790
Georgia	May 12	June 26	49,,902,525
Illinois	May 1	June 26	97,010,648
Iowa	May 11	[a]	[a]
Massachusetts	May 11	[a]	[a]
Michigan	May 12	[a]	[a]
Mississippi	May 11	June 8	19,768,477
New Jersey	May 11	[a]	[a]
New York	May 12	June 26	157,874,605
North Carolina	May 12	June 18	52,781,814
Ohio	May 12	June 18	106,712,564
Pennsylvania	May 12	[a]	[a]
Texas	May 6	[a]	[a]

Source: DOE.

[a]DOE has not yet approved the state's weatherization plan.

In addition, officials in nine of the states in our review expressed concern that the Recovery Act requires that weatherization contractors and subcontractors pay their laborers and mechanics at the locally prevailing wage rates, as determined by the U.S. Secretary of Labor. Because prior DOE weatherization funding did not have this requirement, questions have been raised about how the requirement should be implemented. For example, it creates the possibility that workers could be paid at different wage rates for the same work, depending on the source of funds. Pennsylvania officials noted that local community action agencies may have difficulty tracking the number of hours worked by employees who perform tasks at both prevailing and nonprevailing wage rates. We will continue to monitor the implementation of this requirement.

States' Proposed Plans for Using Weatherization Funds Vary

As shown in table 17, each of the states in our review has provided its plans for using its Recovery Act weatherization allocation by breaking expenditures into program operations, administration, training and technical assistance, and other activities. All of the states propose to spend at least 50 percent of their allocation on program operations, ranging from 53 percent in California to 90 percent in Massachusetts. According to DOE, variances among the states in the percentage of funds devoted to program operations reflect different levels of maturity in, for example, providing the infrastructure needed to achieve the administration's overall goal of weatherizing 1 million houses per year.

Table 17: States' Proposed Funding Plans for Using the Recovery Act's Weatherization Funds

State	Total allocation	Program operations	Administration[a]	Training and technical assistance[b]	Other[c]
Arizona	**$57,023,278**	$41,251,602	$5,702,328	$10,003,042	$66,306
California	**185,811,061**	98,215,497	18,581,106	32,515,292	36,499,166
Colorado	**79,531,213**	58,103,432	6,445,791	4,916,481	10,065,509
District of Columbia	**8,089,022**	5,098,516	808,902	1,454,968	726,636
Florida	**175,984,474**	124,008,695	17,598,448	29,917,361	4,379,970
Georgia	**124,756,312**	88,509,632	10,291,150	21,844,809	4,110,721
Illinois	**242,526,619**	174,946,540	24,252,660	42,427,419	900,000
Iowa	**80,834,411**	46,865,882	8,083,441	11,168,618	14,716,470
Massachusetts	**122,077,457**	110,019,000	9,073,981	2,517,906	466,570
Michigan	**243,398,975**	195,159,247	17,305,253	11,129,275	19,805,200
Mississippi	**49,421,193**	33,579,102	4,471,060	8,678,559	2,692,472
New Jersey	**118,821,296**	89,354,321	10,806,268	9,308,242	9,352,465
New York	**394,686,513**	247,560,920	39,468,652	69,020,266	38,636,675
North Carolina	**131,954,536**	108,851,700	0	23,102,836	0
Ohio	**266,781,409**	209,167,751	21,280,186	7,737,330	28,596,142
Pennsylvania	**252,793,062**	192,936,342	21,729,647	20,000,000	18,127,073
Texas	**326,975,732**	218,701,202	30,833,844	21,253,423	56,187,263

Source: State weatherization plans.

Notes: This table is based on the DOE funding announcement's activity categories. Some states categorized these amounts in their state weatherization plans differently than the way they are presented in this table because of variances in how their categories were defined.

[a]Administrative expenses cannot exceed 10 percent of a state's allocation.

[b]Training and technical assistance expenses cannot exceed 20 percent of a state's allocation.

[c]Includes vehicles, equipment, health and safety, liability insurance, and financial audits, among other things.

State Weatherization Plans Focus on Units Weatherized as a Measure of Impact

DOE's funding announcement directs the states to report on the number of housing units weatherized, the resulting energy savings, and the number of jobs created. Table 18 shows the number of housing units that states expect to weatherize using Recovery Act funds, according to states' weatherization plans. While many of the weatherization plans estimate expected energy savings, they do not use a consistent unit of measurement or time frame. Few of the states' weatherization plans present an estimate of the expected jobs created. DOE officials told us that OMB will issue additional guidance to the states regarding a consistent methodology for making this calculation.

Table 18: Number of Housing Units Expected to Be Weatherized Using Recovery Act Funds

State	Housing units expected to be weatherized
Arizona	6,409
California	50,330
Colorado	16,280
District of Columbia	784
Florida	19,000
Georgia	13,617
Iowa	7,196
Illinois	27,181
Massachusetts	16,926
Michigan	32,000
Mississippi	5,467
New Jersey	13,381
New York	45,000
North Carolina	23,500
Ohio	32,179
Pennsylvania	29,700
Texas	33,740

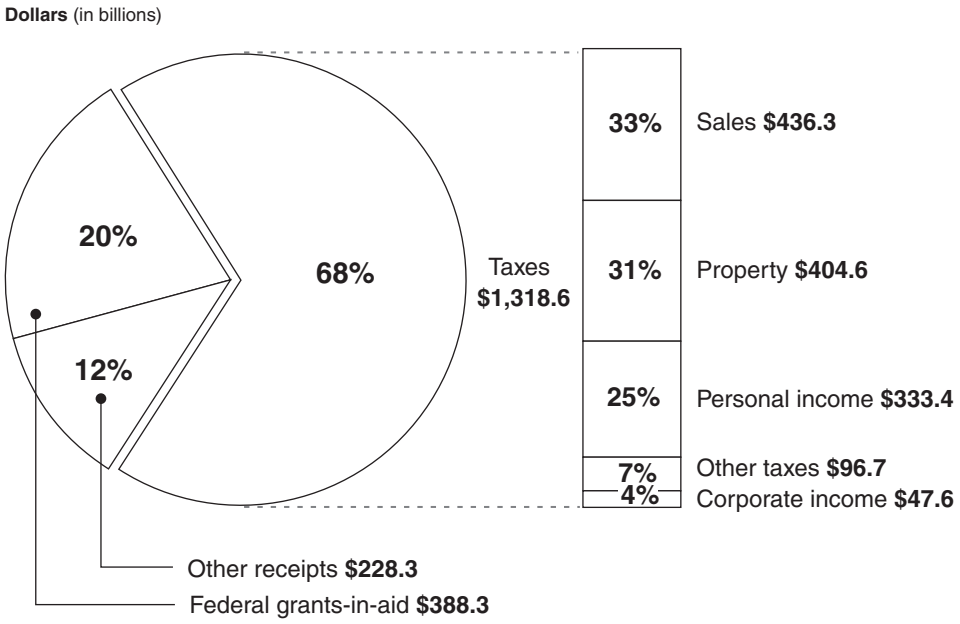
Sources: State weatherization plans and, for Michigan and North Carolina, interviews with state officials.

Recovery Act Funding Helped States Address Budget Challenges

The Office of Management and Budget estimates that, in addition to the existing federal grants to states and territories, federal obligations of Recovery Act funds for states and territories will be about $149 billion in federal fiscal year 2009. Federal grants represented the second-largest share of funding for state and local governments in 2008 (about 20 percent or $388 billion). As shown in figure 12, state and local tax receipts

constituted the largest share of funding for state and local governments in 2008 (about 68 percent or $1.3 trillion).

Figure 12: State and Local Government Current Receipts, Fiscal Year 2008



Source: GAO analysis of Bureau of Economic Analysis data.

Note: Other receipts include contributions for government social insurance, income receipts on assets such as interest receipts or rents, transfer receipts from businesses and persons, and surpluses from government enterprises.

State revenue continued to decline and states used Recovery Act funding to reduce some of their planned budget cuts and tax increases to close current and anticipated budget shortfalls for fiscal years 2009 and 2010.[83] Of the 16 states and the District, 15 estimate fiscal year 2009 general fund

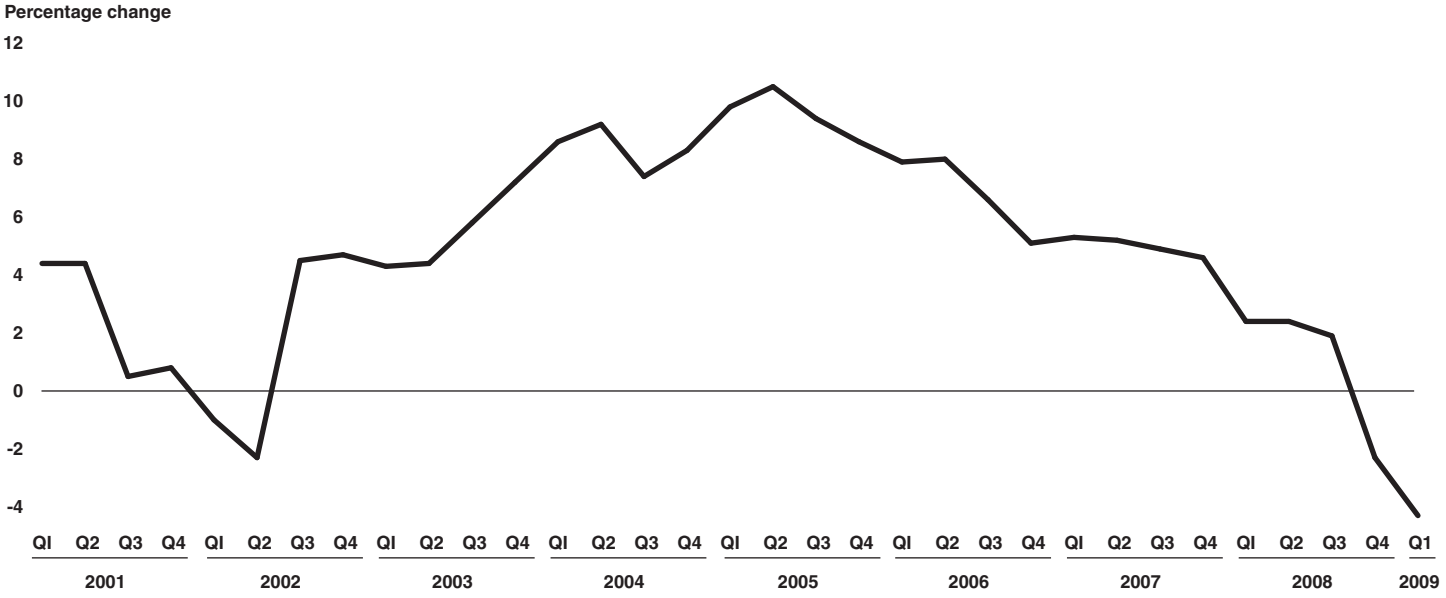
[83]According to the National Association of State Budget Officers (NASBO), most states have balanced-budget requirements for general funds, which may include requirements such as (1) requiring governors to submit a balanced budget, (2) mandating that their legislatures pass a balanced budget, (3) directing governors to sign a balanced budget, or (4) requiring governors to execute a balanced budget. According to NASBO, all of the states we visited have balanced-budget requirements. (In its report, NASBO did not provide information on the District of Columbia's balanced budget requirements.) See NASBO, *Budget Processes in the States* (Washington, D.C.: Summer 2008).

revenue collections will be less than in the previous fiscal year.[84] For example, in Georgia, the state's net revenue collections for May 2009 were 14.4 percent less than they were in May 2008, representing a decrease of approximately $212 million in total tax and other collections. On May 28, 2009, the lower-than-expected revenue projections led the Governor to instruct the Office of Planning and Budget to reduce available funds by 25 percent for the month of June (the last month of fiscal year 2009). In Michigan, fiscal year 2008-2009 revenue collections are estimated to be $1.9 billion—or 20.6 percent—less than fiscal year 2007-2008 collections, putting current revenue estimates below 1971 levels, when adjusted for inflation. The 2 remaining states —Iowa and North Carolina—had revenues that were lower than projected. As shown in figure 13, data from the Bureau of Economic Analysis (BEA) also indicate that the rate of state and local revenue growth has generally declined since the second quarter of 2005, and the rate of growth has been negative in the fourth quarter of 2008 and the first quarter of 2009.[85]

[84]Michigan—along with the District of Columbia—has a fiscal year that begins October 1. New York's fiscal year begins April 1, and the fiscal year for Texas begins on September 1. All other states we visited have fiscal years beginning July 1.

[85]Recent reports provide additional details regarding revenue declines beyond our selected states. For example, see The National Governors Association and the National Association of State Budget Officers, *The Fiscal Survey of States* (Washington, D.C., June 2009); National Conference of State Legislatures, *Budget Update: April 2009* (Washington, D.C., April 2009); Lucy Dadayan and Donald J. Boyd, The Nelson A. Rockefeller Institute of Government, *April is the Cruelest Month: Personal Income Tax Revenues Portend Deepening Trouble for Many States* (Albany, N.Y., June 18, 2009).

Figure 13: Year-Over-Year Change in State and Local Government Current Tax Receipts



Source: GAO analysis of BEA data.

