United States Government Accountability Office

GAO

Report to the Congress

December 2009

RECOVERY ACT

Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability

GAO

Accountability * Integrity * Reliability

GAO-10-231

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GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-10-231, a report to the Congress

Why GAO Did This Study

This report, the fourth in a series responding to a mandate under the American Recovery and Reinvestment Act of 2009 (Recovery Act), addresses objectives including: (1) selected states' and localities' uses of Recovery Act funds and (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds. GAO's work continues to focus on 16 states and certain localities in those jurisdictions, as well as the District of Columbia (District)—representing about 65 percent of the U.S. population and two-thirds of the intergovernmental federal assistance available under the Recovery Act. GAO collected and analyzed documents and interviewed state and local officials. GAO also analyzed federal agency guidance and spoke with officials at the federal agencies overseeing Recovery Act programs, including the Office of Management and Budget (OMB) and the Departments of Education (Education), Transportation (DOT), Health and Human Services, Homeland Security, Housing and Urban Development (HUD), and Energy (DOE).

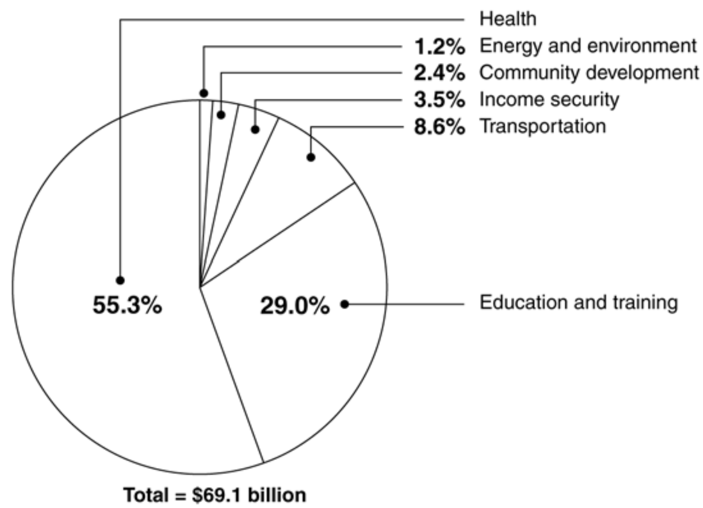
What GAO Recommends

GAO updates the status of agencies' efforts to implement prior GAO recommendations to help address a range of accountability issues as well as matters for congressional consideration. No new recommendations are being made at this time. OMB provided technical comments that have been incorporated, as appropriate.

View GAO-10-231 or key components. For state summaries, see GAO-10-232SP. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What GAO Found

As of November 27, 2009, $69.1 billion, or about one quarter of the approximately $280 billion of total Recovery Act funds for programs administered by states and localities, had been paid out. Health, education, and training accounted for almost 85 percent of Recovery Act outlays to date for programs administered by states and localities (see figure). The largest programs within these areas were the Medicaid Federal Medical Assistance Percentage (FMAP), the State Fiscal Stabilization Fund (SFSF) for education and other purposes, and highways.



Source: GAO analysis of data from Recovery.gov.

Increased Medicaid FMAP Funding

Of their increased FMAP grant awards for federal fiscal year 2009, the 16 states and the District had drawn down about $22.3 billion, or 97 percent of the funds available, as of November 30, 2009. As of the same date, they had drawn down about $3.6 billion, or 54 percent of the funds available for the first quarter of federal fiscal year 2010. From April to September 2009, nearly all states and the District experienced Medicaid enrollment growth, most of which was due to the increasing enrollment of children—a population group that is sensitive to economic downturns. States and the District reported using or planning to use state funds freed up by the increased FMAP for various purposes such as financing general state budget needs. All but one of the states and the District expressed concern about the sustainability of their Medicaid programs when the availability of increased FMAP funds ends in January 2011. GAO estimates that the 16 states' and the District's share of Medicaid payments will increase an average of 36 percent in January 2011 compared with the first quarter of federal fiscal year 2010, although the effect of this increase will vary depending on changes in Medicaid enrollment. Some states and the District have begun considering options for reducing Medicaid programs in fiscal year 2011.

Highway Infrastructure Investment and Transit Funding

Through November 16, 2009, in the 16 states and the District, $11.9 billion (76 percent) of Recovery Act highway funds had been obligated for nearly 4,600 projects and $1.9 billion (16 percent) had been reimbursed. Nationally, $20.4 billion (77 percent) had been obligated for over 8,800 projects and $4.2 billion (20 percent) had been reimbursed. Reimbursements have increased considerably since we last reported in September. As highway projects progress, almost half of Recovery Act obligations, both nationally and in the 16 states and the District, have been for pavement improvements—resurfacing, rehabilitating, and reconstructing roadways. Both state and federal officials believe the states are on track to meet the Recovery Act's requirement that all highway funds be obligated by March 2010. Of the $7.5 billion in Recovery Act formula funding made available nationally for transit projects, $6.7 billion (88 percent) had been obligated through November 5, 2009. Most of these obligations are being used to upgrade transit facilities, such as upgrading power substations or installing enhanced bus shelters, improving bus fleets and light rail systems, and conducting preventive maintenance. Transit agencies continue to express confusion about how to calculate the numbers of jobs created and saved, as required by the Recovery Act. GAO previously recommended that OMB work with recipients to enhance understanding of the reporting process and that DOT continue its outreach to state departments of transportation and transit agencies. Both agencies are implementing these recommendations, which will be key to addressing the continued lack of understanding.

Education

As of November 6, 2009, of the Recovery Act funds available to them, the 16 states and the District had drawn down, in total, about $8.4 billion (46 percent) in SFSF; $735 million (11 percent) in Elementary and Secondary Education Act Title I, Part A funds; and $755 million (10 percent) in Individuals with Disabilities Education Act (IDEA), Part B funds. GAO surveyed a nationally representative sample of local educational agencies (LEA) about their planned uses of Recovery Act funds and found (1) retaining jobs is the primary planned use, with 63 percent planning to use over 50 percent of their SFSF funds to retain jobs—however, even with SFSF funds, an estimated 32 percent expect to lose jobs; (2) other planned uses include nonrecurring items such as equipment; and (3) most report placing great importance on educational goals and reform in planning the use of Recovery Act funds. In response to GAO's prior recommendation that Education take action to ensure states understand and fulfill their SFSF subrecipient monitoring responsibility, Education officials said they will collect and review states' subrecipient monitoring plans. GAO will continue to follow implementation of this initiative.

Other Selected Recovery Act Programs

HUD has entered into funding agreements with 3,121 public housing agencies and made available nearly all of the almost $3 billion in public housing formula grant funds provided under the Recovery Act. Overall, as of November 14, these agencies had reported obligating about half of the funds HUD had made available, but the progress toward obligating all funds by March 2010 varied by housing agency. For example, over 1,000 housing agencies had reported obligating all of their funds, but more than 500 housing agencies had reported obligating no funds. HUD is beginning to focus on helping housing agencies meet the Recovery Act's March 2010 deadline to obligate all of their funds. Housing agencies GAO visited are using Recovery Act funds to replace roofs, windows, floors, and heating systems; upgrade kitchens and baths; and renovate rental units and common areas. HUD continues to make progress in monitoring housing agencies and is including in its on-site reviews housing agencies with relevant open Single Audit findings, as GAO recommended. Regarding the Weatherization Assistance Program, nationally, the states reported that, as of September 30, 2009, they had spent about $113 million (2 percent) of the $5 billion in Recovery Act funding and had completed weatherizing about 7,300 (1 percent) of the 593,000 housing units planned for weatherization. Many weatherization contracts between state and local weatherization agencies have been delayed, in part because of continuing concerns regarding prevailing wage rates. The Recovery Act also included a $100 million appropriation for the Emergency Food and Shelter Program. Local recipient organizations in the 16 states and the District were awarded almost $66.2 million and plan to use the funds primarily for "other food" services such as food banks and pantries, food vouchers and food-only gift certifications, and rent and mortgage assistance.

Accountability

GAO has recommended that OMB take actions to realize the Single Audit Act's full potential as an effective oversight tool for Recovery Act programs. In response to GAO's recommendations, OMB implemented a Single Audit Internal Control Project to encourage earlier reporting, and 16 states have volunteered to participate. While its coverage could be more comprehensive, OMB's analysis of the project's results could provide meaningful information for improving future use of the Single Audit Act for Recovery Act programs. GAO has also suggested two matters for congressional consideration relating to the Single Audit Act. GAO continues to believe that Congress should consider (1) amending the Single Audit Act to provide for more timely internal control reporting and audit coverage for smaller high-risk Recovery Act programs and (2) developing mechanisms for providing additional resources to support those charged with carrying out the Single Audit Act and related audits.

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United States Government Accountability Office
Washington, DC 20548

December 10, 2009

Report to the Congress

States' and localities' use of Recovery Act funds continues as the nation responds to the most serious economic crisis since the Great Depression. Congress and the administration crafted the American Recovery and Reinvestment Act of 2009 (Recovery Act)[1] with the broad purpose of stimulating the economy. As of November 27, 2009, $69.1 billion, or about one quarter of the approximately $280 billion in Recovery Act funds for programs administered by states and localities, had been paid out. Estimates show that the largest share of the funds is expected to be spent in fiscal year 2010.

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. This report, the fourth in response to the act's mandate, addresses the following: (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. The report provides overall findings and discusses the status of actions in response to the recommendations we made in our earlier reports. In addition, our recent report on recipient reporting contained recommendations to the Office of Management and Budget (OMB) to address the data quality and reporting issues we identified. OMB agreed with those recommendations and is taking action to address them.[2]

As reported in our previous bimonthly Recovery Act reports, to address these objectives, GAO selected a core group of 16 states and the District of

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[1]Pub.L. 111-5, 123 Stat. 115 (Feb. 17, 2009).

[2]GAO, *Recovery Act: Recipient Reported Jobs Data Provide Insights into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, GAO-10-223 (Washington, D.C.: Nov. 19, 2009).

Columbia (District) that we will follow over the next few years.[3] Individual summaries for this core group are compiled into an electronic supplement, GAO-10-232SP, and are also accessible through GAO's Recovery Act page at www.gao.gov/recovery/. Our 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. For this report we visited a nonprobability sample of 155 local entities within the 16 states and the District for our program reviews. These local entities represented a range of types of local governments (cities and counties) and program areas as shown below. The local governments also varied by population sizes and economic conditions (unemployment rates greater than or less than the state's overall unemployment rate).

[3]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); *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, GAO-09-829 (Washington, D.C.: July 8, 2009); and *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, GAO-09-1016 (Washington, D.C.: Sept. 23, 2009).

Figure 1: GAO's December 2009 Recovery Act Coverage of States and Localities

	Number
States visited	16[a]
Local governments visited to review overall use of funds	44
Local entities visited by program area	
Highway	17
Transit	25
Education	19
Housing	26
Weatherization	24

Source: GAO analysis of states' and localities' use of Recovery Act funds.

Notes: Entities include government officials and agencies, transportation and transit authorities, school districts, charter schools, housing authorities, and nonprofit organizations. Appendix III provides a complete list of the local entities visited for this report.

[a]In addition to the 16 states, the District of Columbia is also included in GAO's bimonthly reviews of the use of Recovery Act funds.

Our work for this report focused on selected federal programs primarily because they have begun disbursing funds to states or have known or potential risks. These programs are as follows:

- Federal Medical Assistance Percentage (FMAP);
- Federal-Aid Highway Surface Transportation Program;
- Transit Capital Assistance Program;
- Fixed Guideway Infrastructure Investment Program;
- State Fiscal Stabilization Fund (SFSF);
- Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended;
- Individuals with Disabilities Education Act (IDEA), as amended, Parts B and C;
- Public Housing Capital Fund;
- Weatherization Assistance Program; and
- Emergency Food and Shelter Program (EFSP).

The 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 leads, state and local 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 OMB. We also analyzed grant award amounts, as well as relevant regulations and federal agency guidance on programs selected for this review, and spoke with relevant program officials at the the U.S. Departments of Education, Energy, Health and Human Services (Centers for Medicare & Medicaid Services), Housing and Urban Development (HUD), Homeland Security (Federal Emergency Management Agency), and Transportation.

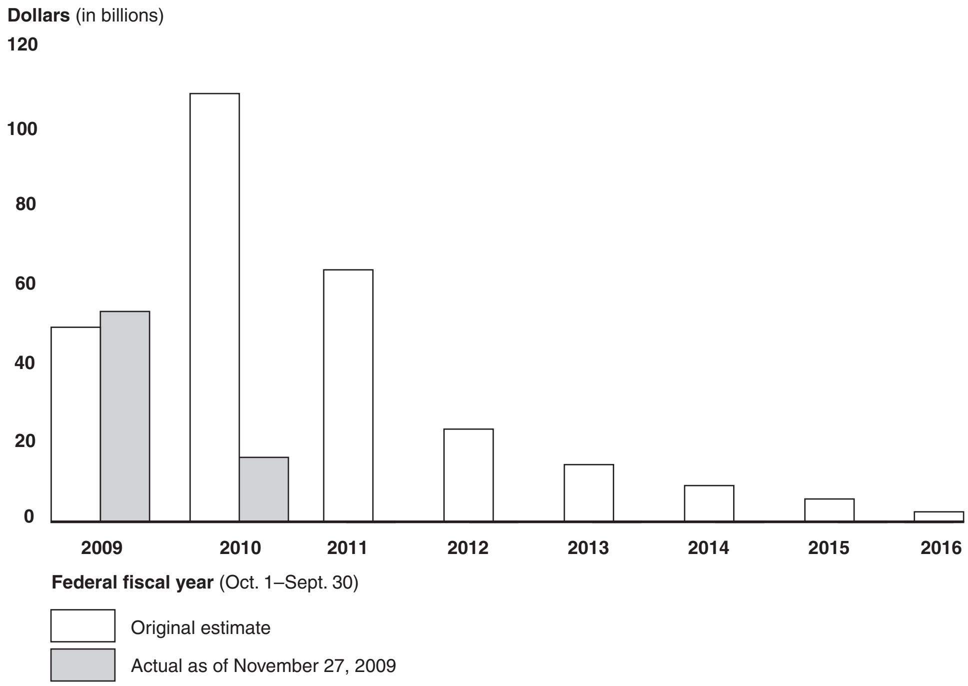
Where attributed to state officials, we did not review state legal materials for this report but relied on state officials and other state sources for description and interpretation of relevant state constitutions, statutes, legislative proposals, and other state legal materials. The information obtained 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 September 18, 2009, to December 4, 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.

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 ran through September 30, 2009. Actual federal Recovery Act outlays reported on www.recovery.gov (Recovery.gov) show that about $53 billion was outlayed to states and localities in fiscal year 2009, about $4 billion more than estimated. Nonetheless, a greater amount of Recovery Act funding is estimated to be outlayed in fiscal year 2010. For fiscal year 2010, as of November 27, 2009, the federal Treasury had paid out approximately $16.2 billion to states and localities. Figure 2 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 Recovery.gov.

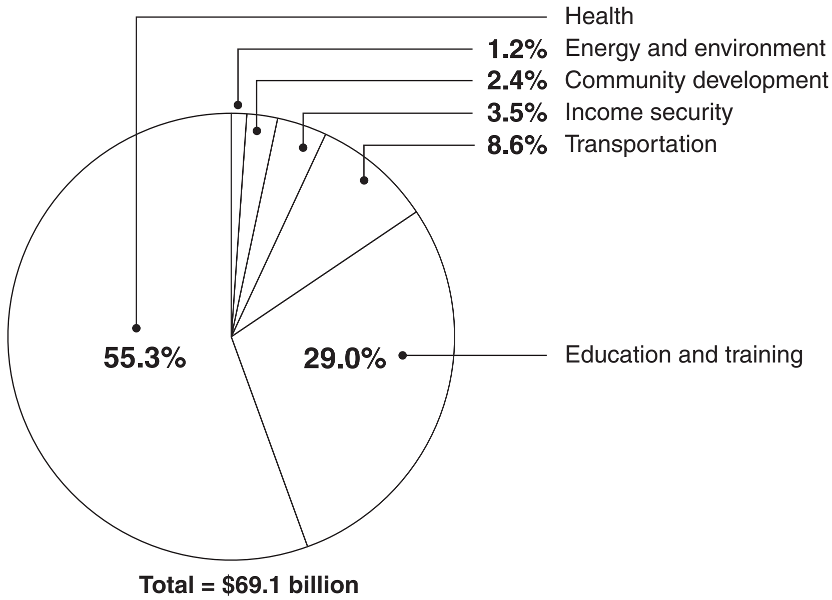
Figure 2: Estimated versus Actual Federal Outlays to States and Localities under the Recovery Act



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

As of November 27, 2009, the federal government had outlayed $69.1 billion in Recovery Act funds to state and local governments. As in figure 3, health, and education and training accounted for almost 85 percent of Recovery Act outlays for programs administered by states and localities. The largest programs within these areas were the FMAP, SFSF, and highway spending. The distribution of total federal outlays to states and localities by program is shown in figure 3.

Figure 3: Federal Recovery Act Outlays for Programs Administered by States and Localities (as of November 27, 2009)



Source: GAO analysis of data from Recovery.gov.

As we reported on November 19, 2009, recipients GAO contacted appear to have made good-faith efforts to ensure complete and accurate reporting.[4] However, GAO's fieldwork and initial review and analysis of recipient data from Recovery.gov indicate that there are a range of significant reporting and quality issues that need to be addressed. Even if the data quality issues are resolved, it is important to recognize that the full-time equivalents (FTE) in recipient reports alone do not reflect the total employment effects of the Recovery Act. As noted, these reports solely reflect direct employment arising from the expenditure of less than one third of Recovery Act funds. Therefore, both the data reported by recipients and other macroeconomic data and methods are necessary to gauge the overall employment effects of the stimulus. The Recovery Act includes entitlements and tax provisions, which also have employment

[4]GAO, *Recovery Act: Recipient Reported Jobs Data Provided Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention,* GAO-10-223 (Washington, D.C.: Nov. 19, 2009).

effects. The employment effects in any state will vary with labor market stress and fiscal condition.

States and Localities Continue Use of Recovery Act Funds as Their Fiscal Conditions Remain Challenging

Increased FMAP Continues to Help States Finance Their Growing Medicaid Programs, but Concerns about Longer-Term Sustainability Have Led States to Consider Future Program Reductions

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 Federal Medical Assistance Percentage (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 from October 1, 2008, to December 31, 2010.[5] On February 25, 2009, the Centers for Medicare & Medicaid Services (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.

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

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

- 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.[6]

- States must comply with prompt payment requirements.[7]

- 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.[8]

- 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.[9]

Most States Report Using Increased FMAP to Maintain Services to Growing Medicaid Population

We previously reported that by the end of fiscal year 2009, the Recovery Act had provided increased FMAP rates in the 16 states and the District that averaged 10.57 percentage points higher than the original 2009 rates established by the Department of Health and Human Services (HHS).[10] For the first quarter of federal fiscal year 2010, qualifying increases in

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[6]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).

[7]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).

[8]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).

[9]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.

[10]See GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, GAO-09-1016 (Washington D.C.: Sept. 23, 2009).

unemployment rates or increases in base FMAP rates contributed to higher increased FMAP rates for half of the sample states when compared to the fourth quarter of fiscal year 2009. The increased FMAP for the first quarter of fiscal year 2010 averaged 11.07 percentage points higher than the original 2009 rate, with increases ranging from 9.02 percentage points in Mississippi to 13 percentage points in Michigan. (See table 1.)

Table 1: Original and Increased Quarterly FMAPs for Fiscal Year 2009 and Preliminary Increased FMAPs for First Quarter of 2010 for 16 States and the District

Percentage points

State	Original fiscal year 2009 FMAP[a]	Fourth quarter fiscal year 2009 increased FMAP[b]	Preliminary first quarter fiscal year 2010 increased FMAP[c]	Difference between original 2009 FMAP and preliminary first quarter 2010 increased FMAP
Arizona	65.77	75.93	75.93	10.16
California	50.00	61.59	61.59	11.59
Colorado	50.00	61.59	61.59	11.59
District of Columbia	70.00	79.29	79.29	9.29
Florida	55.40	67.64	67.64	12.24
Georgia	64.49	74.42	74.96	10.47
Illinois	50.32	61.88	61.88	11.56
Iowa	62.62	70.71	72.55	9.93
Massachusetts	50.00	61.59	61.59	11.59
Michigan	60.27	70.68	73.27	13.00
Mississippi	75.84	84.24	84.86	9.02
New Jersey	50.00	61.59	61.59	11.59
New York	50.00	61.59	61.59	11.59
North Carolina	64.60	74.51	74.98	10.38
Ohio	62.14	72.34	73.47	11.33
Pennsylvania	54.52	65.59	65.85	11.33
Texas	59.44	69.85	70.94	11.50
Average FMAP increase		**10.57**		**11.07**

Source: GAO analysis of HHS data.

Note: Beginning in the third quarter of fiscal year 2009, HHS changed how it calculates the increased FMAP rates. Specifically, HHS calculates preliminary FMAP rates prior to the start of each quarter using Bureau of Labor Statistics preliminary unemployment estimates and adjusts these FMAP rates once the final unemployment numbers become available.

[a]The original fiscal year 2009 FMAP rates were published in the Federal Register on November 28, 2007. A correction for the North Carolina FMAP rate was published on December 7, 2007.

[b]The increased FMAP rates listed for the fourth quarter of federal fiscal year 2009 were provided by CMS on September 16, 2009.

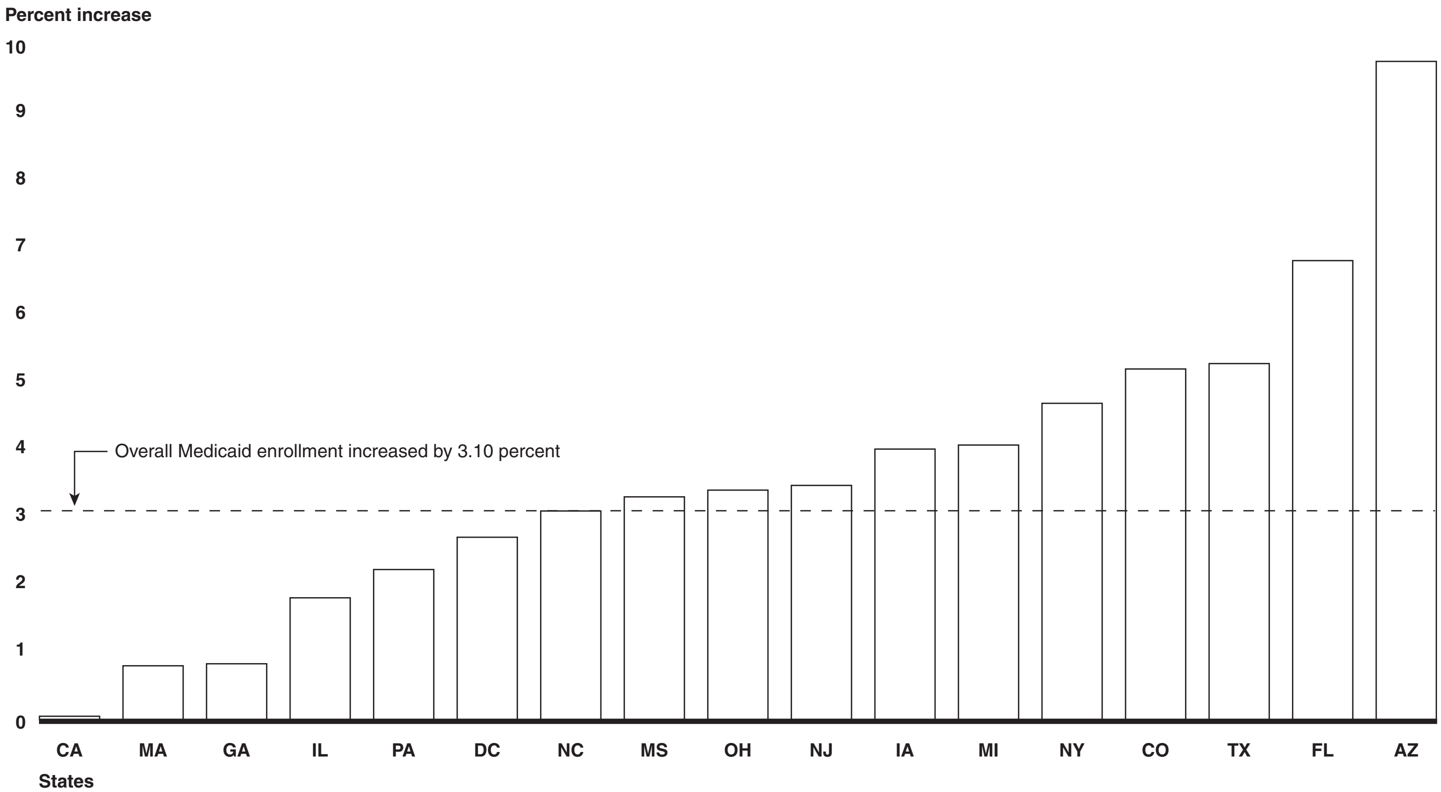
[c]Preliminary increased FMAP rates listed for the first quarter of federal fiscal year 2010 were provided by CMS on November 13, 2009.

As in the first half of federal fiscal year 2009, overall Medicaid enrollment for our sample of 16 states and the District continued to grow. For the third and fourth quarters of federal fiscal year 2009, overall Medicaid enrollment for our sample further increased by more than 3 percent.[11] While nearly all of the sample states and the District reported an enrollment increase from April 2009 to September 2009—with the highest number of programs experiencing an increase of 3 percent to 6 percent—the percentage change in enrollment varied widely, ranging from less than 1 percent in three states to about 10 percent in Arizona. (See figure 4.) Similar to prior time periods, most of the enrollment increase was attributable to children, a population group that is sensitive to economic downturns.[12]

[11]Two states that reported preliminary enrollment data for the fourth quarter of 2009 indicated that once finalized, their reported enrollment would likely increase. Therefore, our analysis of Medicaid enrollment for this time period potentially understates the change in overall enrollment.

[12]The percentage increase is based on state reported enrollment data for April 2009 to September 2009. Because the District did not provide Medicaid enrollment data for September 2009, we estimated enrollment for the District for this month.

Figure 4: Percentage Increase in Medicaid Enrollment for April 2009 to September 2009 for 16 States and the District



Source: GAO analysis of state reported enrollment data.

Note: The percentage increase is based on state-reported Medicaid enrollment data for April 2009 to September 2009. California and Georgia reported that their Medicaid enrollment totals for the fourth quarter of federal fiscal year 2009 would likely increase once data were finalized. Thus, our analysis likely understates the percentage enrollment increases for these states. We estimated enrollment for the District of Columbia for September 2009 because the District did not provide Medicaid enrollment for this month.

States can continue to draw from their increased FMAP grant awards for third and fourth quarter fiscal year 2009 expenditures until CMS finalizes the grant awards for these quarters, a process the agency has not yet completed.[13] As of November 30, 2009, the 16 sample states and the District had drawn down more than $22.26 billion from increased FMAP grant awards, or nearly 97 percent of funds available for federal fiscal year

[13]As part of the normal Medicaid grant award process, CMS reconciles states' quarterly estimated and actual Medicaid expenditures and finalizes the quarterly grants once the reconciliation is complete.

2009. (See table 2.) Nationally, the 50 states, the District, and several of the largest U.S. insular areas combined have drawn down about $32.6 billion, which represents just over 96 percent of the increased FMAP grants awarded in fiscal year 2009. In addition, with the exception of Pennsylvania, all of the sample states and the District have begun to draw down funds from their increased FMAP grant awards for the first quarter of federal fiscal year 2010.[14] As of November 30, 2009, they have drawn down about $3.58 billion, or almost 54 percent of funds available.

Table 2: FMAP Grant Awards for Federal Fiscal Year 2009 and Funds Drawn Down for 16 States and the District, as of November 30, 2009

Dollars in thousands

State	FMAP grant awards[a]	Funds drawn down	Percentage of funds drawn down
Arizona	$796,917	$755,923	94.86
California	4,364,715	3,831,014	87.77
Colorado	340,024	309,475	91.02
District of Columbia	141,775	127,227	89.74
Florida	1,861,572	1,861,572	100.00
Georgia	706,961	683,840	96.73
Illinois	1,266,414	1,213,733	95.84
Iowa	195,776	194,046	99.12
Massachusetts	1,205,643	1,162,444	96.42
Michigan	1,000,046	996,670	99.66
Mississippi	291,580	291,580	100.00
New Jersey[b]	856,509	858,931	100.28
New York	4,327,183	4,312,277	99.66
North Carolina[b]	827,062	944,469	114.20
Ohio	1,228,943	1,188,412	96.70
Pennsylvania	1,569,221	1,546,619	98.56
Texas	2,026,041	1,982,852	97.87
Sample total	**$23,006,383**	**$22,261,085**	**96.76**
National total	**$33,800,409**	**$32,599,063**	**96.45**

Source: GAO analysis of HHS data as of November 30, 2009.

[14]Pennsylvania Medicaid officials told us that the state intends to draw from its 2010 increased FMAP grant award; however, the state typically draws available funds retroactively to coincide with the submission of its quarterly expenditure report. For example, the state drew from its 2009 fourth quarter grant award on November 17, 2009.

[a]The FMAP grant awards listed are for all four quarters of federal fiscal year 2009 through November 30, 2009.

[b]The drawdown in two states—North Carolina and New Jersey—has exceeded the states' 2009 increased FMAP grant award. CMS officials told us that, in some cases, states were incorrectly continuing to draw from the 2009 increased FMAP grant but that CMS is working with states to correct these discrepancies.

While the increased FMAP available under the Recovery Act is for state expenditures for Medicaid services, the receipt of these funds may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these freed-up funds for a variety of purposes. Similar to their reported uses in fiscal year 2009, states and the District most commonly reported using or planning to use these freed-up funds in fiscal year 2010 to cover increased Medicaid caseloads, maintain Medicaid eligibility levels, and finance general state budget needs. In addition, more than half of the states and the District reported using these funds to maintain benefits and services and to maintain payment rates for practitioners and institutional providers. Five states reported using these funds to meet prompt pay requirements, and two states and the District also reported using these funds to help finance their State Children's Health Insurance Program or other local or state public health insurance programs. Although virtually all of the sample states and the District reported using these funds for multiple purposes, two states—North Carolina and Ohio—reported that they plan to continue using freed-up funds exclusively to finance general state budget needs.

As we previously reported, 12 states indicated they made adjustments to their Medicaid programs in order to comply with Recovery Act requirements, including rescinding prior program changes or canceling planned changes that conflicted with requirements.[15] In our most recent survey, three states reported making additional adjustments to comply specifically with the act's prompt pay requirement. For example, Florida and Michigan reported making systems changes that allow them to track their compliance with aspects of the prompt pay requirement. The sample states previously identified the prompt pay requirement as the most difficult for them in terms of compliance with the Recovery Act,[16] and in the most recent survey, four states reported they did not comply with this requirement for 1 day. Nonetheless, most sample states and the District indicated in the recent survey that CMS's July 30, 2009, State Medicaid

[15]See GAO-09-1016.

[16]See GAO-09-1016.

Director's letter provided them with sufficient information to facilitate compliance.[17]

Responses from the sample states and the District were more varied when asked about whether the increased FMAP funds were sufficient to protect and maintain their Medicaid programs during the economic downturn or to provide fiscal relief to the state. While two states reported that the amount of increased FMAP funds was sufficient to meet these purposes in fiscal year 2010, six states reported that the amount of increased FMAP was not sufficient. The remaining eight states and the District reported that the funds were only somewhat sufficient to meet these purposes during fiscal year 2010. Among the states that reported the amount of increased FMAP was not sufficient or only somewhat sufficient, some reported taking actions to reduce their Medicaid program spending. For example, California cut certain optional Medicaid benefits, including adult dental services, though an official said the state would have made additional program reductions without the increased FMAP. Pennsylvania reported reducing disproportionate share hospital payments[18] and eliminating pay-for-performance funds for some Medicaid managed care organizations.

States Are Considering Reductions to Their Medicaid Programs As Concerns about Program Sustainability Persist

As for the longer term outlook for their Medicaid programs, the District and all but one of the sample states reiterated their concerns about the sustainability of their Medicaid programs after the increased FMAP funds are no longer available, beginning in January 2011. When asked about the factors driving their concerns, virtually all of the states and the District cited the size of the increase in the state's share of Medicaid payments when the regular FMAP rate goes back into effect in January 2011—an increase we estimate will range from 28 percent to 66.9 percent (an average of 36.4 percent) compared with the first quarter 2010 increased FMAP. (See table 3.) In addition, most of the sample states and the District

[17]CMS officials told us that they do not have specific plans for issuing additional formal guidance; however, CMS officials continue to work with states to identify issues and, as appropriate, may issue further guidance regarding compliance with Recovery Act requirements such as political subdivisions and rainy-day funds. In addition, the agency recently asked states to complete a report that includes detailed questions about their receipt and use of increased FMAP. CMS officials indicated they hope to collect this information quarterly and plan to use the state data to inform CMS oversight of issues related to the Recovery Act.

[18]Under federal law, states are required to make disproportionate share hospital payments to hospitals that treat large numbers of low-income patients with special needs. See 42 U.S.C. §§ 1396(a)(13)(A), 1396r-4.

reported that projected enrollment increases and further declines in economic conditions and tax revenues have also contributed to their concerns about the longer-term sustainability of their programs. Ultimately, the effect of states' increased share in Medicaid payments will vary depending on the extent of change in Medicaid enrollment within their individual programs.

Table 3: Increase in State Share between Preliminary First Quarter Fiscal Year 2010 Increased FMAP and Fiscal Year 2011 Regular FMAP

State	Preliminary fiscal year 2010 increased FMAP, first quarter[a]	Fiscal year 2011 regular FMAP[b]	Percentage difference in state share between preliminary first quarter 2010 increased FMAP and 2011 regular FMAP	Percentage point difference in state share between preliminary first quarter 2010 increased FMAP and 2011 regular FMAP
Arizona	75.93	65.85	41.9	10.08
California	61.59	50.00	30.2	11.59
Colorado	61.59	50.00	30.2	11.59
District of Columbia	79.29	70.00	44.9	9.29
Florida	67.64	55.45	37.7	12.19
Georgia	74.96	65.33	38.5	9.63
Illinois	61.88	50.20	30.6	11.68
Iowa	72.55	62.63	36.1	9.92
Massachusetts	61.59	50.00	30.2	11.59
Michigan	73.27	65.79	28.0	7.48
Mississippi	84.86	74.73	66.9	10.13
New Jersey	61.59	50.00	30.2	11.59
New York	61.59	50.00	30.2	11.59
North Carolina	74.98	64.71	41.0	10.27
Ohio	73.47	63.69	36.9	9.78
Pennsylvania	65.85	55.64	29.9	10.21
Texas	70.94	60.56	35.7	10.38
Average difference			**36.4**	**10.53**

Source: GAO analysis of HHS data.

[a]The preliminary increased FMAP rates listed for the first quarter of federal fiscal year 2010 were provided by CMS on November 13, 2009.

[b]The fiscal year 2011 FMAP rates were published in the Federal Register on November 27, 2009.

Due to these concerns, 11 states and the District reported that they were considering reducing eligibility, benefits and services, or provider rates in fiscal year 2011. Specifically, 5 states and the District reported they were considering eligibility reductions; 8 states and the District reported considering reductions to benefits and services; and 10 states and the District reported considering reductions to provider payment rates. In terms of federal action that would best address their concerns about program sustainability, nearly all states and the District identified an extension in the availability of the increased FMAP beyond December 2010. In addition, most states and the District identified greater flexibility in the Recovery Act's maintenance of eligibility requirement or prompt payment requirement as actions that would also help address their concerns.

Most Highway and Transit Recovery Act Funding Has Been Obligated

The majority of the approximately $35 billion that the Recovery Act provided for highway infrastructure projects and public transportation has been obligated nationwide and in the 16 states and the District of Columbia (District) that are the focus of our review. For example, as of November 16, 2009, $20.4 billion of the funds had been obligated for just over 8,800 projects nationwide and $4.2 billion had been reimbursed.[19] In the 16 states and the District, $11.9 billion had been obligated for nearly 4,600 projects and $1.9 billion had been reimbursed. Almost half of Recovery Act highway obligations nationally and in the 16 states and the District have been for pavement improvements—including resurfacing, rehabilitating, and reconstructing roadways.