Officials in most of the selected states and the District expect these revenue trends to contribute to budget gaps (estimated revenues less than estimated disbursements) anticipated for future fiscal years. All of the 16 states and the District forecasted budget gaps in state fiscal year 2009-2010 before budget actions were taken. New York's enacted budget for fiscal year 2009-2010 closed what state officials described as the largest budget gap ever faced by the state. The combined New York current services budget gaps totaled $2.2 billion in fiscal year 2008-2009 and $17.9 billion in 2009-2010 before the state instituted corrective budget actions and received Recovery Act funding. In California, the governor projects a $24.3 billion budget gap in fiscal years 2008-2009 and 2009-2010, created in large part by lower revenue estimates.[86] Florida, which recently passed a $66.5 billion budget for the state's 2009-2010 fiscal year, faced what officials

[86]This projected shortfall is after the California Governor and Legislature addressed a $42 billion budget gap in February 2009 in the general fund. As of June 30, the California Legislature had not passed legislation for the Governor to sign that would resolve the state's budget deficit. The May 2009 budget revision indicates that revenues and transfers in fiscal years 2008-2009 and 2009-2010 total approximately $178 billion.

estimated as a $4.8 billion gap in general funds before corrective budget actions were taken.

States Combined Use of Recovery Act Funds with Budget Actions to Maintain Balance and Close Budget Gaps

Consistent with one of the purposes of the act, states' use of Recovery Act funds to stabilize their budgets helped them minimize and avoid reductions in services as well as tax increases. States took a number of actions to balance their budgets in fiscal year 2009-2010, including staff layoffs, furloughs, and program cuts. The use of Recovery Act funds affected the size and scope of some states' budgeting decisions, and many of the selected states reported they would have had to make further cuts to services and programs without the receipt of Recovery Act funds. For example, California, Colorado, Georgia, Illinois, Massachusetts, Michigan, New York, and Pennsylvania budget officials all stated that current or future budget cuts would have been deeper without the receipt of Recovery Act funds.

Recovery Act funds helped cushion the impact of states' planned budget actions but officials also cautioned that current revenue estimates indicate that additional state actions will be needed to balance future-year budgets. Future actions to stabilize state budgets will require continued awareness of the maintenance-of-effort (MOE) requirements for some federal programs funded by the Recovery Act. For example, Massachusetts officials expressed concerns regarding MOE requirements attached to federal programs, including those funded through the Recovery Act, as future across-the-board spending reductions could pose challenges for maintaining spending levels in these programs. State officials said that MOE requirements that require maintaining spending levels based upon prior-year fixed dollar amounts will pose more of a challenge than upholding spending levels based upon a percentage of program spending relative to total state budget expenditures.

States' current uses of Recovery Act funds helped fund and maintain staffing for existing programs. In Arizona, state budget officials said that Recovery Act funding enabled the state to, among other things, reduce the number of furloughs and layoffs, avoid some service reductions, maintain the level of state employee benefit levels, and prevent some contract delays and reductions that otherwise would have occurred. Similarly, officials in Mississippi plan to use Recovery Act funds to help Mississippi stabilize its budget and support local governments, particularly school districts. For example, officials at the two local education agencies and three institutions of higher education we visited told us that they plan to use Recovery Act funds to avoid layoffs and hire new staff. Officials in the District told us that because they knew the Recovery Act funds were

coming while they were developing the fiscal year 2010 budget, they did not have to create a budget scenario in which additional actions, such as furloughs, were necessary to fill the anticipated revenue gap. Similarly, Colorado officials also knew early on that Recovery Act funds were coming—particularly the increased federal share of Medicaid—thereby making state funds that would have been used to pay the state share of Medicaid available for avoiding certain budget actions including additional furloughs. In New Jersey, although budget officials anticipated receiving Recovery Act funds before the state finalized its 2010 budget, this did not preclude the state from including personnel actions such as furloughs and wage freezes to aid in closing the projected budget gap. In Iowa, for the fiscal year 2009 budget, Recovery Act funding allowed state agencies to avoid program cuts as well as mandatory layoffs and furloughs.

In addition to these budget actions, some states also reported accelerating their use of Recovery Act funds to stabilize deteriorating budgets. For example, in Georgia, lower-than-expected revenue numbers caused the state to use more Recovery Act funds in state fiscal year 2009 than it had anticipated using. In Massachusetts, state officials said that accelerating their use of Recovery Act and state rainy-day funds was the most viable solution to balance their budget. Massachusetts officials reported that the state had hoped to leave a sizable amount of its State Fiscal Stabilization Fund (SFSF) allocation available for 2011 but changed its planned approach because of its deteriorating fiscal condition. Using more of these funds in the 2008-2009 state fiscal year may make it more difficult for the state to balance its budget after Recovery Act funds are no longer available. California's dire fiscal condition prompted the state to accelerate the use of its Recovery Act funds, along with the use of a number of additional measures to reduce the state's 2008-2009 budget gap.

Many states, such as Colorado, Florida, Georgia, Iowa, New Jersey, and North Carolina, also reported tapping into their reserve or rainy-day funds in order to balance their budgets. In most cases, the receipt of Recovery Act funds did not prevent the selected states from tapping into their reserve funds, but a few states reported that without the receipt of Recovery Act funds, withdrawals from reserve funds would have been greater.[87] Officials from Georgia stated that although they have already used reserve funds to balance their fiscal year 2009 and 2010 budgets, they

[87]According to NASBO, the selected states have varying legal requirements regarding contributions to and withdrawals from various types of reserve funds.

may use additional reserve funds if, at the end of fiscal year 2009, revenues are lower than the most recent projections. In contrast, New York officials stated they were able to avoid tapping into the state's reserve funds due to the funds made available as a result of the increased Medicaid FMAP funds provided by the Recovery Act.

Approaches to Developing Exit Strategies for End of Recovery Act Funding Influenced by Nature of State Budget Processes

States' approaches to developing exit strategies for the use of Recovery Act funds reflect the balanced-budget requirements in place for all of our selected states and the District. Budget officials referred to the temporary nature of the funds and fiscal challenges expected to extend beyond the timing of funds provided by the Recovery Act. Officials discussed a desire to avoid what they referred to as the "cliff effect" associated with the dates when Recovery Act funding ends for various federal programs.

Budget officials in some of the selected states are preparing for the end of Recovery Act funding by using funds for nonrecurring expenditures and hiring limited-term positions to avoid creating long-term liabilities. Representatives of the Texas Governor's office also told us that their office has advised state agencies that much of the funding is temporary. The Texas Legislature provided similar guidance in the conference committee report for the appropriations bill directing state agencies to "give priority to expenditures that do not recur beyond the 2010-2011 biennium."[88] In Ohio, budget officials remain focused on budgeting for the coming biennia (2010-2011), but key legislators have queried state officials during budget deliberations about their plans for the next biennia (2012-2013), when federal Recovery Act funding is no longer available.

A few states reported that although they are developing preliminary plans for the phasing out of Recovery Act funds, further planning has been delayed until revenue and expenditure projections are finalized. For example, while Georgia's Governor has encouraged state agencies to spend funds judiciously and take into consideration that the funding is temporary, the state is still in the process of developing a strategy for winding down its use of Recovery Act funds. In part, such a strategy is dependent on revenue and expenditure projections, which will be updated as part of the fiscal year 2011 budget planning process. In addition, risk mitigation plans currently being developed by state agencies may impact the state's exit strategy.

[88]Texas Legislature, *Conference Committee Report for S.B. No. 1 General Appropriations Bill*, Special Provisions for American Recovery and Reinvestment Act, section 7.

Some states are in the process of developing exit strategies aligned with planning for broader fiscal challenges. In North Carolina, the state's recovery office hired a temporary staff person to look at some of the factors that may have caused the state's economic slowdown, as well as to help plan for an exit strategy after Recovery Act funds end. Officials in Illinois also said that they plan to convene a working group to assess state agencies' level of preparedness for the end of Recovery Act funding. They have issued guidance to state agencies regarding the use of the funds and have directed agencies to submit hiring plans containing provisions that mitigate the risk of layoffs, such as hiring temporary employees and contractors.

States Have Implemented Various Internal Control Programs: However, Single Audit Guidance and Reporting Does Not Adequately Address Recovery Act Risk

Given that Recovery Act funds are to be distributed quickly, effective internal controls over use of funds are critical to help ensure effective and efficient use of resources, compliance with laws and regulations, and in achieving accountability over Recovery Act programs. Internal controls include management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; compliance with laws and regulations; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting. Management is responsible for the design and implementation of internal controls and the states in our review have a range of approaches for implementing their internal controls.

Some states have internal control requirements in their state statutes, while others have undertaken internal control programs as management initiatives. In our sample, seven states—California, Colorado, Florida, Michigan, Mississippi, New York, and North Carolina—noted they have statutory requirements for internal control programs and activities. The other nine states—Arizona, Georgia, Illinois, Iowa, Massachusetts, New Jersey, Ohio, Pennsylvania, and Texas—noted they have undertaken various internal control programs. In addition, the District of Columbia has taken limited actions related to its internal control program. An effective internal control program helps in managing change to cope with shifting environments and evolving demands and priorities, as the Recovery Act entails. Internal controls need to be continually assessed and evaluated by management as programs change and entities strive to improve operational processes.

Risk assessment and monitoring are key elements of internal controls, and the states and the District in our review have undertaken a variety of actions in the area of risk assessment. Risk assessment involves

performing comprehensive reviews and analyses of program operations to determine if internal and external risks exist and to evaluate the nature and extent of risks identified. Approaches to risk analysis can vary across organizations because of differences in missions and the methodologies used to qualitatively and quantitatively assign risk levels. Monitoring activities include the systemic process of reviewing the effectiveness of the operation of the internal control system. These activities are conducted by management, oversight entities, and internal and external auditors. Monitoring enables stakeholders to determine whether the internal control system continues to operate effectively over time. It also improves the organization's overall effectiveness and efficiency by providing timely evidence of changes that have occurred, or might need to occur, in the way the internal control system addresses evolving or changing risks. Monitoring also provides information and feedback to the risk assessment process.

In California, the Office of State Audits and Evaluations (OSAE) has primary responsibility for reviewing whether state agencies receiving Recovery Act funds have established adequate systems of internal control to maintain accountability over those funds. According to state officials, OSAE is using two primary approaches to assessing internal controls at agencies receiving Recovery Act funds— Financial Integrity and State Manager's Accountability Act of 1983 (FISMA) reviews (an existing internal control assessment tool) and readiness reviews (a new internal control assessment tool).[89] Both the FISMA reviews and the readiness reviews rely primarily on information that is self-certified by agency officials. FISMA requires each state agency to maintain effective systems of internal accounting and administrative control, to evaluate the effectiveness of these controls on an ongoing basis, and to biennially review and prepare a report on the adequacy of the agency's systems of internal accounting and administrative control.

The state of Colorado enacted the State Department Financial Responsibility and Accountability Act in 1988, which which requires each principal department of the state's executive department to institute and maintain systems of internal accounting and administrative control— including an effective process of internal review and for making adjustments for changing conditions.[90] The act also requires the head of

[89]West's Ann. Cal. Gov't Code Sec. 13400 et seq.

[90]Colo. Rev. Stat. § 24-17-102 (2008).

each principal department to annually state in writing whether the department's systems of internal accounting and control either do or do not fully comply with the act's requirements.[91] While the Controller's office ensures that these statements are filed every year, historically, the Controller has not had the resources to ensure that proper internal controls are in place. The Controller's office is developing an internal control toolkit that will provide state departments with information on internal control systems and checklists to formalize and improve their existing processes and identify potential weaknesses. In addition, the Controller's office is in the process of filling its internal auditor position, which has been vacant for over 2 years. According to the Controller, the auditor will work with state departments to promote and monitor internal controls, as well as monitor proper tracking and reporting of Recovery Act funds.

Florida law also places the responsibility for internal controls on state agencies. A Florida statute requires the agencies to establish and maintain management systems and controls that promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of assets.[92] However, while Florida law requires state agencies to have such internal controls, the state oversight agencies are preparing for the infusion of Recovery Act funds into the state. Annually, the Florida Department of Financial Services' obtains representation letters from agency heads stating that they are responsible for establishing and maintaining effective controls over financial reporting and preventing and detecting fraud for all funds administered by their agency. Department of Financial Services' officials stated that, this year, they will ask the agency heads to also to sign a separate representation letter for Recovery Act funds that says internal controls are in place for Recovery Act funds and that these funds will be tracked separately from other funds.

New York State also enacted into law internal control requirements. The law requires, among other things, that each agency establish and maintain a system of internal controls and a review program, designate an internal control officer, and periodically evaluate the need for an internal audit function in each agency.[93] In addition, to fulfill the requirements of the

[91]Colo. Rev. Stat. § 24-17-103 (2008).

[92]Fla. Stat. § 215.86.

[93]N.Y. Exec. § 950–953.

New York State Government Accountability, Audit and Internal Control Act (New York Internal Control Act), the Office of the State Comptroller is responsible for developing the Standards for Internal Control in New York State Government.[94] The Internal Control Act requires that the State Division of the Budget (DOB) periodically (1) issue a list of agencies covered by the act, and (2) issue a list of agencies required to have an internal audit function. Beyond these two statutory requirements, DOB has also taken administrative steps to facilitate and support the goals of the Internal Control Act through the issuance of additional guidance and the annual internal control certification requirement. Based on DOB's *Governmental Internal Control and Internal Audit Requirements* manual,[95] the system of internal control should be developed using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) conceptual framework and should incorporate COSO's five basic components of internal control.[96]

North Carolina has enacted the State Governmental Accountability and Internal Control Act, requiring the Office of the State Controller to establish statewide internal control standards.[97] The Office of the State Controller is implementing a statewide internal control program called EAGLE (Enhancing Accountability in Government through Leadership and Education). The purpose was not only to establish adequate internal control, but also to increase fiscal accountability within state government. North Carolina is using a phased approached to implement the EAGLE program. In Phase I, state agencies and state universities are required to perform an annual assessment of internal control over financial reporting. This risk assessment is seen as a benefit to the agencies as it identifies risks and compensating controls that reduce the possibility of material misstatements of financial reports and misappropriation of assets, as well as opportunities to increase efficiency and control effectiveness in business processes and operations. In January 2008, the State Controller requested each agency to appoint an Internal Control Officer to lead the agency's risk assessment team and monitor the agency's compliance with

[94]Standards for Internal Control in New York State Government, revised October 2007.