For Recovery Act transit funds, we focused our review on the Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program, which received approximately 91 percent of the Recovery Act transit funds, and on seven selected states that received funds from these programs. As of November 5, 2009, about $6.7 billion of the Recovery Act's Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program funds had been obligated nationwide.[20] Almost 88 percent of Recovery Act Transit Capital

[19]For the Federal Highway Program, the U.S. Department of Transportation (DOT) has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement. States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

[20]For the Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program, the U.S. DOT has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a grant agreement.

Assistance Program obligations are being used for upgrading transit facilities, improving bus fleets, and conducting preventive maintenance.

Three Quarters of Highway Funds Have Been Obligated, and Reimbursements Are Increasing

The Recovery Act provides funding to 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 Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must follow existing program requirements, which include ensuring the project meets all environmental requirements associated with the National Environmental Policy Act (NEPA), paying a prevailing wage consistent with federal Davis-Bacon Act 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. While the maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent, under the Recovery Act, it is 100 percent.

In March 2009, $26.7 billion was apportioned to all 50 states and the District for highway infrastructure and other eligible projects. Table 4 shows the funds apportioned and obligated nationwide and in selected states as of November 16, 2009.

Table 4: Recovery Act Highway Apportionments and Obligations Nationwide and in Selected States as of November 16, 2009 (dollars in millions)

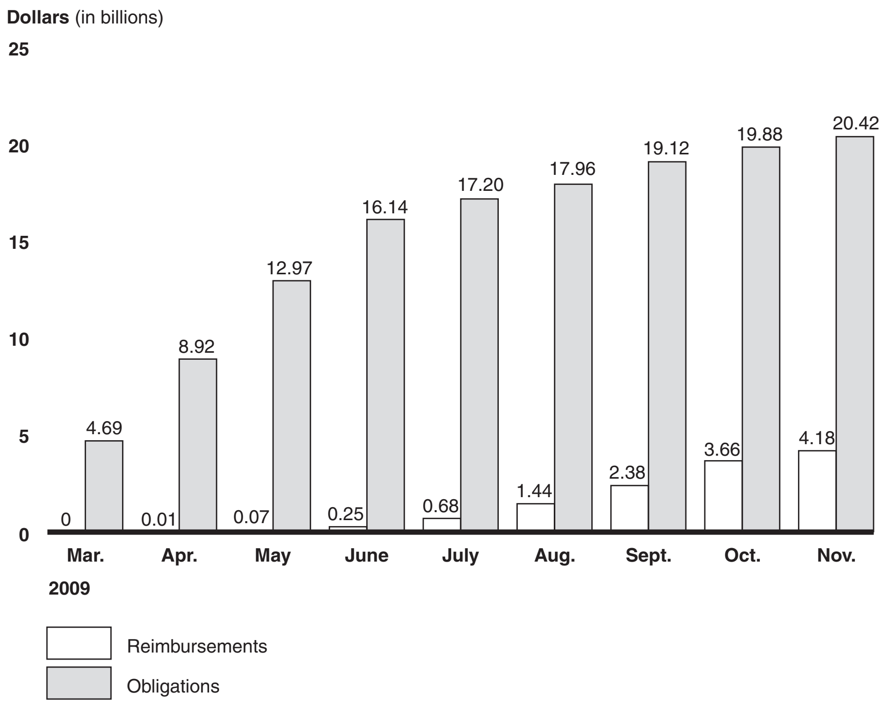
		Obligation	
State	Apportionment	Obligated amount	Percentage of apportionment obligated
Arizona	522	299	57
California	2,570	2,085	81
Colorado	404	346	86
District of Columbia	124	106	86
Florida	1,347	1,123	83
Georgia	932	710	76
Illinois	936	784	84
Iowa	358	342	96
Massachusetts	438	252	58
Michigan	847	716	84
Mississippi	355	306	86
New Jersey	652	492	75
New York	1,121	833	74
North Carolina	736	659	90
Ohio	936	488	52
Pennsylvania	1,026	925	90
Texas	2,250	1,396	62
Selected states total	15,551	11,864	76
U.S. total	**26,660**	**20,422**	**77**

Source: GAO analysis of FHWA data.

Note: Obligation data does not include obligations associated with $290 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.

As of November 16, 2009, $4.2 billion had been reimbursed nationwide by Federal Highway Administration (FHWA), including $1.9 billion reimbursed to the 16 states and the District. These amounts represent 20 percent of the Recovery Act highway funding obligated nationwide and 16 percent of the funding obligated in the 16 states and the District. As we reported in our September report, because it can take 2 or more months for a state to bid and award the work to a contractor and have work begin after funds have been obligated for specific projects, it may take months before states request reimbursement from FHWA.[21] However reimbursements have increased considerably over time, from $10 million in April to $4.2 billion in mid-November. Reimbursements have also increased considerably since we last reported in September when $604 million had been reimbursed to the 16 states and the District and $1.4 billion had been reimbursed nationwide. This is shown in figure 5.

Figure 5: Cumulative Recovery Act Highway Funds Obligated and Reimbursed by FHWA Nationwide from March 31, 2009, to November 16, 2009



Source: GAO analysis of FHWA data.

Note: Obligation and reimbursement data does not include obligations or reimbursements associated with $290 million of apportioned funds that were transferred from FHWA to 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. November data is only for the first 16 days of the month and not a full month.

[21]Once the contract is awarded and contractors mobilize and begin work, states make payments to these contractors for completed work; states may request reimbursement from FHWA. FHWA, through the U.S. Department of the Treasury, is required to pay the state promptly after the state pays out of its own funds for project-related purposes.

While reimbursement rates have been increasing, wide differences exist across states. Some differences we observed among the states were related to the complexity of the types of projects states were undertaking and the extent to which projects were being administered by local governments. For example, Illinois and Iowa have the highest reimbursement rates—36 percent and 53 percent of obligations, respectively—far above the national average. Illinois and Iowa also have a far larger percentage of funds devoted to resurfacing projects than other states—as discussed in the next section, resurfacing projects can be quickly obligated and bid. Florida and California have among the lowest reimbursement rates, less than 2 percent and 4 percent of obligations, respectively. As discussed in the next section, Florida is using Recovery Act funds for more complex projects, such as constructing new roads and bridges and adding lanes to existing highways. Florida officials also told us that the pace of awarding contracts has been generally slower in areas where large numbers of projects are being administered by local agencies (see GAO-10-232SP). In California, state officials said that projects administered by local agencies may take longer to reach the reimbursement phase than state projects due to additional steps required to approve local highway projects. For example, highway construction contracts administrated by local agencies in California call for a local public notice and review period, which can add nearly 6 weeks to the process. In addition, California state officials stated that localities tend to seek reimbursement in one lump sum at the end of a project, which can contribute to reimbursement rates not matching levels of ongoing construction.

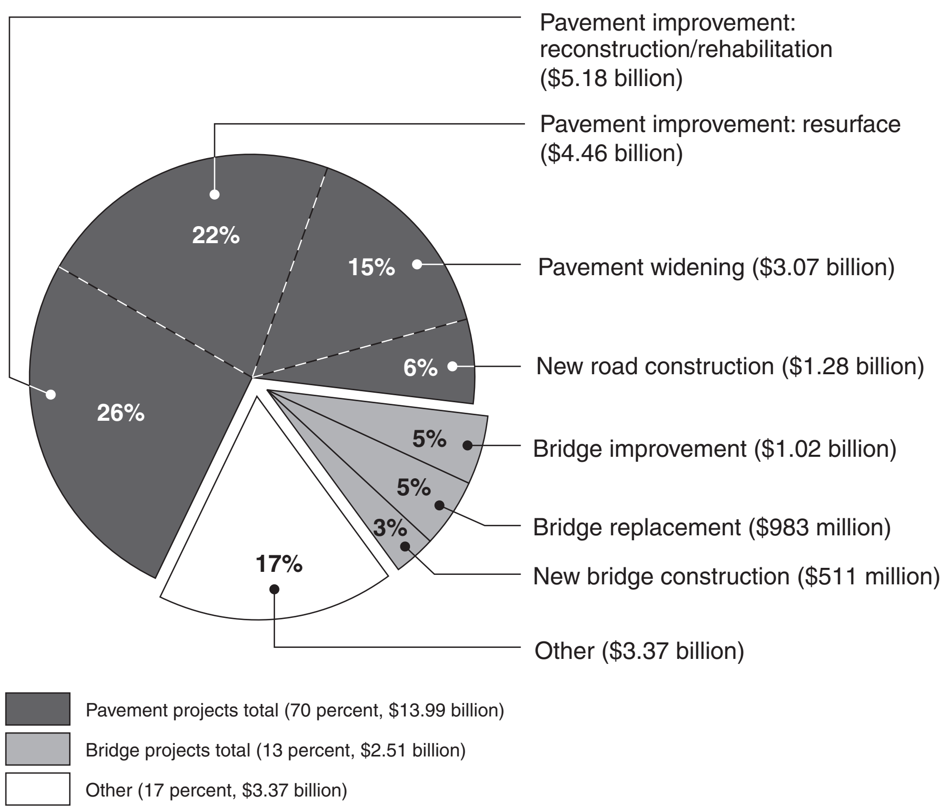
States Continue to Dedicate Most Recovery Act Highway Funds for Pavement Projects, but Use of Funds May Vary Depending on State Transportation Goals

Almost half of Recovery Act highway obligations nationally have been for pavement improvements—including resurfacing, rehabilitating, and reconstructing roadways—consistent with the use of Recovery Act funds in our previous reports. Specifically, $4.5 billion, or 22 percent, is being used for road resurfacing projects, while $5.2 billion, or 26 percent, is being used for reconstructing or rehabilitating deteriorated roads.[22] As we have reported, many state officials told us they selected a large percentage of resurfacing and other pavement improvement projects because those projects 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. In addition to pavement

[22]Data is as of October 31, 2009. A total of $19.9 billion had been obligated nationwide as of that date.

improvement, other projects that have significant funds obligated include pavement widening (reconstruction that includes new capacity to existing roads), with $3 billion (15 percent) obligated, and bridge replacement and improvements, with $2 billion (10 percent) obligated. Construction of new roads and bridges accounted for 6 percent and 3 percent of funds obligated, respectively. Figure 6 shows obligations by the types of road and bridge improvements being made.

Figure 6: National Recovery Act Highway Obligations by Project Improvement Type as of October 31, 2009



Source: GAO analysis of Federal Highway Administration data.

Note: Totals may not add due to rounding. “Other” includes safety projects, such as improving safety at railroad grade crossing, and transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

The total distribution of project funds by improvement type among the 16 states and the District closely mirrors the distribution nationally—however, we noted wide differences in how funds were used in these states. States have considerable latitude to select projects under both the

Recovery Act and the regular Federal-Aid Highway Program, and as a result, states have adopted different strategies to use Recovery Act funding to meet the states' transportation goals and needs and promote long-term investment in infrastructure. The following are some examples:

- Illinois and Iowa have had a significant portion of their Recovery Act funds obligated for resurfacing projects—63 percent and 59 percent of funds, respectively, compared with 10 percent and 12 percent of funds in Pennsylvania and Florida, respectively (the national average is 22 percent). Iowa officials told us that focusing on pavement projects allowed them to advance a significant number of needed projects, which will reduce the demand for these types of projects and free up federal and state funding for larger, more complex projects in the near future.

- According to California officials, under a state law enacted in March 2009, 62.5 percent of funds went directly to local governments for projects of their selection, while the remaining 37.5 percent is being used mainly for state highway rehabilitation and maintenance projects that, due to significant funding limitations, would not have otherwise been funded. According to California officials, distributing a majority of funds to localities allow a number of locally important projects to be funded.

- Mississippi used over half its Recovery Act funds for pavement improvement projects and around 14 percent of funds for pavement widening. The Executive Director of the state transportation department told us the Recovery Act allowed Mississippi to undertake needed projects and to enhance the safety and performance of the state's highway system. However, the Executive Director also said that the act's requirements that priority be given to projects that could be completed in 3 years resulted in missed opportunities to address long term needs, such as upgrading a state roadway to interstate highway standards that would have likely had a more lasting impact on Mississippi's infrastructure and economic development.

- In Florida, 36 percent of funds have been obligated for pavement-widening projects (compared with 15 percent nationally) and 23 percent for construction of new roads and bridges (compared with 9 percent nationally), while in Ohio, 32 percent of funds have been obligated for new road and bridge construction.

- Pennsylvania targeted Recovery Act funds to reduce the number of structurally deficient bridges in the state.[23] As of October 2009, 31 percent of funds in Pennsylvania were obligated for bridge improvement and replacement (compared with 10 percent nationally), in part because a significant percentage (about 26 percent, as of 2008) of the state's bridges are structurally deficient.[24]

- Massachusetts has used most of its Recovery Act funds to date for pavement improvement projects, including 30 percent of funds for resurfacing projects and 43 percent of funds for reconstructing or rehabilitating deteriorated roads. Massachusetts officials told us that the focus of its projects for reconstructing and rehabilitating roads, as well as the focus of future project selections, is to select projects that promote the state's broader long-term economic development goals. For example, according to Massachusetts officials, the Fall River development park project supports an economic development project and includes construction of a new highway interchange and new access roadways to a proposed executive park. FHWA officials expressed concern that Massachusetts may be pursuing ambitious projects that run the risk of not meeting Recovery Act requirements that all funds be obligated by March 2010.

States Are Taking Additional Steps to Meet Recovery Act Highway Requirements, Including the Obligation Deadline and the Economically Distressed Area and Maintenance of Effort Requirements

Recovery Act highway funding is apportioned under the rules governing the Federal-Aid Highway Program generally and its Surface Transportation Program in particular, and states have wide latitude and flexibility in which projects are selected for federal funding. However, the Recovery Act tempers that latitude with requirements that do not exist in the regular program, including the following requirements:

- States are required to ensure that all apportioned Recovery Act funds—including suballocated funds—are obligated within 1 year (before Mar. 2, 2010). The Secretary of Transportation is to withdraw and redistribute to eligible states any amount that is not obligated

[23]The Highway Bridge Program classifies bridge conditions as deficient or not. A structurally deficient bridge is defined as a bridge with at least one or more components in poor condition.

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

within this time frame.[25] Any Recovery Act funds that are withdrawn and redistributed are available for obligation until September 30, 2010.[26]

- Give priority to projects that can be completed within 3 years and to projects located in economically distressed areas. Distressed areas are defined by the Public Works and Economic Development Act of 1965, as amended.[27] According to this act, to qualify as an economically distressed area, 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-or long-term changes in economic conditions. In response to our recommendation, FHWA, in consultation with the Department of Commerce, issued guidance on August 24, 2009, that provided criteria for states to use for designating special needs areas for the purpose of Recovery Act funding.[28]

- 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.[29]

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[25]The Recovery Act provides that states that have had their statewide funds obligated before March 2, 2010, will be eligible to receive redistributed funds even if their suballocated funds have not been obligated. Recovery Act, div. A, title XII, 123 Stat. 115, 206.

[26]Recovery Act, div. A, §1603.

[27]42 U.S.C. § 3161.

[28]As we reported in September 2009, the criteria align closely with special need criteria used by the Department of Commerce's Economic Development Administration in its own grant programs, including factors such as actual or threatened business closures (including job loss thresholds), military base closures, and natural disasters or emergencies.

[29]Recovery Act, div. A, § 1201(a).

The first Recovery Act requirement is that states have to ensure that all apportioned Recovery Act funds—including suballocated funds—are obligated within 1 year. Over seventy-five percent of apportioned Recovery Act highway funds had been obligated as of November 16, 2009, both nationwide and among the 16 states and the District. Nine states and the District have higher obligation rates than the national average, including Iowa and the District—for which FHWA has obligated 96 percent and 86 percent of funds, respectively. Conversely, Arizona, Massachusetts, Ohio, and Texas have obligation rates of between 52 percent and 62 percent of apportioned funds. Officials at FHWA and state department of transportation officials in the states we reviewed generally believe that these states are on track to meet the March 2010 1-year deadline.

However, two factors may affect some states' ability to meet the 1-year requirement. First, many state and local governments are awarding contracts for less than the original estimated cost. This allows states to use the savings from lower contract awards for other projects, but additional projects funded with deobligated funds must be identified quickly. In order to use the savings resulting from the lower contract awards, a state must request FHWA to deobligate the difference between the official estimate and the contract award amount and then obligate funds for a new project.

Our analysis of contract award data shows that for the 10 states and the District, the majority of contracts are being awarded for less than the original cost estimates.[30] While there is a variation in the number of contracts being awarded for lower than their original estimates, every state we collected information from awarded at least half of its contracts for less than the original cost estimates. Some states had an extremely

[30]The data provided included projects that had been awarded contracts and projects where contracts had not yet been awarded. Our analysis included projects that had official engineer's estimates and the contract award amount. Therefore, only projects that had values for the estimate and award amounts were included in our analysis. Although we examined the data for obvious discrepancies, the data we collected are self-reported by individual states. Therefore, the data may not be complete and we consider the reliability of these data undetermined. Because of this, we are only reporting ranges and approximate percentages. Our analysis included data from states that had the data available as of November 19, 2009. In all, we reviewed 1880 contracts ranging from 12 contracts in the District to 587 contracts in Illinois. In addition, some states provided data for only state awarded contracts, while other states provided both state and locally awarded contract data.

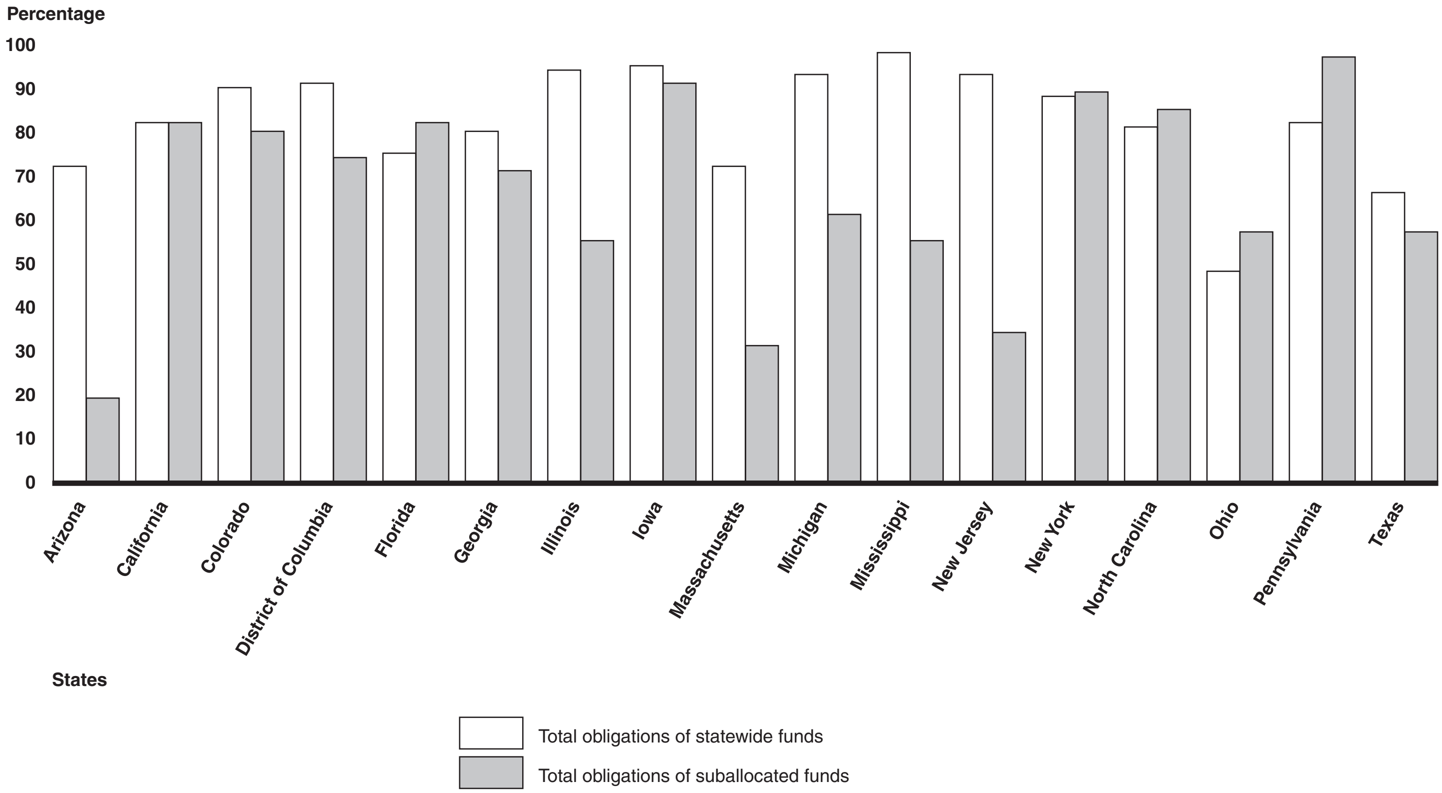
high number of contracts awarded at lower amounts. For example, California, Georgia, and Texas awarded more than 90 percent of their contracts for less than their cost estimates. We also found a significant variation in both the average amount and the range of the savings from contracts awarded at lower amounts. For example, in the District and Georgia, such contracts averaged more than 30 percent less than original state estimates, while in Colorado and Massachusetts, such contracts averaged under 15 percent less than original state estimates. In addition, there is also a significant range in individual projects, with the savings ranging from less then 1 percent under estimates in a number of states to almost 55 percent under estimates in New York and over 90 percent under in Illinois.

Federal regulations require states to promptly review and adjust project cost estimates on an ongoing basis and at key decision points, such as when the bid is approved.[31] Many state officials told us that their state has already started the process of ensuring funds are deobligated and obligated to other highway programs and projects by the 1-year deadline. For example, in Colorado, officials are planning to use Recovery Act funds that are being deobligated by FHWA for 5 new projects, while in California, FHWA deobligated approximately $108.5 million and the state has identified 16 new state projects for Recovery Act funding. FHWA officials told us they recognize the need to develop a process to monitor and ensure deobligation of Recovery Act funds from known savings before the 1-year deadline.

A second factor that may affect some states' ability to meet the 1-year requirement is that obligations for projects in suballocated areas, while increasing, are generally lagging behind obligations for statewide projects in most states and lagging considerably behind in a few states. In the 16 states and the District, 79 percent of apportioned statewide funds had been obligated as of October 31, 2009, while 65 percent of suballocated funds had been obligated. Figure 7 shows obligations for statewide and suballocated areas in the 16 states and the District.

[31] Specifically, within 90 days after determining that the estimated federal share of project costs has decreased by $250,000 or more, states shall revise the federal funds obligated for a project. 23 C.F.R. § 630.106(a)(4). The funds deobligated through this process may be used for other FHWA-approved projects once the funds have been obligated by FHWA.

Figure 7: Percentage of Recovery Act Highway Apportionments That Have Been Obligated for Statewide and Suballocated Areas in Selected States as of October 31, 2009



Source: GAO analysis of FHWA data.

Note: This figure includes only apportioned funds available for highways and excludes $290 million of apportioned funds that were transferred from FHWA to FTA for transit projects in 9 states. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

As shown in figure 7, and as we reported in September 2009, FHWA has obligated substantially fewer funds suballocated for metropolitan and local areas in three states. While the national average for obligations of Recovery Act funds for suballocated areas is 63 percent, as of October 31, New Jersey, Massachusetts, and Arizona had obligation rates of 34 percent, 31 percent, and 18 percent of these funds, respectively. Officials in these three states cited a number of reasons for this—including lack of familiarity by local officials with federal requirements and increased staff workload associated with Recovery Act projects—and reported they were taking a number of actions to increase obligations, such as imposing internal deadlines on local governments to identify and submit projects.[32] As of October 2009, Arizona had awarded four contracts (one more than it had as of September 2009) representing $29 million of the $157 million of suballocated funds. This represents 18 percent of suballocated funds——a decline from the 21 percent of suballocated funds that had been obligated when we reported in September 2009. Arizona Department of Transportation officials told us that although one new contract had been awarded, the state's total obligation of suballocated funds had declined because some suballocated funds were deobligated after more contracts were awarded for less than the estimated amount. Officials also told us that if local governments are not able to advertise contracts for construction in suballocated areas prior to the March 2010 deadline, the state would use Recovery Act funds on "ready-to-go" statewide highway projects in those areas. Similarly, officials in two localities told us that if projects intended for Recovery Act funds were in danger of not having funds obligated by the deadline, they would use those funds on projects now slated to be funded with state dollars and use state funding for other projects.

Although states are working to have all of their suballocated funds obligated before March 2010, failure to do so will not prohibit them from participating in the redistribution of Recovery Act funds after March 2, 2010. The Secretary of Transportation is to withdraw highway funds, including suballocated funds, which are not obligated before March 2, 2010. States that have obligated all of the funds that were apportioned for use by the state (those that were not suballocated) are eligible to participate in this redistribution, regardless of whether all of the state's suballocated funds have been obligated. FHWA is in the process of developing guidance on the redistribution of any Recovery Act funding that remains unobligated one year after apportionment. According to DOT officials, consistent with the Recovery Act, FHWA currently plans to model this redistribution after the process used each year in the regular federal-aid highway program to redistribute obligation authority, allowing Recovery Act funds redistributed to the states to be available for any qualified project in a state.

The second Recovery Act requirement is to give priority to projects that are project to be completed in three years or are located in economically distressed areas. In July and September 2009, we identified substantial

[32] See GAO-09-1016.

variation in the extent to which states prioritized projects in economically distressed areas and how they identified these areas. For example, we found instances of states developing their own eligibility requirements for economically distressed areas using data or criteria not specified in the Public Works and Economic Development Act. State officials told us they did so to respond to rapidly changing economic conditions. In response to our recommendation, FHWA, in consultation with the Department of Commerce, issued guidance to the states in August 2009 on identifying and giving priority to economically distressed areas and criteria to identify "special need" economically distressed areas that do not meet the statutory criteria in the Public Works Act.[33] In its guidance, FHWA directed states to maintain information as to how they identified, vetted, examined, and selected projects located in economically distressed areas and to provide FHWA's division offices with documentation that demonstrates satisfaction of the "special need" criteria. FHWA issued additional questions and answers relating to economically distressed areas in November 2009.

Widespread designations of special needs areas give added preference to highway projects for Recovery Act funding; however, they also make it more difficult to target Recovery Act highway funding to areas that have been the most severely impacted by the economic downturn. Three of the states we reviewed—Arizona, California, and Illinois—had each developed and applied its own criteria for identifying economically distressed areas, and in two of the three states, applying the new criteria increased the number of areas considered distressed. [34] In California, the number of counties considered distressed rose from 49 to all 58 counties, while in Illinois, the number of distressed areas increased from 74 to 92 of the state's 102 counties. All 15 counties in Arizona were considered distressed under the state's original determination and remained so when the state applied the revised criteria. FHWA officials told us they expected the number of "special needs" distressed areas to increase when the new guidance was applied. We plan to continue to monitor the states' implementation of DOT's economically distressed area guidance.

[33] As we reported, the criteria align closely with special need criteria used by the Department of Commerce's Economic Development Administration in its own grant programs, including factors such as actual or threatened business closures (including job loss thresholds), military base closures, and natural disasters or emergencies.

[34] For example, Arizona identified these areas based in part on home foreclosure rates—data not specified in the Public Works Act.

The third Recovery Act requirement is for states to certify that they will maintain the level of state effort for programs covered by the Recovery Act. As we reported in September 2009, most states revised the initial explanatory or conditional certifications they submitted to DOT after DOT's April 22, 2009, guidance required states to recertify without conditions. All states that submitted conditional certifications submitted a second maintenance of effort certification to DOT without conditions, and DOT concluded that the form of each state certification was consistent with its April guidance. In June 2009, FHWA began to review each state's maintenance of effort calculation to determine whether the method of calculation was consistent with DOT guidance and the amounts reported by the states for planned expenditures for highway investment was reasonable. For example, FHWA division offices evaluated, among other things, whether the amount certified (1) covered the period from February 17, 2009, through September 30, 2010, and (2) included in-kind contributions. FHWA division staff then determined whether the state certification needed (1) no further action, (2) further assessment, or (3) additional information. In addition, according to FHWA officials, their assessments indicated that FHWA needed to clarify the types of projects funded by the appropriations and the types of state expenditures that should be included in the maintenance of effort certifications. As a result of these findings, DOT issued guidance in June, July, and September 2009 and plans to issue additional guidance on these issues.

In August 2009, FHWA staff in headquarters reviewed the FHWA division staff findings for each sate and proceeded to work with each FHWA division office to make sure their states submit revised certifications that will include the correct planned expenditures for highway investment—including aid to local agencies. FHWA officials said that of the 16 states and the District that we reviewed for this study, they currently expect to have 12 states submit revised certifications for state highway spending, while an additional 2 states are currently under review and may have to revise their certifications. DOT officials stated they have not determined when they will require the states to submit their revised consolidated certification. According to these officials, they want to ensure that the states have enough guidance to ensure that all programs covered by the Recovery Act maintenance of effort provisions have completed their maintenance of effort assessments and that the states have enough guidance to ensure that this is the last time that states have to amend their certifications.

Most state officials we spoke with are committed to trying to meet their maintenance of effort requirements, but some are concerned about meeting the requirements. As we have previously reported, states face drastic fiscal challenges. States' fiscal year 2009 revenue collections fell below fiscal year 2008 collections and revenue collections are expected to continue their decline in fiscal 2010. Although the state officials we spoke with are committed to trying to meet the maintenance of effort requirements, officials from seven state departments of transportation told us the current decline in state revenues creates major challenges in doing so. For example, Iowa, North Carolina, and Pennsylvania transportation officials said their departments may be more difficult to maintain their levels of transportation spending if state gas tax and other revenues, which are used to fund state highway and state-funded transportation projects, decline. In addition, Georgia officials also stated that reduced state gas tax revenues pose a challenge to meeting its certified level of effort. Lastly, Mississippi and Ohio transportation officials stated that if their state legislatures reduce their respective department's budget for fiscal year 2010 or 2011, the department may have difficulty maintaining its certified spending levels.

FTA Reports That the Majority of Transit Funds Have Been Obligated, with Most Funding Being Used for Transit Facilities, Bus Fleets, and Preventive Maintenance

The Recovery Act appropriated $8.4 billion to fund public transit throughout the country mainly through three existing Federal Transit Administration (FTA) grant programs, including the Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program.[35] The majority of the public transit funds—$6.9 billion (82 percent)—was apportioned for the Transit Capital Assistance Program, with $6 billion designated for the urbanized area formula grant program and $766 million designated for the nonurbanized area formula grant program.[36] Under the urbanized area formula grant program, Recovery Act funds were apportioned to large and medium urbanized areas—which in some cases include a metropolitan area that spans multiple states—throughout the country according to existing program formulas. Recovery Act funds were also apportioned to states for small urbanized areas and

[35]The other public transit program receiving Recovery Act funds is the Capital Investment Grant program, which was appropriated $750 million. The Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program are formula grant programs, which allocate funds to states or their subdivisions by law. Grant recipients may then be reimbursed for expenditures for specific projects based on program eligibility guidelines. The Capital Investment Grant program is a discretionary grant program, which provides funds to recipients for projects based on eligibility and selection criteria.

[36]Urbanized areas are areas encompassing a population of not less than 50,000 people that have been defined and designated in the most recent decennial census as an "urbanized area" by the Secretary of Commerce. Nonurbanized areas are other areas, i.e., areas that do not have population densities of at least 50,000 people.

nonurbanized areas under the formula grant programs using the program's existing formula. Transit Capital Assistance Program funds may be used for such activities as facilities renovation or construction, vehicle replacements, preventive maintenance, and paratransit services. Up to 10 percent of apportioned Recovery Act Transit Capital Assistance funds may also be used for operating expenses.[37] The Fixed Guideway Infrastructure Investment program was appropriated $750 million, of which $742.5 million was apportioned by formula directly to qualifying urbanized areas.[38] The funds may be used for any capital projects to maintain, modernize, or improve fixed guideway systems.[39] The maximum federal fund share for projects under the Recovery Act's Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program is 100 percent; the federal share under the existing programs is generally 80 percent.

As they work through the state and regional transportation planning process, designated recipients of the apportioned funds—typically public transit agencies and metropolitan planning organizations (MPO)—develop a list of transit projects that project sponsors (typically transit agencies)

[37]The 2009 Supplemental Appropriations Act authorizes the use of up to 10 percent of funds apportioned to urbanized and nonurbanized areas for operating expenses. Pub. L. No. 111-32, § 1202, 123 Stat. 1859, 1908 (June 24, 2009). Usually, operating assistance is not an eligible expense for transit agencies within urbanized areas with populations of 200,000 or more.

[38]Generally, to qualify for funding under the applicable formula grant program, an urbanized area must have a fixed guideway system that has been in operation for at least 7 years and is more than one mile in length. Fixed guideway systems are permanent transit facilities that may use and occupy a separate right-of-way for the exclusive use of public transportation services. These fixed guideway systems include rail (light, heavy, commuter, and streetcar) and may include busways (such as bus rapid transit).

[39]This may include the purchase or rehabilitation of rolling stock, track, equipment, or facilities. These funds are specifically provided for fixed guideway modernization and cannot be used for investment in new fixed-guideway capital projects.

submit to FTA for Recovery Act funding.[40] FTA reviews the project sponsors' grant applications to ensure that projects meet eligibility requirements and then obligates Recovery Act funds by approving the grant application. Project sponsors must follow the requirements of the existing programs, which include ensuring the projects funded meet all regulations and guidance pertaining to the Americans with Disabilities Act (ADA), pay a prevailing wage consistent with federal Davis-Bacon Act requirements, and comply with goals to ensure disadvantaged businesses are not discriminated against in the awarding of contracts.

In March 2009, $6.9 billion was apportioned to states and urbanized areas in all 50 states, the District, and five territories for transit projects and eligible transit expenses under the Recovery Act's Transit Capital Assistance Program and $750 million was apportioned to qualifying urbanized areas under the Recovery Act's Fixed Guideway Infrastructure Investment program. As of November 5, 2009, almost $6 billion of the Transit Capital Assistance Program funds had been obligated nationwide and $738 million of the Fixed Guideway Infrastructure Investment program funds has been obligated nationwide.

Almost 88 percent of Recovery Act Transit Capital Assistance Program obligations are being used for upgrading transit facilities, improving bus fleets, and conducting preventive maintenance. As we reported in September 2009, many transit agency officials told us they decided to use Recovery Act funding for these types of projects since they are high-priority projects that support their agencies short- and long-term goals, can be started quickly, improve safety, or would otherwise not have been funded. This continues to be the case. In particular:

[40]Designated recipients are entities designated by the chief executive officer of a state, responsible local officials, and publicly owned operators of public transportation to receive and apportion amounts that are attributable to transportation management areas. Transportation management areas are areas designated by the Secretary of Transportation as having an urbanized area population of more than 200,000, or upon request from the governor and metropolitan planning organizations designated for the area. Metropolitan planning organizations are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation, that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues, including major capital investment projects and priorities. To be eligible for Recovery Act funding, projects must be included in the region's Transportation Improvement Program and the approved State Transportation Improvement Program (STIP).