[95]Budget Policy and Reporting Manual, Governmental Internal Control and Internal Audit Requirements, B-350.

[96]The five basic components of internal controls are control environment, risk assessment, control activities, information and communication, and monitoring.

[97]N.C.G. St. Ann. ch. 143D.

EAGLE requirements. Phase II of the program will be "efficiency of operations" and Phase III will be "compliance with laws and regulations."

In accordance with Mississippi's statutory requirement to maintain continuous internal audit over the activities of each state agency, Mississippi has implemented a program of internal control.[98] First, Mississippi has required each state agency to certify in writing that it has conducted an evaluation of internal controls and that the findings of the evaluation provide reasonable assurance that the assets of the agency have been preserved, duties have been segregated by function, and transactions are executed in accordance with laws of the state of Mississippi. As part of maintaining appropriate controls, the Department of Finance and Administration directed all state agency executive and finance directors to

- conduct a comprehensive review of their agency's internal control structure to determine if it is functioning properly and in accordance with the agency's internal control plan;
- determine whether the internal control structure has been updated to address operational or procedural changes made during the period under review to processes, program areas, or functions;
- identify internal control weaknesses;
- initiate actions to ensure that control weaknesses discovered during the period under review, and in prior periods, have been adequately addressed; and
- give immediate attention to all internal control related findings and recommendations reported by auditors during the year.

Second, in addition to the certification required of all state agencies, the Department of Finance and Administration is requiring another certification of agencies receiving Recovery Act funds. Agencies must certify that they accept responsibility for spending the funds as responsibly and effectively as possible while maintaining the appropriate controls and reporting mechanisms to ensure accountability and transparency in compliance with the Recovery Act. The certifications also include an agency's guarantee that program risks are, or will be, identified

[98]Miss. Code Ann. sec. 7-7-3(6).

and that the agency has, or will, implement internal controls sufficient to mitigate the risk of waste, fraud, and abuse. Finally, the Department of Finance and Administration established an internal control unit that is reviewing agency letters of certification and expects to weigh all agencies internal control assessments, as well as the findings and corrective action plans noted by the State Auditor in the 2007 and 2008 Mississippi Single Audit Report, to decide which agencies receiving Recovery Act funds should initially be the focus of the unit's monitoring activities.

Although not based on a statutory requirement, Georgia is taking steps to monitor and safeguard Recovery Act funds at the state and program level. Georgia has established a Recovery Act Accountability and Transparency Support Team comprising representatives from the Office of Planning and Budget, State Accounting Office, and Department of Administrative Services (the department responsible for procurement). In May 2009, the Georgia Office of Planning and Budget issued a risk management handbook to all state agencies. Its purpose is to provide a process that allows agencies to identify potential Recovery Act risk areas and develop risk mitigation strategies for each individual funding source. The State Accounting Office developed the agency self-assessment questionnaire that accompanied the risk management handbook. This survey included questions about compiling Recovery Act data for reporting purposes, the specific contracting requirements in the Recovery Act that are not current agency practices, and agency internal controls. The State Accounting Office plans to use the results to target its audit efforts.

Ohio has made strides in refining its internal control process to accommodate the Recovery Act funds. The state Office of Budget and Management issued guidance on risk assessment in March 2009 highlighting the significance of risk mitigation strategies that all state agencies should have in place to ensure management controls are operating effectively to identify and prevent wasteful spending and minimize waste, fraud, and abuse. The new Office of Internal Audit is working with state agencies to develop and evaluate these risk assessments. Based on these agency risk assessments, the Office of Internal Audit is developing an oversight strategy that it will present to the Audit Committee on June 30, 2009.

Although the District of Columbia (District) government and agencies have internal controls, the controls are not consolidated into a citywide internal control program, and past reports have identified numerous weaknesses in the District's internal controls. The District's Office of Inspector General (OIG) has issued reports that identified weaknesses in

the District's internal controls and made several recommendations to improve internal controls. One report recommends that the Chief Financial Officer (CFO), in conjunction with the City Administrator, issue citywide guidance requiring managers to establish, assess, correct, and report on internal controls and that these requirements should be reflected in personnel performance plans.[99] In addition, the fiscal year 2007 Single Audit report for the District of Columbia identified 89 material weaknesses in internal controls over both financial reporting and compliance with requirements applicable to major federal programs. The Single Audit report identified material weaknesses in compliance with requirements applicable to major federal programs, including Medicaid's FMAP, ESEA Title I Education grants, and Workforce Investment Act programs, all of which are receiving Recovery Act funds. The findings were significant enough to result in a qualified opinion for that section of the report. In September 2008, the Office of the Chief Financial Officer (OCFO) contracted with an independent accounting firm to identify areas with internal control problems and deficiencies in the office. The review may help direct OCFO in developing an internal control program. The assessments will not be available until the end of 2009. When the firm has completed its OCFO assessment, it will expand its review to District agencies.

Challenges Exist in Tracking Recovery Act Funds

States and localities receiving Recovery Act funds directly from federal agencies are responsible for tracking and reporting on those Recovery Act funds.[100] An effective internal control program is critical to preparing reliable financial statements and other financial reports. OMB has issued guidance to the states and localities that provides for separate identification "tagging" of Recovery Act funds, so that specific reports can be created and transactions can be specifically identified as Recovery Act funds.[101] The flow of federal funds to the states varies by programs. As we have previously reported, the grant programs generally have different objectives and strategies that are reflected in their application, selection, monitoring, and reporting processes. Multiple federal entities are involved

[99]District of Columbia, *Audit of the Department of Parks and Recreation's Oversight of Capital Projects*, OIG No. 06-1-08HA (May 2008).

[100]Recovery Act, div. A, title XV, § 1512.

[101]OMB memoranda, M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Feb. 18, 2009); and M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Apr. 3, 2009).

in grants administration; the grantor agencies have varied grants management processes; the grantee groups are diverse; and grants themselves vary substantially in their types, purposes, and administrative requirements.[102] The federal grant system is highly fragmented.[103]

Several states and the District of Columbia have created unique codes for their financial systems in order to tag the Recovery Act funds. District of Columbia's Office of Finance and Treasury (OFT) has established a bank account exclusively for depositing Recovery Act funds. Most states plan to use their current financial system to track and report on Recovery Act funds, but various challenges exist. For instance, since the state of Arizona is decentralized, the recording and tracking responsibility lies with the state agencies that have different accounting systems. The state agencies will need to periodically transfer accounting data from the agencies' systems to the state's system. Georgia is segregating funds through a set of Recovery Act fund sources in the state's financial accounting system. Georgia's State Accounting Office issued guidance on Recovery Act accounting that states those state agencies such as the Georgia Department of Labor that do not use the state's financial accounting system must ensure that the data are maintained in accordance with all Recovery Act financial reporting requirements.

California's Recovery Task Force (Task Force), which has overarching responsibility for ensuring that California's Recovery Act funds are spent efficiently and effectively, intends to use its existing internal control and oversight structure, with some enhancements, to maintain accountability for Recovery Act funds. State agencies, housing agencies, and other local Recovery Act funding recipients we interviewed all told us that using separate accounting codes within their existing accounting systems will enable them to effectively track Recovery Act funds. However, officials told us that accumulating this information at the statewide level will be difficult using existing mechanisms. The state, which is currently relying on lengthy manually updated spreadsheets, is awaiting additional federal OMB guidance to design and implement a new system to effectively track and report statewide Recovery Act funds. Most state and local program officials told us they will apply existing controls and oversight processes

[102]GAO, *Grants Management: Additional Actions Needed to Streamline and Simplify Process*, GAO-05-335 (Washington, D.C.: Apr. 18, 2005).

[103]GAO, *Federal Assistance: Grant System Continues to Be Highly Fragmented*, GAO-03-718T (Washington, D.C.: Apr. 29, 2003).

that they currently apply to other program funds to oversee Recovery Act funds.

Officials from the Texas State Comptroller's Office repeated their concern in May 2009 that the federal government was not identifying Recovery Act funds separately from other federal funds disbursed to the state. Absent this identification, the Comptroller relies on state agencies to distinguish between the two types of federal funds. Texas officials cited federal fund transfers to the Texas Workforce Commission and the Texas Health and Human Services Commission as examples of this fund identification problem. Absent separate coding from the U.S. Department of the Treasury, the Texas officials said the state relies on the state agencies to inform the State Comptroller's office on what portion of federal funds are Recovery Act funds. The Texas officials commented that it would be helpful if the federal government put in place the coding structure to identify Recovery Act funds separately from other federal funds—as they believe the Recovery Act requires—before Recovery Act funds are disbursed to Texas. State agency officials told us they do not share the Comptroller's concern because they are able to distinguish between their normal federal funds and Recovery Act funds when initiating fund transfers.

The District of Columbia has also experienced a challenge. District of Columbia's Office of Finance and Treasury (OFT) has established a bank account exclusively for depositing Recovery Act funds. Agencies are notified by OFT when Recovery Act funds are received in the bank account. All Recovery Act revenue received will be tracked by OFT in a separate database. When Recovery Act funds are ready to be distributed from federal agencies to District agencies, Recovery Act grant funding notifications are sent directly to the District agencies. When an agency receives a grant funding notification, it is the agency's responsibility to report the receipt to the Office of Budget and Planning (OBP). OBP provides weekly reports of grant funding notifications that are reconciled by the agencies. OBP stated there is a disparity of grant information caused by the process and is working on a solution.

Mississippi is undergoing changes to most of the state's central accounting and reporting systems. The Department of Finance and Administration (DFA) is making changes to the Statewide Automated Accounting System (SAAS), which tracks purchasing, accounts payables, revenues, and accounts receivable and includes Mississippi's general ledger. The use of reporting categories does not allow DFA to currently tie individual obligations or expenditures to the contract for which they were incurred.

However, DFA is in the process of making modifications to the state central accounting system that will allow the system to do so. Once completed, these changes will provide greater transparency of Recovery Act fund usage. For example, the changes will allow the public to view online Recovery Act contracts and expenditures for specific contracts. In addition, the changes will add further system controls, such as the ability to deny the obligation of funds until state agencies have posted the contract that supports the obligation.

Single Audit Guidance and Reporting Does Not Adequately Address Recovery Act Risks

In addition to being an important accountability mechanism, the results of audits can provide valuable information for management's risk assessment and monitoring processes. The Single Audit report, prepared to meet the requirements of the Single Audit Act,[104] as amended (Single Audit Act), is a source of information on internal control and compliance findings and the underlying causes and risks. The report is prepared in accordance with OMB's implementing guidance in OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*,[105] which provides guidance to auditors on selecting federal programs for audit and the related internal control and compliance audit procedures to be performed. A Single Audit report includes the auditor's schedule of findings and questioned costs, internal control and compliance deficiencies, and the auditee's corrective action plans and a summary of prior audit findings that includes planned and completed corrective actions. The Single Audit Act requires that a nonfederal entity subject to the act transmit its reporting package to a federal clearinghouse designated by OMB 9 months after the end of the period audited.

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

[105]The auditor identifies the applicable federal programs, including "major programs," based on risk criteria, including minimum dollar thresholds, set out in the Single Audit Act and OMB Circular No. A-133. Guidance on identifying compliance requirements for most large federal programs is set out in the Compliance Supplement to OMB Circular No. A-133. OMB has 14 requirements that generally are to be tested for each major federal program to opine on compliance and report on significant deficiencies in internal control over compliance with each applicable compliance requirement.

In our April 2009 report, we reported that the guidance and criteria in OMB Circular No. A-133 do not adequately address the substantial added risks posed by the new Recovery Act funding. Such risks may result from (1) new government programs, (2) the sudden increase in funds or programs that are new to the recipient entity, and (3) the expectation that some programs and projects will be delivered faster so as to inject funds into the economy. With some adjustment, the Single Audit could be an effective oversight tool for Recovery Act programs, addressing risks associated with all three of these factors.

Our April report included recommendations that OMB adjust the current audit process to

- focus the risk assessment auditors use to select programs to test for compliance with 2009 federal program requirements on Recovery Act funding;
- provide for review of the design of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010; and
- evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.

Since April, OMB has taken several steps in response to our recommendations. However, those actions do not sufficiently address the risks leading to our recommendations. In OMB's view, it is limited in its options to address our concerns due to specific requirements set forth in the Single Audit Act. The Single Audit Act charges OMB with, among other things, prescribing the risk-based criteria auditors use to select federal programs to include for Single Audit compliance and internal controls testing. To focus auditor risk assessments on Recovery Act-funded programs and to provide guidance on internal control reviews for Recovery Act programs, OMB is working within the framework defined by existing mechanisms—Circular No. A-133 and the Compliance Supplement. In this context, OMB has made limited adjustments to its Single Audit guidance and is planning to issue additional guidance. Following is the status of OMB's actions related to our April recommendations.