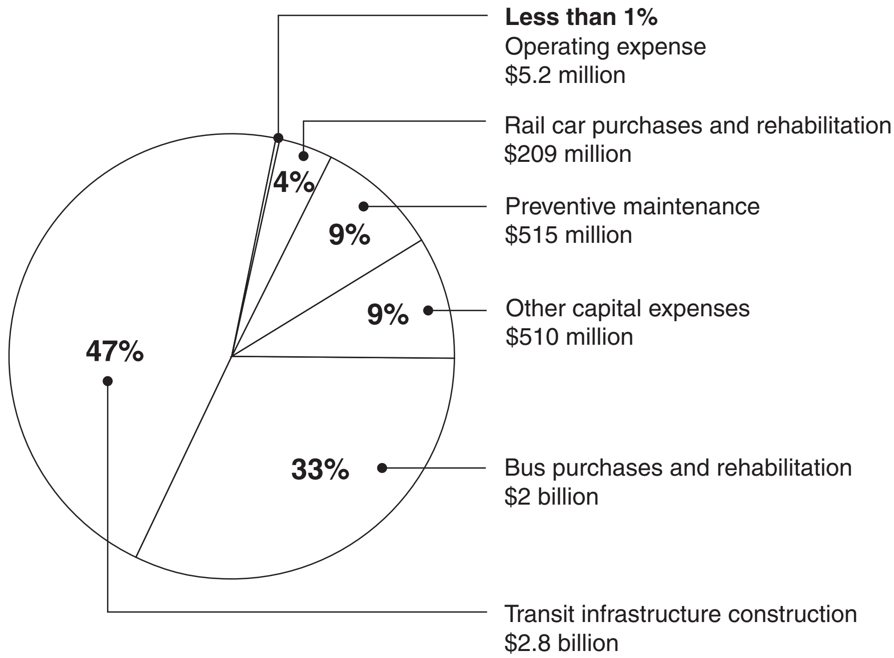
- *Transit infrastructure facilities*: $2.8 billion, or 47 percent, of these funds obligated nationally have been for transit infrastructure construction projects and related activities, which range from large-scale projects, such as upgrading power substations, to a series of smaller projects, such as installing enhanced bus shelters. For example, in Pennsylvania, the Lehigh and Northampton Transportation Authority will implement a new passenger information technology system, install enhanced bus shelters and signage, and fund a new maintenance facility. Elsewhere, in North Carolina, the Charlotte Area Transit System will renovate its bus operating and maintenance facilities. In addition, in California, the San Diego Association of Governments plans to upgrade stations on a light-rail line and replace a section of a railroad trestle bridge.

- *Bus fleets*: $2 billion, or 33 percent, of Recovery Act Funds obligated nationally have been for bus purchases or rehabilitation to replace aging vehicles or expand an agency's fleet. For example, in Pennsylvania, the Lehigh and Northampton Transportation Authority plans to purchase 5 heavy-duty hybrid buses and the Southeastern Pennsylvania Transportation Authority plans to purchase 40 hybrid buses. In Iowa, the state's smaller transit agencies are combining bus orders through the state's department of transportation for 160 replacement buses and 20 buses to expand bus fleets in areas of growth around the state. In Colorado, both the Regional Transportation District in Denver and the Fort Collins-Transfort agency plan to purchase 6 buses each.

- *Preventive maintenance*: Another $515 million, or 9 percent, has been obligated for preventive maintenance. FTA considers preventive maintenance projects eligible capital expenditures under the Transit Capital Assistance Program.

The remaining funds have been used for rail car purchases and rehabilitation, leases, training, financing costs, and, in some limited cases, operating expenses—all of which are eligible expenditures. In particular, transit agencies reported using $5.2 million, or less than 1 percent, of the Transit Capital Assistance Program funds obligated by FTA for operating expenses. For example, the Des Moines transit agency has proposed to use approximately $788,800 for operating expenses, such as costs associated with personnel, facilities, and fuel.

Figure 8: Nationwide Transit Capital Assistance Program Recovery Act Obligations by Project Type as of November 5, 2009



Source: GAO analysis of Federal Transit Administration data.

Note: Percentages may not add to 100 due to rounding. "Transit Infrastructure Construction" includes engineering and design, acquisition, construction, and rehabilitation and renovation activities. "Other capital expenses" includes item, such as leases, training, finance costs, mobility management project administration, and other capital projects.

Funds from the Recovery Act Fixed Guideway Infrastructure Investment program may also be used for transit improvement projects, which could include fixed guideway transit facilities and equipment. Recipients may use the funding on any capital purpose to include purchasing of rolling stock, improvements to rail tracks, signals and communications, and preventive maintenance. For example, in New York, FTA approved a $254.4 million grant from Recovery Act Fixed Guideway Infrastructure Investment funds to Metropolitan Transportation Authority for a variety of maintenance and safety improvement projects, including the Jackson Avenue Vent Plant Rehabilitation project in Long Island City. In addition, the northeastern Illinois's Regional Transportation Authority is planning on using $95.5 million that was obligated from the Fixed Guideway Infrastructure Investment program to provide capital assistance for the modernization of existing fixed guideway systems. Metra (a regional commuter rail system that is part of the authority) plans to use these funds, in part, to repair tracks and rehabilitate stations.

Some State Transit Officials and Bus Manufacturers Are Using Different Criteria to Measure Job Creation and Retention

As we reported in September, recipients of transit Recovery Act funds, such as state departments of transportation and transit agencies, are subject to multiple reporting requirements. First, under section 1201(c) of the Recovery Act, recipients of transportation funds must submit periodic reports to DOT on the amount of federal funds appropriated, allocated, obligated, and reimbursed; the number of projects put out to bid, awarded, or for which work has begun or been completed; and the number of direct and indirect jobs created or sustained, among other things. DOT is required to collect and compile this information for Congress, and it issued its first report to Congress in May 2009. Second, under section 1512, recipients of Recovery Act funds, including but not limited to transportation funds, are to report quarterly on a number of measures, such as the use of funds and the number of jobs created or retained.

To help recipients meet these reporting requirements, DOT and OMB have provided training and guidance. For example, DOT, through FTA, conducted a training session consisting of six webinars to provide information on the 1201(c) reporting requirements, such as who should submit these reports and what information is required. In addition, FTA issued guidance in September 2009 that provided a variety of information, including definitions of data elements. OMB also issued implementing guidance for section 1512 recipient reporting. For example, on June 22, 2009, OMB issued guidance to dispel some confusion related to reporting on jobs created and retained by providing, among other information, additional detail on how to calculate the relevant numbers. Despite this guidance, we reported in September that transit officials expressed concerns and confusion about the reporting requirement, and therefore we recommended that DOT continue its outreach to transit agencies to identify common problems in accurately fulfilling reporting requirements and provided additional guidance, as appropriate. In responding to our recommendation, DOT said that it had conducted outreach, including providing technical assistance, training and guidance, to recipients and will continue to assess the need to provide additional information.

Through our ongoing audit work, we continued to find confusion among recipients about how to calculate the numbers of jobs created and saved that is required by DOT and OMB for their reporting requirements. First, a number of transit agencies continue to express confusion about calculating the number of jobs resulting from Recovery Act funding, especially with regard to using Recovery Act funds for purchasing equipment, such as new buses. For the section 1201(c) reporting requirement, transit agencies are not to report any jobs created or sustained from the purchase of buses.[41] However, for the section 1512 recipient reporting requirement, transit agencies were required to report jobs created or retained from bus purchases, as long as these purchases were directly from the bus manufacturers and not from dealer lots. FTA held an outreach session in September 2009 with representatives from bus manufacturers and the American Public Transportation Association in an effort to standardize 1512 reporting methods and clarify recipient responsibilities under the federal recipient reporting requirements. FTA, the represented manufacturers, and American Public Transportation Association discussed a standardized methodology that was established by the Office of Management and Budget for calculating the number of jobs created or retained by a bus purchase with Recovery Act funds. Under the agreed-upon methodology, bus manufacturers are to divide their total U.S. employment by their total U.S. production to determine a standard "full-time equivalents" (FTE)-to-production ratio. The bus manufactures would then multiple that FTE-to-production ratio by a standard full-time schedule in order to provide transit agencies with a standard 'direct job hours"-to-production ratio. This ratio is to include hours worked by administrative and support staff, so that the ratio reflects total employment. Bus manufacturers are to provide this ratio to the grantees, usually transit agencies, which then the grantee can use to calculate the number of jobs created or retained by a bus purchase. FTA officials told us that the selected group of bus manufacturers and FTA agreed that this methodology—which allows manufacturers to report on all purchases, regardless of size—simplifies the job reporting process. According to guidance, it is the responsibility of the transit agency to contact the manufacturer and ask how many jobs were related to that order. The manufacturers, in turn, are responsible for providing the transit agencies

[41]The sections 1201(c) and 1512 reporting requirements differ significantly. Under section 1201(c)(2)(F), FTA is required to collect and compile grantee data, including "the number of direct, on-project jobs created or sustained …" as well as "to the extent possible, the estimated indirect jobs created or sustained in the associated supplying industries, including the number of job-years created and the total increase in employment …." As implemented by FTA, FTA's grantees report on direct on-site jobs only; FTA calculates indirect and induced jobs such as manufacturing jobs from the purchase of buses. In contrast, section 1512 places the burden on recipients to report "an estimate of the number of jobs created and the number of jobs retained by the project or activity," language that DOT has interpreted to require reporting of manufacturing jobs when a purchase is sufficient to impact the manufacturer's labor force requirements. Moreover the reporting processes differ under the two provisions. FTA grantees must complete their Section 1201 report in TEAM, which is FTA's grant management system.

with information on the jobs per bus ratio at the time when buses are delivered. If the manufacturers cannot give the agencies a jobs estimate, the transit agencies must develop their own estimate.

While representatives from the bus manufacturers we interviewed were using the agreed-upon methodology, there were a number of different issues that were highlighted.

- Representatives from two bus manufacturers reported not knowing about the FTA methodology and used their own measures for jobs created or retained. For example, representatives from two manufacturers told us that the labor-hours required to produce a bus formed the basis for their calculation of FTEs and was then pro-rated based upon the amount of production taking place in the United States and the purchase amount funded by Recovery Act dollars.

- One bus manufacturer representative said it was difficult to pro-rate the jobs calculation by the proportion funded by the Recovery Act, as the agreed-upon methodology requires, since they did not always receive this information from the transit agencies.

- According to FTA officials, the manufacturer is only responsible for reporting the ratio of jobs created or retained per bus produced; the purchasing transit agencies are responsible for the pro-rating and final calculation of jobs created or retained. However, even bus manufacturers that were otherwise aware of FTA guidance and following FTA's methodology would sometimes calculate the total number of jobs created or retained by a purchase.

The second area of confusion we found involved the methodology recipients were using to calculate full-time equivalents for the recipient reporting requirements. As we reported in our November 2009 report on recipient reporting, the data element on jobs created or retained expressed in FTEs raised questions and concerns for some recipients.[42] In section 5.2 of the June 22 guidance, OMB states that "the estimate of the number of jobs required by the Recovery Act should be expressed as FTE, which is calculated as the total hours worked in jobs retained divided by the number of hours in a full-time schedule, as defined by the recipient."

[42]GAO, *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, GAO-10-223 (Washington, D.C.: Nov. 19, 2009).

Further, “the FTE estimates must be reported cumulatively each calendar quarter.” In addition to issuing guidance, OMB and DOT provided several types of clarifying information to recipients as well as opportunities to interact and ask questions or receive help with the reporting process. However, FTE calculations varied depending on the period of performance the recipient reported on, and we found examples where the issue of a project period of performance created significant variation in the FTE calculation. For example, in Pennsylvania, each of four transit entities we interviewed used a different denominator to calculate the number of full-time equivalent jobs they reported on their recipients reports for the period ending September 30, 2009. Southeastern Pennsylvania Transportation Authority in Philadelphia used 1,040 hours as its denominator, since it had projects under way in two previous quarters. Port Authority of Allegheny County prorated the hours based on the contractors’ start date, as well as to reflect that hours worked from September were not included due to lag time in invoice processing; Port Authority used 1,127 hours for contractors starting before April, 867 hours for contractors starting in the second quarter, and 347 hours for contractors starting in the third quarter. Lehigh and Northampton Transportation Authority in Allentown used 40 hours in the 1512 report they tried to submit, but, due to some confusion about the need for corrective action, the report was not filed. Finally, the Pennsylvania Department of Transportation in the report for nonurbanized transit agencies reported using 1,248 hours, which was prorated by multiplying 8 hours per workday times the 156 workdays between February 17 and September 30, 2009. In several other of our selected states, this variation across transit programs’ period of performance for the FTE calculation also occurred. Our November report provided additional detail and recommendations to address the problems and confusion associated with how FTEs were calculated in the October recipient report.

As Many LEAs Are Facing Budget Cuts and Fiscal Pressures, Job Retention Is the Primary Planned Use of Education Recovery Act Funds

GAO’s review of states’ use of Recovery Act funds covers three programs administered by the U.S. Department of Education (Education)—the State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended; and the Individuals with Disabilities Education Act (IDEA), as amended. As part of this review, GAO surveyed a representative sample of local education agencies (LEA)—generally, school districts—nationally and in 16 states and the

District of Columbia about their planned uses of Recovery Act funds for each of these programs.[43]

- **State Fiscal Stabilization Fund.** The State Fiscal Stabilization Fund (SFSF) included approximately $48.6 billion to award to states by formula and up to $5 billion to award to states as competitive grants. The Recovery Act created the 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 first be used to alleviate shortfalls in state support for education to LEAs and public institutions of higher education (IHE). States must use 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds). For the initial award of SFSF formula grant funds, Education awarded at least 67 percent of the total amount allocated to each state,[44] but states had to submit an application to Education to receive the funds. The application required each state to provide several assurances, including that the state will meet maintenance-of-effort requirements (or will be able to comply with the relevant waiver provisions) and that it will implement strategies to advance four core areas of education reform, 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.[45] In addition,

[43]We conducted our survey from August to October 2009, with a 73 percent final weighted response rate at the national level. The results of our sample have a 95 percent confidence interval.

[44]Beginning July 1, 2009, Education awarded the remaining government services funds to states with approved applications.

[45]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.

states were required to make assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. After maintaining state support for education at fiscal year 2006 levels, states must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to LEAs and public IHEs. On November 12, 2009, Education published final requirements for Phase II applications for SFSF, which states must submit by January 11, 2010. The Department also published additional guidance for Phase II applications in December 2009. According to the Phase II application, in order to receive the remainder of their SFSF allocation, states must agree to collect and publicly report on over 30 indicators and descriptors related to the four core areas of education reform described above. Additionally, states generally must, among other things, provide confirmation that they maintained support for education in 2009 at least at the level of such support in fiscal year 2006 and reaffirm or provide updated information that they will maintain state support in 2010 and 2011. When distributing these funds to LEAs, states must use their primary education funding formula, but they can determine how to allocate funds to public IHEs. In general, LEAs have broad discretion in how they can use education stabilization funds, but states have some ability to direct IHEs in how to use these funds.

- **ESEA Title I, Part A.** The Recovery Act provides $10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended.[46] The Recovery Act requires these additional funds to be distributed through states to 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, LEAs are required to comply with applicable statutory and regulatory requirements and must obligate 85 percent of the funds by September 30, 2010.[47] 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.

[46]For the purposes of this report, "Title I" refers to Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended.

[47]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 obligate all of their funds by September 30, 2011.

- **IDEA, Parts B and C.**[48] The Recovery Act provided supplemental funding for programs authorized by Parts B and C of the Individuals with Disabilities Education Act (IDEA) as amended, the major federal statute that supports early intervention and special education and related services for children, and youth with disabilities. Part B provides funds to ensure that preschool and school-age children with disabilities have access to a free and appropriate public education and is divided into two separate grant programs—Part B grants to states (for school-age children) and Part B preschool grants. 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.

Even with Recovery Act Funds, a High Percentage of School Districts in Some States Are Facing Budget Cuts, but in Other States, Budget Increases Are More Common

Education funding in the United States primarily comes from state and local governments. Prior to the influx of Recovery Act funding for education from the federal government, LEAs, on average, derived about 48 percent of their fiscal year 2007 funding budget from state funds, 44 percent from local funds, and 9 percent from federal funds.[49] These percentages, however, likely shifted due to increased federal Recovery Act funds and reductions in some state budgets for education. While the federal role in financing public education has historically been a limited one, the federal funds appropriated under the Recovery Act provide a significant but temporary increase in federal support for education to states and localities in part to help them address budget shortfalls. According to CRS, the Recovery Act provided approximately $100 billion for discretionary education programs—elementary, secondary, and postsecondary—in fiscal year 2009, which, when combined with regular appropriations, represents about a 235 percent increase in federal funding compared to fiscal year 2008.

According to our survey, however, even with the current infusion of Recovery Act funding for education programs, the budget condition of LEAs across the country is mixed. Based on our national survey results, we estimate that approximately the same amount of LEAs—17 percent—

[48]For purposes of this report, unless stated otherwise, when we refer to IDEA Recovery Act funds, we are referring to funds provided for IDEA, Part B.

[49]The percentages do not add to 100 percent due to rounding. L. Zhou, *Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2006-07 (Fiscal Year 2007) (NCES 2009 337)* (Washington D.C.: National Center for Education Statistics, U.S. Department of Education), http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2009337 (accessed Nov. 16. 2009).

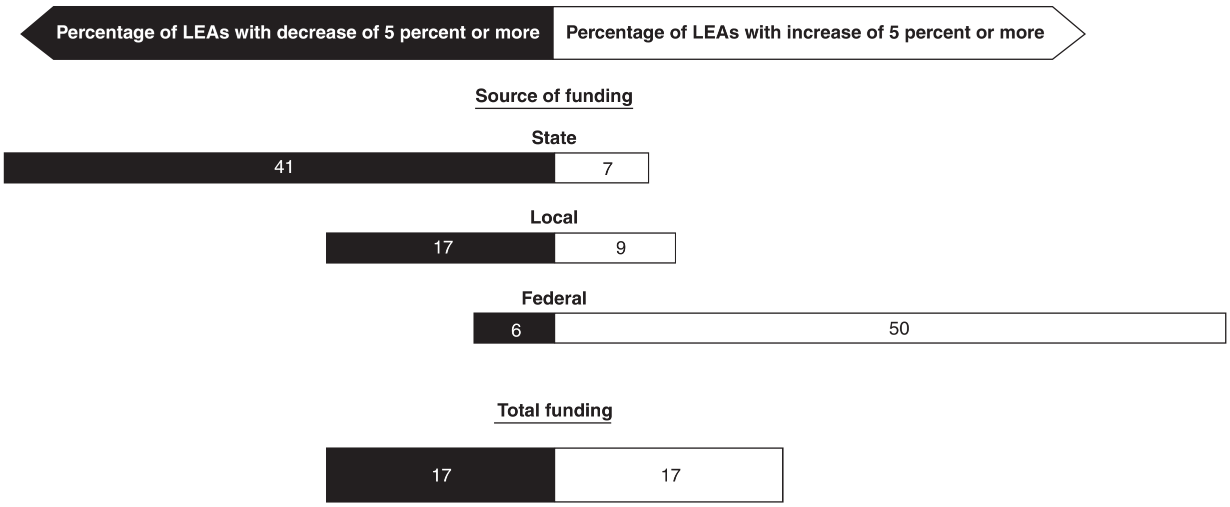
face decreases of 5 percent or more in total education funding[50] as face funding increases for the current school year. On the other hand, an estimated 57 percent of LEAs reported smaller or no funding changes for the current school year.[51]

Changes to LEA budgets for the current school year varied substantially depending on the source of the funding—federal, state, or local government. Figure 9 shows the estimated percentage of LEAs nationally that are facing budget fluctuations of 5 percent or more by funding source. For the current school year, we estimate that 50 percent of LEAs nationwide received such funding increases from the federal government. By contrast, however, state funding cuts of 5 percent or more were common for many LEAs across the country. According to our survey, an estimated 41 percent of LEAs across the country are seeing state funding cuts of 5 percent or more for education. By contrast, an estimated 6 percent of LEAs report similar decreases from the federal government for the current school year. Regarding local funds, an estimated 9 percent of LEAs reported increases of 5 percent or more and 17 percent reported decreases of the same magnitude. For LEAs, a cut in state or local funds may only be partially offset by an increase in federal funds because LEAs, on average, receive a much higher proportion of their funds from state and local governments than from the federal government.

[50]For the purposes of our survey, total or overall education funding is defined as the combination of federal, state and local funding that an LEA received and does not include private funding for education.

[51]An estimated 9 percent of LEAs responded "don't know" or "not applicable" to our survey question about their funding changes.

Figure 9: Estimated Percentage of LEAs Nationally with Funding Decreases and Increases of 5 Percent or More for School Year 2009-2010, by Source of Funding



Source: GAO survey of LEAs.

Notes: Percentage estimates for these nationwide estimates have margins of error, at the 95 percent confidence level, of plus or minus 5 percentage points or less.

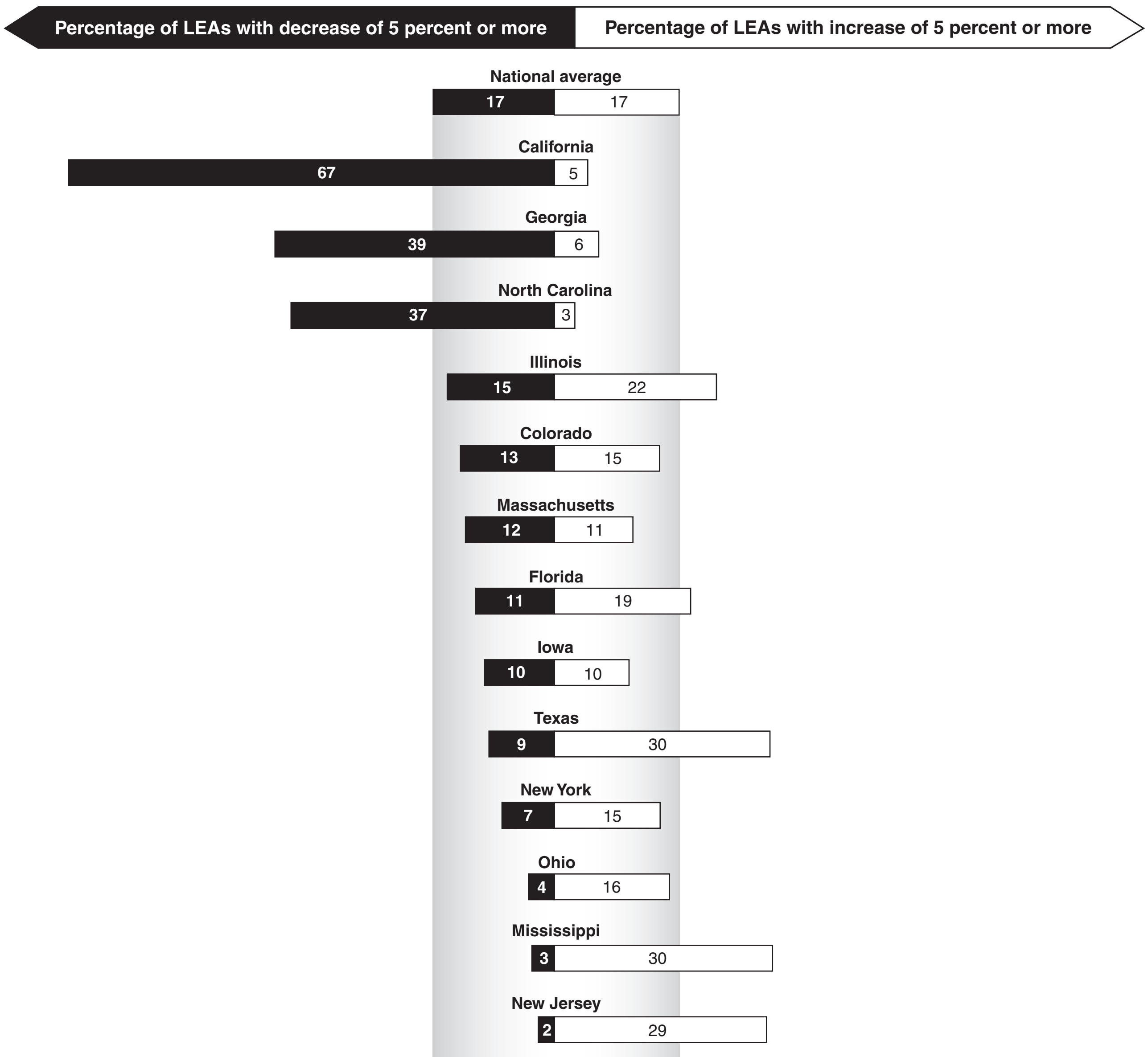
A high percentage of the LEAs reporting a decrease in federal funding were in California. California officials offered several possible reasons why some LEAs in California reported federal funding decreases of 5 percent or more for education.

While the national results of our survey show a mixed budgetary picture for LEAs, sizable funding cuts to LEA overall budgets were concentrated in a few of the states on which we are focusing our Recovery Act review—California, North Carolina, and Georgia (see fig. 10).[52] In California, for example, a majority of LEAs in the state—an estimated 67 percent—are experiencing declines of 5 percent or more in their overall education budgets this year. We previously reported that, in California, the state legislature authorized substantial budget cuts in order to balance the fiscal year 2009-2010 budget, with funding for education making up a large part of the reduction—$6.5 billion was cut from K-12 and community college funding in July alone. According to officials at Los Angeles Unified School District—the largest LEA in the state—the LEA faces steep drops in state revenue in education in fiscal year 2009-2010. In addition to California, we

[52]Our state-level results do not include Pennsylvania, Michigan and Arizona because at the time our survey was available—from August to October 2009—their state budgets had not been finalized, and therefore, a large percentage of LEAs—33 percent for Pennsylvania, 28 percent for Michigan, and 21 percent for Arizona— responded “don’t know” to this funding question on the survey.

estimate that nearly 40 percent of LEAs in both Georgia and North Carolina face overall funding cuts of 5 percent or more, well above the national average of 17 percent. According to the Department of Public Instruction in North Carolina, the economic recession has resulted in significant declines in state revenues for education, with federal Recovery Act funding offsetting only a portion of the state cuts. For example, one North Carolina LEA reported that the current year budget process was difficult, with federal Recovery Act funding "softening the blow" of state and local funding cuts but not completely compensating for the reductions. In other states, however, many LEAs report total funding increases for education of 5 percent or more for the current school year. According to our survey, about 30 percent of LEAs in Texas, Mississippi, and New Jersey reported total education funding increases of 5 percent or more.

Figure 10: Estimated Percentage of LEAs with Budget Increases and Decreases of 5 Percent of More for School Year 2009-2010, by State



Source: GAO survey of LEAs.

Notes: This graphic does not include Pennsylvania, Michigan and Arizona because at the time our survey was available—from August to October 2009—their state budgets had not been finalized, and therefore, a large percentage of LEAs responded “don’t know” to this funding question on the survey.

Percentage estimates for states have margins of error, at the 95 percent confidence level, of plus or minus 12 percentage points or less, with the exception of Florida, which has a margin of error of 14 percent. The nation-wide percentage estimates have a margin of error of plus or minus 4 percentage points.

LEAs Planned to Use Recovery Act Funds for Job Retention, but about a Third Expect to Lose Jobs Overall

Our survey results indicate that much of the Recovery Act funds for education are being used by LEAs to retain staff. An estimated 64 percent of LEAs nationally reported giving very great or great importance to retaining jobs when deciding how to spend Recovery Act funds. Because employee-related expenditures are the largest category of school expenditures—with salaries and benefits accounting for more than 80 percent of local school expenditures, according to Education's most recent estimates [53]—it is understandable that LEAs would use some of their Recovery Act funds for staff salaries. Also, given the fiscal uncertainty and substantial budget shortfalls facing states, federal funds authorized by the Recovery Act provide LEAs with additional support for the retention of education staff. Overall, the impact of Recovery Act education funds on job retention may be significant because K-12 public school systems employ about 6.2 million staff, based on Education's estimates, and make up about 4 percent of the nation's workforce.[54]

Retaining Jobs Was LEAs' Top Use for Recovery Act Funds across Three Education Programs

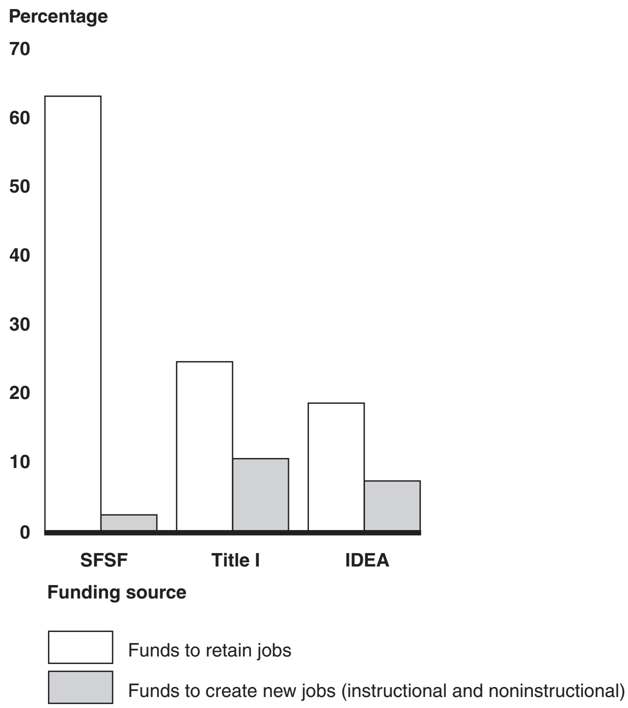
Job retention was the top planned use for Recovery Act funds for LEAs across the three federal Education programs GAO reviewed. Figure 11 shows the national results of the estimated percentages of LEAs that reported planning to use more than 50 percent of their Recovery Act funds under SFSF, IDEA, Part B, and ESEA Title I, Part A to retain and create education jobs. An estimated 63 percent of LEAs, the highest percentage among the 3 programs we reviewed, plan to use Recovery Act SFSF funds to retain jobs. In contrast, an estimated 25 percent and 19 percent of LEAs said they planned to use over half of their Recovery Act funds on job retention under ESEA Title I, Part A and IDEA, Part B, respectively. Overall, the percentages of LEAs that reported planning to use Recovery Act funds to create jobs were lower than the percentages planning to

[53]Education, *The Condition of Education 2009*.

[54]The national estimate of 6.2 million education staff is based on 2006-2007 school year data and is taken from Education's *2008 Digest of Education Statistics*. The 4 percent of the workforce estimate is GAO's calculation using Education's 6.2 million estimate and employment projections by the U.S. Bureau of Labor Statistics.

retain jobs, with an estimated 11 percent under ESEA Title I, 7 percent under IDEA, and 3 percent under SFSF planning to create jobs.

Figure 11: Estimated Percentage of LEAs Nationally Planning to Use More Than 50 Percent of Their Recovery Act Funds to Retain and Create Jobs for SFSF, ESEA Title I, and IDEA Programs



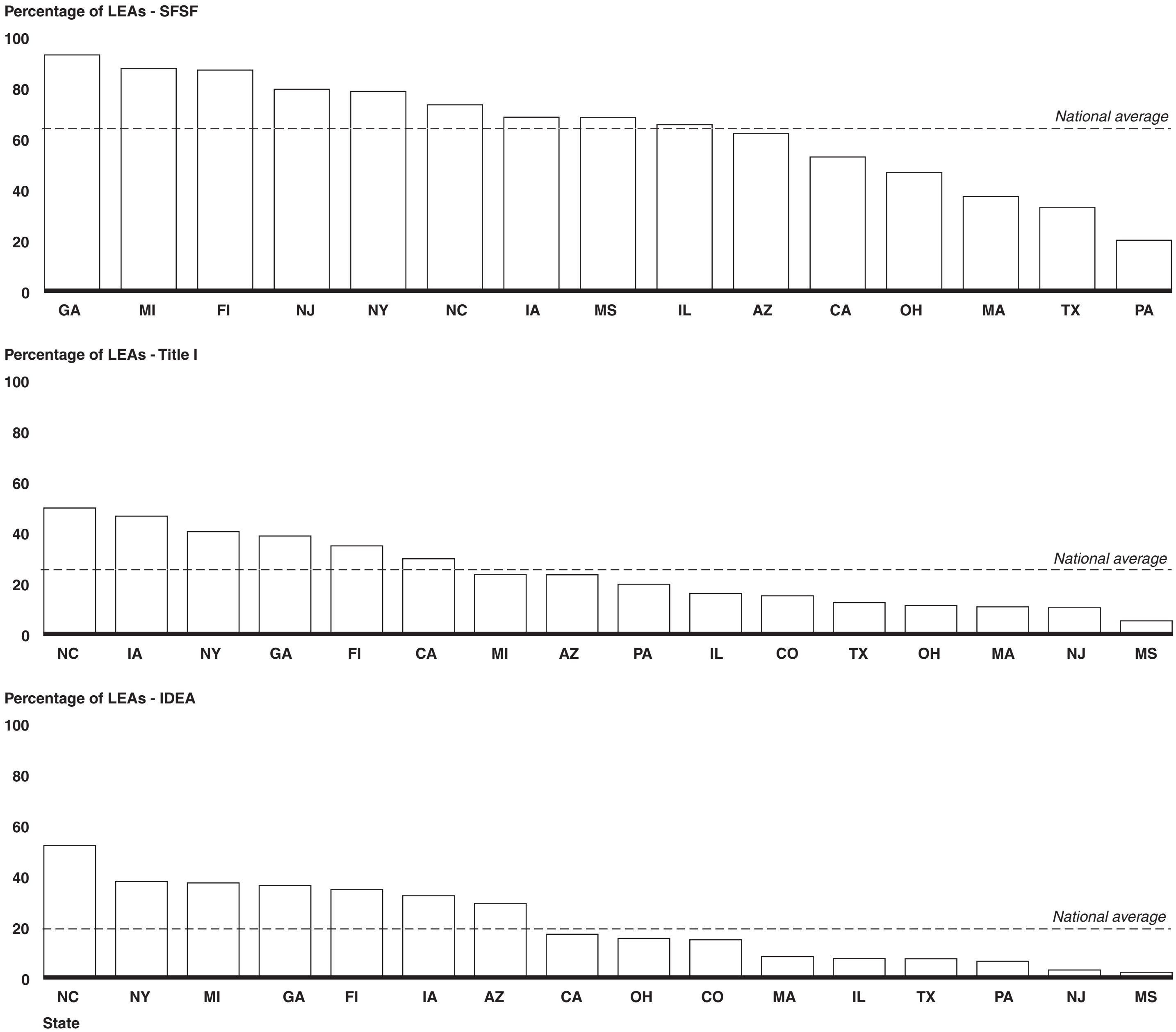
Source: GAO survey of LEAs.

Note: The nationwide percentage estimates have a margin of error of plus or minus 5 percentage points.

State education officials reported a variety of factors that may help explain why LEAs reported planning to use Recovery Act funds to retain jobs. In particular, officials noted that SFSF funds provided flexibility in how they could be used. For example, one state education official noted that LEAs have more flexibility in spending SFSF funds for general education expenses because ESEA Title I and IDEA programs target special populations---disadvantaged youth and students with disabilities, respectively. This official said that because funding levels for general education programs in his state have decreased while federal funding levels for ESEA Title I and IDEA programs have increased, LEAs have used SFSF funds to shore up funding for general education and, in particular, preserve jobs.

The percentage of LEAs reporting they planned to use over 50 percent of their Recovery Act education funds to retain jobs varied considerably by state. In particular, Georgia, Michigan, Florida, New Jersey, New York and North Carolina were among the states with the highest percentages of LEAs that reported planning to use over half their SFSF funds for job retention (see fig. 12). North Carolina, Iowa, New York, Georgia, Florida and Michigan were among the states with the highest percentages of LEAs that reported they planned to use over half of their ESEA Title I or IDEA Recovery Act funds for this purpose (see fig. 12).

Figure 12: Estimated Percentage of LEAs Planning to Use More Than 50 Percent of Their Recovery Act Funds to Retain Jobs, by State for SFSF, ESEA Title I, and IDEA Programs



Source: GAO survey of LEAs.

Notes: Percentage estimates for states have margins of error, at the 95 percent confidence level, of plus or minus 12 percentage points or less (Florida has a margin of error of 15 percent, Massachusetts, Pennsylvania, and New Jersey have margins of error of 16 percent, and Colorado has a margin of error of 23 percent). The nationwide percentage estimates have a margin of error of plus or minus 5 percentage points.

At the time our survey was conducted, from August 21 to October 4, 2009, Pennsylvania did not have an approved SFSF application. An estimated 28 percent of surveyed LEAs in Pennsylvania reported they did not know if they would receive SFSF funds and were therefore not included in the SFSF fund use estimate.

Colorado was not included in our analysis of SFSF fund use because the state did not allocate these funds to LEAs.