Focusing Auditors' Program Risk Assessments on Programs with Recovery Act Funding

In our April report, we recommended that OMB focus the risk assessment auditors use to select programs to test for compliance with 2009 federal program requirements on Recovery Act funding. On May 26, OMB made available the 2009 edition of the Circular A-133 Compliance Supplement. The new Compliance Supplement includes the following, which is intended to focus auditor risk assessment on Recovery Act funding:

- A requirement that auditors specifically ask auditees about and be alert to expenditure of funds provided by the Recovery Act.
- An appendix that highlights some areas of the Recovery Act impacting single audits. The appendix adds a requirement that large programs and program clusters with Recovery Act funding cannot be assessed as low risk for the purposes of program selection without clear documentation of the reasons that the expenditures of Recovery Act awards are low risk for the program. The appendix also states that recipients are to separately identify expenditures for Recovery Act programs on the Schedule of Expenditures of Federal Awards. It also notes that compliance requirements unique to Recovery Act-funded programs are not included in the Compliance Supplement and advises auditors to review award documents, check the OMB Web site for addenda to the supplement, and use the existing Compliance Supplement framework as guidance to identify material Recovery Act compliance requirements.

OMB has not yet identified program groupings critical to auditors' selection of programs to be audited for compliance with program requirements. As we reported in April 2009, the current approach prescribed by OMB Circular No. A-133 relies heavily on the amount of federal expenditures in a program during a fiscal year and whether findings were reported in the previous period to determine whether detailed compliance testing is required for that year. In some cases, OMB requires that auditors group closely related programs that share common compliance requirements and consider them as one program when selecting programs for testing. OMB specifically identifies these groups of programs, called "clusters," in the Compliance Supplement. OMB has noted that many of the Recovery Act awards will share common compliance requirements with existing programs and that the Compliance Supplement cluster list will be updated to include Recovery Act programs. OMB is currently considering ways to cluster programs for Single Audit selection in ways that would make it more likely that Recovery Act programs would be selected and, therefore, be subjected to internal control and compliance testing, but the dollar formulas would not change under this plan. This approach may not provide sufficient assurance that

smaller, but nonetheless significant, Recovery Act-funded programs would be selected for audit. OMB plans to issue the new cluster information by mid-July 2009.

In addition, the 2009 Compliance Supplement to OMB's Circular No. A-133 does not yet provide specific auditor guidance for new programs funded by the Recovery Act or for new compliance requirements specific to Recovery Act funding within existing programs, that may be selected as major programs for audit. For instance, there is currently no program-specific audit guidance included in the Compliance Supplement on the new State Fiscal Stabilization Fund programs, significant programs administered by the Department of Education to support education and other government services, with federal funds already flowing to the states. OMB acknowledges that additional guidance is called for and is in the process of drafting such guidance. OMB plans to issue an addendum to the Compliance Supplement that would address some Recovery Act-related compliance requirements by mid-July 2009.

Early Review of the Design of Internal Controls over Recovery Act-Funded Programs before Significant Expenditures in 2010

In our April 2009 report, we recommended that OMB adjust the current Single Audit process to provide for review of the design of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010.

To provide additional focus on internal control reviews, OMB has drafted guidance that indicates the importance of such reviews and encourages auditors to communicate weaknesses to management early in the audit process but does not add requirements for auditors to take these steps. Because OMB is choosing to address this recommendation through the existing audit framework, it has not changed the reporting time frames and therefore does not address our concern that internal controls over Recovery Act programs should be reviewed before significant funding is expended. OMB plans to finalize and issue the guidance by mid-July 2009. In addition, the guidance to be provided by OMB will be limited to those programs selected by the auditor as "major programs" under the current approach for selecting programs for audit, which may not adequately consider Recovery Act program risks. Finally, if this internal control work is done within the current Single Audit framework and reporting timelines, the auditor evaluation of internal control and related reporting will occur too late—after significant levels of federal expenditures have already occurred.

Providing Relief Related to Low-Risk Programs to Balance Expected Increased Workload

In our April 2009 report, we recommended that the Director of OMB evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act. While OMB has noted the increased responsibilities falling on those responsible for performing Single Audits, to date it has not issued any proposals and does not have plans to address this recommendation.

A recent survey conducted by the staff of the National State Auditors Association (NSAA)[106] highlighted the need for relief to overburdened state audit organizations. Survey participants were asked whether they were experiencing cuts in staffing and to comment on the effects of these cuts on their ability to perform effective audits. Thirty-two state audit organizations that indicated in an earlier survey that their responsibilities included Single Audit had responded to the survey as of June 24. Of the 32 respondents, 17 indicated that staff had been cut by 5 percent or more. Eight respondents are anticipating that staff will be required to take unpaid leave in fiscal year 2010.

OMB officials told us they are considering reducing auditor workload by decreasing the number of risk assessments of smaller federal programs. Auditors conduct these risk assessments as part of the planning process to identify which federal programs will be subject to detailed internal control and compliance testing. GAO believes that this step in itself will not provide sufficient relief to balance the additional audit requirements for Recovery Act programs.

OMB officials have expressed reluctance to revise OMB Circular No. A-133 or to propose revisions to the Single Audit Act to provide auditor relief or to provide additional flexibility to allow auditors to have more control over the selection of programs tested for internal control and compliance. They stated that to do so would take considerable time and could not be accomplished in time to have adequate coverage of Recovery Act funds. In addition, federal inspectors general have expressed concern about reducing audit coverage of existing programs. However, without action now, audit coverage of Recovery Act programs will not be sufficient to address Recovery Act risks, and the audit reporting that does occur will be after significant Recovery Act funds have already been expended.

[106]NSAA's mission is to unite state auditors by encouraging and providing opportunities for the free exchange of information and ideas between auditors on the state, federal, and local levels.

Congress is currently considering a bill, H.R. 2182, that could provide some financial relief to auditors lacking the staff capacity necessary to handle the increased audit responsibilities associated with the Recovery Act.[107] H.R. 2182 would amend the Recovery Act to provide for enhanced state and local oversight of activities conducted pursuant to the Recovery Act. As passed by the House, H.R. 2182 would allow state and local governments to set aside 0.5 percent of Recovery Act funds, in addition to funds already allocated to administrative expenditures, to conduct planning and oversight to prevent and detect waste, fraud, and abuse.

Single Audit Reporting Will Not Facilitate Timely Reporting of Recovery Program Findings and Risks

The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies noted in Recovery Act programs. The Single Audit Act requires that recipients submit their Single Audit reports to the federal government no later than 9 months after the end of the period being audited.[108] As a result an audited entity may not receive feedback needed to correct an identified internal control or compliance weakness until the latter part of the subsequent fiscal year. For example, states that have a fiscal year end of June 30 have a reporting deadline of March 31, which leaves program management only 3 months to take corrective action on any audit findings before the end of the subsequent fiscal year. For Recovery Act programs, significant expenditure of funds could occur during the period prior to the audit report being issued.

The timing problem is exacerbated by the extensions to the 9-month deadline that are routinely granted by the awarding agencies, consistent with OMB guidance. For example, 13 of the 17 states in our review have a June 30 fiscal year end. We found that 7 of these 13 states requested and received extensions for their March 31, 2009, submission requirement of

[107]H.R. 2182, 11th Cong. (2009). H.R. 2182 passed in the House of Representatives on May 19, 2009, but, as of June 29, 2009, had not passed the Senate.

[108]Single Audit Act Section 7502(b)(2). The guidance provides that under certain conditions, Single Audit auditees may be audited biennially instead of annually. For entities that are audited biennially, it is longer before internal control and compliance weaknesses are identified and remediate.

their fiscal year 2008 reporting package.[109] Three of the requests for extensions were from auditors, and the remaining requests were from the audited entities. Table 19 below lists the seven states, the extension date requested, and the reason for the extension.

Table 19: Single Audit Extensions for June 30, 2008, Fiscal Year End

State	Extension date requested	Total number of months between year-end and audit reporting	Extension reason per Health and Human Services Inspector General
Arizona	June 30, 2009	12	Delay in completion of Comprehensive Annual Financial Report (CAFR).
California	June 30, 2009	12	The state has not yet completed its GAAP-basis financial statements and does not anticipate completing them in time for the auditor to finish the audit work by the reporting deadline.
Illinois	June 30, 2009	12	(1) The status of completing the audit process, (2) the first year of several parties participating electronically in filing the reporting package with the Federal Audit Clearinghouse, and (3) the state is not anticipating the release of its fiscal year 2008 CAFR until March 31, 2009, which is the Single Audit report due date.
Mississippi	April 30, 2009	10	(1) Dealing with the current economic recovery emphasis which is requiring additional work on management of the various agencies included in the Single Audit report and (2) allowing the needed time for agencies to respond to audit findings as well as the Summary Schedule of Prior Audit Findings.
New Jersey	August 31, 2009	14	The extension is needed because of a delay experienced in processing the necessary contract extension with the audit firm.
Ohio	December 31, 2009	18	The programming required for creation of the CAFR financial statements and the late issuance of agencies and component units separately issued reports has delayed the state's fiscal year 2008 financial statements preparation.
Pennsylvania	June 30, 2009	12	(1) Delay in the issuance of the commonwealth's CAFR, (2) implementation of several new auditing standards and (3) changes in audit documentation and additional testing of systems changes in various federal programs.

Source: GAO analysis of Health and Human Services information.

The Health and Human Services Office of Inspector General (HHS OIG) is the cognizant agency for most of the states, including all of the states

[109]Department of Health and Human Services is the cognizant agency for the 16 states and District of Columbia that are included in our review. According to OMB Circular No. A-133 §.400(a)(2), if an entity needs an extension for submission of their Single Audit report, the cognizant agency must consider auditee requests for extension to the report submission due date.

selected for our review under the Recovery Act. According to an HHS OIG official, states contact HHS requesting and providing a reason for an extension of their report submission; the HHS IG has had a practice of routinely granting the requested extensions. The HHS OIG noted that the IG has no means to enforce compliance with the reporting time frames. The program office of the federal agency issuing the federal awards, not the cognizant IG, has the authority at the federal level to impose sanctions when the state or local government has not complied with the audit requirement.[110] According to an HHS OIG official, beginning in May 2009, the HHS IG adopted a policy of no longer approving requests for extensions of the due dates for Single Audit reporting package submissions. OMB officials have stated they plan to eliminate allowing extensions of the reporting package but have not issued any official guidance or memorandums to the agencies, OIGs, or federal award recipients.

In order to realize the Single Audit's full potential as an effective Recovery Act oversight tool, OMB needs to take additional action to focus auditors' efforts on areas that can provide the most efficient, and most timely, results. OMB has taken some first steps, and has plans to issue additional guidance. As federal funding of Recovery Act programs accelerates in the next few months, we are particularly concerned that the Single Audit process may not provide the timely accountability and focus needed to assist recipients in making necessary adjustments to internal controls, so that they achieve sufficient strength and capacity to provide assurances that the money is being spent as effectively as possible to meet program objectives.

Legislative changes may be necessary to make certain changes to the Single Audit requirements to address the new risks brought on by Recovery Act funding if OMB concludes that it is unable to take the necessary steps under the current framework to adequately address accountability for the Recovery Act programs and related risks and to provide for more timely reporting, especially in the area of internal controls. Given that the scope of Single Audit workloads will increase, consideration should be given to determining what funds can be used to support Single Audit efforts related to Recovery Act programs, including

[110]OMB Circular No. A-133 provides that federal agencies can use sanctions, including withholding a percentage of federal awards until the audit is completed satisfactorily, withholding or disallowing federal costs, suspending federal awards until an audit is conducted, or terminating the federal award.

whether legislative changes are needed to specifically direct resources to cover incremental audit costs related to Recovery Act programs.

Efforts to Assess Impact of Recovery Act Spending

Under the Recovery Act, direct recipients of Recovery Act funds, including states and localities, are expected to report quarterly on a number of measures, including the use of funds and an estimate of the number of jobs created and the number of jobs retained. The jobs created and jobs retained are part of the "recipient reports" required under section 1512(c) of the Recovery Act and will be submitted by recipients starting in October 2009. In addition to this statutory requirement to report on jobs, the Office of Management and Budget (OMB) has directed federal agencies to collect other performance information from entities that receive funding. To the extent possible, OMB's guidance also requires agencies to instruct recipients to collect and report performance information that is consistent with the agency's program performance measures.[111] This is intended to allow an assessment of what OMB describes as the marginal performance impact of Recovery Act requirements.

In general, states are adapting information systems, issuing guidance, and beginning to collect data on jobs created and jobs retained, but questions remain about how to count jobs and measure performance under Recovery Act-funded programs. For example, many state education officials told us it has been difficult to plan how they will report the impact of Recovery Act funding until they receive further guidance from OMB or the Department of Education. Education is planning to supplement the guidance OMB provided to help state agencies report the proper data. In particular, Education officials noted that draft OMB guidance on recipient reporting would require some additional Education guidance to clarify issues for recipients of formula grants, such as the IDEA grants. OMB's latest guidance on recipient reporting addresses some of these concerns.

[111]OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Apr. 3, 2009). This guidance supplements, amends, and clarifies the initial guidance issued by OMB on February 18, 2009.

OMB's June 22, 2009, Guidance Provides More Detail on the Recipient Reporting Process, Clarifies Some Requirements, and Establishes a Central Reporting Framework

In response to requests for more guidance on the recipient reporting process and required data, OMB, after soliciting responses from an array of stakeholders, issued additional implementing guidance for recipient reporting on June 22, 2009.[112] As discussed in our April 2009 report and echoed in this report, state and local officials had questions and concerns about the recipient reporting requirements contained in the Recovery Act. For example, officials had expressed some confusion about how to count less than full-time jobs and indirect jobs. Over the last several months OMB met regularly with state and local officials, federal agencies, and others to gather input on the reporting requirements and implementation guidance. OMB also worked with the Recovery Accountability and Transparency Board to design a nationwide data collection system that will reduce information reporting burdens on recipients by simplifying reporting instructions and providing a user-friendly mechanism for submitting required data; OMB will be testing this system in July. This latest guidance attempts to address these concerns through additional details and clarification of previous guidance.

Guidance on Job Creation and Job Retention

In its June 22 guidance, OMB endeavors to (1) dispel some of the confusion related to reporting on jobs created and retained versus the macroeconomic impact of the Recovery Act, (2) clarify which recipients of Recovery Act funds are required to report under the act, and (3) provide additional detail on how to calculate jobs created and retained. The new guidance articulates once again that under the Recovery Act, there are two distinct types of job reports. First, the Council of Economic Advisers (CEA), in consultation with OMB and the Department of the Treasury, is required to submit quarterly reports to Congress that detail the impact of programs funded through the Recovery Act on employment, economic growth, and other key economic indicators. In order to fulfill this mandate, CEA has developed macroeconomic methodologies to estimate employment effects for both the national and state levels. These macro-level employment estimates will attempt to capture the full employment impact of the Recovery Act. OMB and federal agencies will coordinate with CEA on these quarterly reports and other questions regarding macro-level jobs estimates.

The second type of job report is part of the "recipient reports" required under section 1512 of the Recovery Act. Specifically, section 1512(c)(3)(D)

[112]See, OMB memoranda, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

requires recipients of Recovery Act funds to report an estimate of the direct jobs created or retained by the Recovery Act project or activity. These reporting requirements apply only to nonfederal recipients of funding, including all entities receiving Recovery Act funds directly from the federal government such as state and local governments, private companies, educational institutions, nonprofits, and other private organizations. However, the recipient reporting requirement only covers a defined subset of the Recovery Act's funding. OMB's guidance, consistent with the statutory language in the Recovery Act, states that these reporting requirements apply to recipients who receive funding through discretionary appropriations, not recipients receiving funds through entitlement programs, such as Medicaid, or tax programs. Recipient reporting also does not apply to individuals.[113] These reports are to provide information on direct job creation and retention, and OMB expects they will be useful in the overall estimation and evaluation of the employment effects of the Recovery Act, such as the employment reporting undertaken by CEA.

The OMB guidance also clarifies that recipients of Recovery Act funds are required to report only on jobs directly created or retained by Recovery Act-funded projects, activities, and contracts. Recipients are not expected to report on the employment impact on materials suppliers ("indirect" jobs) or on the local community ("induced" jobs). According to OMB, recipients are to report only direct jobs because they may not have sufficient insight or consistent methodologies for reporting indirect or induced jobs. OMB notes this broader view of the overall employment impact of the Recovery Act will be covered in the estimates generated by CEA using a macro-economic approach. According to CEA, it will consider the direct jobs created and retained reported by recipients to supplement its analysis.[114]

The new OMB guidance also provides additional instruction on how to estimate the number of jobs created and retained by Recovery Act funding. The guidance explains that the number of jobs created or retained should be expressed as "full-time equivalents" (FTE), which is calculated as total hours worked in jobs funded by the Recovery Act divided by the number of hours in a full-time schedule, as defined by the recipient. This

[113]Recovery Act, div. A, title XV, § 1512(b)(1)(A).

[114]Executive Office of the President, Council of Economic Advisers, *Estimates of Job Creation From the American Recovery and Reinvestment Act of 2009* (May 2009).

calculation is designed to increase consistency in reported data by converting part-time and temporary jobs into FTE-jobs. By doing so, it seeks to avoid overstating the number of jobs that could occur through other methods or reporting of part-time, partial-time, or nonpermanent jobs.

The new guidance restates from earlier guidance the definitions of jobs created and jobs retained. According to OMB guidance, a job created is a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act; a job retained is an existing position that would have been eliminated were it not for Recovery Act funding. A job cannot be counted as both created and retained, and only compensated employment in the United States should be counted.

OMB's guidance for reporting on job creation aims to shed light on the immediate uses of Recovery Act funding; however, reports from recipients of Recovery Act funds must be interpreted with care. For example, accurate, consistent reports will only reflect a portion of the likely impact of the Recovery Act on national employment, since Recovery Act resources are also made available directly through tax cuts and benefit payments.

Recipient Data Reporting Model

Some of the questions and concerns raised by state and local officials about the recipient reporting requirements centered on the reporting logistics and information technology requirements. For example, California and District of Columbia officials said they were awaiting final guidance on the data standards before finalizing their reporting approaches. Officials from several states said they modified, or are assessing whether they can modify, existing reporting systems for Recovery Act reporting. The new OMB guidance should answer many of these questions as it describes in detail the reporting model to be used for recipient reporting. The information reported by all prime recipients (and subrecipients to which the prime recipient has delegated reporting responsibility)[115] will be submitted through www.federalreporting.gov, an online Web portal designed to collect all Recovery Act recipient reports. All recipient reports will be made available on www.recovery.gov and, as appropriate, on individual federal agency recovery Web sites.

[115]Subrecipients are nonfederal entities awarded Recovery Act funding through a legal instrument from the prime recipient to support the performance of any portion of the substantive project or program for which the prime recipient received the Recovery Act funding.

The guidance also provides documentation of the data model for recipient reporting that includes a reporting template, a data dictionary, and an Extensible Markup Language (XML) schema for electronic data submissions.[116] The reporting template is a simple spreadsheet table that enables manual data entry and collection of recipient reporting information in a familiar spreadsheet format. The data dictionary describes the data elements specifically required for recipient reporting under the Recovery Act.

Our initial assessment of the technical specifications and framework of the recipient reporting model suggests that this is a reasonable approach. The pilot testing scheduled for July will provide additional information about potential technical and reporting challenges. It is likely that there will be challenges associated with data quality, including timeliness and completeness of submissions as well as the technical ability of some recipients to develop solutions (including processes and procedures) for capturing, tracking, and submitting the required data on a consistent basis. We will continue to monitor and assess OMB's recipient reporting model and July pilot test.

OMB Requires Agencies to Measure Program Performance beyond Jobs Created and Retained

OMB guidance described recipient reporting requirements under the Recovery Act's section 1512 as the minimum that must be collected, leaving it to federal agencies to determine additional information that would be required for oversight of individual programs. OMB has instructed federal agencies to develop formal documented plans for how Recovery Act funds will be used and managed that are consistent with sound program management principles.[117] According to the guidance, agencies must describe how they are coordinating broad Recovery Act efforts toward successful implementation and monitoring of performance and results in a comprehensive "agency plan." Officials from some states indicated they would use existing program indicators and, in some cases, build on these indicators to measure performance. Officials also expressed a desire for additional guidance from federal agencies on what performance measures to use.

[116]XML is a language to describe structured data.

[117]OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Apr. 3, 2009).

As instructed by OMB, each Recovery Act federal agency plan must describe the program's Recovery Act objectives and relationships with corresponding goals and objectives through ongoing agency programs and activities. OMB states that expected public benefits should demonstrate cost-effectiveness and be clearly stated in concise, clear, and plain language targeted to an audience with no in-depth knowledge of the program. Furthermore, OMB guidance states that, to the extent possible, Recovery Act goals should be expressed in the same terms as programs' goals in federal departmental strategic plans,[118] and agencies should instruct recipients to collect and report performance information to the extent possible as part of their quarterly submissions. The objective is to use existing measures to allow the public to see the marginal performance impact of Recovery Act investments. Some state program officials have said that they do plan to use existing program performance measures. For example, public housing agencies told us they regularly track the budget control, timeliness, and quality of work of projects they fund and that they plan to continue using these measures with Recovery Act-funded projects. Some other performance measures public housing agencies typically track include tenant satisfaction, occupancy rates, crime rates, and employment among residents.

Some states are issuing guidance and modifying their information systems to capture and report on jobs created and retained, but many state and local officials expressed concern about the lack of clear guidance on what other program or impact measures are required for evaluating the impact of Recovery Act funding. Some federal agencies have issued such additional guidance, but others have not. For example, the Department of Transportation (DOT) through the Federal Highway Administration (FHWA) has provided guidance specifying the data to be reported when complying with the requirements in section 1201(c) of division A of the Recovery Act, which stipulates, among other requirements, that each highway infrastructure grant recipient submit periodic reports on the use of the funds. For example, California state transportation officials said that contractors will be required to report on the number of workers and payroll amounts on a monthly basis to the California Department of Transportation. The state office will then provide the data to the FHWA California division office, which will provide it to FHWA headquarters. DOT said that grantees will not be expected to estimate employment data

[118]Such plans are required by the Government Performance and Results Act of 1993. 5 U.S.C. § 306.

other than the direct on-site jobs and noted that the reporting to FHWA is in addition to the recipient reporting to OMB. DOT economists in coordination with CEA plan to compute the number of indirect jobs and induced jobs using direct on-site job data provided by the state transportation departments.

OMB guidance also states that federal agencies must have a process in place for senior managers to regularly review the progress and performance of major programs. To achieve this objective, OMB has encouraged federal agencies to leverage their existing Senior Management Councils[119] to oversee Recovery Act performance. OMB states that the councils should review Recovery Act reporting and performance across each agency; establish and oversee development and implementation of agency guidance to identify and mitigate risk; and ensure the correction of weaknesses relating to the Recovery Act. According to OMB, the councils should analyze findings and results from quarterly or monthly performance reviews, coordinated by the agency's Performance Improvement Officer, to help determine the highest-risk program areas and ensure corrective actions are implemented.

OMB's Recipient Reporting Implementing Guidance Addresses Some Concerns, but Additional Instruction on Reporting May Be Needed

OMB's new guidance on the implementation of recipient reporting should be helpful in addressing answers to many of the questions and concerns raised by state and local program officials. However, a number of the issues were covered in previous guidance, and some concerns remain. For example, the counting of part-time employment was covered to some extent in previous guidance but continued to be mentioned by officials in some states. Overall, state and local officials were clearly aware of the requirements to report on jobs created and jobs retained, but questions persist on how to do this. For example, public housing agencies reported they have not received guidance from HUD on how to measure jobs created and retained or other performance measures. Most public housing agency officials told us they would like guidance on how to accomplish

[119]According to OMB guidance, rather than establishing a new council, agencies are encouraged to leverage their existing Senior Management Councils to oversee Recovery Act performance across the agency, including risk management. The Senior Management Council should be composed of the Chief Financial Officer, Senior Procurement Executive, Chief Human Capital Officer, Chief Information Officer, Performance Improvement Officer, and managers of programmatic offices. The agency's Senior Accountable Official should also participate and assume a leadership role. Agencies should also consider having their Office of General Counsel and Office of Inspector General serve in advisory roles on the Senior Management Council.

these objectives. Similarly, Education officials noted that draft OMB guidance on recipient reporting would require some additional Education guidance to clarify issues for recipients of formula grants, such as special education IDEA grants.

In sum, federal agencies may need to do a better job of communicating the OMB guidance in a timely manner to their state counterparts and, as appropriate, issue clarifying guidance on required performance measurement. In particular, while any additional guidance for recipients must be in accordance with OMB guidance, OMB could work with federal agencies to provide program-specific examples about how to count jobs created and jobs retained. This would be especially helpful for programs that have not previously tracked and reported such metrics, such as with public housing and special education grants. Other channels to educate state and local program officials on the reporting requirements could be considered, including Web- or telephone-based information sessions or other forums.

Concluding Observations and Recommendations

Since enactment of the Recovery Act[120] in February 2009, OMB has issued three sets of guidance—on February 18, April 3 and, most recently, June 22, 2009[121] —to announce spending and performance reporting requirements to assist prime recipients and subrecipients of federal Recovery Act funds to comply with these requirements. OMB has reached out to Congress, federal, state, and local government officials, grant and contract recipients, and the accountability community to get a broad perspective on what is needed to meet the high expectations set by Congress and the administration. Further, according to OMB's June guidance, OMB has worked with the Recovery Accountability and Transparency Board to deploy a nationwide data collection system at www.federalreporting.gov.

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

[121]OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Apr. 3, 2009). This guidance supplements, amends, and clarifies the initial guidance issued by OMB on February 18, 2009. OMB memorandum, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

As work proceeds on the implementation of the Recovery Act, OMB and the cognizant federal agencies have opportunities to build on the early efforts by continuing to address several important issues.

These issues can be placed broadly into three categories, which have been revised from our last report to better reflect evolving events since April: (1) accountability and transparency requirements, (2) reporting on impact, (3) communications and guidance.[122]

Accountability and Transparency Requirements

Recipients of Recovery Act funding face a number of implementation challenges in this area. The act includes new programs and significant increases in funds out of normal cycles and processes. There is an expectation that many programs and projects will be delivered faster so as to inject funds into the economy, and the administration has indicated its intent to assure transparency and accountability over the use of Recovery Act funds. Issues regarding the Single Audit process and administrative support and oversight are important.

Single Audit: The Single Audit process needs adjustments to provide appropriate risk-based focus and the necessary level of accountability over Recovery Act programs in a timely manner.

In our April 2009 report, we reported that the guidance and criteria in OMB Circular No. A-133 do not adequately address the substantial added risks posed by the new Recovery Act funding. Such risks may result from (1) new government programs, (2) the sudden increase in funds or programs that are new to the recipient entity, and (3) the expectation that some programs and projects will be delivered faster so as to inject funds into the economy. With some adjustment, the Single Audit could be an effective oversight tool for Recovery Act programs because it can address risks associated with all three of these factors.

April report recommendations: Our April report included recommendations that OMB adjust the current audit process to focus the risk assessment auditors use to select programs to test for compliance

[122]The three categories identified in GAO's April report are (1) accountability and transparency requirements, (2) administrative support and oversight, and (3) communications. For additional details, see GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009).

with 2009 federal program requirements on Recovery Act funding; provide for review of the design of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010; and evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.