LEA officials described the use of Recovery Act funds to retain staff in the context of decreasing state and local education funds. For example, education officials in New York City told us that Recovery Act funds helped the city reduce a total education budget gap of nearly $1.46 billion to $400 million for the current school year and avoid teacher layoffs. In the small, rural school district of Jasper-Troupsburg in upstate New York, district officials told us they were facing a budget gap of $250,000. They said they would use 95 percent of their Recovery Act funds to retain jobs. Without these funds, the district would have been forced to cut teachers' salaries and reduce work hours, as well as lay off 8 to 10 teachers out of 60 teachers, according to LEA officials. Similarly in Charlotte-Mecklenburg, North Carolina, LEA officials told us that Recovery Act funds allowed the district to compensate for reductions in state aid and local funds and that a large portion of these funds enabled the district to retain education jobs. In another LEA in Arizona, officials explained that with Recovery Act funds, they were able to offer contracts to all teachers who were returning, but without these funds the extent to which they would have had to reduce staff positions is unclear. They speculated that, absent Recovery Act funds, other cost-cutting measures might have included decreasing staff salaries and benefits.

Some LEAs used Recovery Act funds to hire new staff. When planning how to spend Recovery Act funds, an estimated 17 percent of LEAs nationally reported creating jobs as of very great or great importance during the decision-making process. Officials at the Arlington Elementary School District, a rural LEA in Arizona containing a single school, said that IDEA Recovery Act funds would help the district add a special education teacher to the one they currently have. They said the timing of the Recovery Act funds was important to their district because of the addition of three new students with disabilities to the school. Without the IDEA Recovery Act funds they received, they said they would have had to draw funds away from general education needs, which would have meant combining classes and eliminating a position. Similarly, in Weldon City Schools in North

Carolina, officials reported that IDEA Recovery Act funds allowed the LEA to create teaching and teaching assistant positions for severely emotionally disturbed students. Without these funds, officials said they would have had to lay off two special education staff and would have been unable to provide the intensive support for students with disabilities. Education officials in some states said they are concerned about funding cliffs if LEAs use Recovery Act funds to create new positions. For example, an official at one LEA in New York state said district officials are concerned that using Recovery Act Title I funds may lead to a funding cliff and that the district may be unable to retain teachers hired with those funds once they expire.

About a Third of LEAs Expected to Lose Jobs, Even with SFSF Funds

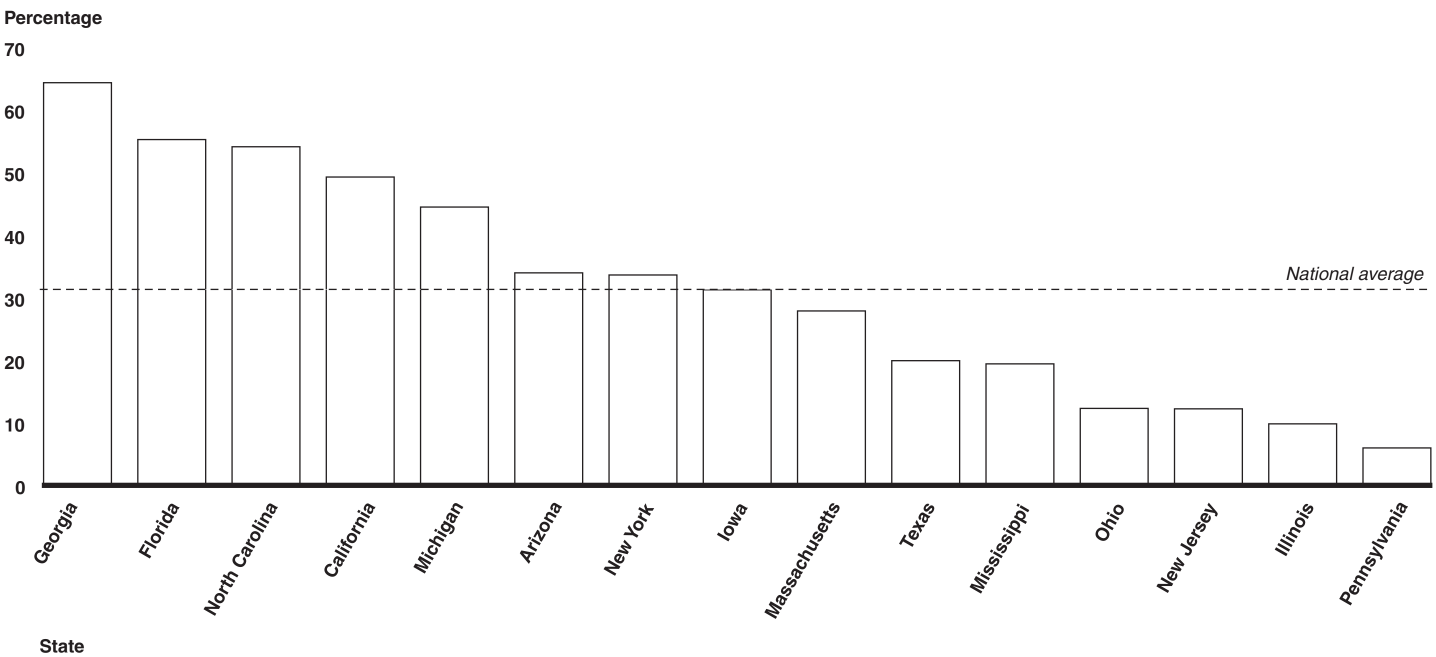
An estimated 32 percent of LEAs nationally expected to lose jobs, even with SFSF funds,[55] but the percentage of LEAs expecting to lose jobs varies by state. (See fig. 13.) Among the states with higher percentages of LEAs expecting job losses even with SFSF funds were Georgia, Florida, North Carolina, and California. According to our analysis, in all of these states except for Florida, the proportion of LEAs that experienced decreases of 5 percent or more in total education funding from last year was larger than the national average of 17 percent. For example, in Georgia 65 percent of LEAs reported that they expected to lose jobs even with SFSF funds, and 39 percent of LEAs also reported they experienced a total decrease in funds of 5 percent or more. State education officials in Georgia said that declining state and local revenues have forced many LEAs to cut their budgets and eliminate programs, resulting in a loss of jobs. Our analysis also found that the estimated percentage of the largest LEAs that reported expecting to lose jobs even with SFSF funds was higher than the national average.[56] For example, officials at Charlotte-Mecklenburg Schools, the largest LEA in North Carolina, said the district was facing an $87 million reduction in state and county funding and sustained a net reduction of 769 positions after Recovery Act funds had been applied. While budget gaps may help explain the loss of jobs in some

[55]An estimated 18 percent and 20 percent of LEAs reported that they expected job losses even with IDEA and Title I Recovery Act funds, respectively. Our analysis focused on the percentage of LEAs reporting job losses even with SFSF funds because, according to Education, averting job cuts and retaining staff are explicit goals of the State Fiscal Stabilization Fund.

[56]"Largest LEAs" refers to the 10-largest LEAs in each state, based on enrollment.

states and localities, there may be other factors that contribute to job loss. For example, Florida state officials noted that Florida's declining student enrollment has meant that LEAs are retaining fewer staff.

Figure 13: Estimated Percentage of LEAs Expecting Decreases in the Number of Jobs, Even with SFSF Recovery Act Funds, by State



Source: GAO survey of LEAs.

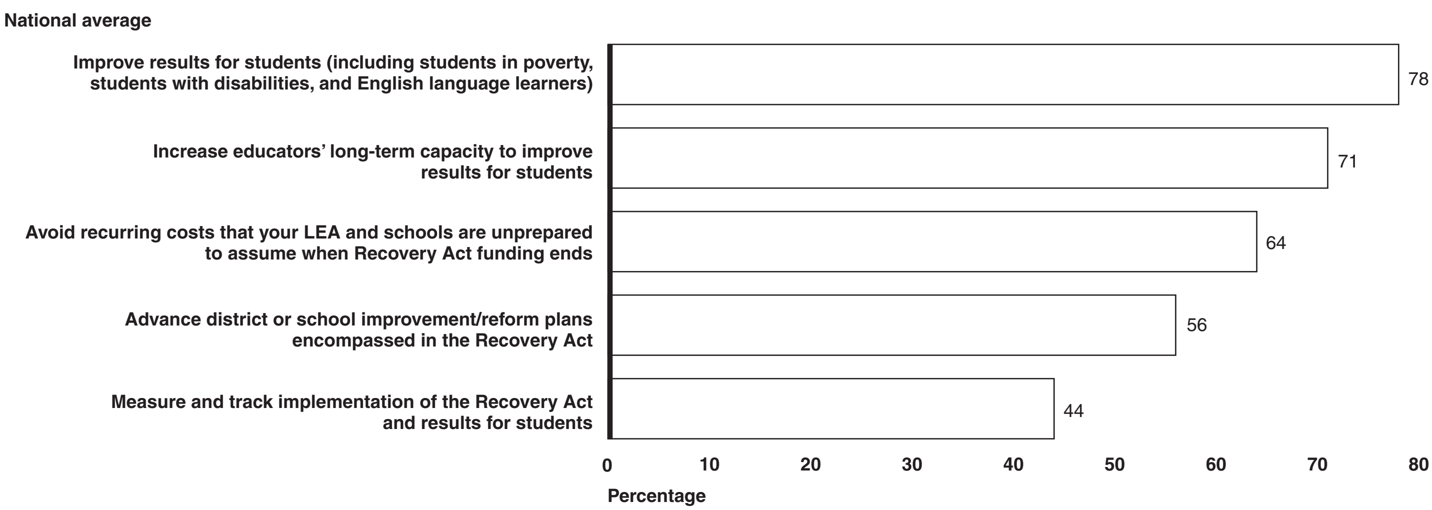
Notes: Colorado was not included in our analysis of SFSF fund use because the state did not allocate these funds to LEAs.

Percentage estimates for states have margins of error, at the 95 percent confidence level, of plus or minus 12 percentage points or less (Arizona, Iowa, Mississippi, and Pennsylvania have a margin of error of 13 percent; New Jersey has a margin of error of 15 percent; and Massachusetts has a margin of error of 16 percent). The nationwide percentage estimates have a margin of error of plus or minus 5 percentage points.

Most LEAs Consider Educational Goals Important When Planning for Recovery Act Funds

In planning how to spend Recovery Act funds for their LEAs, most local officials reported placing great importance on advancing educational goals and reform set forth in Education's guidance on how best to use the funds (see fig 14).[57] Specifically, we estimate that most LEAs—about 80 percent—gave great or very great importance to "improving results for students" in deciding how to use Recovery Act funds for their school districts. "Increasing educators' long term capacity" was the next most cited, with approximately 70 percent of LEAs giving very great or great importance to this factor. A majority of LEAs considered "advancing district/reform and avoid recurring costs" as important factors when planning how to utilize the Recovery Act funding at their LEAs.

Figure 14: Estimated Percentage of LEAs That Placed Very Great or Great Importance on Education Reform When Planning for Uses of Education Funding



Source: GAO survey of LEAs.

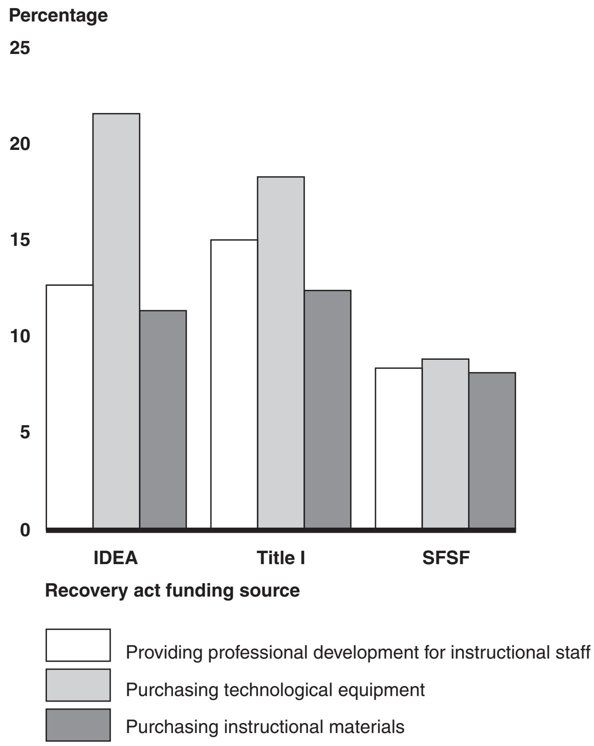
Note: Percentage estimates for these nation-wide estimates have margins of error, at the 95 percent confidence level, of plus or minus 5 percentage points or less.

[57]In April 2009, Education released guidance that asked LEA officials to consider whether their proposed use of Recovery Act funds would (1) improve results for students, including students in poverty, students with disabilities, and English language learners; (2) increase educators' long-term capacity to improve results for students; (3) advance state, district, or school improvement plans and the reform goals encompassed in the Recovery Act; (4) avoid recurring costs that states, school systems, and schools are unprepared to assume when this funding ends; and (5) include approaches to measure and track implementation and results.

According to our survey, LEAs planned to spend some of their Recovery Act funds on items that could help build long-term capacity and advance educational goals and reform while also avoiding recurring costs for LEAs. Overall, LEAs reported several nonrecurring items such as purchasing technological equipment, including new computers; providing professional development for instructional staff; and purchasing instructional materials as among the highest uses of funds after job retention and creation. Figure 15 shows the national estimated percentages of LEAs that reported planning to use more than a quarter of their Recovery Act funds for these three nonrecurring budgetary items across the three education programs.[58]

[58]Differences between these uses of funds were determined not to be statistically significant.

Figure 15: Estimated Percentage of LEAs Nationally Planning to Use More Than 25 Percent of Their Recovery Act Funds for Professional Development, Technological Equipment, and Instructional Materials for SFSF, ESEA Title I, and IDEA Programs



Source: GAO survey of LEAs.

Note: Percentage estimates for these nation-wide estimates have margins of error, at the 95 percent confidence level, of plus or minus 5 percentage points or less.

Interviews with LEAs in a number of states illustrate the range of reform-oriented and capacity-building projects in these areas being supported with Recovery Act funds. For example, in the Los Angeles Unified School District, officials described using Recovery Act funds for a special education leadership academy for assistant principals to instruct them on compliance with special education requirements and working with teachers to implement effective instructional programs. In Weldon City Schools in North Carolina, LEA officials reported that IDEA Recovery Act funds would enable the district to provide more technology for children in their special education program, including updated computers and transition kits for occupational course study classrooms. Without these Recovery Act funds, officials said that technology funds for such a program would have been unavailable. At Buckeye Elementary School District in Arizona, officials said they used some of their IDEA Recovery

Act funds as seed money for acquiring software needed to implement an educational initiative focusing on preventing the need for special education interventions and serving approximately 600 students with disabilities.

In Part Because of Fiscal Pressures, Many Local Education Agencies Plan to Use IDEA Flexibility to Decrease their Local Spending on IDEA Activities This Year, Including a Majority of LEAs in Some States

This year, many LEAs will take advantage of flexibility under IDEA that allows them to reduce their local, or state and local,[59] spending on students with disabilities, which could have implications for future spending. As provided for in IDEA, in any fiscal year in which an LEA's federal IDEA, Part B, allocation exceeds the amount the LEA received in the previous year, an eligible LEA may reduce local spending on students with disabilities by up to 50 percent of the amount of the increase, as long as the LEA uses those freed-up funds for activities authorized under the Elementary and Secondary Education Act of 1965, as amended, which supports activities for general education. Because Recovery Act funds for IDEA are counted as part of the LEA's overall federal IDEA allocation, this year, the total increase in IDEA funding for LEAs is far larger than the increases in previous years. The decision by LEAs to decrease their local spending may have implications for future spending on special education. Because LEAs are required to maintain their previous year's level of local spending[60] on special education and related services to continue to receive IDEA funds, LEAs taking advantage of the spending flexibility will only be required to maintain these expenditures at the reduced level in subsequent years. If LEAs that use the flexibility to decrease their local spending do not voluntarily increase their spending in future years, and federal IDEA allocations decrease—specifically by returning to levels comparable to those before the Recovery Act—the total federal, state, and local spending for the education of students with disabilities will decrease compared to spending before the Recovery Act.

To be eligible to exercise this flexibility, the LEA must meet the requirements of IDEA, Part B, including meeting targets in its state's performance plan, and this year, almost all of the states in our sample have had an increase in the number of LEAs that have met requirements—and are therefore eligible—compared to last year. Under IDEA, each state is required to have in place a performance plan, which establishes targets for

[59]Hereafter in this section, "local" will refer to "local, or state and local" funds.

[60]LEAs must budget at least the same total or per capita amount of local funds for the education of children with disabilities as the LEA spent in the most recent prior year for which information is available.

LEAs. Overall, among the 15 states in our study that had made LEA determinations related to their state performance plan this year, all but New York, Georgia, and Texas[61] had experienced an increase in the number of LEAs that met requirements. State officials in states that experienced such increases attributed these increases to training, technical assistance and monitoring of indicators that were problematic for LEAs to meet in previous years. However, officials in some states also told us they had changed the criteria in their state performance plan this year.[62] Others changed the determinations process by increasing the minimum number of students—called an "n" size or cell size—required for making calculations related to the state performance plan, which could effectively prevent some LEAs with small numbers of students from being evaluated in certain areas. If an LEA has fewer than the minimum number of special education students required for a particular target, the LEA's data on that target would be considered "not applicable" and would not have bearing on the determination of whether the LEA met requirements.

Officials in states that changed their determinations processes or criteria said that doing so made their plans and targets comparable to other states' targets and helped ensure that expectations placed on LEAs were reasonable.[63] Three states changed their determinations criteria and experienced large increases in the number of LEAs meeting requirements—Arizona, Michigan, and Ohio—while two others that increased their minimum "n" size also experienced large increases—California and Illinois. (See table 5.) Officials in Ohio told us that they changed the determinations criteria with the goal of increasing the number of LEAs that were determined to meet requirements, thereby giving most LEAs in the state the option to reduce their local spending. States have some discretion over their determinations process and criteria, but the Secretary of Education issued a letter to state education officials in

[61]Mississippi and the District of Columbia had not made determinations for this year. Mississippi officials said they were planning to use last year's determinations to establish eligibility for the flexibility this year, based on guidance from Education.

[62]Education currently requires states to use indicators related to compliance with the law, but state educational agencies are not required to use indicators related to LEA performance in other areas, such as graduation rates or performance on assessments.

[63]Changing the performance plan can be done for many reasons, and in prior years, some states were changing their plans and targets each year. Officials in Pennsylvania said that data on given indicators can change significantly year-to-year, often because sample sizes of students in special education may be small, and therefore it is difficult to judge LEAs' performance on that basis.

October 2009 encouraging them to implement the LEA determinations process in a rigorous manner, with a focus on improving results for students with disabilities and ensuring that appropriate special education and related services are provided.

Table 5: Change in Percentage of LEAs Meeting Requirements of IDEA, Part B, and Eligible for Flexibility to Reduce Local Expenditures

	Percentage of LEAs eligible for flexibility to reduce local expenditures[a]		
State	2008-2009 school year	2009-2010 school year	Percentage increase (decrease)
Arizona	22	81	59
California	48	99.7	51.7
Colorado	18	46	28
District of Columbia[b]	—	—	—
Florida	67	76	9
Georgia	81	76	(5)
Illinois	44	82	38
Iowa	98	99	1
Massachusetts[a]	80	90	10
Michigan	57	100	43
Mississippi	97	[b]	—
New Jersey	91	93	2
New York	95	90	(5)
North Carolina	45	58	13
Ohio	8	99	91
Pennsylvania	99	99.5	0.5
Texas	58	36	(22)

Source: GAO analysis of data provided by state officials during October and November 2009.

Notes: States determined the number of LEAs meeting requirements and therefore eligible for funding flexibility in school year 2008-2009 based on data from the 2006-2007 school year. Similarly, for 2009-2010 funding flexibility, states use data from the 2007-2008 school year. The total number of LEAs includes districts, state-operated programs, charter schools, and administrative units that receive a determination of whether State Performance Plan targets have been achieved. In Florida and New Jersey, percentage calculations reflect GAO's assumption that there were the same total number of LEAs in both years.

[a]IDEA section 613(a)(2)(C)(iii) (codified at 20 U.S.C § 1413(a)(2)(C)(iii)) provides that if the state educational agency determines that an LEA is not meeting the requirements of Part B, it shall prohibit the LEA from reducing its local maintenance–of-effort spending. However, Massachusetts prohibits the funding flexibility only for districts that are determined as "needs substantial intervention." All Massachusetts LEAs actually had the funding flexibility in both school years 2008-2009 and 2009-2010, but the numbers in the table represent the percentage of LEAs that were determined to have met requirements.

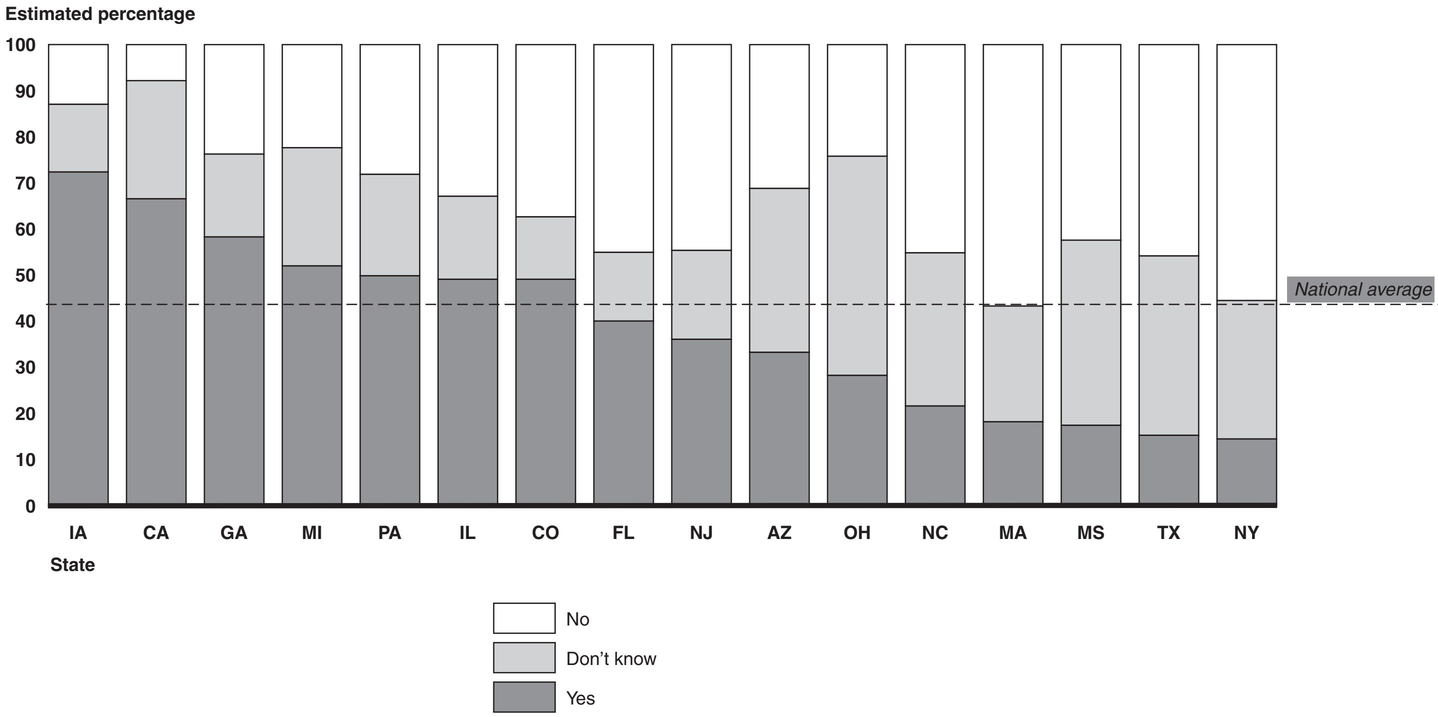
[b]At the time of our interview, District of Columbia officials reported that the state educational agency has not performed determinations in prior years and were in the process of making determinations for this year. Mississippi officials also said they were in the process of making determinations this year and will use the most recent determinations to establish eligibility for the funding flexibility.

According to some state officials, some LEAs were hesitant to utilize the reduced local expenditure flexibility in the past, because the increase in their allocation—and the amount of local or state funding that could be "freed up"—was small. However, this year, the amount of funding that can be "freed up" is larger than in prior years, and using this flexibility will give LEAs, some facing budgetary pressures, more flexibility in deciding how to spend their local funds. According to state officials, LEAs that take advantage of this flexibility will not necessarily reduce their local spending by the entire 50 percent allowed under the law, but some state officials said that some LEAs may reduce local spending because they have concerns about creating unsustainable funding commitments for special education, because services cannot be easily cut after Recovery Act funds are gone. In Ohio and Colorado, state officials said that this flexibility will allow LEAs to fund important services that will benefit both general education and special education students. Another option for LEAs seeking to benefit students in both general education and special education settings is to set aside up to 15 percent of their IDEA funds for Coordinated Early Intervening Services (CEIS), which can be used to serve students who have not been identified as having a disability. Mississippi state officials said that some of their LEAs plan to set aside funds for CEIS instead of using the flexibility to decrease local spending.

This year, according to our survey, an estimated 44 percent of LEAs plan to use the reduced local expenditure flexibility to decrease local spending on students with disabilities, although the percentages vary across states: from 14 percent in New York to 72 percent in Iowa. (See fig. 16.) An estimated 48 percent of the largest LEAs planned to do so.[64] However, officials in some states said they had advised LEAs about whether to use the flexibility, and state education officials in Colorado, Iowa, and Georgia said they expect many or all eligible LEAs to utilize the flexibility, whereas officials in the District of Columbia, Arizona, Mississippi, and Texas said they expect few, if any, to do so.

[64]The "largest LEAs" refers to the 10-largest LEAs in each state, based on enrollment.

Figure 16: Estimated Percentage of LEAs Planning to Take Advantage of Flexibility to Reduce Local Spending on IDEA, by State



Source: GAO survey of LEAs.

Note: Estimates for states have margins of error, at the 95 percent confidence level, of plus or minus 12 percentage points or less (Colorado and Florida have margins of error of 15 percent). Percentage estimates for these nation-wide estimates have margins of error, at the 95 percent confidence level, of plus or minus 5 percentage points or less.

States Vary in the Rate at Which They Draw Down Recovery Act Funds for Education Programs, and Some States and LEAs Have Questions about Proper Cash Management Practices

As of November 6, 2009, states covered by our review had drawn down 46 percent ($8.4 billion) of the awarded education stabilization funds,[65] 11 percent ($735 million) of Recovery Act funds for ESEA Title I, and 10 percent ($755 million) of Recovery Act funds for IDEA. Some states had drawn down a much larger portion of their funds than other states. For example, Arizona, California, Georgia, and Illinois had drawn down 83 percent or more of their awarded education stabilization funds, while the District of Columbia and Pennsylvania had not drawn down any funds. Pennsylvania had little time to draw down funds because it had just

[65]As of November 4, 2009, drawdowns by the states covered by our review of all SFSF funds, including both education stabilization and government services funds, were about $10.5 billion or 44 percent of awarded funds.

received approval for its SFSF application a few days earlier. The District of Columbia had not yet requested assurances from the LEAs that education stabilization funds would be used in accordance with federal requirements—the District requires such assurances before the LEAs obligate federal funds. In addition, the District of Columbia had not drawn down any of its Recovery Act funds for ESEA Title I or IDEA, Part B, in part, because it had not completed its review of LEA applications for these funds, according to District of Columbia officials. Although New Jersey had not drawn down any of its ESEA, Title I or IDEA Recovery Act funds as of November 6, the state drew down funds later in November.

Table 6: Percentage of Awarded Education Stabilization, ESEA Title I, and IDEA, Part B Recovery Act Funds Drawn Down by States as of November 6, 2009

	Percentage of awarded Recovery Act funds drawn down		
State	**Education stabilization funds**	**ESEA Title I**	**IDEA, Part B**
Arizona	90	9	7
California	85	41	21
Colorado	56	0	3
District of Columbia	0	0	0
Florida	14	11	15
Georgia	83	3	4
Illinois	92	0	7
Iowa	50	16	39
Massachusetts	61	4	7
Michigan	71	1	2
Mississippi	9	2	0
New Jersey	45	0	0
New York	2	0	3
North Carolina	28	11	16
Ohio	25	7	8
Pennsylvania	0	18	17
Texas	2	5	6
Total	**46**	**11**	**10**

Source: GAO analysis of U.S. Department of Education data.

Education Continues to Work with Some States to Address Federal Cash Management Requirements under the New SFSF Program

Department of Education officials report they continue to work with several states to provide clarification on the appropriate methods for managing cash flows under the newly created SFSF program. However, some state educational agencies (SEA) report that they need clarifying guidance on cash management issues before moving forward with guidance to LEAs. As we have reported, Recovery Act cash management issues in a number of states have been a concern to Education and the Education Office of Inspector General, and Education officials report that they are monitoring drawdowns of Recovery Act funds to help ensure that states are complying with federal requirements.

In our recent discussions with Education officials regarding cash management, they said their guidance to SEAs and LEAs is to minimize the amount of time they hold federal funds before they need to spend them. Department of Education regulations require states to minimize the time elapsing between the transfer of the grant funds from the U.S. Treasury and disbursement by the states, and similarly require LEAs to minimize the time they hold funds before disbursing them. Regulations generally require subgrantees to calculate and remit any interest earned on advance payments made to them by states on at least a quarterly basis.[66] In other words, the goal is to draw down the funds when they are needed and spend them immediately. Education officials told us that if LEAs retain federal cash balances of SFSF or other federal funds in interest bearing accounts, they are to calculate the interest due using the actual interest the funds have earned. These officials stated, however, that Education does not require LEAs to keep federal funds in interest bearing accounts. Further, according to Education officials, regulations do not require that LEAs calculate the interest due on each federal funding program separately.

However, as we have previously reported, several states do not have cash management systems in place for SFSF funds that can disburse funds to LEAs when they are needed and ensure the calculation and remittance of any interest due. Officials in some of these states told us they are seeking clarifying guidance from Education on how to properly track and report on cash balances and interest earned.

[66] Education Department General Administrative Regulations (EDGAR), at 34 C.F.R. Part 80, address the financial administration of Department of Education grants to state and local governments, including cash management requirements for grantees and subgrantees. Cash management requirements applicable specifically to states are contained in Department of the Treasury regulations, 31 C.F.R. Part 205.

- The Illinois State Board of Education (ISBE) does not have a mechanism in place to allow LEAs to draw down SFSF funds on an as-needed basis. As a result, the ISBE distributes the state's share of SFSF funds as General State Aid payments—these payments are made based on a predetermined schedule (semimonthly, in equal installments). According to Education officials, the agency is working with the ISBE to develop a procedure to withhold future SFSF payments from LEAs that carry SFSF cash balances.

- In Arizona, state distribution of funding raised concerns at one LEA. LEA officials told us they had planned to pay the salaries of 15 teachers over the course of the school year with their SFSF funds, and they submitted a drawdown request for 1 month's funding. However, the state unexpectedly sent the funding all at one time, and the LEA officials were concerned about having excess SFSF cash on hand at month's end. LEA officials said they used the SFSF funds to pay all district salaries for that month, in order to be able to expend all funds in a timely manner. In our discussions with Education officials, they acknowledged there could be a cash management issue if an SEA is sending SFSF funds to LEAs in advance of the LEAs' needing it. Education officials said they would need to look into this matter.

- As we previously reported, the California Department of Education (CDE) has recently implemented a pilot program to monitor LEA cash balances. CDE officials report they are currently developing interest calculation procedures for LEAs, including for Recovery Act SFSF fund balances. Education officials said they have been in communication with CDE about that agency's efforts to develop procedures for LEA calculation of interest on SFSF funds and other federal cash balances. Education officials told us they are waiting to make a decision on CDE's proposed interest calculation procedures until they receive the proposal in writing from CDE. CDE officials told us they would issue further cash management instruction to LEAs when the issue is resolved.

- New Jersey Department of Education (NJED) officials reported that they currently have a system in place to monitor SFSF cash balances. They said they instruct LEAs to remit any interest over $100 earned on SFSF cash balances back to the federal government; however, they do not expect LEAs to accrue interest on SFSF funds because the LEAs plan to use the funds each month to pay salaries. State officials told us they monitor LEA SFSF expenditures on a quarterly basis to determine LEA cash needs for the following quarter. If an LEA spends less than

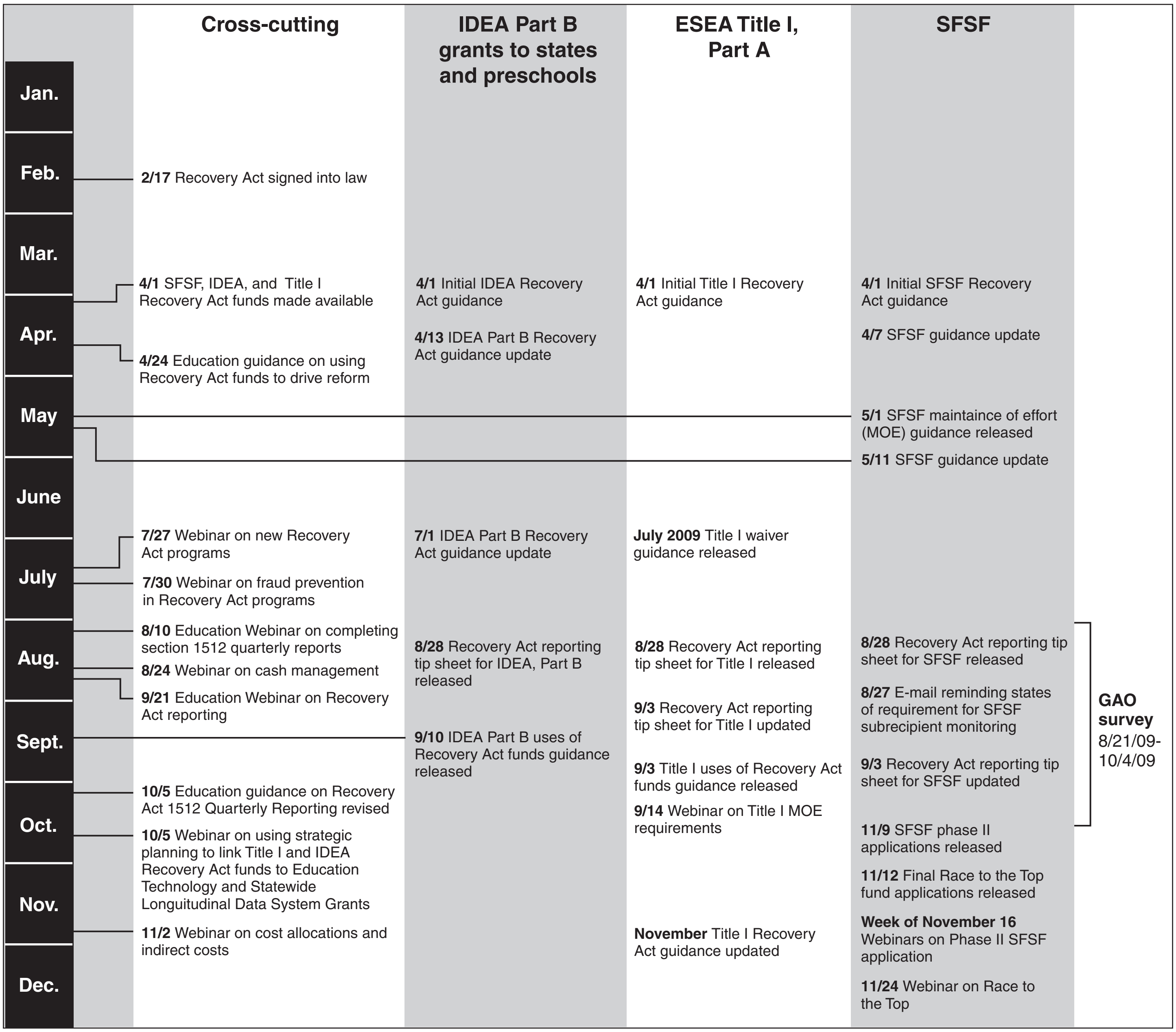
90 percent of the payments issued that quarter, the NJED withholds payments until the LEA's expenditures exceed 90 percent.