Status of April report recommendations: OMB has taken some actions and has other planned actions to help focus the program selection risk assessment on Recovery Act programs and to provide guidance on auditors' reviews of internal controls for those programs. However, we remain concerned that OMB's planned actions would not achieve the level of accountability needed to effectively respond to Recovery Act risks and does not provide for timely reporting on internal controls for Recovery Act programs. Therefore, we are re-emphasizing our previous recommendations in this area.

To help auditors with single audit responsibilities meet the increased demands imposed on them by Recovery Act funding, we recommend that the Director of OMB take the following four actions:

- Develop requirements for reporting on internal controls during 2009 before significant Recovery Act expenditures occur as well as ongoing reporting after the initial report.
- Provide more focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with high risk have audit coverage in the area of internal controls and compliance.
- Evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.
- To the extent that options for auditor relief are not provided, develop mechanisms to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs.

Administrative Support and Oversight: States have been concerned about the burden imposed by new requirements, increased accounting and management workloads, and strains on information systems and staff capacity at a time when they are under severe budgetary stress.

April report recommendation: In our April report, we recommended that the Director of OMB clarify what Recovery Act funds can be used to support state efforts to ensure accountability and oversight, especially in light of enhanced oversight and coordination requirements.

Status of April report recommendation: On May 11, 2009, OMB released a memorandum[123] clarifying how state grantees could recover administrative costs of Recovery Act activities.

Matter for Congressional Consideration

Because a significant portion of Recovery Act expenditures will be in the form of federal grants and awards, the Single Audit process could be used as a key accountability tool over these funds. However, the Single Audit Act, enacted in 1984 and most recently amended in 1996, did not contemplate the risks associated with the current environment where large amounts of federal awards are being expended quickly through new programs, greatly expanded programs, and existing programs. The current Single Audit process is largely driven by the amount of federal funds expended by a recipient in order to determine which federal programs are subject to compliance and internal control testing. Not only does this model potentially miss smaller programs with high risk, but it also relies on audit reporting 9 months after the end of a grantee's fiscal year—far too late to pre-emptively correct deficiencies and weaknesses before significant expenditures of federal funds. Congress is considering a legislative proposal in this area and could address the following issues:

- To the extent that appropriate adjustments to the Single Audit process are not accomplished under the current Single Audit structure, Congress should consider amending the Single Audit Act or enacting new legislation that provides for more timely internal control reporting, as well as audit coverage for smaller Recovery Act programs with high risk.
- To the extent that additional audit coverage is needed to achieve accountability over Recovery Act programs, Congress should consider mechanisms to provide additional resources to support those charged with carrying out the Single Audit Act and related audits.

[123]OMB memorandum, M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Act Activities* (May 11, 2009).

Reporting on Impact

Under the Recovery Act, responsibility for reporting on jobs created and retained falls to nonfederal recipients of Recovery Act funds. As such, states and localities have a critical role in identifying the degree to which Recovery Act goals are achieved.

Performance reporting is broader than the jobs reporting required under section 1512 of the Recovery Act. OMB guidance requires that agencies collect and report performance information consistent with the agency's program performance measures. As described earlier in this report, some agencies have imposed additional performance measures on projects or activities funded through the Recovery Act.

April report recommendation: In our April report, we recommended that given questions raised by many state and local officials about how best to determine both direct and indirect jobs created and retained under the Recovery Act, the Director of OMB should continue OMB's efforts to identify appropriate methodologies that can be used to (1) assess jobs created and retained from projects funded by the Recovery Act; (2) determine the impact of Recovery Act spending when job creation is indirect; (3) identify those types of programs, projects, or activities that in the past have demonstrated substantial job creation or are considered likely to do so in the future and consider whether the approaches taken to estimate jobs created and jobs retained in these cases can be replicated or adapted to other programs.

Status of April report recommendation: OMB has been meeting on a regular basis with state and local officials, federal agencies, and others to gather input on reporting requirements and implementation guidance and has worked with the Recovery Accountability and Transparency Board on a nationwide data collection system. On June 22, OMB issued additional implementation guidance on recipient reporting of jobs created and retained. This guidance is responsive to much of what we said in our April report. It states that there are two different types of jobs reports under the Recovery Act and clarifies that recipient reports are to cover only direct jobs created or retained. "Indirect" jobs (employment impact on suppliers) and "induced" jobs (employment impact on communities) will be covered in Council of Economic Advisers (CEA) quarterly reports on employment, economic growth, and other key economic indicators. Consistent with the statutory language of the act, OMB's guidance states that these recipient reporting requirements apply to recipients who receive funding through discretionary appropriations, not to those receiving funds through either entitlement or tax programs. These reporting requirements also do not apply to individuals. It clarifies that the prime recipient and

not the subrecipient is responsible for reporting section 1512 information on jobs created or retained to the federal government. The June 2009 guidance also provides detailed instructions on how to calculate and report jobs as full-time equivalents (FTE). It also describes in detail the data model and reporting system to be used for the required recipient reporting on jobs.

The guidance provided for reporting job creation aims to shed light on the immediate uses of Recovery Act funding and is reasonable in that context. It will be important, however, to interpret the recipient reports with care. As noted in the guidance, these reports are only one of the two distinct types of reports seeking to describe the jobs impact of the Recovery Act. CEA's quarterly reports will cover the impact on employment, economic growth, and other key economic indicators. Further, the recipient reports will not reflect the impact of resources made available through tax provisions or entitlement programs.[124]

Recipients are required to report no later than 10 days after the end of the calendar quarter. The first of these reports is due on October 10, 2009. After prime recipients and federal agencies perform data quality checks, detailed recipient reports are to be made available to the public no later than 30 days after the end of the quarter. Initial summary statistics will be available on www.recovery.gov. The guidance explicitly does not mandate a specific methodology for conducting quality reviews. Rather, federal agencies are directed to coordinate the application of definitions of material omission and significant reporting error to "ensure consistency" in the conduct of data quality reviews. Although recipients and federal agency reviewers are required to perform data quality checks, none are required to certify or approve data for publication. It is unclear how any issues identified under data quality reviews would be resolved and how frequently data quality problems would have been identified in the reviews. GAO will continue to monitor this data quality and recipient reporting requirements.

[124]Consistent with GAO's past work showing that tax expenditures receive less scrutiny than outlay programs (e.g., GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005), we have begun work to determine the level of transparency and oversight that will be provided for the Recovery Act tax provisions. Administration officials are formulating plans for what information will be collected, analyzed, and reported for the tax provisions. See also: GAO, *American Recovery and Reinvestment Act: GAO's Role in Helping to Ensure Accountability and Transparency*, GAO-09-453T (Washington, D.C.: Mar. 5. 2009).

Our recommendations: To increase consistency in recipient reporting or jobs created and retained, the Director of OMB should work with federal agencies to have them provide program-specific examples of the application of OMB's guidance on recipient reporting of jobs created and retained. This would be especially helpful for programs that have not previously tracked and reported such metrics.

Because performance reporting is broader than the jobs reporting required by section 1512, the Director of OMB should also work with federal agencies—perhaps through the Senior Management Councils—to clarify what new or existing program performance measures—in addition to jobs created and retained—that recipients should collect and report in order to demonstrate the impact of Recovery Act funding.

In addition to providing these additional types of program-specific examples of guidance, the Director of OMB should work with federal agencies to use other channels to educate state and local program officials on reporting requirements, such as Web- or telephone-based information sessions or other forums.

Communications and Guidance

Financial funding and program guidance: State officials expressed concerns regarding communication on the release of Recovery Act funds and their inability to determine when to expect federal agency program guidance. Once funds are released there is no easily accessible, real-time procedure for ensuring that appropriate officials in states and localities are notified. Because half of the estimated spending programs in the Recovery Act will be administered by nonfederal entities, states wish to be notified when funds are made available to them for their use as well as when funding is received by other recipients within their state that are not state agencies.

OMB does not have a master timeline for issuing federal agency guidance. OMB's preferred approach is to issue guidance incrementally. This approach potentially produces a more timely response and allows for mid-course corrections; however, this approach also creates uncertainty among state and local recipients responsible for implementing programs. We continue to believe that OMB can strike a better balance between developing timely and responsive guidance and providing a long range time line that gives some structure to state and localities' planning efforts. We appreciate that the timeline will almost certainty be modified over time as new issues emerge that require additional guidance and clarification.

April report recommendation: In our April report, we recommended that to foster timely and efficient communications, the Director of OMB should develop an approach that provides dependable notification to (1) prime recipients in states and localities when funds are made available for their use, (2) states—where the state is not the primary recipient of funds but has a statewide interest in this information—and (3) all nonfederal recipients on planned releases of federal agency guidance and, if known, whether additional guidance or modifications are recommended.

Status of April recommendation: OMB has made important progress in the type and level of information provided in its reports on Recovery.gov. Nonetheless, OMB has additional opportunities to more fully address the recommendations we made in April. By providing a standard format across disparate programs, OMB has improved its Funding Notification reports, making it easier for the public to track when funds become available. Agencies update their Funding Notification reports for each program individually whenever they make funds available. Both reports are available on www.recovery.gov. OMB has taken the additional step of disaggregating financial information, i.e., federal obligations and outlays by Recovery Act programs and by state in its Weekly Financial Activity Report.

Our recommendation: The Director of OMB should continue to develop and implement an approach that provides easily accessible, real-time notification to (1) prime recipients in states and localities when funds are made available for their use, and (2) states—where the state is not the primary recipient of funds but has a statewide interest in this information. In addition, OMB should provide a long range time line for the release of federal guidance for the benefit of nonfederal recipients responsible for implementing Recovery Act programs.

Recipient financial tracking and reporting guidance: In addition to employment related reporting, OMB's guidance calls for the tracking of funds by the prime recipient, recipient vendors, and subrecipients receiving payments. OMB's guidance also allows that a "prime recipients may delegate certain reporting requirements to subrecipients." Either the prime or sub-recipient must report the D-U-N-S number (or an acceptable alternative) for any vendor or sub-recipient receiving payments greater than $25 thousand. In addition, the prime recipient must report what was purchased and the amount, and a total number and amount for sub-awards of less than $25 thousand. By reporting the DUNS number, OMB guidance provides a way to identify subrecipients by project, but this alone does not ensure data quality.

The approach to tracking funds is generally consistent with the Federal Funding Accountability and Transparency Act (FFATA). Like the Recovery Act, the FFATA requires a publicly available Web site—www.USAspending.gov—to report financial information about entities awarded federal funds. Yet, significant questions have been raised about the reliability of the data on USAspending.gov, primarily because what is reported by the prime recipients is dependent on the unknown data quality and reporting capabilities of their subrecipients.

For example, earlier this year, more than 2 years after passage of FFATA, the Congressional Research Service (CRS) questioned the reliability of the data on USAspending.gov. We share CRS's concerns associated with USAspending.gov, including incomplete, inaccurate, and other data quality problems. More broadly, these concerns also pertain to recipient financial reporting in accordance with the Recovery Act and its federal reporting vehicle, www.FederalReporting.gov, currently under development.

Our recommendation: To strengthen the effort to track the use of funds, the Director of OMB should (1) clarify what constitutes appropriate quality control and reconciliation by prime recipients, especially for subrecipient data, and (2) specify who should best provide formal certification and approval of the data reported.

Agency-specific guidance: DOT and FHWA have yet to provide clear guidance regarding how states are to implement the Recovery Act requirement that economically distressed areas (EDA) are to receive priority in the selection of highway projects for funding. We found substantial variation both in how states identified areas in economic distress and how they prioritized project selection for these areas. As a result, it is not clear whether areas most in need are receiving priority in the selection of highway infrastructure projects, as Congress intended. While it is true that states have discretion in selecting and prioritizing projects, it is also important that this goal of the Recovery Act be met.

Our recommendation: To ensure states meet Congress's direction to give areas with the greatest need priority in project selection, the Secretary of Transportation should develop clear guidance on identifying and giving priority to economically distressed areas that are in accordance with the requirements of the Recovery Act and the Public Works and Economic Development Act of 1965, as amended, and more consistent procedures for the Federal Highway Administration to use in reviewing and approving states' criteria.

Agency Comments and Our Evaluation

We received comments on a draft of this report from the Office of Management and Budget (OMB) and the U.S. Department of Transportation (DOT) on our report recommendations.

Office of Management and Budget

OMB concurs with the overall objectives of GAO's recommendations made to OMB in this report. OMB offered clarifications regarding the area of Single Audit and did not concur with some of GAO's conclusions related to communications. What follows summarizes OMB's comments and our responses.

Single Audit Act

OMB agreed with the overall objectives of GAO's recommendations and offered clarifications regarding the areas of Single Audit. OMB also noted it believes that the new requirements for more rigorous internal control reviews will yield important short-term benefits and the steps taken by state and local recipients to immediately initiate controls will withstand increased scrutiny later in the process.

OMB commented that it has already taken and is planning actions to focus program selection risk assessment on Recovery Act programs and to increase the rigor of state/local internal controls on Recovery Act activities. However, our report points out that OMB has not yet completed critical guidance in these areas. Unless OMB plans to change the risk assessment process conducted for federal programs under Circular A-133, smaller, but significantly risky programs under the Recovery Act may not receive adequate attention and scrutiny under the Single Audit process.

OMB acknowledged that acceleration of internal control reviews could cause more work for state auditors, for which OMB and Congress should explore potential options for relief. This is consistent with the recommendations we make in this report. OMB also noted that our draft report did not offer a specific recommendation for achieving acceleration of internal control reporting. Because there are various ways to achieve the objective of early reporting on internal controls, we initially chose not to prescribe a specific method; however, such accelerated reporting could be achieved in various ways. For instance, OMB could require specific internal control certifications from federal award recipients meeting certain criteria as of a specified date, such as December 31, 2009, before significant Recovery Act expenditures occur. Those certifications could then be reviewed by the auditor as part of the regular single audit process. Alternatively, or in addition, OMB could require that the internal control portion of the single audit be completed early, with a report submitted 60 days after the recipient's year end. We look forward to continuing our dialog with OMB on various options available to achieve the objective of

early reporting on internal controls. We will also continue to review OMB's guidance in the area of single audits as such guidance is being developed.

Communications

OMB has made important progress relative to some communications. In particular, we agree with OMB's statements that it requires agencies to post guidance and funding information to agency Recovery Act websites, disseminates guidance broadly, and seeks out and responds to stakeholder input. In addition, OMB is planning a series of interactive forums to offer training and information to Recovery Act recipients on the process and mechanics of recipient reporting and they could also serve as a vehicle for additional communication. Moving forward and building on the progress it has made, OMB can take the following additional steps related to funding notification and guidance.

First, OMB should require direct notification to key state officials when funds become available within a state. OMB has improved Funding Notification reports by providing a standard format across disparate programs, making it easier for the public to track when funds become available. However, it does not provide an easily accessible, real-time notification of when funds are available. OMB recognized the shared responsibilities of federal agencies and states in its April 3, 2009 guidance when it noted that federal agencies should expect states to assign a responsible office to oversee data collection to ensure quality, completeness, and timeliness of data submissions for recipient reporting. In return, states have expressed a need to know when funds flow into the state regardless of which level of government or governmental entity within the state receives the funding so that they can meet the accountability objectives of the Recovery Act. We continue to recommend more direct notification to (1) prime recipients in states and localities when funds are made available for their use, and (2) states-where the state is not the primary recipient of funds but has a statewide interest in this information.

Second, OMB should provide a long range time line for the release of federal guidance. In an attempt to be responsive to emerging issues and questions from the recipient community, OMB's preferred approach is to issue guidance incrementally. This approach potentially produces a more timely response and allows for mid-course corrections; however, this approach also creates uncertainty among state and local recipients. State and local officials expressed concerns that this incremental approach hinders their efforts to plan and administer Recovery Act programs. As a result, we continue to believe OMB can strike a better balance between

developing timely and responsive guidance and providing some degree of a longer range time line so that states and localities can better anticipate which programs will be affected and when new guidance is likely to be issued. OMB's consideration of a master schedule and its acknowledgement of the extraordinary proliferation of program guidance in response to Recovery Act requirements seem to support a more structured approach. We appreciate that a longer range time line would need to be flexible so that OMB could also continue to issue guidance and clarifications in a timely manner as new issues and questions emerge.

OMB also offered suggestions for several technical clarifications which we have made when appropriate.

U.S. Department of Transportation

DOT generally agreed to consider the recommendation that it develop clear guidance on identifying and giving priority to economically distressed areas and more consistent procedures for reviewing and approving states' criteria. As discussed in the highways section of this report, in commenting on a draft of this report, DOT agreed that states must give priority to projects located in economically distressed areas (EDAs), but said that states must balance all the Recovery Act project selection criteria when selecting projects including giving preference to activities that can be started and completed expeditiously, using funds in a manner that maximizes job creation and economic benefit, and other factors. While we agree with DOT that there is no absolute primacy of EDA projects in the sense that they must always be started first, the specific directives in the act that apply to highway infrastructure are that priority is to be given to projects that can be completed in 3 years, and are located in EDAs. DOT also stated that the basic approach used by selected states to apply alternative criteria is consistent with the Public Works and Economic Development Act and its implementing regulations on EDAs because it makes use of flexibilities provided by the Public Works Act to more accurately reflect changing economic conditions. However the result of DOT's interpretation would be to allow states to prioritize projects based on criteria that are not mentioned in the highway infrastructure investment portion of the Recovery or the Public Works Acts without the involvement of the Secretary or Department of Commerce. We plan to continue to monitor states' implementation of the EDA requirements and interagency coordination at the federal level in future reports.

We are sending copies of this report to the Office of Management and Budget and the Department of Transportation, as well as sections of the report to officials of the 16 states and the District covered in our review. The report will also be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-5500. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Gene L. Dodaro
Acting Comptroller General of the United States

List of Committees

The Honorable Nancy Pelosi
Speaker of the House of Representatives

The Honorable Robert C. Byrd
President Pro Tempore of the Senate

The Honorable Harry Reid
Majority Leader
United States Senate

The Honorable Mitch McConnell
Republican Leader
United States Senate

The Honorable Steny Hoyer
Majority Leader
House of Representatives

The Honorable John Boehner
Minority Leader
House of Representatives

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Dave Obey
Chairman
The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Edolphus Towns
Chairman
The Honorable Darrell E. Issa
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This appendix describes our objectives, scope, and methodology (OSM) for this second report on our bimonthly reviews on the Recovery Act. A detailed description of the criteria used to select the core group of 16 states and the District of Columbia (District) and programs we reviewed is found in appendix I of our April 2009 Recovery Act bimonthly report.[1]

Objectives and Scope

The Recovery Act specifies several roles for GAO, including conducting bimonthly reviews of selected states' and localities' use of funds made available under the act. As a result, our objectives for this report were to assess (1) selected states' and localities' uses of and planning for Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they have received to date.

Our teams visited the 16 selected states, the District, and a non-probability sample of 178 localities during May and June 2009.[2] As described in our previous Recovery Act report's OSM, our teams met again with a variety of state and local officials from executive-level and program offices. During discussions with state and local officials, teams used a series of program review and semistructured interview guides that addressed state plans for management, tracking, and reporting of Recovery Act funds and activities. We also reviewed state constitutions, statutes, legislative proposals, and other state legal materials for this report. Where attributed, we relied on state officials and other state sources for description and interpretation of state legal materials. Appendix II details the states and localities visited by GAO. Criteria used to select localities within our selected states follow.

States' and Localities' Uses of Recovery Act Funds

Using criteria described in our last bimonthly report, we selected the following streams of Recovery Act funding flowing to states and localities for review during this report: increased Medicaid Federal Medical Assistance Percentage (FMAP) grant awards; the Federal-Aid Highway Surface Transportation Program; the State Fiscal Stabilization Fund

[1]GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009).

[2]States selected for our longitudinal analysis are Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas.

(SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA); Parts B and C of the Individuals with Disabilities Education Act (IDEA); the Workforce Investment Act (WIA) Youth program; the Public Housing Capital Fund; Edward Byrne Memorial Justice Assistance Grant (JAG) Program, and the Weatherization Assistance Program. Together, these nine programs are estimated to account for approximately 87 percent of federal Recovery Act outlays to states and localities in fiscal year 2009. We also reviewed how Recovery Act funds are being used by states to stabilize their budgets. In addition, we analyzed www.recovery.gov data on federal spending.

Medicaid Federal Medical Assistance Percentage

For the FMAP grant awards, we again relied on our web-based inquiry, asking the 16 states and the District to update information they had previously provided to us on enrollment, expenditures, and changes to their Medicaid programs and to report their plans to use state funds made available as a result of the increased FMAP. We also reviewed states' Single Audit results for 2007 and, where available, for 2008, to identify material weaknesses related to the Medicaid programs in the 16 states and the District. In interviews with Medicaid officials from all the sample states and the District, we obtained additional information regarding states' efforts to comply with the provisions of the Recovery Act, as well as states' responses to material weaknesses identified in their Single Audits. We spoke with individuals from the Centers for Medicare & Medicaid Services (CMS) regarding their oversight and guidance to states, their FMAP grant awards, and funds drawn down by states.

Federal-Aid Highway Surface Transportation Program

For highway infrastructure investment, we reviewed status reports and guidance to the states and discussed these with the U.S. Department of Transportation (DOT) and Federal Highway Administration (FHWA) officials. We obtained data from FHWA on obligations and reimbursements for the Recovery Act's highway infrastructure funds nationally and for each of our selected states. We selected two projects in every state that were furthest along—for example, projects under construction or out for bid. In selecting projects, we attempted to select a mix of projects, including projects that were in and outside of economically distressed areas; projects administered by the state and locally administered projects; projects in urban and rural areas; and projects requiring various amounts of funding—both large and small. To obtain information on the impact certain requirements associated with highway funding were having on states, we selected three states—New Jersey, Arizona, and Mississippi—because we did not include these states

in the scope of our previous report on this issue and because they have varying environmental planning and labor environments.[3] For example, according to the Council on Environmental Quality, New Jersey has a state environmental planning law similar to the National Environmental Policy Act (NEPA), while Arizona and Mississippi do not, and, according to the Bureau of Labor Statistics, in 2008, union membership in New Jersey was 18.3 percent, while 8.8 percent of Arizona and 5.3 percent of Mississippi workers were union members.

SFSF, ESEA Title I, and IDEA

To understand how the U.S. Department of Education is implementing the SFSF, ESEA Title I, and IDEA under the Recovery Act, we reviewed relevant laws, guidance, and communications to the states and interviewed Education officials. Our review of related documents and interviews with federal agency officials focused on determining and clarifying how states, school districts, and public institutions of higher education would be expected to implement various provisions of the SFSF. Also, to understand the baseline data being used to demonstrate states' status related to the assurances states must make about education reform in their SFSF applications, we interviewed Education officials about the data being used and officials at organizations such as Achieve and the Data Quality Campaign, which develop and assess the data.

We visited at least two school districts in each state covered by our review to learn the districts' plans for Recovery Act funds received for SFSF, ESEA Title I, and IDEA. For our visits to school districts, in each state, we selected from school districts that were among the top 10 recipients of Recovery Act funds for the ESEA Title I program and, when possible, included school districts with a high number of schools in improvement and school districts in locales other than large cities. For our visits to public institutions of higher education (IHE), we visited IHEs in Ohio and North Carolina and the six states—California, Florida, Georgia, Illinois, Mississippi, and New York—that had received approval of their applications for State Fiscal Stabilization Funds from Education by the time of our initial site visits in May 2009. For each state, we selected among the largest, in terms of enrollment, public IHEs in the state that would be receiving SFSF funds, including universities and community

[3]GAO, *Federal-Aid Highways: Federal Requirements for Highways May Influence Funding Decisions and Create Challenges, but Benefits and Costs Are Not Tracked*, GAO-09-36 (Washington, D.C.: Dec. 12, 2008).

colleges. In 3 states, we also visited some public historically black colleges and universities.

WIA Youth Program

We reviewed the Recovery Act-funded WIA Youth program in 13 of our 16 states (all except Arizona, Colorado, and Iowa)[4] and the District. We focused on state and local efforts to provide summer youth employment activities. To learn about the status of implementation, the use and oversight of funds, and the challenges faced, we interviewed workforce development officials in all 13 states and at least two local areas in each state—for a total of 34 local areas—and the District. We also reviewed relevant documents obtained from state and local officials. In addition, we obtained and analyzed data from the Department of Labor on the amount of Recovery Act WIA Youth funds allotted to, and drawn down by states, and reviewed Labor's guidance to states and local areas on Recovery Act funds.

Public Housing Capital Fund

For Public Housing, we obtained data from HUD's Electronic Line of Credit and Control System on the amount of Recovery Act funds that have been obligated and/or drawn down by each housing agency in the country, as of June 20, 2009. To determine how housing agencies were using or planning to use these funds, we selected a sample of 47 agencies in our sample of 16 states and the District. At the selected agencies we interviewed housing agency officials and conducted site visits of ongoing or planned Recovery Act projects. GAO selected these locations to obtain a mix of large, medium, and small housing agencies, housing agencies designated as troubled performers by HUD, those to which HUD allocated significant amounts of Recovery Act funding, and housing agencies that had drawn down funds at the time of our selection. We also interviewed HUD Headquarters officials in the District to understand their procedures for monitoring housing agency use of Recovery Act Funds.

JAG Program

For our review of the JAG program, we reviewed relevant laws, federal guidance, and states' grant applications and award letters; interviewed officials with the Department of Justice's Office of Justice Programs and Bureau of Justice Assistance; and interviewed officials from state administering agencies that oversee the JAG program in their state. We

[4]We did not include these three states in our review due to workload considerations.

spoke with and reviewed documentation from Department of Justice officials on the agency's coordination with, guidance to, and oversight of grant recipients. We interviewed state officials and reviewed relevant state documentation to determine and clarify states' plans for using JAG funds awarded to the state and their progress in using and overseeing those funds. We did not review JAG grants awarded directly to local governments in this report because the Bureau of Justice Assistance's (BJA) solicitation for local governments closed on June 17; therefore, not all of these funds have been awarded.

Weatherization Assistance Program

For the Weatherization Assistance Program, we reviewed relevant laws, regulations, and federal guidance and interviewed Department of Energy officials who administer the program at the federal level. We also coordinated activities with officials from the department's Office of Inspector General. In addition, we conducted semistructured interviews with officials in the states' energy agencies that administer the weatherization program. We collected data about each state's total allocation for weatherization through the Recovery Act, as well as the initial allocation already sent to the states. We asked DOE officials about their timetable for reviewing state energy plans and when they would provide the next allocation to the states. Finally, we reviewed the state weatherization plans to determine how each state intends to allocate their funds and the outcomes they expect.