LEAs' Views of Federal Guidance Is Correlated with Their Views of State Guidance, and Some States with High Levels of Satisfaction Have Similar State Practices in Developing and Distributing Guidance

Starting on April 1, 2009, about a month and a half after enactment of the Recovery Act, Education began issuing guidance related to uses of Recovery Act funds for ESEA Title I, IDEA, Part B, and SFSF, as well as other programs. Since then Education has issued guidance updates, has hosted webinars on a variety of topics of significance under the Recovery Act, and has made all these resources available on its Web site. According to Education officials, before the department issues written guidance, it conducts a series of internal and other reviews that contribute to the total amount of time needed to develop and disburse written guidance. Within Education, generally, both the Office of the General Counsel and the Office of the Secretary review proposed guidance documents, and, depending on the topic covered, other offices are also involved in the review process. After Education completes its internal review, it submits its proposed guidance documents to the Office of Management and Budget for an external review,[67] and generally OMB has been able to provide its review on an expedited basis, depending on the volume of documents OMB has received to review from all executive agencies. Figure 17 shows major Recovery Act guidance that Education has issued since the Recovery Act was enacted, including both cross-cutting topics such as cash management, recipient reporting, and educational reform, as well as program-specific guidance pertaining to ESEA Title I, IDEA, and SFSF. To provide context for the discussion on survey results concerning guidance, we have included in figure 17 the period when LEAs responded to the survey.

[67]On January 18, 2007, the Office of Management and Budget issued a document entitled the "Final Bulletin for Agency Good Guidance Practices." This bulletin established policies and procedures for the development, issuance, and use of significant guidance documents by executive branch departments and agencies and is intended to increase the quality and transparency of agency guidance practices and the significant guidance documents produced through them.

Figure 17: Timeline of Major Department of Education Recovery Act Guidance and Period LEAs Could Respond to GAO's Survey



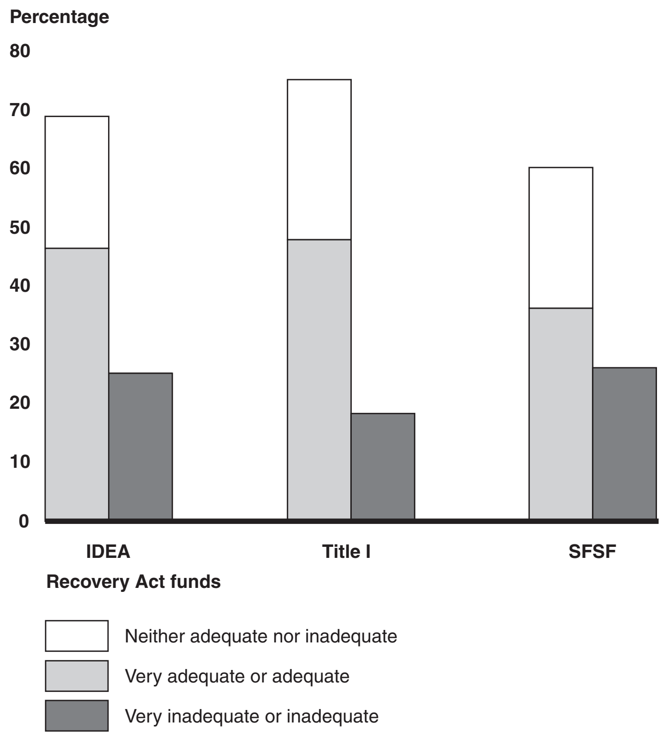
Source: GAO analysis of Department of Education Guidance documents and events.

Our survey estimates show that a majority of LEAs nationwide found Education's guidance on allowable uses for IDEA, ESEA Title I, and SFSF Recovery Act funds to be very adequate, adequate, or neither adequate nor inadequate.[68] For example, officials in two LEAs we interviewed after the survey was completed told us they had found Education's guidance adequate. An official in another district we visited said that at the time of the survey, he had assessed Education's guidance as neither adequate nor inadequate but later considered Education's guidance adequate because Education has issued additional guidance. A much smaller percentage of LEAs found the guidance to be inadequate or very inadequate. Specifically, as shown in figure 18, we estimate that the percentage of LEAs reporting that guidance was very adequate, adequate, or neither adequate nor inadequate was 69 percent for IDEA, 75 percent for ESEA Title I, and 60 percent for SFSF.[69]

[68]It is important to note that these survey results show LEAs' assessments made sometime between late August and early October when the survey was conducted (as shown in figure 17); therefore, these results do not capture assessments of Education's subsequently released guidance.

[69]These responses were given in answer to survey questions worded as follows: "In your opinion, has the guidance your LEA received from the Department of Education regarding the allowable uses of [IDEA/ ESEA Title I/ SFSF] Recovery Act funds been adequate or inadequate in the following way: Content of guidance was understandable and useful."

Figure 18: How LEAs Assessed the Content of Education's Guidance on Allowable Uses



Source: GAO survey of LEAs.

Notes: This figure excludes the estimated percentages of survey respondents that did not respond to this question or responded "don't know" or "not applicable."

Percentage estimates for these nation-wide estimates have margins of error, at the 95 percent confidence level, of plus or minus 5 percentage points or less.

We found a statistically significant relationship for all three Education programs we reviewed showing that LEAs with favorable assessments of state guidance also tend to have favorable assessments of federal guidance. For example, in Florida, where 87 percent of LEAs indicated that their state's IDEA Recovery Act guidance was very adequate or adequate, 72 percent of LEAs indicated that Education's guidance on this subject was very adequate or adequate. Both of these estimates are statistically higher than the national averages of 58 percent for state guidance and 46 percent for Education's guidance. Further, our survey results indicate that LEAs' assessment of both Education's guidance and their state's guidance varied by the size of LEAs—with larger LEAs assessing guidance more favorably than smaller LEAs. This difference was statistically significant for SFSF as well as for IDEA and ESEA Title I

Recovery Act guidance. For example, an estimated 63 percent of the largest LEAs[70] said Education's ESEA Title I Recovery Act guidance was very adequate or adequate compared to 48 percent of all other LEAs nationally.

Three states—Florida, Massachusetts, and Georgia—were among the best in terms of the percentage of LEAs assessing their state's Recovery Act guidance for ESEA Title I, IDEA, and SFSF as adequate or very adequate. Our interviews with state officials in these three states revealed three common themes: (1) continuous communication between state officials and LEA program and financial staff; (2) collaboration between state and local program and financial officials in developing brief, navigable guidance documents to ease use; and (3) use of various media (or technology) to enhance efficiency in delivering guidance. Education officials agreed that states can play a critical role in disseminating and explaining federal guidance. In particular, Education officials were interested in knowing more about promising practices in states where LEAs were satisfied with guidance, so that they could help disseminate those practices to other states.

First, regarding communication, officials in Georgia said there is continuous dialogue between state officials and LEA officials, and a state official in Massachusetts reported that the state has developed an organizational culture that placed a high priority on communication with the field. Further, officials in Florida said that their frequent communication with LEAs helped them keep LEAs abreast of important updates and was particularly helpful because it helped state officials generate a list of LEA questions and concerns that they were able to draw on in deciding what guidance to develop. In contrast, officials in a school district we visited in another state told us that when they call their state's Department of Education for guidance, they often do not get their calls returned.

Second, regarding collaboration in developing guidance, state officials in Florida said they directly involved a group of superintendents in developing user-friendly guidance documents and later invited all superintendents to give feedback on the guidance. These guidance documents are posted on the state's Web site, highlight 21 possible strategies for using Recovery Act funds, and indicate which strategies

[70]"Largest LEAs" refers to the 10-largest LEAs in each state, based on enrollment.

correspond to particular Recovery Act programs. Further, officials in all three states said they had brought state and local programmatic and financial officials together as part of their guidance efforts. One state official in Florida said that this effort had been critical to making sure the guidance was understood by both program and financial staff at the LEA level.

Finally, regarding strategies to enhance efficiency in delivering guidance, Florida, Georgia, and Massachusetts used webinars to directly answer questions from LEAs and used LISTERV e-mail lists, so that they could compose a single e-mail message alert including new guidance and send it to all superintendents at once. Both strategies have allowed state officials to provide consistent information to many superintendents simultaneously. In contrast, officials in one district we visited in another state told us there had been times they had needed to call around the school district to see who had received guidance from state officials because there was no consistency in which local officials were receiving guidance from state officials. Florida officials also told us they had created summaries of Education's guidance that highlighted the most important information to make it easier for superintendents to find the information they needed. In contrast, a school superintendent in another state who reported on GAO's survey that his state's guidance for ESEA Title I and SFSF was very inadequate said he felt "stranded on a desert island" because he did not receive updates when new guidance was made available on the state Web site and did not have time to check the Web site daily to see what had changed or to search for answers to his questions in Education's guidance documents.

Education Is Continuing to Provide Technical Assistance and Monitor States' Use of Recovery Act Funds

Education continues to provide intensive technical assistance to six states and territories that the department felt could benefit the most from additional assistance. Education identified the six states and territories that would be most likely to benefit from intensive technical assistance by using a risk-based approach that assessed factors such as high funding levels and recent monitoring or audit findings. Four of the states—California, Illinois, Michigan, and Texas—and the District of Columbia are part of our review.[71] Education officials have made site visits and held conference calls with these states and involved officials from multiple offices in the department to provide programmatic and financial expertise to answer the states' questions. Education officials said that in planning

[71]The sixth is a territory, Puerto Rico, and is not covered by GAO's review.

these meetings, they worked with each state to identify the types of technical assistance that would be needed to address state-specific concerns. Education also provides technical assistance to other states on issues related to the Recovery Act, but this technical assistance is provided separately by individual program offices. Education also hosts biweekly webinars open to any states and school districts on Recovery Act-related topics, such as quarterly reporting and cash management, and it makes the presentations available on its Web site for downloading.

Education officials told us they have been conducting on-site monitoring visits concerning ESEA Title I and IDEA that include monitoring of Recovery Act-related issues, and have been monitoring SFSF in other ways as it continues development of a comprehensive monitoring plan for this new program. Education officials told us they have asked specific questions related to the Recovery Act during ESEA Title I and IDEA monitoring visits. In addition, the program office responsible for IDEA has been piloting a desk review tool specifically related to the Recovery Act and shared an early draft with states to help inform them about how they will be monitored. According to Education officials, to date, the department has been monitoring the use of SFSF funds through its review of SFSF applications, waiver applications, and quarterly Recovery Act reporting and through telephone calls with states. Officials said their upcoming review of Phase II SFSF applications to be submitted by states will help identify states that may be having problems related to SFSF, so that the department can conduct on-site monitoring visits to those states.

Education officials said they plan to collect states' SFSF subrecipient monitoring plans in the future but have not yet begun to collect these plans; in our last report, GAO recommended that Education take further action, such as collecting and reviewing documentation of state monitoring plans, to ensure that states understand and fulfill their responsibility to monitor subrecipients of SFSF funds. Department officials sent an e-mail reminding states of their responsibility to conduct subrecipient monitoring on SFSF and specifying what should be in states' monitoring plans. Education officials said they routinely discuss the requirement for subrecipient monitoring during their site visits and conference calls with states. Our work in states continues to indicate a need for Education's oversight of state subrecipient monitoring plans. For example, we found that officials in Massachusetts do not have a comprehensive monitoring plan and are instead planning to rely on their state's Single Audit report,[72] alterations to their LEA reporting requirements, and reviews of LEAs' funding applications to monitor SFSF sub-recipients. However, Education officials told us they consistently tell states that the Single Audit is not enough for subrecipient monitoring and that states have to be active with ongoing subrecipient monitoring.

Housing Agencies Continue to Make Progress on Recovery Act Projects, Although Less Than Half of the Funds Have Been Obligated

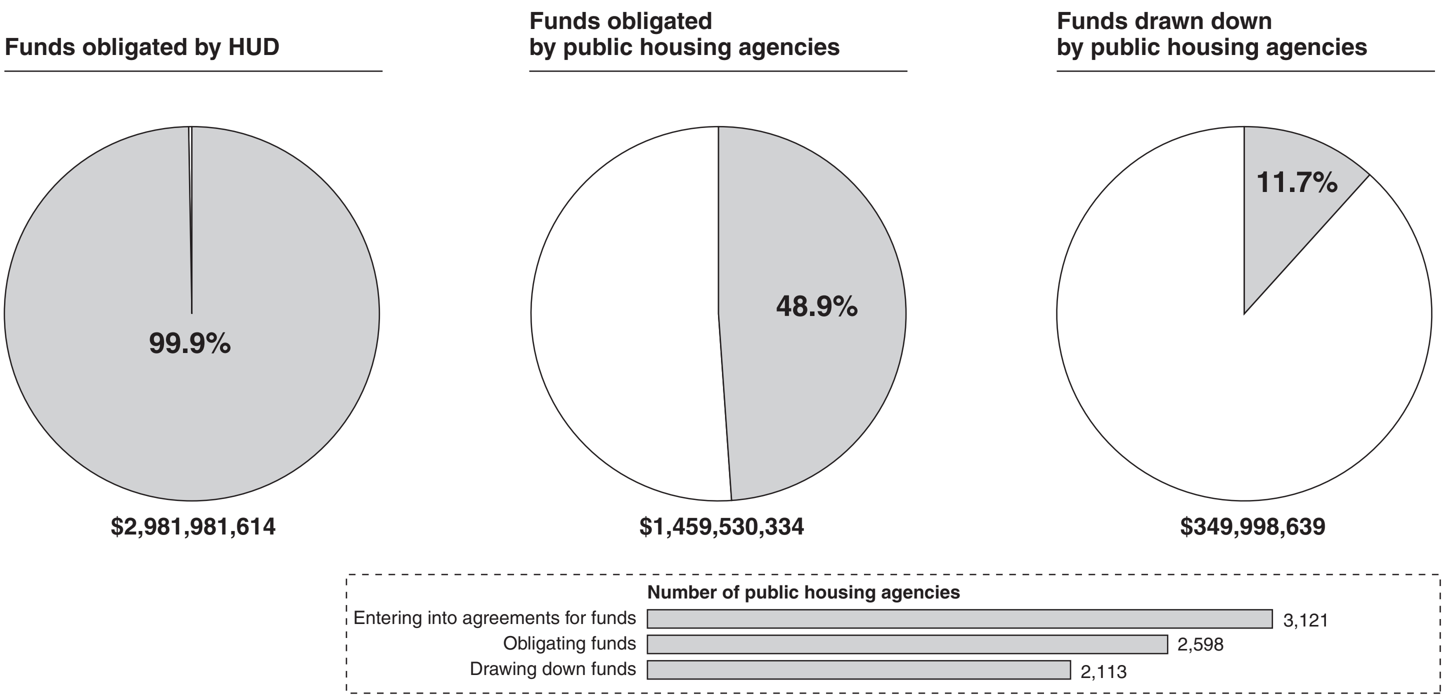
The Recovery Act requires the U.S. Department of Housing and Urban Development (HUD) to allocate $3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. HUD allocated Capital Fund formula dollars to public housing agencies shortly after passage of the Recovery Act and, after entering into agreements with more than 3,100 public housing agencies, obligated these funds on March 18, 2009.[73] As of November 14, 2009, 2,598 public housing agencies (83 percent of the housing agencies that entered into agreements with HUD for Recovery Act funds) had reported to HUD that they had obligated a total of $1.46 billion, an increase of over $500 million from the level reported as of September 5, 2009. In total, public housing agencies reported obligating about 49 percent of the total Capital Fund formula funds HUD allocated to them (see fig. 19). According to HUD officials, housing agencies report obligations after they have entered into binding commitments to undertake specific projects. A majority of housing agencies that had obligated funds—2,113 of 2,598 housing agencies—had also drawn down funds in order to pay for project expenses already incurred. In total, as of November 14, 2009, public housing agencies had drawn down almost $350 million, or about 12 percent of the total HUD allocated to them. Funds

[72]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending $500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements 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. *See*, 31 U.S.C. ch. 75.

[73]HUD allocated Capital Fund formula dollars from the Recovery Act to 3,134 public housing agencies, but as of November 14, 2009, 13 housing agencies chose not to accept Recovery Act funding or no longer had eligible public housing projects that could utilize the funds.

drawn down more than doubled, increasing by $204 million from the level reported as of September 5, 2009.

Figure 19: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down Nationwide as of November 14, 2009



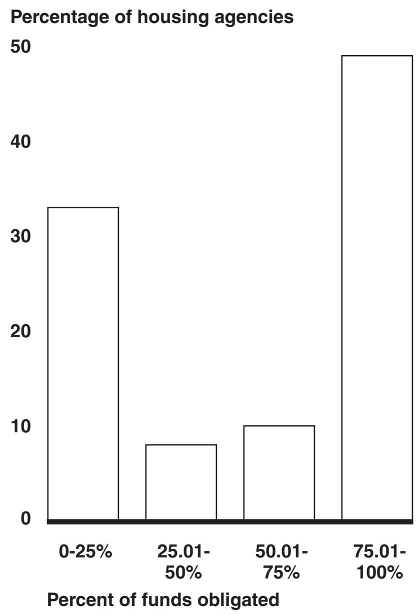
Source: GAO analysis of HUD data.

Note: According to HUD officials, housing agencies are required to report obligations once per month and generally report as of the end of the previous month. Most of the obligations reported as of November 14, 2009, would reflect activity as of October 31, 2009, but some housing agencies report data late and may include obligations that occurred after the month ended, according to a HUD official. Throughout this report we use data reported as of November 14, 2009.

The Recovery Act requires that housing agencies obligate 100 percent of their funds within 1 year from when the funds became available, which means they have until March 17, 2010, to obligate 100 percent of their funds. More than 1,000 housing agencies (33 percent) had reported obligating 25 percent of their funds or less as of November 14, 2009, including 523 (17 percent) that had reported obligating none of their Recovery Act funds (see fig. 20). However, 1,055 housing agencies (34 percent) had reported obligating 100 percent of their funds as of November 14, 2009, placing them well ahead of the Recovery Act's 12-month deadline. An additional 467 housing agencies (15 percent) had reported obligating more than 75 percent of their funds as of November 14,

2009. The size of the grant and the number, size, and complexity of projects that housing agencies selected may account for some of the differences in obligation rates. Although HUD is making efforts to assist housing agencies with meeting the deadline, officials expect some housing agencies probably will not obligate all of their funds in time.

Figure 20: Housing Agencies' Obligations of Recovery Act Funds by Quartile as of November 14, 2009

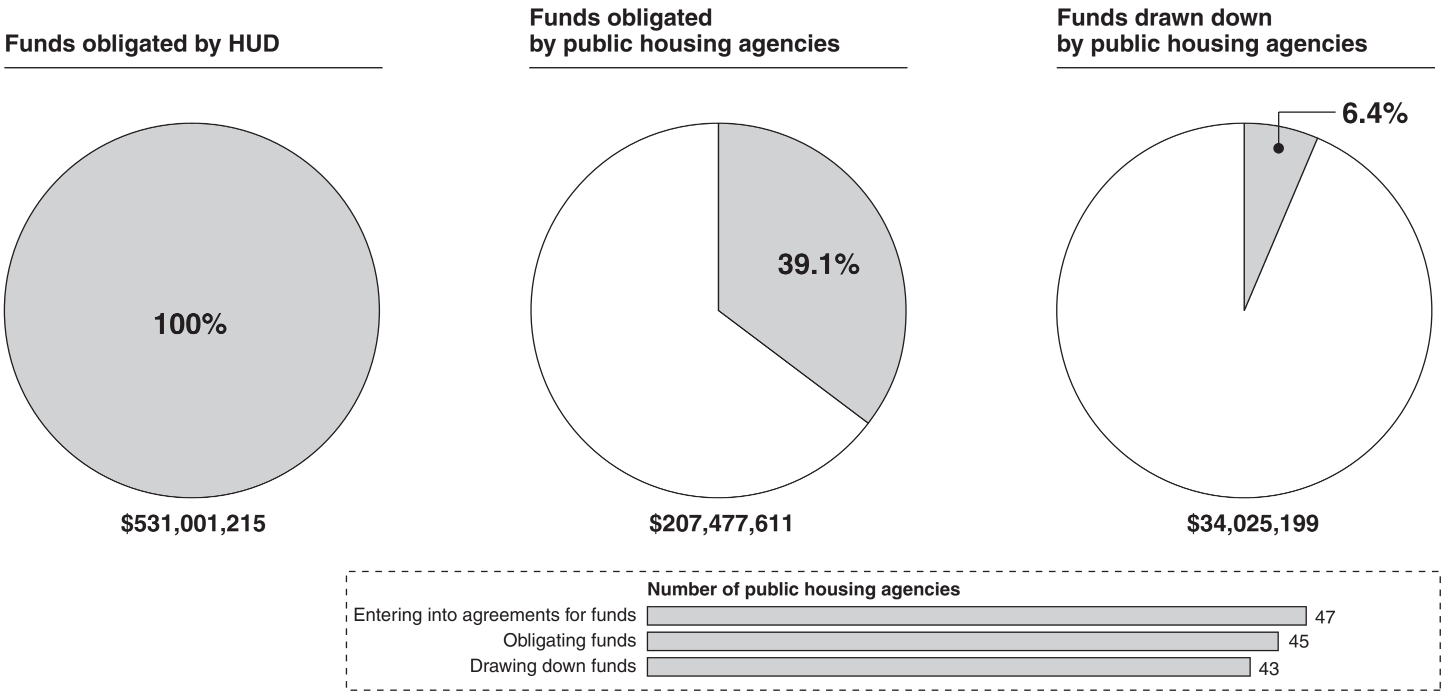


Source: GAO analysis of HUD data.

HUD officials stated they have been emphasizing the 1-year deadline to housing agencies, and they pointed to notices, frequently asked questions, and Web seminars as evidence. In addition, they have stressed that the Recovery Act does not provide HUD with any way to grant exceptions or extensions. HUD will recapture any funds not obligated by March 17, 2010, and will reallocate those funds to other housing agencies. According to HUD officials, in November 2009 HUD field staff began contacting housing agencies that had not obligated any Recovery Act funds by phone, by e-mail, or in person in order to understand where these housing agencies are in the process of awarding contracts and obligating funds. They said they will repeat the process for housing agencies below certain obligation levels, such as 25 percent or 50 percent, beginning in early December. Field staff will be preparing status reports for each housing agency, which HUD will review in order to determine what additional steps HUD should take to assist housing agencies in meeting the March 2010 deadline. HUD headquarters staff are also preparing an e-mail notification to all housing agencies that are below the level of obligations at which HUD expects them to be at this point in the year. HUD officials said they will send these notifications each month. For housing agencies that continue to struggle to obligate their funds, HUD officials said they plan to provide additional technical assistance, including possibly sending staff on site to help the process along. HUD plans to ask housing agencies to report obligations as funds are obligated—agencies report monthly—so that HUD can have up–to-date information to determine ongoing outreach and monitoring efforts. As they get closer to the March deadline, HUD officials expect more housing agencies will achieve 100 percent obligations, allowing HUD to better target its outreach efforts. While HUD's goal is that agencies achieve 100 percent obligations, officials said that realistically some housing agencies probably will not obligate all of their funds in time. They said that part of the process of reaching out to housing agencies with low obligations is to identify which housing agencies do not expect to make the deadline, so that HUD can begin planning for recapturing and reallocating the funds. They hope to have an estimate of how much will not be obligated in time by early February 2010. The officials stated HUD has not yet determined how it will reallocate funds that are recaptured. It will be important for HUD to follow through on these efforts to ensure housing agencies obligate the funds in a timely manner.

Of the 47 housing agencies in 16 states and the District of Columbia we selected for in-depth review throughout our Recovery Act work, as of November 14, 2009, 45 had reported obligating funds totaling $207 million, or about 39 percent of the total Capital Fund formula funds HUD had allocated to the agencies (see fig. 21). Obligations had increased by about $60 million from the level we reported in September. A majority of housing agencies that had obligated funds—43 of 45 housing agencies—had also drawn down funds. In total, these housing agencies had drawn down about $34 million, or about 6 percent of the total allocated to them by HUD, an increase of about $21 million from the level we reported in September 2009.

Figure 21: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down by 47 Public Housing Agencies Selected by GAO as of November 14, 2009



Source: GAO analysis of HUD data.

Housing Agencies Receiving Smaller Recovery Act Grants Are Obligating and Drawing Down Funds Faster Than Housing Agencies Receiving Larger Grants

Housing agencies that received Recovery Act formula grants of less than $100,000 continue to obligate and draw down funds at a faster rate than housing agencies that received grants of more than $500,000.[74] The difference between these groups of housing agencies has remained about the same—13 percentage points—as when we reported in September 2009. For housing agencies with smaller grants—that is, less than $100,000—the

[74]We analyzed the rates at which housing agencies had obligated and drawn down funds, grouping housing agencies by the size of the Recovery Act formula grant they had received and calculating the average percentage of funds obligated and drawn down for each group. We selected these amounts as thresholds for comparing groups of housing agencies because they were more and less than the median grant amount ($192,198). Under 24 CFR Part 85, the "simplified acquisition threshold" is $100,000. We compared various thresholds greater than the median and determined that $500,000—which is the minimum amount of federal funds expended for nonfederal entities to be subject to Single Audits—was an appropriate threshold, in part because the number of housing agencies with grants of more than $500,000 is similar to the number of housing agencies with grants of less than $100,000.

average percentage of Recovery Act funds obligated was about 63 percent, while for housing agencies with larger grants—that is, more than $500,000—the average percentage of Recovery Act funds obligated was 50 percent (see table 7). Similarly, the average percentage of Recovery Act funds drawn down was 41 percent for housing agencies with smaller grants, compared with 17 percent for housing agencies with larger grants.

Table 7: Comparison of the Average Percentage of Funds Obligated and Drawn Down among Housing Agencies Grouped by Size of Recovery Act Grant, as of November 14, 2009

	Amount of Recovery Act grant			
	Less than $100,000	$100,000 to $500,000	More than $500,000	Total
Number of housing agencies	924	1,397	800	**3,121**
Portion of total Recovery Act formula grant funds	2%	11%	87%	**100%**
Average percentage of funds obligated	62.6%	59.8%	50.0%	**58.1%**
Average percentage of funds drawn down	41.3%	29.6%	16.7%	**29.7%**

Source: GAO analysis of HUD data.

As we reported in September 2009, housing agencies with smaller grants are often able to take advantage of simplified and less formal procurement procedures, which could help them obligate funds more quickly. In addition, we found that housing agencies with smaller grants are using their Recovery Act funds on a limited number of small and narrowly focused projects, while housing agencies with larger grants are using Recovery Act funds on either a larger number of projects or projects with a broader scope, some of which may require additional layers of HUD review and approval.

More Projects Are Under Way; Lower-Than-Expected Bid Amounts Could Result in Housing Agencies Needing Additional Projects to Use All Recovery Act Funds

Housing agencies we visited reported that more of their projects had begun since our prior visits for the July 2009 report, and several housing agencies reported they had completed one or more projects during that time. For this report, we selected 47 Recovery Act-funded projects at 25 housing agencies in nine states—11 of which had not started, 22 of which were under way, and 14 of which were already completed (see fig. 22). Many of the completed projects involved roof replacement, including projects in Iowa, New Jersey, and Arizona. We visited several projects under way that involved replacing windows and siding, repainting building exteriors, or repairing sidewalks. As we previously reported, other planned uses of Recovery Act funds include heating, ventilation, and air conditioning (HVAC) system upgrades or replacements; interior rehabilitation work, such as kitchen or bathroom renovations and flooring or carpet replacements; and demolition and construction of new units. The estimated costs for the projects we selected ranged from $4,500 for one roof replacement to more than $32 million for the complete rehabilitation of 172 rental units—$28 million of which will be Recovery Act funds. Housing agencies reported that 62 of the 77 contracts they planned to award for these projects—some projects had more than one contract—had already been awarded or were in the process of soliciting bids.

Figure 22: Roof Repairs to an Iowa Public Housing Facility, Before Work Began and Work in Progress

Source: GAO.

Officials from at least four housing agencies stated that they received bids that were lower than expected, which will allow them to complete more projects with these funds. They said that, due to economic conditions, contractors have little work and are submitting lower bids in order to have projects and keep their staff employed. As a result, housing agencies may have to identify additional projects on which to use Recovery Act funds in order to obligate all their funds, although officials from these agencies did not anticipate having difficulties in obligating all their Recovery Act funds before the deadline. For example, officials from Mississippi Regional Housing Authority VIII were considering expanding the scope of an interior renovation project after awarding a contract for less than half of what they had budgeted for roofing, siding, and other exterior improvements at another property.

Housing Agencies Report Few Challenges Meeting the Priorities of the Recovery Act

The Recovery Act required housing agencies to give priority to projects already under way or in the 5-year plan, projects that can award contracts based on bids within 120 days, and projects that rehabilitate vacant rental units, and in many cases housing agencies were able to meet one or more of these priorities. As we reported in July 2009, housing agencies generally selected projects that were on their 5-year plans. Others, such as Boston Housing Authority, also selected projects that were already under way but that could be expanded or accelerated with additional funds. Eighteen housing agencies we visited were able to award at least one contract based on bids within 120 days of the funds becoming available. For example, Rahway Housing Authority in New Jersey awarded seven of its nine contracts, representing 87 percent of its Recovery Act funds, within 120 days. In addition, two housing agencies each had only one project and one contract for that project, which they were able to award within 120 days. However, housing agencies with larger projects or a larger number of projects were at times unable to meet this time frame due to extensive design work that needed to be done first or to internal and external policies and procedures that are not easily sped up. For example, officials at Boston Housing Authority said that the design work to meet the extensive and complex building codes takes time. In addition, housing agencies that HUD put on "zero threshold" or that were troubled performers said they had difficulty meeting this priority because of the additional monitoring steps HUD had put in place for them. Finally, housing agencies reported having few vacant units and therefore did not have many projects to rehabilitate vacant units. One exception was Newark Housing Authority in New Jersey, which had rehabilitated 313 vacant units using Recovery Act funds and expected to rehabilitate 109 more. Newark Housing Authority officials said they had about 700 long-term vacant units, as well as 300 units vacant as a result of normal turnover.

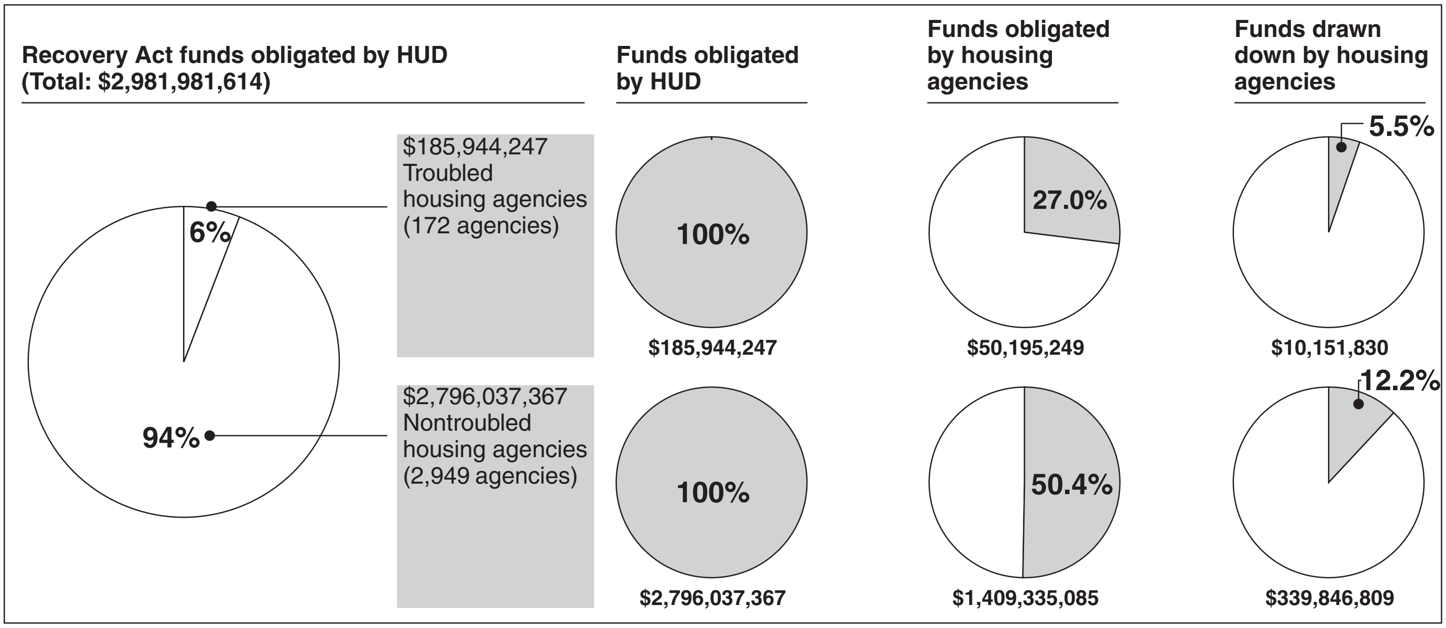
The Recovery Act also required that housing agencies use Recovery Act funds to supplement rather than supplant funds from other sources. Housing agency officials we spoke with generally did not see supplanting as a major challenge and thought they would have no trouble abiding by the requirement. Officials at several housing agencies noted they had many more projects that needed to be done than could be completed with only their regular Capital Fund grants, so it was not difficult to identify projects that did not have any other funding. In addition, housing agency officials told us they were keeping track of their Recovery Act funds separately from their regular Capital Fund grants in order to make clear that the Recovery Act funds were not supplanting other funds that had already been obligated. Other housing agency officials stated that annual statements and 5-year plans are reviewed multiple times—by the public, by the housing agency's board, and by HUD—and that these layers of review serve as a check to ensure that supplanting does not occur.

HUD Continues to Monitor Troubled Housing Agencies' Use of Recovery Act Funds

As we noted in our September 2009 report, HUD has designated 172 housing agencies as troubled under its Public Housing Assessment System (PHAS) and has implemented a strategy for monitoring these housing agencies.[75] Of these 172 troubled housing agencies, 106 (61.6 percent) were considered by HUD to be 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 officials stated they have completed remote reviews of these housing agencies' administration of the Recovery Act and plan to complete on-site reviews on the premises of these housing agencies by December 31, 2009. HUD analyzed a sample of 45 remote reviews and 45 on-site reviews. Among other things, HUD remote reviews found that many housing agencies had not amended their procurement polices as required by HUD. On-site reviews found that most sampled agencies had not yet awarded contracts at the time of the review. HUD also found that agencies were moving cautiously on contracting as they awaited HUD's August 2009 guidance on implementing the "Buy American" provision of the Recovery Act. HUD's remote reviews also raised questions about proposed work items that do not appear in previously approved annual statements or 5-year plans. As a result, according to HUD, field staff contacted housing agencies to ensure that they appropriately amended their plans to reflect these projects. As of November 14, 2009, troubled housing agencies accounted for 6 percent of all Recovery Act funds provided by HUD, and they continue to obligate and draw down Recovery Act funds at a slower rate than nontroubled housing agencies (see fig. 23).

[75]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.

Figure 23: Comparison of Obligation and Drawdown Rates for Troubled and Nontroubled Housing Agencies

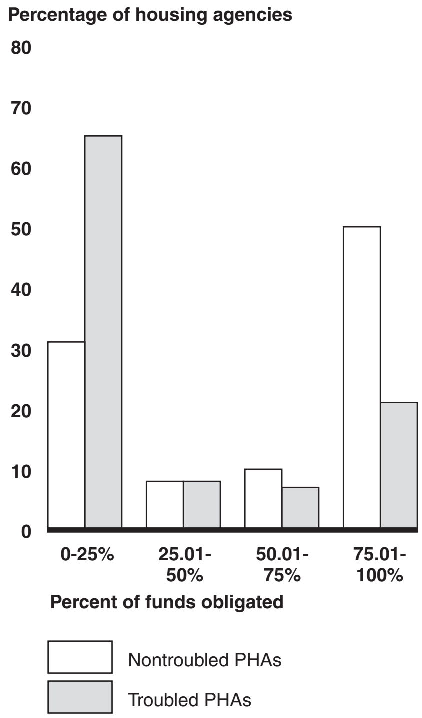


Source: GAO analysis of HUD data.

Note: According to HUD officials, 13 nontroubled housing agencies had not entered into agreements with HUD for Recovery Act funds, and therefore HUD did not obligate funds to them.