State Budget Stabilization

To better understand how states and the District are using Recovery Act funds to stabilize government budgets, we reviewed enacted and proposed state budgets and revenue estimates for state fiscal years 2008-2009 and 2009-2010. In addition, we reviewed reports and analysis regarding state fiscal conditions. We interviewed state budget officials to determine how states are using Recovery Act funds to avoid reductions in essential services or tax increases and developing exit strategies to plan for the end of Recovery Act funding. We also consulted with researchers and associations representing state officials to better understand states' current fiscal conditions.

Assessing States' and Localities' Safeguards and Internal Controls

To determine how states and localities are tracking the receipt of and use of Recovery Act funds, the state and District teams asked cognizant officials to describe the accounting systems and conventions being used to execute transactions and to monitor and report on Recovery Act expenditures. To determine the current internal control structure in states

and the District, we asked cognizant officials to describe and provide relevant documentation about their current internal control program, including risk assessment and monitoring. In addition, to assist in the planning of the audit work, we provided the state and District teams, as well as certain program teams, with available fiscal year 2008 Single Audit summary information. Single Audit information was obtained from the Federal Audit Clearinghouse (FAC) Single Audit data collection forms and the Single Audit reports. We discussed with relevant OMB officials the Single Audit reports and guidance. We also analyzed how OMB was addressing the recommendations related to the Single Audit in the April 2009 Recovery Act report. We also asked auditors to address how they were monitoring and overseeing the Recovery Act.

Efforts to Assess Impact of Recovery Act Spending

To understand the reporting requirements on the impact of the Recovery Act, we reviewed the guidance issued by OMB on February 18, April 3, and June 22, 2009, as well as selective federal agency guidance related to grants and to states and localities. We also interviewed selected state, District, and local officials to understand their views of agency and OMB guidance for reporting on implementation of the Recovery Act, as well as about their plans to provide assessment data required by Section 1512.

Data and Data Reliability

We collected funding data from www.recovery.gov and federal agencies administering Recovery Act programs for the purpose of providing background information. We used funding data from www.recovery.gov—which is overseen by the Recovery Accountability and Transparency Board—because it is the official source for Recovery Act spending. We collected data on states' and localities' plans, uses, and tracking of Recovery Act funds during interviews and follow-up meetings with state and local officials. In addition, we used data collected from state and local officials to report the amount of Recovery Act funding received by states and localities thus far. Based on a preliminary and limited examination of this information, we consider these data sufficiently reliable with attribution to official sources for the purposes of providing background information on Recovery Act funding for this report. Our sample of selected states and localities is not a random selection and therefore cannot be generalized to the total population of state and local governments.

We conducted this performance audit from April 21, 2009, to July 2, 2009, 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.

Appendix II: Comments from the Office of Management and Budget

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
FINANCIAL MANAGEMENT

June 30, 2009

Mr. J. Chris Mihm
Managing Director, Strategic Issues
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Mihm:

Thank you for the opportunity to review the Government Accountability Office (GAO) draft report entitled, *States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses, (GAO-09-829)*. We appreciate the critical role that GAO plays in reviewing Recovery Act implementation, and believe your ongoing analysis and input is helping to facilitate the accountability and transparency objectives of the Act.

Your note of June 26, 2009, transmitting the above referenced draft report requested OMB staff comments by the next business day. To meet this request, we have done our best to complete an initial review. Based on this review, OMB concurs with the overall objectives of GAO's recommendations in the report. However, we offer the following clarifications for your consideration in the areas of Single Audit and communications.

Single Audit. As your draft report notes, OMB has already taken, and is planning, actions to focus program selection risk assessment on Recovery Act programs and to increase the rigor of state/local internal controls on recovery activities. GAO further recommends that OMB establish new requirements that result in auditor assessment of internal controls "before significant Recovery Act expenditures occur." Although GAO offers no specific recommendation for achieving acceleration of internal control audit activities, GAO does recognize that such a requirement will impose administrative burdens on the state auditor community for which OMB and Congress should explore potential options for relief. OMB concurs that acceleration of internal control reviews will add administrative burden to state auditors. Of note, OMB believes such changes in audit procedures will also impact the resources of state and local programs working to address other administrative challenges associated with Recovery Act implementation. OMB believes that the new requirements for more rigorous internal control reviews that are being put in place will yield important short-term benefits as state and local recipients take steps to immediately initiate controls that will withstand increased audit scrutiny later in the process. With these clarifications noted, OMB concurs with GAO's recommendation to pursue alternatives for accelerating audit activities.

Communications. OMB does not concur with GAO's conclusion that OMB has not responded to recommendations related to communications. OMB has taken numerous steps to advance effective communication of the availability of program-specific guidance and funding. Specifically, OMB guidance requires Federal agencies to post all program specific guidance on agency recovery websites, disseminate such guidance to a broad range of external stakeholders, respond promptly to stakeholder input, and engage (as appropriate) with stakeholders during the development of such guidance. OMB has explored the possibility of developing a master schedule of program-specific guidance. However, we have discovered that the proliferation of program guidance is more often driven by emerging issues and questions from the recipient community. We believe a schedule would imply a stringency in the timing for the release of agency guidance and technical assistance that we do not believe is consistent with a preferred approach of a continuous flow of guidance from agencies in response to ongoing feedback and queries from stakeholders.

With respect to communication on funding, OMB guidance contains rigorous reporting requirements for agencies to post communications on agency recovery websites on available funding for recipients. Furthermore, websites such as Grants.gov and FedBizopps.gov provide special views of recovery-funded opportunities. GAO indicates that "the current structure of [agency recovery reporting] does not provide a mechanism for state and local governments and their citizens to readily view the total extent of Recovery Act funds flowing through governmental and non-governmental entities in each state." OMB requests further clarification from GAO on the nature and type of communication that would effectively supplement current information on recovery funding, which currently include detailed and frequent reports on:

- recovery award availability (which where knowable, is disaggregated by location)
- obligations and outlays by programs and state
- obligations by recipient as reported on USAspending.gov
- required information that primary recipients will report beginning in October that will track funds provided to sub-recipients and vendors.

Of note, OMB is working with the Recovery Board to run a series of interactive forums in late July with recipients all over the country to offer training and information on Recovery Act reporting requirements. These forums are part of a larger, coordinated outreach and communication plan to ensure a consistent flow of information between the Federal government and all relevant stakeholders on Recovery Act implementation efforts.

Over the next several days, we will complete a more thorough review of the draft report and will further consult on the contents of the report with Federal agencies and the Recovery Act Accountability and Transparency Board.

OMB looks forward to working with GAO to further the accountability and transparency objectives of the Act and to define the best path forward on GAO's specific

recommendations to OMB. Again, we appreciate the opportunity to comment on the draft report, including additional technical suggestions that will provide in the near future.

If you have any questions, please feel free to contact me at 202-395-3993.

Sincerely,

Daniel Werfel
Deputy Controller

Appendix III: Localities

Table 20: Local School Districts and Postsecondary Institutions Visited by GAO

States and District of Columbia	Local school districts: Title I-LEA, IDEA, State Fiscal Stabilization Fund	Postsecondary Institutions: State Fiscal Stabilization Fund
Arizona	Phoenix Elementary School District No.1 Phoenix Union High School District No. 210 Mesa Unified School District No. 4 Tucson Unified School District No. 1 Imagine Charter Elementary at Desert West Inc.	
California	Los Angeles Unified School District San Bernardino City Unified School District	California State University University of California
Colorado	Denver County School District 1 Jefferson County School District R-1	
District of Columbia	District of Columbia Public Schools Friendship Public Charter School	
Florida	Hillsborough County Local Education Agency Miami-Dade County Public Schools	University of South Florida Hillsborough Community College Florida A&M University
Georgia	Atlanta Public Schools Richmond County School System	University of Georgia Georgia Perimeter College
Illinois	Chicago Public Schools Waukegan Public School District 60	University of Illinois College of DuPage
Iowa	Des Moines Independent Community School District Ottumwa Community School District Waterloo Community School District	
Massachusetts	Boston Public Schools Lawrence Public Schools	
Michigan	Detroit Public Schools Lansing Public School District Grand Rapids Public Schools Flint Community Schools School District of the City of Saginaw	
Mississippi	Holmes County School District Jackson Public School District	University of Mississippi Jackson State University Northwest Mississippi Community College
New Jersey	Newark Public Schools Camden City Public Schools Trenton Public Schools	
New York	New York City Department of Education Rochester City School District	State University of New York/Hudson Valley Community College City University of New York/Borough of Manhattan Community College
North Carolina	Charlotte-Mecklenburg School District Robeson School District Sugar Creek Charter School The Roger Bacon Academy	Cape Fear Community College University of North Carolina-Charlotte Fayetteville State University

States and District of Columbia	Local school districts: Title I-LEA, IDEA, State Fiscal Stabilization Fund	Postsecondary Institutions: State Fiscal Stabilization Fund
Ohio	Cleveland Municipal School District Youngstown City School District	Cuyahoga Community College University of Akron
Pennsylvania	Philadelphia School District Harrisburg School District	
Texas	Houston Independent School District Fort Worth Independent School District	

Source: GAO.

Table 21: Public Housing Authorities Visited by GAO

States and District of Columbia	Public Housing Authority: Public Housing Capital Fund Formula Grants
Arizona	City of Phoenix Housing Department Housing Authority of Maricopa County City of Glendale Community Housing Division Pinal County Housing Authority Housing and Community Development Department of the City of Tucson
California	Area Housing Authority of the County of Ventura Sacramento Housing and Redevelopment Agency San Francisco Housing Authority
Colorado	Housing Authority of the City and County of Denver Holyoke Housing Authority Housing Authority of the Town of Kersey
District of Columbia	District of Columbia Housing Authority
Florida	Venice Housing Authority , Tallahassee Housing Authority Tampa Housing Authority
Georgia	Atlanta Housing Authority Athens Housing Authority
Illinois	Chicago Housing Authority Housing Authority for LaSalle County
Iowa	Des Moines Municipal Housing Agency Evansdale Municipal Housing Authority North Iowa Regional Housing Authority Ottumwa Housing Authority
Massachusetts	Revere Housing Authority Boston Housing Authority
Michigan	Detroit Housing Commission Lansing Housing Commission Flint Housing Commission
Mississippi	Mississippi Regional Housing Authority No. VIII (Gulfport) Picayune Housing Authority
New Jersey	Newark Housing Authority Trenton Housing Authority Housing Authority of Plainfield Rahway Housing Authority
New York	Binghamton Public Housing Authority Glen Cove Public Housing Authority Buffalo Municipal Housing Authority
North Carolina	Housing Authority of the City of Charlotte Beaufort Public Housing Authority
Ohio	Columbus Metropolitan Housing Authority Cuyahoga Metropolitan Housing Authority London Metropolitan Housing Authority
Pennsylvania	Harrisburg Housing Authority Philadelphia Housing Authority

States and District of Columbia	Public Housing Authority: Public Housing Capital Fund Formula Grants
Texas	San Antonio Housing Authority Ferris Housing Authority

Source: GAO.

Table 22: Location of Highway Projects visited by GAO

States and District of Columbia	Highway project location
California	City of Seaside (Monterey County) Solano County
Colorado	Denver Chaffee County
Florida	Hillsborough County Citrus County Hernando County Pasco County
Georgia	Gwinnett County Henry County
Illinois	Cook County (1 project) Grundy County (1 project)
Iowa	Mason City to Floyd County Line Decatur County Line north to US 34 in Clarke County (southbound lane)
Massachusetts	Adams County Swansea County
Michigan	Allegan County Flint County
Mississippi	Laurel (Jones County) Meridian (Lauderdale County)
New York	Albany County Herkimer County
North Carolina	Hertford County Johnston County Forsyth County Stokes County
Ohio	Cuyahoga County Hancock County
Pennsylvania	Bedford County Chester County
Texas	Dallas County Tarrant County Uvalde County

Source: GAO.

Table 23: Summer Youth Programs Visited by GAO

States and District of Columbia	Summer youth programs: Workforce Investment Act
California	City and County of San Francisco Office of Economic and Workforce Development City of Los Angeles-Workforce Investment Board and Community Development Department
Florida	Tampa Bay Workforce Alliance Broward County Workforce One South Florida Workforce
Georgia	Atlanta Regional Workforce Board Richmond-Burke Job Training Authority, Inc
Illinois	Chicago Workforce Investment Board Grundy Livingston Kankakee Workforce Investment Board
Massachusetts	Merrimack Valley Workforce Investment Board Central Massachusetts Regional Employment Board
Michigan	Detroit Workforce Development Department Capital Area Michigan Works
Mississippi	Delta Workforce Investment Area Mississippi Partnership Workforce Investment Area Southcentral Mississippi Works Workforce Investment Area Twin Districts Workforce Investment Area
New Jersey	Camden County Workforce Investment Board Essex County Workforce Investment Board Mercer County Workforce Investment Board Newark Workforce Investment Board
New York	Buffalo and Erie Country Workforce Investment Board, Inc. New York City Workforce Investment Board Herkimer-Madison-Oneida Workforce Investment Board
North Carolina	Charlotte-Mecklenburg Workforce Development Board Cape Fear Workforce Development Board
Ohio	Central Ohio Workforce Investment Corporation Licking County Job and Family Services Licking/Knox Goodwill Industries Inc. Montgomery County Department of Job and Family Services Union County Job and Family Services
Pennsylvania	South Central Pennsylvania Workforce Investment Board-Harrisburg Philadelphia Workforce Investment Board
Texas	Gulf Coast Workforce Development Board North Central Workforce Development Board

Source: GAO.

Table 24: Weatherization Programs Visited by GAO

States and District of Columbia	Weatherization
North Carolina	Resources for Seniors (Raleigh)
	New Hanover County Community Action

Source: GAO.

Appendix IV: GAO Contacts and Staff Acknowledgments

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