Further, when obligation rates are broken down by quartiles (see fig. 24), as of November 14, 2009, 65 percent of all troubled housing agencies have obligated 25 percent or less of their Recovery Act funds. More than one-third, almost 37 percent, of the troubled housing agencies have not obligated any Recovery Act funds. As noted above, according to HUD officials, HUD is in the process of contacting all housing agencies that had not obligated any funds, including troubled housing agencies, as well as housing agencies with low obligation rates, in order to determine what assistance HUD could provide to these agencies.

Figure 24: Troubled versus Nontroubled Housing Agencies' Obligations of Recovery Act Funds by Quartile as of November 14, 2009



Source: GAO analysis of HUD data.

One possible reason for these slower obligation and draw-down rates is the additional monitoring that HUD is implementing for housing agencies that are designated as troubled performers under PHAS. For example, according to HUD officials, all 172 troubled public housing agencies—regardless of risk category—have been placed on a "zero threshold" status, which means HUD has not allowed them to draw down Recovery Act funds without HUD field office approval.[76] HUD officials said the ability to place housing agencies on "zero threshold" has always been available and had been used for housing agencies that have had problems obligating and expending their Capital Fund grants appropriately prior to the Recovery Act. However, as we previously reported, HUD has implemented more

[76]The Recovery Act provided HUD with the authority to decide whether to provide troubled housing agencies with 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 Recovery Act requirements.

extensive monitoring for all troubled housing agencies, including requiring that HUD field office staff review all award documents (such as solicitations, contracts, or board resolutions, where applicable) prior to obligation of Recovery Act funds. According to HUD officials, also contributing to the low obligation percentages is the fact that many troubled housing agencies routinely struggle with procurement processes.

HUD Is Implementing Its Strategy for Monitoring Nontroubled Housing Agencies

Building on its efforts to more closely monitor the use of Recovery Act funds by troubled housing agencies, HUD is implementing a strategy for monitoring nontroubled housing agencies, as well. Under its nontroubled strategy, HUD has taken the 2,949 nontroubled housing agencies that received Recovery Act funds and separated them into two groups for the purposes of monitoring and oversight: high risk and low risk.[77] The high-risk group is composed of the 332 housing agencies that have been identified as the highest risk based in part on the amount of their Recovery Act funding. The low-risk group consists of the remaining 2,617 nontroubled housing agencies. HUD's nontroubled strategy calls for remote reviews to be completed by January 15, 2010, on all nontroubled housing agencies. In addition, HUD's strategy calls for on-site reviews for a sample of nontroubled housing agencies from each of the two risk groups, with the objective of reaching those at greatest risk and ensuring coverage of grantees constituting the greatest amount of formula grant dollars. Remote reviews are to focus on four main components: grant initiation, environmental compliance, procurement, and grant administration. On-site reviews of a sample of housing agencies provide follow up to outstanding issues from the remote reviews and also include a review of contract administration for procurements related to the use of Recovery Act funds.

HUD's nontroubled strategy calls for on-site reviews for a sample of 252 high-risk nontroubled housing agencies to be completed by February 15, 2010. For the remaining 2,617 housing agencies in the low-risk group, HUD's strategy calls for on-site reviews for a sample of 286 housing agencies to be completed by February 15, 2010. In September 2009, we recommended that HUD expand the criteria for selecting housing agencies for on-site reviews to include housing agencies with open Single Audit findings that may affect the use of Recovery Act funds. In October 2009, HUD implemented this recommendation by expanding its criteria for

[77]The total number of nontroubled housing agencies to be monitored by HUD excludes 13 housing agencies that 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.

selecting housing agencies for on-site reviews to include all housing agencies with open 2007 and 2008 Single Audit findings as of July 7, 2009, relevant to the administration of Recovery Act funds. HUD has identified 27 such housing agencies and plans to complete these on-site reviews by February 15, 2010.

Technical Challenges with FederalReporting.gov Delayed Housing Agencies' Processing of Recipient Reports

HUD officials said that even though many of the data elements requested for Recovery Act recipient reporting were new to housing agencies, approximately 96 percent of housing agencies had successfully reported into federalreporting.gov. Initial reports suggested a lower reporting rate of approximately 84 percent, but this was due to a substantial number of housing agencies incorrectly entering values into certain identification fields, such as the award ID number, the awarding agency, or the type of funding received. HUD officials said the system did not have validation measures in place to ensure the correct award ID numbers were entered. In addition, housing agencies could not edit the award ID number without submitting a new report. According to a HUD official, OMB initially termed reports that could not be matched with a federal agency as "orphaned." A HUD official said that HUD program and Recovery team staff reviewed reports submitted with nonmatching award ID numbers and OMB's list of reports that could not be matched to a federal agency to determine if they matched HUD awards. As a result of these efforts by HUD staff, HUD was able to achieve a rate of reporting of approximately 96 percent.

According to HUD officials, public housing agencies encountered challenges related to registration and system accessibility. For example, a HUD official said the registration process for federalreporting.gov requires several steps such as obtaining a DUNS number, registering with the Central Contractor Registration (CCR) and obtaining a Federal Reporting Personal Identification Number (FRPIN). The HUD official told us these steps are necessary for validating the recipient reports because they ensure the appropriate points of contact at the appropriate organizations—in this case, public housing agencies—are reporting for each program. Federalreporting.gov states that each recipient's point of contact information is taken directly from the CCR, and if an organization changes its point of contact information, it will take 48 hours for federalreporting.gov to receive the change and e-mail the FRPIN and temporary password to the new point of contact. According to the HUD official, a housing agency's contact information in CCR is sometimes outdated, and the systems are often not updated in time for access to be correctly transferred. Additionally, one housing agency official in Mississippi reported saving his data entry as a draft before being timed out of the system but was unable to retrieve the data when he re-entered the reporting Web site. A HUD official said that, in the future, HUD and OMB will need to improve the function of the system and that the agencies are working to ensure all housing agencies have access to the reporting systems.

Housing Agencies' Confusion about the Methodology for Calculating Jobs Created and Retained May Have Resulted in Reporting Errors

According to a HUD official, there was widespread misunderstanding by public housing agencies about OMB's methodology for calculating the number of jobs created or retained by the Recovery Act, in part because housing agencies are not familiar with reporting jobs information. In a few cases, we found that public housing agencies had reported the number of jobs created or retained into federalreporting.gov without converting the number into full-time equivalents. For example, officials from a housing agency in Illinois reported the number of people, by trade, who worked on Recovery Act-related projects but did not apply the full-time equivalent calculation outlined by OMB in the June 22 reporting guidance. Additionally, officials from a public housing agency in Mississippi told us that they based the number of jobs they reported into federalreporting.gov on letters from their contractors detailing the number of positions rather than full-time equivalents created as a result of their Recovery Act-funded projects. In another case, a housing agency official in Massachusetts told of having difficulty locating guidance on calculating job creation. As a result, the housing agency may have underreported jobs data from an architectural firm providing design services for a Recovery Act window replacement project at a public housing complex.

OMB published guidance on calculating jobs created and retained using full-time equivalents (FTE) on June 22, 2009. In early September, HUD posted the OMB guidance to its Web site and provided information by e-mail to housing agencies on registration for federalreporting.gov, as well as links to Web seminars and training provided by OMB. In the meantime, as HUD was developing program-specific guidance, HUD and OMB discussed clarifying portions of OMB's guidance right up to the end of September, according to a HUD official. HUD issued further guidance to public housing agencies by e-mail on September 25, 2009, approximately 2 weeks before the October 10, 2009, deadline for recipient reporting, providing templates and data dictionaries tailored to the Public Housing Capital Fund. The guidance also reiterated the recipient reporting responsibilities for public housing agencies.

HUD officials told us they did not have enough time to translate some of the terminology into concrete terms that would be clearer to housing agency officials, partly due to their continuing discussions with OMB on clarifying its guidance. For example, HUD posted a jobs calculator spreadsheet to its Web site, and HUD field staff would direct housing agencies to this guidance when they asked specific questions about how to calculate jobs. A HUD official said it seemed like some housing agencies may have pulled information for the recipient reports from the wrong fields in the job calculator, which produced errors. Therefore, greater instruction may be needed beyond what was provided to housing agencies on the job calculator's instructions page. A HUD official stated they will work with OMB to improve housing agencies' understanding of the methodology for reporting in full-time equivalents prior to the next round of recipient reporting in January 2010. This is consistent with recommendations we recently made. We reported in November 2009 that recipients of Recovery Act funds were inconsistent in their interpretation of OMB guidance on reporting FTEs.[78] We recommended that OMB, among other things, clarify the definition and standardize the period of measurement for FTEs and work with federal agencies to align this guidance with OMB's guidance and across agencies.

HUD has taken a number of steps to ensure recipient reported data are correct, including developing a data quality review plan, automated data checks, flags for duplicate entries, awards entered incorrectly as contracts, and incorrect award identification numbers. Overall, HUD entered approximately 2,700 comments into federalreporting.gov through its data quality checks of housing agency recipient reports. We continue to monitor these efforts as part of our ongoing assessment of recipient reporting requirements.

HUD Is Seeking to Improve Registration and Accessibility for RAMPS Reporting

As we reported in September 2009, HUD developed the Recovery Act Management and Performance System (RAMPS) for Recovery Act reporting purposes, including public housing agencies' compliance information for the National Environmental Policy Act (NEPA), as required by the Recovery Act. Section 1609 of the Recovery Act requires that adequate resources must be devoted to ensuring that applicable environmental reviews under NEPA are completed expeditiously and that the shortest existing applicable process under NEPA shall be used. HUD officials said that while public housing agencies have had to comply with NEPA since it was enacted in 1970, reporting on environmental assessments is a new requirement for public housing agencies.

[78]GAO, *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, GAO-10-223 (Washington, D.C.: Nov. 19, 2009).

A HUD official said most of the challenges that housing agencies faced were related to registration and accessing RAMPS rather than entering data. For example, some housing agencies reported having difficulty gaining access to RAMPS. According to a HUD official, this may be due to housing agencies' unfamiliarity with electronic reporting and frustration with the amount of reporting required. The official said that for RAMPS, HUD provided screenshot-by-screenshot guidance to housing agencies to assist them through the reporting system. However, the HUD official also said there was no self-registration for RAMPS. Instead, HUD provided registration information to housing agencies using data elements from HUD systems, including information on active users combined with recipient groups, tax identification numbers and grant numbers. According to the HUD official, if any of these elements did not line up across systems, housing agencies were not registered to use RAMPS and could not access the system. The official said HUD is working to clean up the data in RAMPS to make sure the registration process is successful for the next round of recipient reporting.

According to a HUD official, in some cases HUD field offices are responsible for conducting the environmental reviews under NEPA and therefore are responsible for reporting into RAMPS. The official said a consequence of this is that it takes staff away from other responsibilities, such as monitoring and oversight. In other cases, housing agencies that complete environmental reviews under NEPA must report data directly into HUD's RAMPS.

Competitive Grants for Public Housing Have Been Awarded, and Projects Will Begin Soon

Under the Recovery Act, HUD was required to award nearly $1 billion to public housing agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofitting. HUD accepted applications from June 22 to August 18, 2009, and according to a HUD official, 746 housing agencies submitted 1,817 applications for these competitive grants. In September 2009, HUD awarded competitive grants to housing agencies that successfully addressed the requirements of the notice of funding availability under the following four categories:

- For the creation of energy-efficient communities, 36 grants totaling $299.7 million were awarded for substantial rehabilitation or new construction, and 226 grants totaling $305.8 million were awarded for moderate rehabilitation.

- For gap financing for projects that are stalled due to financing issues, 38 grants totaling $198.8 million were awarded.

- For public housing transformation, 15 grants totaling $95.9 million were awarded to revitalize distressed or obsolete public housing projects.

- For improvements addressing the needs of the elderly or persons with disabilities, 81 grants totaling $94.8 million were awarded.

According to data provided by HUD, larger housing agencies (that is, those with more than 250 public housing units) were more successful in obtaining competitive grants. Although smaller housing agencies (those with fewer than 250 units) outnumber larger housing agencies by three to one, larger agencies submitted about three applications for every one submitted by smaller agencies. A HUD official said that some small housing agencies have only one or two projects, and because one competitive grant may be awarded for a given project, these agencies had fewer opportunities to apply. Further, applications from larger housing agencies were more likely to be successful. Specifically, while about 26 percent of applications from larger housing agencies resulted in competitive grant awards, 11 percent of applications from smaller housing agencies resulted in awards. Housing agencies with more than 250 units represent about one-fourth of all housing agencies but manage most of the public housing units nationally. As a result, because these housing agencies likely have more needs and more projects to be funded, it was no surprise to the HUD official they were so successful. He said HUD was satisfied by the participation and successful applications of housing agencies of all sizes.

We selected one competitive grant from each of eight housing agencies. Six of the grants we selected were multimillion-dollar efforts, while five grants had an energy-efficiency focus. Four projects involve at least 100 units, including one involving 281 units. See table 8 for a summary of the projects. Housing agency officials said these projects would begin in the coming months.

Table 8: Summary of Selected Projects Funded by Capital Fund Recovery Competition Grants

State and housing agency	Category	Amount	Description of project
Arizona—City of Phoenix Housing Department	Creating energy-efficient communities, moderate rehabilitation	$3,408,000	Rehabilitate and retrofit 281 units of a 374-unit complex with low-flow faucets, showerhead, and toilets, and energy-efficient exhaust fans and appliances (among other improvements)
Colorado—Housing Authority of the City and County of Denver	Public housing transformation	$10,000,000	Install rooftop photovoltaic panels and energy-efficient water heaters, furnaces, ranges, refrigerators, and windows, and upgrade electrical systems for a 25-building, 192-unit complex
Georgia—Housing Authority of the City of Macon	Creating energy-efficient communities, substantial rehabilitation or new construction	$8,579,227	Install exterior insulation, new roofs, photovoltaic panels, and energy-efficient appliances, heat pumps, and windows for 50 duplexes
Illinois—Chicago Housing Authority	Public housing transformation	$9,900,000	Develop 60 new replacement public housing units and 77 nonpublic housing rental units, 123 for-sale homes, a community space, and a management and maintenance facility
Iowa—Ottumwa Housing Authority	Creating energy-efficient communities, moderate rehabilitation	$78,300	Install energy-efficient lighting and refrigerators for five sites
Massachusetts—Boston Housing Authority	Creating energy-efficient communities, substantial rehabilitation or new construction	$22,196,000	Construct 96 new units and a community center with recycled materials, photovoltaics, or other renewable energy sources, energy recovery systems, and energy-efficient windows, lighting, appliances, and roofs
New Jersey—Newark Housing Authority	Creating energy-efficient communities, substantial rehabilitation or new construction	$11,171,981	Raze and build a new 90-unit complex designed using “green” (energy efficient) materials
Texas—San Antonio Housing Authority	Addressing the needs of the elderly or persons with disabilities	$265,528	Redesign layout for recreational areas and install new floors, brighter lighting, and new elevators for a 66-unit facility

Source: GAO analysis of HUD and public housing agency data.

Housing Agencies Had Mixed Views about the Competition and Faced Capacity Issues Applying for Competitive Grants

We found mixed views of the competition among housing agency officials that had applied for competitive grants. We visited 15 housing agencies that applied for competitive grants, including 8 that received competitive grant awards. Officials at three agencies said they were very satisfied with the application process, while five others said they were somewhat satisfied, including two that were not awarded a competitive grant. Only one official was very dissatisfied, and another was somewhat dissatisfied, and in both cases, their housing agencies were not awarded a competitive grant. Both officials said they had not received feedback on why their applications were not successful and thought the requirements may have favored agencies with more resources. HUD officials said they recently notified housing agencies that had unsuccessful applications why they were not selected, the most common reason being insufficient funds. In addition, officials from two housing agencies thought the competition was not fair because housing agencies that had already made certain improvements, such as increasing energy efficiency or completing lead-paint abatement, were not able to accumulate as many points for those types of activities as housing agencies that had been less proactive.

Capacity was a substantial barrier to applying for competitive grants for a variety of agencies we visited, including at least one housing agency that was awarded a competitive grant. For example, officials in Phoenix stated they had a contractor assist with the application because their staff did not have the time or capacity to complete it in time. Officials from two other housing agencies stated they did not apply because they did not have enough time or staff to pull together the information required before the deadline. Officials from another agency believed that larger housing agencies were able to put together better applications that were more likely to be awarded grants because they had professional staff in house to put the applications together. Other housing agency officials said they did not apply because they were not sure that they had the capacity to administer the competitive grant within the time frames specified in the Recovery Act.

DOE's Weatherization Assistance Program Is Just Beginning to Spend Recovery Act Funds

The Recovery Act appropriated $5 billion for the Weatherization Assistance Program, which the Department of Energy (DOE) is distributing to each of the states, the District of Columbia (District), and seven territories and Indian tribes; the funds are to be spent over a 3-year period. During the past 32 years, the program has helped more than 6.2 million low-income families by making such long-term energy-efficiency improvements to their homes as installing insulation; sealing leaks; and modernizing heating equipment, air circulation fans, and air conditioning equipment. These improvements enable families to reduce energy bills, allowing these households to spend their money on other needs, according to DOE. The Recovery Act appropriation represents a significant increase for a program that has received about $225 million per year in recent years.

DOE has approved the weatherization plan of each of the states, the District, and seven territories and Indian tribes. DOE has obligated about $4.76 billion of the Recovery Act's weatherization funding to the states, while retaining about 5 percent of funds to cover the department's expenses. Each state has access to 50 percent of its funds, and DOE plans to provide access to the remaining funds once a state meets a certain target.[79] As of September 30, 2009, 43 states and territories reported they had begun to use Recovery Act weatherization funds, while 15 states and territories reported they had not used any Recovery Act funds.[80] The 43 states and territories also reported that, as of September 30, 2009, they had outlaid $113 million, or about 2 percent, of the $5 billion for weatherization activities and had completed weatherizing about 7,300, or about 1 percent, of the 593,000 housing units planned. In addition, they reported that about 2,800 jobs had been created and about 2,400 jobs had been retained through the use of the Recovery Act's weatherization funds.

As shown in table 9, as of November 30, 2009, six of the states in our review had begun spending Recovery Act funds to weatherize homes, while California and the District had not.[81] A key factor slowing the start of weatherization activities is the act's requirement that all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects be paid at least the prevailing wage, including fringe benefits, as determined under the Davis-Bacon Act. Because the Weatherization Assistance Program, funded through annual appropriations, is not subject to the Davis-Bacon Act, the Department of Labor (Labor) had not previously determined prevailing wage rates for weatherization workers. On September 3, 2009, Labor completed its determination of wage rates for weatherization work conducted on residential housing units in each county of the 50 states and the District.

[79]DOE officials plan to allow a state access to the remaining Recovery Act funds once it has completed weatherizing 30 percent of the homes identified in its state weatherization plan.

[80]September 30, 2009, is the most recent quarter for which the states are required to report data under the Recovery Act. DOE has requested that OMB authorize monthly reporting. DOE officials noted that the states and territories also have access to annually appropriated funds for weatherization activities.

[81]This report does not include information from Arizona, Colorado, Florida, Georgia, Illinois, Mississippi, New Jersey, North Carolina, and Texas because the weatherization program is only in the early stages of implementation.

Table 9: Use of the Recovery Act's Weatherization Funds by Seven States and the District, as of November 30, 2009

State	Funds used to weatherize homes?	When funds were first used
California	No	N/A
District of Columbia	No	N/A
Iowa	Yes	September 2009
Massachusetts	Yes	September 2009
Michigan	Yes	August 2009
New York	Yes	September 2009
Ohio	Yes	July 2009
Pennsylvania	Yes	November 2009

Source: GAO analysis of state information.

Note: As of November 30, 2009, California and the District of Columbia had not begun to weatherize homes using Recovery Act funds.

While Prevailing Wage Rates Have Largely Been Resolved, Ensuring Compliance with Recovery Act Requirements Has Delayed Weatherization Activities in Some States

Officials in each of the states and the District in our review said that, overall, Labor's county-by-county prevailing wage rates for weatherization work were about what they had expected. About two-thirds of these officials told us Labor's wage rates are similar to what local agencies had previously been paying. Many representatives of the local agencies we interviewed confirmed that these rates generally were about what they had been paying for weatherization work.

However, many weatherization contracts between states and local agencies have been delayed because of concerns about complying with Recovery Act requirements—including Davis-Bacon Act requirements that contractors pay workers weekly and submit weekly certified payroll records—and OMB's reporting requirements. Some state agencies have delayed disbursing Recovery Act funds to local agencies because they were not satisfied that local agencies had the proper infrastructure in place to comply with these requirements. Pennsylvania officials told us that delays occurred because some local agencies had initially submitted management plans that had not included language describing how they would comply with the Davis-Bacon Act. The state agencies of California and the District of Columbia, which had not spent any Recovery Act funds to weatherize homes, were finalizing Recovery Act weatherization contracts with their local agencies as of November 30, 2009. California's state agency requires local agencies to adopt Recovery Act requirements in their weatherization contracts, including certifying that they can comply with the Davis-Bacon Act, before these agencies are provided with

Recovery Act funds to weatherize homes. Only 2 of California's 35 local agencies that have been awarded Recovery Act funds had accepted these required amendments by the initial October 30, 2009, deadline. According to California officials, many local agencies pursued negotiations due to concerns about some provisions of these amendments.

Several state and local agency officials expressed concern about the administrative burden to state and local agencies of complying with Recovery Act requirements, and many of these agencies were taking the time to hire additional staff to better ensure compliance. For example, Michigan officials told us their agency planned to add 22 staff, including a Davis-Bacon analyst, to ensure compliance with Recovery Act requirements. They also told us that federal administrative requirements, such as a weekly certified payroll, required them to make technological upgrades in their weatherization division. Ohio officials told us that ensuring compliance with the Davis-Bacon Act documentation was a significant undertaking. District officials told us that their agency had not expended Recovery Act funds to weatherize homes because they have been developing the infrastructure to administer the program by, for example, hiring new staff. Local agencies in California, Michigan, New York, and Ohio had also hired new staff to process Davis-Bacon paperwork. Several state and local officials expressed concern about the administrative burden on small contractors of complying with Recovery Act requirements because these contractors generally have fewer resources and less experience with accounting processes.

According to DOE officials, some local agencies have been hesitant to use Recovery Act funding to weatherize homes until they are certain they are in compliance with the Davis-Bacon Act. The DOE officials had expected to receive fewer questions from local agencies about Davis-Bacon Act requirements after Labor had determined prevailing wages, but in fact they continue to receive frequent questions about these requirements. The DOE officials explained that many local agencies have been expending their DOE annual appropriation funds—which are not subject to Davis-Bacon Act requirements—to weatherize homes before using their Recovery Act funds.

State and local officials in California, New York, and Ohio also expressed concern about Labor's determination that the new prevailing wage rates for weatherization workers are limited to multifamily residential buildings of four or fewer stories, while Labor's commercial building construction wage rates (for plumbers, carpenters, and other laborers) apply to multifamily residential buildings of five or more stories. As a result, local agencies conducting weatherization work on multifamily units in high rise buildings must pay their workers wage rates that can be significantly higher than what local agencies pay weatherization workers for residential housing units. For example, in New York County (Manhattan), commercial prevailing wages were three times more than the rates for residential weatherization laborers. Representatives of two local agencies in New York told us that they intend to subcontract out all weatherization work conducted on buildings over four stories because they could not pay their workers vastly different wages based on the type of building involved. According to Ohio officials, some local agencies had delayed projects in larger multifamily buildings until they could better estimate project costs. In response to states' concerns, DOE's November 10, 2009, guidance states that the wage rates for the new weatherization laborer category do not apply to weatherization work performed on buildings of five or more stories. The guidance allows the states to calculate the cost effectiveness over the lifetime of a project by using the new weatherization wage rates rather than the prevailing wages for plumbers, carpenters, and other laborers working on multifamily buildings.[82]

Some States Are Concerned That Compliance with the National Historic Preservation Act Will Slow Weatherization Activities

Compliance with the National Historic Preservation Act could also slow the use of the Recovery Act's weatherization funds. First enacted in 1966, the National Historic Preservation Act requires federal agencies to, among other things, take into account the effect of any federal or federally assisted undertaking on historical properties included in a national register of historic sites, buildings, structures, and objects.[83] Michigan state officials told us that, under the act, its State Historic Preservation Office is allowed to conduct a historic review of every home over 50 years of age if any work is to be conducted. They explained that, in Michigan, this could mean an estimated 90 percent of the homes to be weatherized would need such a review, which could cause significant delays. However, in November 2009, Michigan state officials signed an agreement with the State Historic Preservation Office that is designed to expedite the review process. With this agreement in place, state officials said they are confident that the historic preservation requirements can be met without causing further delays. New York officials told us that several entire neighborhoods in their state fall under the protection of the act and noted

[82]As a basis for selecting an eligible dwelling unit for weatherization, DOE requires that the long-term benefits in terms of reduced energy usage at least match the weatherization costs.

[83]Pub. L. No. 89-665, 80 Stat. 915 (codified as amended at 16 U.S.C. § 470 et seq.).

that the State Historic Preservation Office may have to conduct a review before any residential units in such a neighborhood can be weatherized. State officials in Iowa expressed similar concerns. State officials in New York and Iowa have contacted their respective historic preservation offices to develop approaches for addressing the review process.

State and Local Agencies Have Begun to Report on the Impacts of Recovery Act Funds; While All Submitted Timely Reports, Two Cited Issues with the Reporting Requirements

DOE's guidance directs the states to report on the number of housing units weatherized and the resulting impacts to energy savings and jobs created and retained at both the state and local agency level. While state officials have estimated the number of housing units that they expect to weatherize using Recovery Act funds, only a few of the states have begun collecting data about actual impacts. Although many local officials have collected data about new hires, none could provide us with data on energy savings. This lack of information about impacts exists primarily because most state and local agencies either are just beginning to use Recovery Act funds to weatherize homes or have not yet begun to do so. Some of the local agencies, however, either collect or plan to collect information about other impacts. For example, local agencies in both California and Michigan collect data about customer satisfaction. In addition, a local agency in California plans to report about obstacles, while an agency in New York will track and report the number of units on the waiting list.

In regard to recipient reporting, weatherization officials in all eight states that we reviewed said they submitted these reports on schedule. However, Massachusetts and Ohio officials cited issues with the reporting requirements. In Massachusetts, state officials told us of confusion associated with terminology related to new or retained jobs, and local officials said that the Massachusetts Recovery and Reinvestment Office requires additional information about demographics not required by OMB. Ohio officials told us that for reporting purposes, they estimated the number of jobs that could potentially be created. The inconsistency between potential positions and actual hours worked resulted in an inaccurate reporting of jobs created. One of the local agencies we visited reported 36 jobs created, but officials acknowledged they had only filled 20 positions at the time of our visit. Another local agency reported 14 agency and 8 contractor jobs created, but an official confirmed that only 6 agency and 7 contractor positions had been filled.

Federal, State, and Local Agencies Plan to Monitor the Use of Recovery Act Weatherization Funds but Face Challenges

States plan to monitor the use of the Recovery Act's weatherization funds through fiscal and programmatic reviews of the local agencies providing weatherization service. DOE requires that state agencies collect information from their local agencies and submit programmatic and fiscal reports. Only a few states we reviewed expressed concerns that a small number of their local agencies did not have adequate controls.

Most states reported that the primary tools for evaluating a local agency's internal controls will be the fiscal reviews and program monitoring. This includes reviews of client files and financial information, on-site monitoring of local service providers, and site inspections of at least 5 percent of weatherized homes. State officials in Iowa reported that controls were in place prior to the Recovery Act and that the demonstrated success of these programs is proof of sufficient internal controls. Other state officials reported that Single Audits provided insight into a local agency's internal controls. Five of the eight states we reviewed reported that they had adequate resources to monitor the status of Recovery Act funds and evaluate the program's success. However, some states noted they would need to hire staff to meet the increased workload.

Local agencies plan to use a variety of controls to ensure that the Recovery Act's weatherization funds are used for the intended purposes. The most frequently mentioned controls were to separate Recovery Act funds from annually appropriated weatherization funds, pre- and post-weatherization evaluations, tracking job costs, and unannounced site inspections. Most local agencies also have procedures in place to ensure they do not contract with service providers that have been placed on the "Excluded Parties List" due to a history of fraudulent business practices.[84] Local agencies reported the most common procedure to evaluate a contractor's reputation was to check the contractor's name online against the "Excluded Parties List." Other local agencies require contractors to sign documentation stating that they have not been debarred or bankrupt. Risk assessments also serve as a procedure to prevent fraudulent or wasteful use of Recovery Act funds. For example, some local agencies reported that new contractors are subjected to a higher level of scrutiny than more experienced contractors. Local agency officials in New York, California, and Ohio told us a long history of weatherization service mitigates the risk that a contractor will improperly use funds.

[84]The General Services Administration maintains the Excluded Parties List System, which identifies parties excluded from receiving federal contracts, certain subcontracts, and certain other assistance and benefits. In GAO-09-174, *Excluded Parties List System: Suspended and Debarred Businesses and Individuals Improperly Receive Federal Funds*, we recommended that the General Services Administration take actions to strengthen controls over the system.

Our review has started to examine the states' efforts to monitor the performance and reporting of local agencies. While the states have spent relatively few funds and we have reviewed weatherization activities in only a few locales, we have identified challenges for DOE and the states to ensure that Recovery Act funds are spent prudently and that the performance of local agencies is well-managed. For example, in Ohio we found during our site visits that grantees had inconsistent practices for reporting the number of homes weatherized and, in one case, a grantee used Recovery Act funds to weatherize the home of an ineligible applicant. Faced with these early implementation challenges, Ohio officials indicated that administrative monitoring will begin in December 2009 and fiscal monitoring in January 2010, and on November 20, 2009, the state issued new guidance to all state agencies regarding reporting requirements. Challenges in Pennsylvania include expanding the state's oversight capacity, training and certifying weatherization workers, and implementing a statewide procurement system for weatherization materials purchased with Recovery Act funds. In addition, California's Inspector General reported that one local agency has been designated as high risk because of questionable spending.

DOE is hiring staff to provide national oversight to the Recovery Act weatherization program. DOE officials told us that each state will be assigned a project officer who will review the state's fiscal and programmatic reports. Project officers will also be responsible for coordinating site visits to the state and local agencies responsible for weatherization, as well as visiting a sample of projects being weatherized with Recovery Act funds. DOE is in the process of hiring this team.

FEMA's EFSP Recovery Act Funds Have Been Awarded to Local Recipient Organizations

The Emergency Food and Shelter Program (EFSP), which is administered by the Federal Emergency Management Agency (FEMA) within the Department of Homeland Security (DHS), was authorized in July 1987 by the Stewart B. McKinney Homeless Assistance Act to provide food, shelter, and supportive services to the homeless.[85] The program is governed by a National Board composed of a representative from FEMA

[85]Pub. L. No. 100-77, 101 Stat. 482.

and six statutorily designated national nonprofit organizations.[86] Since its first appropriation in fiscal year 1983, EFSP has awarded over $3.4 billion in federal aid to more than 12,000 local private nonprofit and government human service entities in more than 2,500 communities nationwide.

The Recovery Act Increased Funds for EFSP Program

The Recovery Act included a $100 million appropriation for the EFSP program in addition to the $200 million included in DHS's fiscal year 2009 appropriations. The additional funding was awarded to the National Board on April 9, 2009. As stated in FEMA's May 15, 2009, Recovery Act Plan for EFSP, EFSP's goal is to deliver critical funding to human services organizations serving hungry and homeless people throughout our nation. While additional funding is provided, FEMA's Recovery Act plan notes that EFSP's objectives remain the same. These objectives are to

- allocate funds to the neediest areas,
- deliver the funds expeditiously and efficiently,
- create and strengthen public and private sector partnerships,
- empower local representatives to make funding decisions, and
- maintain minimal but accountable reporting.

The National Board Distributes EFSP Funds to Local Recipient Organizations Selected by Local Boards

The National Board distributes the EFSP funds to local recipient organizations (LRO) selected by Local Boards in jurisdictions the National Board has determined are eligible for funds—for example, local food banks or shelters within a state. The United Way Worldwide is the Secretariat and Fiscal Agent to the National Board and employs a staff of 12 to administer the program. One FEMA permanent full-time position is dedicated to the EFSP program, but the position is not funded through the EFSP appropriation. By law, the total amount appropriated for the EFSP program is awarded to the National Board.

The National Board uses population, unemployment, and poverty data to determine which jurisdictions, such as counties or cities within a state, are eligible for EFSP funds. Local Boards evaluate applications from LROs in the jurisdiction and determine which LROs will receive the grant awards.[87]

[86]According to the act, the members of the EFSP National Board are the Federal Emergency Management Agency (Chair), American Red Cross, Catholic Charities USA, National Council of Churches of Christ in the USA, The Salvation Army, The Council of Jewish Federations Inc. (now known as The Jewish Federations of North America), and the United Way of America (now know as United Way Worldwide).

[87]Local Board membership mirrors the National Board, except that a local government official serves on each local board, rather than a FEMA representative, and that it must include a homeless or recently homeless person.

In order to be eligible to have LROs receive a portion of the $100 million in EFSP Recovery Act funds, jurisdictions must have met one of the following criteria from February 2008 through January 2009:

- their number of unemployed was 13,000 or more with a 5 percent rate of unemployment,
- their number of unemployed was between 300 and 12,999 with a 7 percent rate of unemployment, or
- their number of unemployed was 300 or more with a poverty rate of 11 percent.

Once the National Board determines that jurisdictions are eligible for EFSP funding, and notifies the jurisdictions of their allocations, Local Boards are convened in each of the qualifying jurisdictions to review applications submitted by LROs and determine which LROs in their communities will receive funds.[88] While the Local Board determines which LROs are to be awarded funds, the National Board distributes the funds directly to the LROs, rather than through the Local Board or a state or local government agency. The National Board's program manual stipulates, however, that the Local Boards are responsible for monitoring LRO's expenditure of EFSP funds to ensure that LRO's actual expenditures are consistent with planned uses of funds and are within the purpose of the Act that established the EFSP program.

EFSP funds, including the Recovery Act funds, can be used for a range of services, including food in the form of served meals or other food, such as groceries; lodging in a mass shelter or hotel; 1 month's rent or mortgage payment; 1 month's utility bill payment; minimal repairs to allow a mass feeding or sheltering facility to function during a program year; and equipment necessary to feed or shelter people up to a $300 limit per item. Program funds cannot be used for rental security deposits of any kind, cash payments of any kind, lobbying efforts, salaries (except as an administrative allowance that is limited to 2 percent of the total award), purchases or improvements of an individual's private property, telephone costs, repairs to government-owned or profit-making facilities, and any payments for services not incurred.

[88]Under terms of the award from the National Board, LROs chosen to receive any EFSP funds must (1) be private voluntary nonprofits or units of government, (2) be eligible to receive federal funds, (3) have an accounting system, (4) practice nondiscrimination, (5) have demonstrated the capability to deliver emergency food or shelter programs, and (6) if they are a private voluntary organization, have a voluntary board.

The National Board reserved about $12 million of the $100 million EFSP Recovery Act funds for State Set-Aside (SSA) awards. SSA committees identify jurisdictions with significant needs or service gaps that may not have qualified for EFSP funding under the standard formula.[89] The jurisdictions may include areas with recent jumps in unemployment and isolated pockets of homelessness or poverty. The SSA committees develop their own formula, based on the number of unemployed in the non-EFSP qualifying jurisdictions in each state, to identify pockets of homelessness or jumps in unemployment.

Recovery Act EFSP Award Funds to LROs in 16 States and the District of Columbia

As of November 4, 2009, LROs in the 16 states and the District of Columbia (District) that GAO is following as part of its Recovery Act review were awarded almost $66.2 million in Recovery Act EFSP funds (76 percent) out of almost $87 million in standard Recovery Act awards nationwide, and about $4.8 million (almost 40 percent) of the approximately $12 million in Recovery Act SSA awards.[90] The Recovery Act awards (standard and set-aside combined) for the LROs in the 16 states and the District ranged from $14.6 million for California's LROs to $720,540 for Iowa's LROs. (See table 10.) The average standard EFSP Recovery Act award for the LROs in each of the 16 states and the District was about $3.6 million. The average SSA Recovery Act award was about $300,000 for the LROs in the 16 states, ranging from about $724,000 for Pennsylvania's LROs to about $2,300 for Arizona's. SSA funds, which are intended to meet significant needs or fill gaps in places not covered by the standard EFSP funds, constituted differing proportions of the total EFSP awards in the states we reviewed. For example, the SSA award for LROs in Pennsylvania represented 19 percent of the state's total EFSP award, while it represented less than 1 percent of Arizona LROs' total award. In contrast, Iowa LROs received a total SSA award of about $406,000—more than half (56 percent) of the state LROs' total award of about $720,500.

[89]SSA Committees mirror the Local Boards and include the Governor or a representative, as well as other state-level private nonprofits.

[90]No LROs in the District received an SSA Recovery Act award.

Table 10: Standard, State Set-Aside, and Total EFSP Recovery Act Awards to LROs in 16 Selected States and the District, as of October 27, 2009

State	Standard awards	Set-aside awards	Total funds awarded
Arizona	$1,734,145	$2,333	**$1,736,478**
California	14,474,217	115,620	**14,589,837**
Colorado	1,309,517	199,880	**1,509,397**
District of Columbia	248,214	0	**248,214**
Florida	5,772,757	389,833	**6,162,590**
Georgia	2,755,365	506,047	**3,261,412**
Illinois	4,378,181	357,546	**4,735,727**
Iowa	314,365	406,175	**720,540**
Massachusetts	1,666,169	242,249	**1,908,418**
Michigan	4,480,296	63,179	**4,543,475**
Mississippi	912,298	82,468	**994,766**
New Jersey	2,373,518	336,726	**2,710,244**
New York	5,290,000	307,271	**5,597,271**
North Carolina	3,067,887	156,760	**3,224,647**
Ohio	3,781,504	515,952	**4,297,456**
Pennsylvania	3,053,499	724,112	**3,777,611**
Texas	5,772,469	379,606	**6,152,075**
Total funds awarded	**$61,384,401**	**$4,785,757**	**$66,170,158**

Source: FEMA.

Planned Use of Recovery Act Funds by LROs in 16 States and the District

As of November 4, 2009, LROs in 16 states and the District of Columbia had plans for using more than $64.7 million (98 percent) of their total Recovery Act EFSP awards.[91] (See table 11.)

[91]The LRO's "planned use of funds" dollar amount is based the applications LROs submitted to the Local Boards.

Table 11: Planned Use of EFSP Recovery Act Funds by Service Category for LROs in 16 States and the District, as of November 4, 2009

Dollars in thousands

State	Served meals	Other food	Mass shelter	Other shelter	Supplies/ equipment	Rehab./ building code	Rent/ mortgage	Utilities	Admin.	Total by state
Arizona	$53	$429	$579	$43	$6	$0	$536	$55	$25	**$1,726**
California	1,552	5,968	2,137	921	25	7	3,046	651	273	**14,580**
Colorado	86	307	221	44	14	0	760	40	24	**1,496**
District of Columbia	47	46	36	0	0	0	86	0	3	**218**
Florida	592	1,749	1,142	123	29	4	1,863	467	96	**6,065**
Georgia	323	439	447	92	22	6	1,005	587	49	**2,971**
Illinois	180	1,963	430	73	16	32	1,685	262	35	**4,675**
Iowa	59	154	130	14	2	0	203	129	13	**705**
Massachusetts	317	449	270	14	0	0	648	173	37	**1,908**
Michigan	230	1,690	362	41	24	0	1,260	846	67	**4,520**
Mississippi	96	243	33	10	4	0	317	210	9	**922**
New Jersey	201	545	128	107	19	2	1,245	206	34	**2,485**
New York	993	2,171	226	108	123	3	1,538	258	95	**5,515**
North Carolina	239	606	602	115	14	7	944	615	33	**3,174**
Ohio	320	1,282	728	119	12	3	1,087	599	66	**4,215**
Pennsylvania	348	927	780	128	15	6	998	519	57	**3,778**
Texas	435	1,989	944	68	11	0	1,531	718	86	**5,781**
Total	**$6,073**	**$20,957**	**$9,191**	**$2,020**	**$336**	**$69**	**$18,750**	**$6,336**	**$1,002**	**$64,734**

Source: GAO analysis of data provided by EFSP National Board Secretariat.

Notes: "Rehab." means rehabilitation. "Admin." means administration.

The data were submitted by Local Boards to the EFSP National Board Secretariat, United Way Worldwide.

Totals may not add due to rounding.

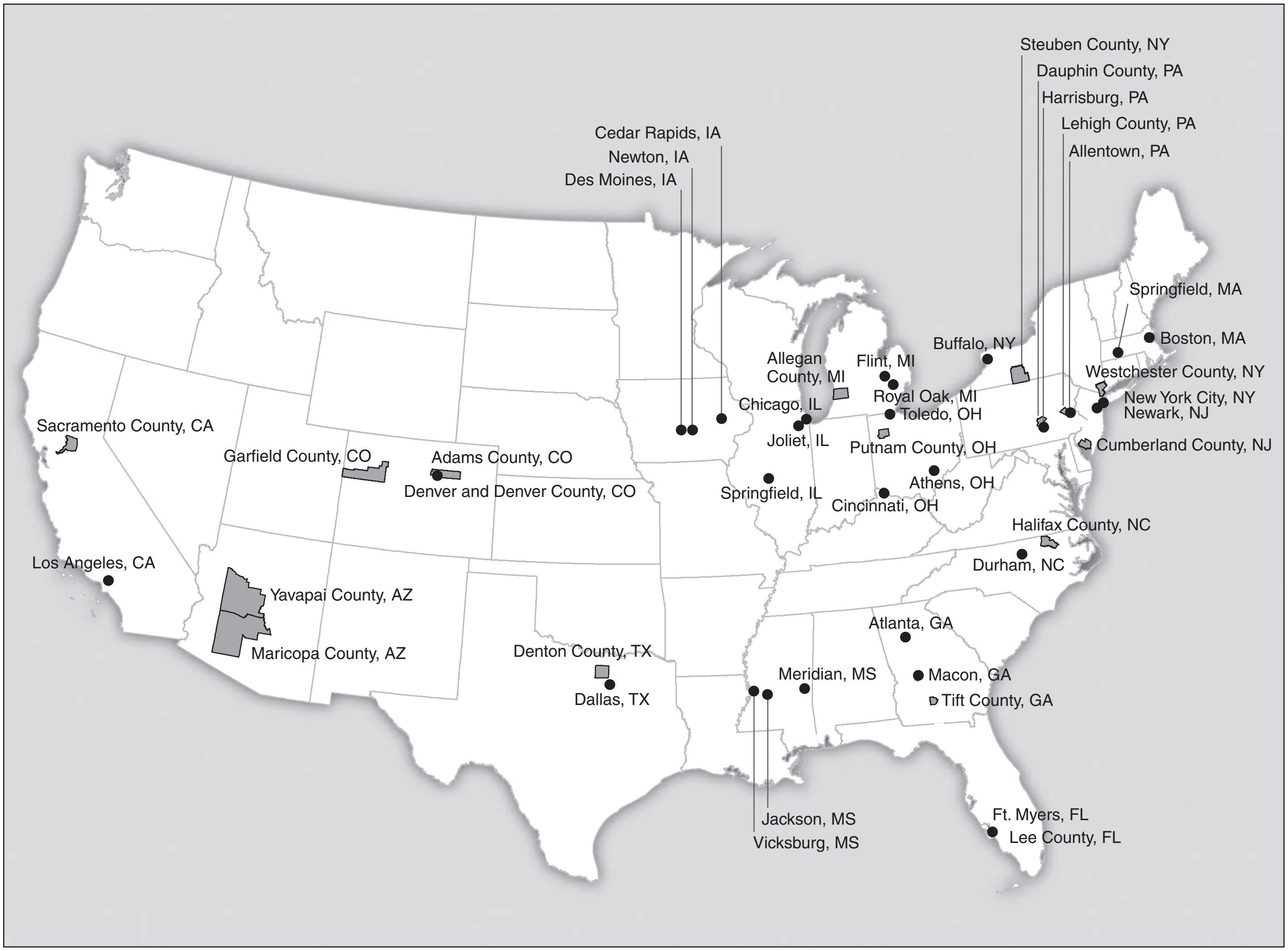
Our analysis of the planned use of EFSP Recovery Act funds reported by the Local Boards in the 16 states and the District showed that the largest planned use of funds by the LROs was for "other food" (32 percent)—that is, food programs such as food banks and pantries, food vouchers and food-only gift certificates, and rent and mortgage assistance (29 percent). However, there is some variation in how LROs in the states planned to use the EFSP funds. For example, while LROs in California and New York reported that they planned to use about 40 percent of their total award funds on other food, LROs in Texas, Florida, and Michigan reported that they planned to use from 29 percent to 37 percent of their award funds on other food. Further, LROs in the District, Iowa, and Mississippi reported that they planned to use from 29 percent to 39 percent of their EFSP funds on mortgage and rent assistance, the second largest category for planned use of funds. Mass shelter was the third-largest category for planned use of EFSP funds by LROs across the 16 states and the District, representing about 14 percent of total planned use of funds by LROs in these states.

Recovery Act Funds Provide Assistance to Local Governments and States and Help to Address Some Budget Challenges

For this report we expanded our focus on the use of Recovery Act funds to include local as well as state governments. As shown in figure 25, we visited 44 local governments to collect information regarding their use of Recovery Act funds. To select local governments for our review, we identified localities representing a range of types of governments (cities and counties), population sizes, and economic conditions (unemployment rates greater than and less than the state's overall unemployment rate). We balanced these selection criteria with logistical considerations including other scheduled Recovery Act work, local contacts established during prior reviews, and the geographic proximity of the local government entities. The 44 localities we visited ranged in population from 15,042 in Newton, Iowa to 8,363,710 in New York City. Unemployment rates in our selected localities ranged from 5.8 percent in Garfield County, Colorado to 26.3 percent in Flint, Michigan.[92]

[92]See appendix III, for a complete list of population and unemployment rates for the selected local governments.

Figure 25: Selected Local Governments Included in Our December 2009 Review



Sources: U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics, and Local Area Unemployment Statistics (data); MapInfo (map).

Local Government Use of Recovery Act Funds Varied by Program Areas While Some Local Governments Reported Difficulty in Applying for Recovery Act Grants

The use of Recovery Act funds helped to fund existing programs for some local governments. A number of local government officials reported that they used Recovery Act funds for existing programs or non-recurring projects and did not apply for grants that would result in long-term financial obligations. For example, although several local government officials reported applying for the Community Oriented Policing Services (COPS) Hiring Recovery Program grant, officials in a few localities expressed concerns about their ability to retain officers hired with Recovery Act funds.[93] Several localities reported applying for and receiving funds for public works or infrastructure projects. For example, Meridian, Mississippi is using Recovery Act funds from the Energy Efficiency and Conservation Block Grant to complete restoration of its city hall using energy-efficient materials. A few localities reported that projects to increase energy efficiency could provide long-term cost-savings to the local government.

The process of distributing federal assistance through grants is complicated and involves many different parties. Most Recovery Act funds to local governments flow through existing federal grant programs. Some of these funds are provided directly to the local government by federal agencies and others are passed from the federal agencies through state governments to local governments. As shown in table 12, local officials reported their governments' use of Recovery Act funds in program areas including public safety (COPS, Edward Byrne Memorial Justice Assistance Grant (JAG)), Energy Efficiency and Conservation Block Grants (EECBG), housing (Community Development Block Grant (CDBG) and Homeless Prevention and Rapid Re-Housing Program (HPRP)), transportation and transit, workforce investment (Workforce Investment Act (WIA)), and human services (Community Services Block Grants (CSBG) and Supplemental Nutrition Assistance Program (formerly the food stamp program), and education (SFSF). Other Recovery Act funds received by the selected localities included grants for community health centers, waste water treatment, airport improvement, and other programs.[94]

[93]COPS Hiring Recovery Program grants provide 100 percent funding for 3 years for approved entry-level salaries and benefits for newly-hired, full-time sworn officer positions or for rehired officers who have been laid off, or are scheduled to be laid off on a future date, as a result of local budget cuts. The grant recipient must agree to fund the position for at least one year beyond the 3 years of the grant.

[94]For descriptions of these programs, see appendix II.

Table 12: Selected Examples of Local Governments' Use of Recovery Act Funds

Recovery Act grant	Selected examples of local use of funds	Example of a local government
COPS	A COPS grant provided the city of Macon, Georgia with funding to hire 14 police officer positions.	Macon, GA
EECBG	The city of Chicago was awarded a $27,648,800 EECBG grant to fund several projects, including energy efficiency housing retrofits for low income residents that are intended to save residents, on average, 15-20 percent of their energy costs. The City's Department of Environment will work with local lenders to establish a revolving loan fund to support energy efficiency retrofits in low- to moderate-income households.	Chicago, IL
WIA	Newark was awarded $5,236,609 for WIA Adult, WIA Youth, and WIA Dislocated Worker programs. The NewarkWORKS agency plans to administer the funds for several projects to support workforce preparation, talent development, life skills training, and job readiness workshops.	Newark, NJ
CDBG	The City of Harrisburg has been allocated $599,343.00 for use under the CDBG program. CDBG funds will be used for the acquisition, rehabilitation, management, and disposition of not less than four vacant, blighted, single-family properties citywide for sale to low- and moderate-income households. The allocation includes funding for administrative costs associated with the program.	Harrisburg, PA
Increased Demand for Services (IDS)	The IDS grant funding is being used to support the Community Health Center of Yavapai (CHCY) dental and medical services in Cottonwood (Verde Valley) in eastern Yavapai County, Arizona. Of the $255,166 in IDS funds awarded, $184,061 is being used to expand dental services and $71,105 to retain jobs in the medical clinic.	Yavapai County, AZ
Airport Improvement Program	The Denver International Airport was awarded 2 competitive Airport Improvement Program grants totaling $11,489,921 to rehabilitate pavement and widen the shoulders for one of its runways as well as rehabilitate drainage systems on the terminal taxiways and aprons. The projects are estimated to save or retain 128 jobs.	Denver, CO

Source: GAO analysis of local governments' reported use of funds.

In addition to Recovery Act funds for which local governments were prime recipients, several local government officials reported that additional Recovery Act funds were received by other entities within their local jurisdictions.[95] For example, housing authorities, transit authorities, nonprofit organizations, and school systems were reported as entities within local jurisdictions which received Recovery Act funds directly from the federal government. Newark, New Jersey officials reported that their local government actively helped community partners pursue funding that the city was not eligible for, such as a National Endowment for the Arts

[95] A prime recipient is a non-federal entity that receives Recovery Act funding in the form of a contract, grant, or loan, directly from the federal government.

grant. The city of Chicago, Illinois also established a partnership with nonprofit organizations to provide training on how to apply for Recovery Act grants for which the city was ineligible.

Some local governments reported experiencing challenges in applying for and administering Recovery Act grants, including insufficient staff capacity, lack of guidance, budget constraints, and short application timetables. In particular, smaller localities, which are often rural, reported that they faced challenges due to grant requirements and a lack of staff capacity to find and apply for federal Recovery Act grants. Allegan County, Michigan officials also told us the requirements and goals of many Recovery Act programs do not fit the needs of a rural county like Allegan. For example, applicants for a grant from the U.S. Department of Transportation's Transit Investments for Greenhouse Gas and Energy Reduction program must apply for at least $2 million, making it difficult for Allegan County to compete. Other local government officials reported that they did not employ a staff person to handle grants and therefore did not have the capacity to understand which grants they were eligible for and how to apply for them. A few local officials also reported concerns regarding some grants' matching requirements, either at the state or federal level. For example, officials in Springfield, Massachusetts and Harrisburg, Pennsylvania reported an inability to apply for some grants because it was not feasible for them to generate the funds needed to meet the matching requirements.[96]

Local Governments Report Ongoing Budget Challenges after Use of Recovery Act Funds

Local government officials reported that use of Recovery Act funds helps to support local services but recent revenue declines are still resulting in mid-cycle budget shortfalls. An October 2009 survey by the National Association of Counties said that 56 percent of counties responding to the survey reported starting their fiscal years with up to $10 million in projected shortfalls.[97] In the face of decreasing revenue sharing by counties and states, a number of localities used Recovery Act funds to plug the resulting gaps in program funding. The localities we visited reported varied revenue-sharing relationships with state or county governments, but several received at least some revenue from the state or

[96]Grants may require recipients to match federal funds with state and local spending or in-kind contributions. The structure and nature of the matching requirement affects what types of recipients will apply and how recipients will use the grant funds.

[97]See National Association of Counties, *How are Counties Doing? An Economic Status Survey* (Washington, D.C.: November 2009).

county government. A few of these localities reported that decreases in revenue sharing contributed to their current budget shortfalls. In some cases, the receipt of Recovery Act funds helped offset the decline in revenue sharing from other levels of government. In other cases, Recovery Act funds received at the state level may have reduced the severity of the state's revenue sharing reductions.

Several of the local governments included in our review experienced revenue declines and budget gaps.[98] For example, Los Angeles, California officials stated that they were facing a $530 million shortfall as a result of declining property taxes, sales taxes, transfer/real estate transaction taxes, as well as utility and gas user taxes. In Jackson, Mississippi, the county government in which Jackson is located reduced the city's 2009 fiscal year portion of the road and bridge tax revenue by over $500,000 and city officials expect the revenue decrease to continue into fiscal year 2010. City officials in Cincinnati, Ohio anticipate there will be a $28 million shortfall in their general fund tax revenues for fiscal year 2009 and that these revenues will continue to fall in fiscal year 2010.

Local governments took a variety of budget actions to address shortfalls. Cincinnati, Ohio, for example, took several steps to close their budget shortfall, including layoffs, furloughs, union wage concessions, cutbacks in services, and drawing down on reserves. According to officials from Atlanta, Georgia, they offset declines in revenues by raising the property tax rate to address a projected $56 million budget gap. Officials from the city of Dallas, Texas explained that property and sales taxes represent two thirds of their $1.3 billion general revenue fund and the city of Dallas experienced declines in property and sales tax revenue for the previous 12 months, and anticipates a decline in property tax revenue for fiscal year 2010. Dallas officials relied on reductions in staff and city services as well as using $21.7 million from the city's reserve fund to balance their budget. Officials from both Dallas and Denton County, Texas reported that their local governments receive no state aid. In contrast, the city of Springfield,

[98]Local governments' ability to generate revenues varies based on a number of criteria, including the taxing authority the local government is granted by the state; the proportion of total revenues a local government generates from any particular revenue source; and the amount of state aid a local government receives relative to its total revenues. Different states grant their local governments the authority to levy different types of taxes, including property taxes, sales taxes, or personal income taxes. According to a National League of Cities report, no state authorizes the use of all three. See National League of Cities, *Research Report on America's Cities: Cities & State Fiscal Structure* (Washington, D.C.: May 2008).

Massachusetts relies on state aid for 60 percent of its revenue base, and state aid for the city of Buffalo, New York comprises about 43 percent of its revenue base. Officials from Buffalo expressed concern over impending cuts to state aid, while Springfield, Massachusetts officials noted that reductions in state aid would have been more severe had the state not received Recovery Act funds.

Local Government Plans for Recovery Act Exit Strategies Vary Based on Funding Received

Local government officials reported varied approaches to planning for the end of Recovery Act funds and several local officials did not report the need for a formal exit strategy. Officials representing a number of local governments said they did not need an exit strategy because of the limited effect of the use of Recovery Act funds. Officials in Yavapai County, Arizona stated that Recovery Act funds did not result in the adjustment of any budget actions. Although the county administration is not planning a formal exit strategy, county agencies are developing plans for the end of specific grant periods. Officials in Halifax County, North Carolina also reported that Recovery Act funds have not yet impacted the city's budget and they have not discussed an exit strategy. Some local officials said that because Recovery Act funds were generally used for one-time projects which will not result in long-term liabilities they did not plan to develop an exit strategy. For example, officials in Los Angeles reported that they are working to ensure that Recovery Act funds are for one-time uses and making sure funds are leveraged to enhance community services rather than to fund ongoing projects requiring future financial support. Officials in Newton, Iowa stated that the development of a Recovery Act exit strategy is currently not applicable because the Recovery Act funded one-time improvement projects and not recurring operation expenses.

On the other hand, a number of local governments reported that they are developing plans to sustain current Recovery Act projects after Recovery Act funding ends. Officials in Dallas, Texas acknowledged that sustaining the 50 police officers beyond the 3-year period of the Recovery Act funding would be challenging, but because public safety is a top priority and because it would be politically difficult to eliminate police officer positions, the city is committed to taking any necessary steps to ensure it can retain the additional officers. Other local governments reported developing a more general exit strategy consisting of reductions in expenditures or possible increases in revenue to prepare for the end of Recovery Act funding. Officials in Steuben County, New York said that they will have to increase taxes, reduce expenditures, and tap into their reserve while Westchester County, New York officials said that they may have to increase taxes and tap into reserves to prepare for the end of Recovery Act funds. Officials in Tift County, Georgia plan to maintain two positions in the District Attorney's office supported by Recovery Act funds by charging users a fee in the future. Officials in Springfield, Massachusetts stated that the city is preparing for a "doomsday budget" once Recovery Act funds are no longer available and are planning to hold back expenditures as much as possible while exploring additional revenue sources.

State Governments Receive Infusion of Recovery Act Funds While Continuing to Face Budget Challenges

The Recovery Act continues to help state governments maintain services. According to associations representing state officials, budget cuts and tax increases would be larger without the use of Recovery Act funds. According to the National Governors Association (NGA) and National Association of State Budget Officers (NASBO), states will have faced $256 billion in budget gaps between fiscal years 2009 and 2011.[99] These shortfalls were closed through a combination of budget cuts, tax increases, use of available reserves, and use of Recovery Act funds provided primarily for health care and education. According to the Pew Center on the States (Pew), 6 of our 16 selected states fall within Pew's top 10 list of recession-stricken states that are particularly affected with ongoing fiscal woes.[100] According to a senior Iowa official, the receipt of Recovery Act funds allowed Iowa to mitigate the effects of an across-the-board cut of 10 percent in fiscal year 2010 general fund expenditures, including maintaining state and local education services and reducing the number of layoffs in state agencies and local school districts. Without the use of Recovery Act funds, Iowa may have needed to cut additional programs, services and staff. As we reported in September 2009, Colorado had already planned to use more than $600 million in Recovery Act funds in fiscal year 2010. These funds include SFSF and the increased FMAP for Medicaid, which Colorado used to pay expenses related to its increased Medicaid caseload. The state now plans to use an additional $190 million in Recovery Act funds to offset proposed cuts in budgets for higher education and corrections. North Carolina state budget officials told us Recovery Act funds are helping in the areas of education and health and human services, and the state intends to use more of its State Fiscal Stabilization funds in the second quarter. The Governor of Massachusetts also announced a plan to close the latest budget gap through the use of $62 million in Recovery Act funds, among other strategies. Pennsylvania enacted its fiscal year 2010 budget since our September report. Michigan

[99] NGA and NASBO, The *Fiscal Survey of States* (Washington, D.C.: December 2009).

[100] The six states are Arizona, California, Florida, Illinois, Michigan, and New Jersey. See Pew Center on the States, *Beyond California: States in Fiscal Peril* (November 2009).

and the District of Columbia completed their fiscal years and their 2010 budgets since our September report. According to Michigan officials, the state enacted its 2010 budget on October 30, 2009. Michigan addressed a projected $2.7 billion shortfall through spending cuts, including cuts to state agencies' budgets, local school districts, provider reimbursement rates for Medicaid services, and state revenue sharing to local governments.

OMB Implements a Project for Earlier Reporting of Internal Control Weaknesses

Starting in April 2009, we have noted in our bimonthly reports that OMB needs to take additional action to focus auditors' efforts on areas that can provide the most efficient and most timely results to realize the Single Audit Act's full potential as an effective oversight tool for Recovery Act programs.[101] We reported that as federal funding of Recovery Act programs accelerates, the Single Audit process may not provide the accountability and focus needed to assist recipients in making timely adjustments to internal controls to provide assurances that the money is being spent efficiently and effectively to meet program objectives.[102] To provide additional leverage as an oversight tool for Recovery Act programs, we recommended that OMB adjust the current audit process to, among other things, provide for review of internal controls before significant expenditures occurred. The statutory Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action

[101]GAO recommended that to leverage Single Audit as an effective oversight tool for Recovery Act programs, OMB should provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with higher risk have audit coverage in the area of internal controls and compliance; develop requirements for reporting on internal controls during 2009 before significant Recovery Act expenditures occur, and for ongoing reporting; evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act; and take steps to achieve sufficient participation and coverage in the Single Audit project discussed in this section, providing for early written communication of internal control deficiencies and more timely accountability over Recovery Act funds.

[102]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending $500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements 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.

on internal control deficiencies before significant expenditures of Recovery Act funds. As a result, an audited entity may not receive feedback needed to correct identified internal control deficiencies until the latter part of the subsequent fiscal year.[103] The timing problem is exacerbated by the extensions to the 9-month deadline, consistent with OMB guidance, that have routinely been granted.

OMB has developed a Single Audit Internal Control Project in response to our recommendations. One of the project's goals is to encourage auditors to identify and communicate significant deficiencies and material weaknesses in internal control over compliance for selected major Recovery Act programs 3 months sooner than the 9-month time frame currently required under statute. If effective, the project should allow auditee program management to expedite corrective action and mitigate the risk of improper Recovery Act expenditures. OMB announced the project on September 10, 2009. In order to facilitate early communication of internal control significant deficiencies and material weaknesses, the project requires the auditor to issue an interim report by November 30, 2009, based on its internal control test work. This communication is to be based on the OMB Circular A-133 test work on the internal control over compliance in effect for the period ended June 30, 2009, and is to be presented to auditee management prior to December 31, 2009. Auditee management is to provide the interim communication report and a corrective action plan to the appropriate federal agency by January 31, 2010.[104] Federal agencies—each of which will assign a project liaison—will then have up to 90 days to issue a written interim management decision regarding their assessment of the areas that have the highest risk to Recovery Act funding and any concerns about the proposed plan of corrective action. The project was designed to include at least 10 states that received Recovery Act funding, with each state selecting at least 2

[103]The Single Audit Act requires that a nonfederal entity subject to the act transmit its reporting package to a federal clearinghouse designated by OMB no later than 9 months after the end of the period audited.

[104]The corrective action plan will also include the name and contact information for a high-level auditee management official who will assume overall responsibility for ensuring appropriate corrective action.

Recovery Act programs for interim internal control testing and reporting from the following 11 programs.[105]

- Department of Labor's Unemployment Insurance;
- Department of Transportation's (DOT) Federal-Aid Highway Surface Transportation Program;
- DOT's Federal Transit-Capital Investment Grants;
- Environmental Protection Agency's (EPA) Capitalization Grants for Clean Water State Revolving Fund;
- EPA's Capitalization Grants for Drinking Water State Revolving Fund;
- Department of Energy's (DOE) Weatherization Assistance Program,
- Department of Education's (Education) State Fiscal Stabilization Fund;
- Education's Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended;
- Health and Human Services' (HHS) Child Care and Development Block Grant;
- HHS's Medicaid; and
- various agencies' research and development clusters.

OMB designed the project to be voluntary. To encourage participation, OMB provided incentives to the states for volunteering. States and their auditors that participate are granted some relief in their workload because the auditor will not be required to perform risk assessments of smaller federal programs.[106] OMB has also modified the requirements under Circular A-133 to reduce the number of low-risk programs that must be included in some project participants' Single Audits.[107] GAO had previously recommended that OMB evaluate options for providing relief related to

[105]OMB's program selections for the project were based on an analysis of program obligations and discussions with officials from federal awarding agencies and the Recovery Accountability and Transparency Board. For selected programs, auditors must perform internal control testwork required by OMB Circular Number A-133 on internal control for the following types of compliance requirements, as applicable: Activities Allowed or Unallowed, Allowable Costs, Cash Management, Eligibility, Reporting, and Special Tests and Provisions.

[106]Auditors conduct these risk assessments as part of the planning process to identify which federal programs would be subject to detailed internal control and compliance testing.

[107]Project participants are exempt from the requirements of OMB Circular No. A-133.520(e), which establishes the minimum number of programs that must be audited as major programs. The project establishes new guidelines for participants that may result in fewer programs being audited as major programs.

low-risk programs to balance new audit responsibilities associated with the Recovery Act.

One of the project's goals is to identify deficiencies in internal controls for selected major Recovery Act programs 3 months sooner than the 9-month time frame currently required under statute, so that potential issues can be addressed by the auditee's management and the federal agencies in a timely manner. Another goal is to provide OMB with insight into how a variety of states are implementing certain Recovery Act programs. By monitoring and analyzing the project's results, OMB officials stated they can determine whether states are experiencing issues that OMB may need to address through additional guidance. If significant problems are identified, OMB officials have stated they may release further guidance for Recovery Act programs.

At the end of the project period, OMB will determine the success of the project by evaluating whether

- there has been sufficient participation from the auditees, auditors, and federal agencies;
- the early communication process provides auditee and federal program management with useful information regarding internal control deficiencies in the Recovery Act programs administered by the states, thus resulting in expedited correction of such deficiencies and reduced risk to Recovery Act programs; and
- the process accelerates the audit resolution by the federal agencies and therefore provides auditee management with early feedback to assist in correction of the high-risk deficiencies in the most expeditious manner.

Sixteen States Volunteered to Participate in OMB's Single Audit Internal Control Project

On October 7, 2009, OMB announced that it was soliciting auditors and auditees from the 50 states, the District of Columbia, Puerto Rico, and Guam, to participate in the project. OMB encouraged potential participants to respond to the announcement by October 16, 2009. The following 16 states volunteered to participate in the project: Alaska, California, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

GAO had previously recommended that the Director of OMB take steps to achieve sufficient participation and coverage of Recovery Act funded programs in the project to leverage Single Audits as an effective oversight tool. The 16 project participants can provide important information on the potential impact of the early communication process.

OMB met its goals for the scope of the project, and OMB officials stated that, overall, they were satisfied with the population and geographic diversity among the states that volunteered. Participants include states that use auditors within state government to conduct Single Audits as well as some that use external auditors. In addition, California and Texas, which are among the top three states with the highest levels of Recovery Act obligations from the federal government, are participating.

The project required the states to select at least two programs for internal control testing. Thirteen states selected 2 programs, 2 states selected more than 2 programs, and Texas selected 8 programs. OMB officials said that some of the officials from states not participating expressed concerns about lacking sufficient resources to do the work.

Of the 16 project participants, 9 selected the unemployment insurance program, 5 selected the SFSF program, 4 selected the Medicaid program, and 5 selected the Highway Infrastructure Investment program for audit. As of October 23, 2009, the Recovery Act portions of these 4 programs were the top 4 of all Recovery Act programs in terms of obligations to states. Further, each of the 11 Recovery Act programs included in the project by OMB was selected for inclusion by at least one participating state for early internal control testing.

The project's coverage could be more comprehensive to provide greater assurances about the extent that Recovery Act funding was effectively used to meet program objectives. As of October 23, 2009, Recovery Act federal obligations attributable to states totaled $236.5 billion and related outlays totaled $106.3 billion. [108] Based on these and other data gathered

[108]While detailed federal government obligation and expenditure data at the individual program level have not yet been compiled, it is possible to obtain higher-level program obligation and outlay amounts and estimate state and program project amounts for comparison to Recovery Act totals. Our estimate of $38.1 billion for Recovery Act obligations included in programs selected by project states as of October 23, 2009 comprises about 16 percent of the total of $236.5 billion in obligations attributable to states. A similar comparison for outlays indicates that approximately $24 billion, or 23 percent, of a total of $106.3 billion in outlays attributable to states was included in funding within the project's scope as of that date. We estimate that, as of October 23, 2009, total Recovery Act obligations to project participants totaled $105.2 billion and total Recovery Act outlays for participants totaled $47.8 billion.

through October 23, we estimate that, in dollar terms, the project participants' selected Recovery Act programs are responsible for

- 16 percent of Recovery Act obligations,
- 23 percent of Recovery Act outlays,
- 36 percent of Recovery Act obligations for the 16 volunteer states, and
- 50 percent of Recovery Act outlays for the 16 volunteer states.

OMB officials acknowledged that the project was not designed to provide coverage over a majority of Recovery Act program funding.

We commend the 16 states that elected to participate in the project. OMB has stated that by participating in the project, the auditors and auditees are demonstrating to Congress and the general public their deep interest in safeguarding the Recovery Act funds against fraud, waste, and abuse. However, the project's dependence on voluntary participation limits its scope and coverage. Voluntary participation may also bias the project's results by excluding from analysis states or auditors with practices that cannot accommodate the project's requirement for early reporting of control deficiencies. It is unclear whether OMB has the authority to mandate participation in the project.

The project's goal of identifying potential material weaknesses and significant deficiencies for selected major Recovery Act programs sooner than currently required has merit, especially since the project includes two of the three states with the largest amounts of Recovery Act funding nationwide—California and Texas. Although the project's coverage could be more comprehensive, it is our view that the analysis of the project's results could provide meaningful information to OMB for better oversight of Recovery Act programs. OMB stated that it will use the results of its analysis of the project as an indicator for making potential future modifications for improvement in the Single Audit Act. We will continue to monitor the implementation and progress of the project and report on its status in our February 2010 report.

As we reported in July 2009, 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. Finally, in our July 2009 report, we included a matter for congressional consideration pointing out that Congress is considering a legislative proposal. We believe that the matter continues to be relevant for Congressional consideration and reemphasize that:

- 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.

OMB Has Provided Flexibility in Its Administrative Cost Guidance Related to Recovery Act Responsibilities

During a time when states are grappling with unprecedented levels of declining state revenues and fiscal stress, states continue to seek relief from additional pressures created by requirements to implement and comply with the Recovery Act. This includes a wide range of activities to help ensure the prudent, timely, and transparent expenditures of Recovery Act funds, including, but not limited to, Single Audits. States often take on additional fiscal and administrative burdens to accomplish critical activities such as awarding grants, contracts, and cooperative agreements and providing funds for expenses incurred for general administration. Such additional costs can exacerbate states' existing fiscal stress. However, states do not generally recover central administrative costs up front, but instead are reimbursed for such expenses after the fact. This process can have the unintended consequence of preventing state governments from obtaining the necessary resources to quickly build administrative capacities to meet the important new oversight, reporting, and audit requirements of the Recovery Act. In addition, as we previously noted, it is our view that Congress should consider mechanisms to provide additional resources to support those charged with carrying out the Single Audit Act and related audits.

Our September 23, 2009, Recovery Act report noted that in order to achieve the delicate balance between robust oversight and the smooth flow of funds to Recovery Act programs, states may need timely reimbursement for these activities. We recommended that to the extent that the Director of OMB has the authority to consider mechanisms to provide additional flexibilities to support state and local officials charged with carrying out Recovery Act responsibilities, it is important to expedite consideration of alternative administrative cost reimbursement proposals.

In response to this recommendation, OMB issued a memorandum on October 13, 2009, to provide guidance to address states' questions regarding specific exceptions to OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments. In the memorandum, OMB provided clarifications for states regarding specific exceptions to OMB Circular A-87 that are necessary in order for the states to perform timely and adequate Recovery Act oversight, reporting, and auditing. We believe the October OMB guidance provides the additional clarification needed for states and localities to proceed with their plans to recoup administrative costs.

OMB, States, and Federal Agencies Took Actions Aimed at Reducing Risks Inherent in Initial Round of Section 1512 Reporting, but Further Data Quality Efforts Are Needed

We previously reported[109] that the risks inherent in the initial round of section 1512 recipient reporting could negatively impact the completeness, accuracy, and reliability of the information reported and on actions taken by OMB, the states, and federal agencies. Many recipients had not previously been subject to such reporting requirements, and their systems and processes had not been tested to provide reliable and accurate data, such as that required by section 1512. Risks were also increased because of the large number of recipients, making it more difficult for states and federal agencies to monitor the quality of the data reported by these recipients within a short time.

While actions have been taken by the states, the District of Columbia, and federal agencies to address risks and help ensure the quality of the reported data, we found there are significant issues to be addressed in reporting data quality and consistent application of OMB guidance.[110] All of the jurisdictions we reviewed had data quality review procedures in place for the recipient reporting data, either by a central state office or by state agencies. For example, at least three states (Florida, Michigan, and Pennsylvania) and the District of Columbia subjected the data to reviews at different levels in the state, including reviews by state program offices, state agencies, state recovery czars, and state agency inspectors general (IG). In the District of Columbia, data was reviewed at three different

[109] GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, GAO-09-1016 (Washington, D.C.: Sept. 23, 2009).

[110] GAO, *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, GAO-10-223 (Washington, D.C.: Nov. 19, 2009).

levels—by grant managers, by the agency administering the grant, and by the District's recovery czar. In Florida, fiscal and program staff in state agencies and state agency IGs reviewed the data. At least six states (Florida, Georgia, Iowa, Michigan, Ohio, and Pennsylvania) required prime recipients to certify that they had reviewed the data. At least seven states (Florida, Georgia, Iowa, Michigan, New Jersey, North Carolina, and Texas) and the District of Columbia implemented controls, either manual or automated, intended to identify blank fields, correct field size, typographical errors, outliers, and other anomalies, such as whether the amount of funds spent was greater than the amount of funds received.

In general, federal agencies that awarded Recovery Act funds to states developed internal policies and procedures for limited data quality reviews, as required by OMB. Federal agency IGs conducted reviews at federal agencies to determine whether the agencies had established processes to perform limited data quality reviews intended to identify material omissions and significant reporting errors and notify the recipients of the need to make appropriate and timely changes to their reported data.

Even with the data quality review actions taken by states and federal agencies, we found that the data suffers from a number of issues. As we reported last month,[111] based on our initial set of basic analyses of the recipient report data available for download from Recovery.gov, we identified recipient report records that showed certain data values or patterns in the data that were either erroneous or merit further review due to an unexpected or atypical data value or relationship between data values. Although recipients in the states we reviewed generally made good faith efforts to report accurately, there is evidence that the data reporting has been inconsistent, partly due to various interpretations of guidance. For example, recipients appear to have interpreted guidance on how to calculate and report data on jobs created or retained in somewhat different ways and took different approaches in how they developed their jobs data.

We made two recommendations to the Director of OMB. First, to improve the consistency of full-time equivalent (FTE) data collected and reported, OMB should continue to work with federal agencies to increase recipient understanding of the reporting requirements and application of the

[111] GAO-10-223.

guidance. Specifically, OMB should (1) clarify the definition and standardize the period of measurement for FTEs and work with federal agencies to align this guidance with OMB's guidance and across agencies; (2) given its reporting approach, consider being more explicit that "jobs created or retained" are to be reported as hours worked and paid for with Recovery Act funds; and (3) continue working with federal agencies and encourage them to provide or improve program-specific guidance to assist recipients, especially as it applies to the FTE calculation for individual programs. Second, OMB should work with the Recovery Board and federal agencies to re-examine review and quality assurance processes, procedures, and requirements in light of experiences and identified issues with this round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

OMB agreed with our recommendations. In a written response to our recommendations, OMB's Controller told us that OMB is committed to continually improving the reporting process, so that the Recovery Act goals of transparency and usefulness to the American people will be met. He also stated that each of our recommendations aligns with what OMB is hearing directly from recipients and agencies. OMB is working to better define the reporting period of measurement for recipients. As the reporting becomes more regular with quarterly updates, the time period covered by the data should be more consistent. OMB also plans to issue streamlined guidance to provide additional clarity in advance of the January reporting period, including refining its jobs-counting guidance. Further, OMB has continuing discussions with agencies about lessons learned and best practices, including suggestions for data quality. OMB pointed out that while there were numerous instances of reliable and accurate data reported, there were also erroneous data. OMB will continue to work with the Recovery Board to identify errors, large and small, and transparently correct them.

As recipient reporting moves forward, we will continue to review the processes that federal agencies and recipients have in place to ensure the completeness and accuracy of data, including reviewing a sample of recipient reports across various Recovery Act programs to assure the quality of reported information. Our subsequent quarterly reports on recipient reporting will also discuss actions taken on the recommendations and will provide additional recommendations, as appropriate.

GAO's Open Recommendations

To strengthen efforts to track the use of funds, demonstrate results, and increase outreach to states and localities that administer Recovery Act programs, we continue to recommend the following actions:

Reporting on Program Impact

Recipients of Recovery Act funds are expected to report quarterly on a number of measures, including the use of funds and the number of jobs created and retained. In addition to statutory requirements, the Office of Management and Budget (OMB) has directed federal agencies to collect performance information and to assess program accomplishments.

Recipient financial tracking and reporting: Recovery Act prime recipients and federal agency reviewers are required to perform data quality checks; however, OMB guidance does not explicitly mandate a methodology for conducting quality reviews and providing final approval of data reported.

Recommendations: In our July report, we recommended that the Director of OMB (1) clarify what constitutes appropriate quality control and reconciliation by prime recipients, especially for subrecipient data, and (2) specify who should provide formal certification and approval of data reported. More recently, in our comments on recipient reporting of jobs data,[112] we recommended that OMB work with the Recovery Accountability and Transparency Board and federal agencies to re-examine review and quality assurance processes, procedures, and requirements in light of experiences and identified issues with the first round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

The Controller of OMB in a November 18, 2009, letter outlined a series of actions OMB plans to take to address the issues and recommendations in our November report on recipient reporting. Those actions include conducting survey research with individual recipients to learn directly about what they liked about the reporting system, as well as problems they encountered.

According to the OMB Controller, OMB and federal agencies will continue to work with the Recovery Board to examine recipient data for

[112]GAO, *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention,* GAO-10-223 (Washington, D.C.: Nov. 19, 2009).

inconsistencies or errors. We believe that if effectively implemented, OMB's planned and ongoing actions will address our recommendations.

Other impact measures: As we noted in our July report, reporting on Recovery Act performance results is broader than the employment-related reporting required by the act. We continue to recommend that the Director of OMB—perhaps through the Senior Management Councils—clarify what other program performance measures recipients are expected to report on to demonstrate the impact of Recovery Act funding.

Communications and Guidance

Funding notification 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. As we recommended, OMB now requires federal agencies to notify recovery coordinators in states, the District of Columbia, commonwealths, and territories within 48 hours of an award to a grantee or contractor in their jurisdiction. However, OMB does not have a master timeline for issuing federal agency guidance. We believe that OMB and federal agencies can strike a better balance between developing timely and responsive guidance and providing a longer-range timeline to support states' and localities' planning efforts.

Recommendation: We recommended in our April report and continue to recommend the addition of a master schedule for anticipated new or revised federal Recovery Act program guidance and a more structured, centralized approach to making this information available, such as what is provided at www.recovery.gov on recipient reporting.

OMB provided technical comments that have been incorporated into this report, as appropriate.

We are sending copies of this report to the Office of Management and Budget; the Centers for Medicare & Medicaid Services; the Departments of Education, Energy, Housing and Urban Development, and Transportation; and the Federal Emergency Management Agency. In addition, we are sending sections of the report to officials in the 16 states and the District covered in our review. The report is 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 Addressees

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 fourth of 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 nonprobability sample of 155 entities (e.g., state and local governments, local education agencies, and public housing authorities) during September, October, November, and December 2009.[2] As for our previous Recovery Act reports, our teams met 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 III details the states and localities visited by GAO. Criteria used to select localities within our selected states follow.

[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.

States' and Localities' Uses of Recovery Act Funds

Using criteria described in our earlier bimonthly reports, 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 Transit Capital Assistance Program, the State Fiscal Stabilization Fund (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 Public Housing Capital Fund; the Weatherization Assistance Program; and the Emergency Food and Shelter Program. We also reviewed how Recovery Act funds are being used by states and localities. In addition, we analyzed www.recovery.gov data on federal spending.

Medicaid Federal Medical Assistance Percentage

For the increased FMAP grant awards, we obtained increased FMAP grant and draw-down figures for each state in our sample and the District from the Centers for Medicare & Medicaid Services (CMS). To examine Medicaid enrollment, states' efforts to comply with the provisions of the Recovery Act, and related information, we relied on our Web-based survey, asking the 16 states and the District to provide new information as well as to update information they had previously provided to us. When necessary, we interviewed Medicaid officials from certain states to clarify survey responses. We also interviewed CMS officials regarding the agency's oversight of increased FMAP grant awards and its guidance to states on Recovery Act provisions. To assess the reliability of increased FMAP draw-down figures, we interviewed CMS officials on how these data are collected and reported. To establish the reliability of our Web-based survey data, we pretested the survey with Medicaid officials in several states and also conducted consistent follow-up with all sample states to ensure a high response rate. Based on these steps, we determined that the data provided by CMS and submitted by states were sufficiently reliable for the purposes of our engagement.

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, reimbursements, and types of projects funded with Recovery Act highway infrastructure funds nationally and for the District and each of the 16 states. From state DOT officials, we obtained information on the status of projects and contracts, including the number of projects planned, out for bid, awarded, and completed. We interviewed officials from Arizona, California, Georgia, Massachusetts, Mississippi, and New Jersey regarding the progress of project and highway development in metropolitan areas. We interviewed officials from Arizona, California, and Illinois, who developed their own criteria to determine economically distressed areas to examine how these states calculated and justified their designations. We obtained data from 10 states and the District on highway project cost estimates and contract awards and analyzed these data to determine the savings from awarding contracts for less than the estimated costs. In all, we reviewed 1,880 contracts ranging from 12 contracts in the District to 587 in Illinois.

Transit Capital Assistance Program

For Recovery Act public transit investment, we reviewed information from California, Colorado, Illinois, Iowa, New York, North Carolina, and Pennsylvania on the Federal Transit Administration's (FTA) Transit Capital Assistance Program. We also examined the Fixed Guideway Infrastructure Investment program in New York and Pennsylvania. We reviewed status reports and guidance to the states and discussed these with FTA officials. To determine the current status of transit funding, we obtained data from FTA on obligations and unobligated balances for Recovery Act grants nationally and, for each of our selected urbanized and nonurbanized areas, the numbers and types of projects funded. We reviewed information from selected urbanized and nonurbanized areas to include how projects were chosen, how funds were used, and how progress was reported. To determine how transit agencies and states are ensuring the accountability of funds and addressing reporting requirements, we reviewed the guidance each state uses to meet reporting requirements, including reporting on project status, subcontracts, and estimated jobs created. We also interviewed selected bus manufacturers on how job creation figures were calculated for Recovery Act-funded purchases. We also interviewed FTA about meetings with bus manufacturers to standardize guidance on job reporting.

SFSF, ESEA Title I, and IDEA

To obtain national and selected state-level information on how Recovery Act funds made available by the U.S. Department of Education under SFSF, ESEA Title I, and IDEA are being used at the local level, we designed and administered a Web-based survey of local education agencies (LEA) in the 50 states and the District of Columbia. We surveyed school district superintendents across the country to learn if they have received or expect to receive Recovery Act funding and how these funds are being used. We conducted our survey from August to October 2009, with a 73 percent final weighted response rate at the national level. We selected a stratified[3] random sample of 2,101 LEAs from the population of 16,028 LEAs included in our sample frame of data obtained from the Common Core of Data (CCD) in 2006-2007. In order to make estimates for each of the 16 states and the District of Columbia, we stratified the sample based on those specific states. With the exception of the District of Columbia, all of our sample states had a response rate that exceeded 70 percent, with final weighted response rates ranging from 71 percent for Iowa to 90 percent for Georgia.

We took steps to minimize nonsampling errors by pretesting the survey instrument with officials in 5 LEAs in July and August 2009. Because we surveyed a sample of LEAs, survey results are estimates of a population of LEAs and thus are subject to sampling errors that are associated with samples of this size and type. Our sample is only one of a large number of samples that we might have drawn. As each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (e.g., plus or minus 10 percentage points). We excluded 14 of the sampled LEAs for various reasons—because they were no longer operating in the 2009-2010 school year, were a duplicate entry, or were not an LEA—and therefore were considered out of scope. All estimates produced from the sample and presented in this report are representative of the in-scope population and have margins of error of plus or minus 5 percentage points or less for our overall sample and 12 percentage points or less for our 16 state samples, excluding the District, unless otherwise noted.

To obtain specific examples of how LEAs are using Recovery Act funds, we visited at least two LEAs in Arizona, California, the District, New York, and North Carolina and interviewed LEA officials. To learn about issues related to Recovery Act funds for education, we interviewed officials in the District and state officials in each of the 16 states covered by our review. We also interviewed officials at the U.S. Department of Education (Education) and reviewed relevant laws, guidance, and communications to the states. Further, we obtained information from Education about the amount of funds these states have drawn down from their accounts with Education.

[3] We stratified the population into strata based on state, size, and charter school LEA status.

Public Housing Capital Fund

For Public Housing, we obtained data from HUD's Electronic Line of Credit Control System on the amount of Recovery Act funds that have been obligated and drawn down by each housing agency in the country. To update progress on how housing agencies are using these funds, we visited 25 of the 47 agencies we previously selected in nine states.[4] At the selected agencies, we interviewed housing agency officials and conducted site visits of ongoing or planned Recovery Act projects. We also selected one Capital Fund Recovery Competition grant in all but one of the nine states and collected information on the housing agency's plans for those funds. We also interviewed HUD officials to understand their procedures for monitoring housing agency use of Recovery Act funds and validating data that housing agencies reported to FederalReporting.gov.

Weatherization Assistance Program

For the Weatherization Assistance Program, we reviewed relevant regulations and federal guidance and interviewed Department of Energy officials who administer the program at the federal level. In addition, for this report, we collected updated information from seven of our selected states and the District on their weatherization programs.[5] We conducted semistructured interviews of officials in the states' agencies that administer the weatherization program and with local service providers responsible for weatherization production. These interviews covered updates on the use of funds, the implementation of the Davis-Bacon Act, accountability measures, and impacts of the Recovery Act weatherization program. We also conducted site visits to interview 20 local providers of weatherization and to witness weatherization production. We continued to collect data about each state's total allocation for weatherization under the Recovery Act, as well as the allocation already provided to the states and the expenditures to date.

Emergency Food and Shelter Program

For the Emergency Food and Shelter Program (EFSP), we reviewed relevant federal laws and regulations, and guidance from the Federal Emergency Management Agency (FEMA) and the program's National Board, which administer the program, and interviewed the FEMA official responsible for managing the program. We also analyzed data on the EFSP

[4]The states we visited are Arizona, Colorado, Georgia, Illinois, Iowa, Massachusetts, Mississippi, New Jersey, and Texas.

[5]The seven states we collected information from are: California, Iowa, Michigan, New York, Ohio, Pennsylvania, and Massachusetts.

Recovery Act funds awarded to local recipient organizations (LRO) in the 16 states and the District that GAO reviewed, as well as data on the planned uses of EFSP Recovery Act funds reported by the LROs.

State and Local Budget

We continued our review of the use of Recovery Act funds for the 16 states and the District, with a particular focus on those jurisdictions that enacted budgets since our last report. We conducted interviews with budget officials and reviewed proposed and enacted budgets and revenue estimates to update our understanding of the use of Recovery Act funds in the selected states and the District.

To select local governments for our review, we identified localities representing a range of types of governments (cities and counties), population sizes, and economic conditions (unemployment rates greater than or less than the state's overall unemployment rate). We used the latest unemployment rates and population sizes that were available as we prepared the draft. We balanced these selection criteria with logistical considerations, including other scheduled Recovery Act work, local contacts established during prior reviews, and the geographic proximity of the local government entities.

The teams visited a total of 44 local government entities, 27 cities, 16 counties, and one local government entity organized as a city and county, Denver. Due to the small sample size and judgmental nature of the selection, GAO's findings are not generalizable to all local governments.

To gain an understanding of local governments' use of Recovery Act funds we met with the chief executives, recovery coordinators, auditors, and finance officials at the selected local governments. We also met with associations representing local governments to understand their perspectives on the impact of the Recovery Act on local governments and reviewed reports and analysis regarding the fiscal conditions of local governments.

The list of local governments selected in each state is found in appendix III.

Assessing Safeguards and Internal Controls

To determine how states are planning for the recipient reporting requirements of the Recovery Act, we asked cognizant officials to describe the activities undertaken related to recipient reporting, including guidance that has been issued to state agencies and subrecipients, monitoring plans, and policies and procedures that have been developed for recipient reporting. We also reviewed relevant recipient reporting guidance issued by the Office of Management and Budget (OMB). For audit work related to Single Audits, we reviewed OMB's guidance and the scope and objectives for the Single Audit Internal Control Project. We also discussed with relevant OMB officials their efforts toward implementing the project. We reviewed and analyzed federal agency financial and activity reports to compare obligations and outlays by states for programs included in the OMB project to obligations and outlays attributable to states for all Recovery Act programs as of October 23, 2009. We obtained this data from www.Recovery.gov. In addition, we discussed with OMB officials OMB's progress toward addressing GAO recommendations related to Single Audits our in previous Recovery Act reports.

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. Based on our limited examination of this information thus far, 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.[6] Our sample of states, localities, and entities has been purposefully selected and the results of our reviews are not generalizable to any population of states, localities, or entities.

We conducted this performance audit from September 18, 2009, to December 4, 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.

[6]As part of our bimonthly work, we also collected data on tracking and recipient reporting of Recovery Act funds and other data by state and local governments and other entities. See GAO, *Recovery Act: Recipient Reported Jobs Data Provided Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, GAO-10-223 (Washington, D.C.: Nov. 19, 2009) for an assessment of recipient reporting data.

Appendix II: Program Descriptions

Following are descriptions of selected grant programs discussed in this report.

Figure 26: Selected Grant Programs and Their Administering Federal Agency or Office

Federal agency	Agency office	Grant program or programs administered
Department of Agriculture	Food and Nutrition Service	■ Supplemental Nutrition Assistance Program
	Forest Service	■ Wildland Fire Management Program
Department of Commerce	National Telecommunications and Information Administration	■ Broadband Technology Opportunities Program/State Broadband Data and Development Program
Department of Education	Office of Elementary and Secondary Education	■ Elementary and Secondary Education Act Title I-A grants ■ State Fiscal Stabilization Fund
	Office of Special Education and Rehabilitative Services	■ Individuals with Disabilities Education Act Part B and C grants
Department of Energy	Office of Energy Efficiency and Renewable Energy	■ Clean Cities program ■ Energy Efficiency and Conservation Block Grants ■ Weatherization Assistance Program
Department of Health and Human Services	Administration for Children and Families	■ Child Care and Development Block Grants ■ Community Services Block Grants ■ Head Start/Early Start ■ Recovery Act Impact on Child Support Incentives ■ Title IV-E Adoption Assistance and Foster Care Programs
	The Centers for Medicare & Medicaid Services	■ Medicaid Federal Medical Assistance Percentage
	Health Resources and Services Administration	■ Capital Improvement Program ■ Increased Demand for Services
Department of Homeland Security	Federal Emergency Management Agency	■ Emergency Food and Shelter Program ■ Recovery Act Assistance to Firefighters Fire Station Construction Grants
Department of Housing and Urban Development	Office of Community Planning and Development	■ Community Development Block Grants ■ Homelessness Prevention and Rapid Re-Housing Program ■ Neighborhood Stabilization Program 2
	Office of Public and Indian Housing	■ Public Housing Capital Fund
Department of Justice	Office of Community Oriented Policing Services	■ Community Oriented Policing Services Hiring Recovery Program
	Office of Justice Programs	■ Assistance to Rural Law Enforcement to Combat Crime and Drugs Program ■ Edward Byrne Memorial Justice Assistance Grant Program ■ Internet Crimes Against Children Initiatives
	Office on Violence Against Women	■ Services*Training*Officers*Prosecutors Violence Against Women Formula Grants
Department of Labor	Employment and Training Administration	■ Senior Community Service Employment Program ■ Workforce Investment Act Title I-B Grants
Department of Transportation	Federal Aviation Administration	■ Airport Improvement Program
	Federal Highway Administration	■ Federal-Aid Highway Surface Transportation Program
	Federal Transit Administration	■ Fixed Guideway Infrastructure Investment Program ■ Transit Capital Assistance Program ■ Transit Investments for Greenhouse Gas and Energy Reduction Grant Program
	Office of the Secretary	■ Transportation Investment Generating Economic Recovery Discretionary Grants
Environmental Protection Agency	Office of Air and Radiation	■ Diesel Emission Reduction Act Grants
	Office of Solid Waste and Emergency Response	■ Brownfields Program
	Office of Water	■ Clean Water State Revolving Fund ■ Drinking Water State Revolving Fund
National Endowment for the Arts		■ National Endowment for the Arts Recovery Act grants

Source: GAO analysis.

Medicaid Federal Medical Assistance Percentage

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 Centers for Medicare & Medicaid Services, within the Department of Health and Human Services, approves state Medicaid plans, and the amount of federal assistance states receive for Medicaid service expenditures is known as the Federal Medical Assistance Percentage (FMAP). The Recovery Act's temporary increase in FMAP funding will provide the states with approximately $87 billion in assistance.

Highway Infrastructure Investment Program

The Recovery Act provides funding to states for restoration, repair, and construction of highways and other activities allowed under the Federal Highway Administration's Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must follow existing program requirements. While the maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent, under the Recovery Act, it is 100 percent.

Funds appropriated for highway infrastructure spending must be used in accordance with Recovery Act requirements. States are required to ensure that all apportioned Recovery Act funds—including suballocated funds—are obligated[1] within 1 year. The Secretary of Transportation is to withdraw and redistribute to eligible states any amount that is not obligated within these time frames.[2] Additionally, the governor of each state must certify that the state will maintain its level of spending for the types of transportation projects funded by the Recovery Act it planned to spend the day the Recovery Act was enacted. As part of this certification,

[1]For the Highway Infrastructure Investment program, the U.S. Department of Transportation has interpreted the term "obligation of funds" to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

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

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.[3]

Public Transit Program

The Recovery Act appropriated $8.4 billion to fund public transit throughout the country through existing Federal Transit Administration (FTA) grant programs, including the Transit Capital Assistance Program, and the Fixed Guideway Infrastructure Investment program. Under the Transit Capital Assistance Program's formula grant program, Recovery Act funds were apportioned to large and medium urbanized areas—which in some cases include a metropolitan area that spans multiple states—throughout the country according to existing program formulas. Recovery Act funds were also apportioned to states for small urbanized areas and nonurbanized areas under the Transit Capital Assistance Program's formula grant programs using the program's existing formula. Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Recovery Act funds from the Fixed Guideway Infrastructure Investment program[4] were apportioned by formula directly to qualifying urbanized areas, and funds may be used for any capital projects to maintain, modernize, or improve fixed guideway systems.[5] As they work through the state and regional transportation planning process, designated recipients of the apportioned funds—typically public transit agencies and metropolitan planning organizations (MPO)—develop a list of transit projects that project sponsors (typically transit agencies) submit to FTA for approval.[6]

[3]Recovery Act, div. A, title XII, § 1201(a).

[4]Fixed guideway systems use and occupy a separate right-of-way for the exclusive use of public transportation services. They include fixed rail, exclusive lanes for buses and other high-occupancy vehicles, and other systems.

[5]Generally, to qualify for funding under the applicable formula grant program, an urbanized area must have a fixed guideway system that has been in operation for at least 7 years and is more than one mile in length.

[6]Metropolitan planning organizations are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation, that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues, including major capital investment projects and priorities. To be eligible for Recovery Act funding, projects must be included in the region's Transportation Improvement and State Transportation Improvement Programs.

Funds appropriated for the Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment Program must be used in accordance with Recovery Act requirements. States are required to ensure that all apportioned Recovery Act funds are obligated[7] within 1 year. The Secretary of Transportation is to withdraw and redistribute to each state or urbanized area any amount that is not obligated within these time frames.[8] Additionally, governors must certify that the state will maintain the level of state spending for the types of transportation projects funded by the Recovery Act 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.[9]

Education

State Fiscal Stabilization Fund

The State Fiscal Stabilization Fund (SFSF), administered by the Office of Elementary and Secondary Education of the Department of Education, included approximately $48.6 billion to award to states by formula and up to $5 billion to award to states as competitive grants. The Recovery Act created the 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 first be used to alleviate shortfalls in state support for education to Local Education Agencies (LEA) and public institutions of higher education (IHE). States must use 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds). For the initial award of SFSF formula grant funds, Education made available at least 67 percent of the

[7]For the Transit Capital Assistance Program and Fixed Guideway Infrastructure Investment Program, the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a grant agreement.

[8]Recovery Act, div. A, title XII, 123 Stat. 210.

[9]Recovery Act, div. A, title XII, § 1201(a).

total amount allocated to each state,[10] but states had to submit an application to Education to receive the funds. The application required each state to provide several assurances, including that the state will meet maintenance-of-effort requirements (or will be able to comply with the relevant waiver provisions) and that it will implement strategies to advance four core areas of education reform: (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.[11] In addition, states were required to make assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. After maintaining state support for education at fiscal year 2006 levels, states must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to LEAs and public IHEs. When distributing these funds to LEAs, states must use their primary education funding formula, but they can determine how to allocate funds to public IHEs. In general, LEAs have broad discretion in how they can use education stabilization funds, but states have some ability to direct IHEs in how to use these funds.

ESEA Title I, Part A

The Recovery Act provides $10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act of 1965,[12] as amended. Title I funding is administered by the Office of Elementary and Secondary Education within the Department of Education. The Recovery Act requires these additional funds to be distributed through states to LEAs using existing federal funding formulas,

[10]Beginning on July 1, 2009, Education awarded the remaining government services funds to states with approved applications.

[11]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.

[12]For the purposes of this report, “Title I” refers to Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended.

which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with applicable statutory and regulatory requirements and must obligate 85 percent of the funds by September 30, 2010.[13] 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.

IDEA, Parts B and C

The Recovery Act provided supplemental funding for Parts B and C of the Individuals with Disabilities Education Act (IDEA), as amended, the major federal statute that supports early intervention and special education and related services for children, and youth with disabilities. Part B provides funds to ensure that preschool and school-aged children with disabilities have access to a free and appropriate public education and is divided into two separate grant programs —Part B grants to states (for school-age children) and Part B preschool grants. The IDEA Part B grants are administered by the Office of Special Education and Rehabilitative Services. 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.

Public Housing Capital Fund

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; to develop, finance, and modernize public housing developments; and to improve management. Under the Recovery Act, the Office of Public and Indian Housing within the U.S. Department of Housing and Urban Development (HUD) allocated nearly $3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008 and obligated these funds to housing agencies in March 2009.

HUD was also required to award nearly $1 billion to public housing agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofitting. In September 2009, HUD

[13]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 obligate all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

awarded competitive grants for the creation of energy-efficient communities, gap financing for projects stalled due to financing issues, public housing transformation, and improvements addressing the needs of the elderly or persons with disabilities.

Weatherization Assistance Program

The Recovery Act appropriated $5 billion for the Weatherization Assistance Program, which the Department of Energy (DOE) is distributing to each of the states, the District, and seven territories and Indian tribes, to be spent over a 3-year period. The program, administered by the Office of Energy Efficiency and Renewable Energy within DOE, enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation, sealing leaks, and modernizing heating equipment, air circulation fans, and air conditioning equipment. Over the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. By reducing the energy bills of low-income families, the program allows these households to spend their money on other needs, according to DOE. The Recovery Act appropriation represents a significant increase for a program that has received about $225 million per year in recent years. DOE has approved the weatherization plans of the 16 states and the District that are in our review and has provided at least half of the funds to those areas.

Emergency Food and Shelter Program

The Emergency Food and Shelter Program (EFSP), which is administered by the Federal Emergency Management Agency (FEMA) within the Department of Homeland Security (DHS), was authorized in July 1987 by the Stewart B. McKinney Homeless Assistance Act to provide food, shelter and supportive services to the homeless.[14] The program is governed by a National Board composed of a representative from FEMA and six statutorily-designated national nonprofit organizations.[15] Since its first appropriation in fiscal year 1983, EFSP has awarded over $3.4 billion in

[14]Pub. L. No. 100-77, 101 Stat. 482.

[15]According to the Act, the members of the EFSP National Board are the Federal Emergency Management Agency (Chair), American Red Cross, Catholic Charities USA, National Council of Churches of Christ in the USA, The Salvation Army, The Council of Jewish Federations, Inc., (now known as the Jewish Federations of North America), and the United Way of America (now know as United Way Worldwide.)

federal aid to more than 12,000 local private, non-profit, and government human service entities in more than 2,500 communities nationwide.

State and Local Budget

The following grant programs were mentioned in the state and local budget section of this report.

Airport Improvement Program

Within the Department of Transportation, the Federal Aviation Administration's Airport Improvement Program provides formula and discretionary grants for the planning and development of public-use airports. The Recovery Act provides $1.1 billion for discretionary Grant-in-Aid for Airports under this program with priority given to projects that can be completed within 2 years. The Recovery Act requires that the funds must supplement, not supplant, planned expenditures from airport-generated revenues or from other state and local sources for airport development activities. The Recovery Act provides $1.1 billion for this program.

Assistance to Rural Law Enforcement to Combat Crime and Drugs Program

The Recovery Act Assistance to Rural Law Enforcement to Combat Crime and Drugs Program is administered by the Bureau of Justice Assistance (BJA), a component of the Office of Justice Programs, U.S. Department of Justice. The purpose of this program is to help rural states and rural areas prevent and combat crime, especially drug-related crime, and provides for national support efforts, including training and technical assistance programs strategically targeted to address rural needs. The Recovery Act provides $125 million for this program, and BJA has made 212 awards.

Broadband Technology Opportunities Program/ State Broadband Data and Development Program

The Department of Commerce's National Telecommunications and Information Administration (NTIA) administers the Recovery Act's Broadband Technology Opportunities Program. This program was appropriated $4.7 billion, including $350 million for the purposes of developing and maintaining a broadband inventory map. To accomplish this, NTIA has developed the State Broadband Data and Development Grant Program, a competitive, merit-based matching grant program to fund projects that collect comprehensive and accurate state-level broadband mapping data, develop state-level broadband maps, aid in the development and maintenance of a national broadband map, and fund statewide initiatives directed at broadband planning.

Brownfields Program

The Recovery Act provides $100 million to the Brownfields Program, administered by the Office of Solid Waste and Emergency Response within the Environmental Protection Agency, for cleanup, revitalization, and sustainable reuse of contaminated properties. The funds will be awarded to eligible entities through job training, assessment, revolving loan fund, and cleanup grants.

Capital Improvement Program

The Department of Health and Human Services' Health Resources and Services Administration has allocated $862.5 million in Recovery Act funds for Capital Improvement Program grants to health centers to support the construction, repair, and renovation of more than 1,500 health center sites nationwide, including purchasing health information technology and expanding the use of electronic health records.

Child Care and Development Block Grants

Administered by the Administration for Children and Families within the Department of Health and Human Services, Child Care and Development Block Grants, one of the funding streams comprising the Child Care and Development Fund, are provided to states, according to a formula, to assist low-income families in obtaining child care, so that parents can work or participate in education or training activities. The Recovery Act provides $1.9 billion in supplemental funding for these grants.

Clean Water State Revolving Fund

The Recovery Act provides $4 billion for the Clean Water State Revolving Fund, administered by the Office of Water within the Environmental Protection Agency, to fund municipal wastewater infrastructure projects. The Recovery Act requires states to use at least 50 percent of the amount of their capitalization grant to provide additional subsidization of loans to eligible recipients. In addition, to the extent there are sufficient project applications, at least 20 percent of the appropriated funds must be designated for green infrastructure, water efficiency improvements, or other environmentally innovative projects.

Clean Cities program

The Department of Energy's Clean Cities program, administered by the Office of Energy Efficiency and Renewable Energy, is a government-industry partnership that works to reduce America's petroleum consumption in the transportation sector. The Department of Energy is providing nearly $300 million in Recovery Act funds for projects under the Clean Cities program, which provide a range of energy-efficient and advanced vehicle technologies, such as hybrids, electric vehicles, plug-in electric hybrids, hydraulic hybrids and compressed natural gas vehicles, helping reduce petroleum consumption across the United States. The program also supports refueling infrastructure for various alternative fuel vehicles, as well as public education and training initiatives, to further the program's goal of reducing the national demand for petroleum.

Community Development Block Grants

The Community Development Block Grant (CDBG) program, administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, enables state and local governments to undertake a wide range of activities intended to create suitable living environments, provide affordable housing, and create economic opportunities, primarily for persons of low and moderate income. Most local governments use this investment to rehabilitate affordable housing and improve key public facilities. The Recovery Act includes $1 billion for the CDBG program.

Community Services Block Grants

Community Services Block Grants (CSBG), administered by the Administration for Children and Families within the Department of Health and Human Services (HHS), provide federal funds to states, territories, and tribes for distribution to local agencies to support a wide range of community-based activities to reduce poverty. The Recovery Act appropriated $1 billion for CSBG to become available immediately.

Community Oriented Policing Services (COPS) Hiring Recovery Program

The COPS Hiring Recovery Program (CHRP), administered by the Office of Community Oriented Policing Services within the U.S. Department of Justice, provides competitive grant funds directly to law enforcement agencies for the purpose of hiring or rehiring career law enforcement officers and increasing their community policing capacity and crime-prevention efforts. CHRP grants provide 100 percent funding for 3 years for approved entry-level salaries and benefits for newly hired, full-time sworn officer positions or for rehired officers who have been laid off, or are scheduled to be laid off on a future date, as a result of local budget cuts.

Diesel Emission Reduction Act Grants

The program objective of the Diesel Emission Reduction Act Grants, administered by the Office of Air and Radiation in conjunction with the Office of Grants and Debarment, within the U.S. Environmental Protection Agency (EPA), is to reduce diesel emissions. EPA will award grants to address the emissions of in-use diesel engines by promoting a variety of cost-effective emission reduction strategies, including switching to cleaner fuels, retrofitting, repowering or replacing eligible vehicles and equipment, and idle reduction strategies. The Recovery Act appropriated $300 million for the Diesel Emission Reduction Act grants. In addition, the funds appropriated through the Recovery Act for the program are not subject to the State Grant and Loan Program Matching Incentive provisions of the Energy Policy Act of 2005.

Drinking Water State Revolving Fund

The Drinking Water State Revolving Fund program was established under the Safe Drinking Water Act (SDWA) Amendments of 1996, which authorizes the Environmental Protection Agency (EPA) to award capitalization grants to states, which in turn are authorized to provide low-cost loans and other types of assistance to public water systems to finance the costs of infrastructure projects needed to achieve or maintain compliance with SDWA requirements. The Recovery Act provides $2 billion in funding for this program, which is administered by the Office of Water within EPA.

Edward Byrne Memorial Justice Assistance Grant Program

The Edward Byrne Memorial Justice Assistance Grant (JAG) Program within the Department of Justice's Bureau of Justice Assistance provides federal grants to state and local governments for law enforcement and other criminal justice activities, such as crime prevention and domestic violence programs, corrections, treatment, justice information sharing initiatives, and victims' services. JAG funds are allocated based on a statutory formula determined by population and violent crime statistics, in combination with a minimum allocation to ensure that each state and territory receives some funding.

Energy Efficiency and Conservation Block Grants

The Energy Efficiency and Conservation Block Grants (EECBG), administered by the Office of Energy Efficiency and Renewable Energy within the Department of Energy, provides funds through competitive and formula grants to units of local and state government and Indian tribes to develop and implement projects to improve energy efficiency and reduce energy use and fossil fuel emissions in their communities. The Recovery Act includes $3.2 billion for the EECBG. Of that total, $400 million is to be awarded on a competitive basis to grant applicants.

Title IV-E Adoption Assistance and Foster Care Programs

Administered by the Administration for Children and Families within the Department of Health and Human Services, the Foster Care Program helps states to provide safe and stable out-of-home care for children until the children are safely returned home, placed permanently with adoptive families or placed in other planned arrangements for permanency. The Adoption Assistance Program provides funds to states to facilitate the timely placement of children, whose special needs or circumstances would otherwise make placement difficult, with adoptive families. Federal Title IV-E funds are paid to reimburse statea for their maintenance payments using the states' respective Federal Medical Assistance Percentage (FMAP) rates.[16] Under the Recovery Act, an estimated additional $806 million will be provided to states to increase the federal match for state maintenance payments for foster care, adoption assistance, and guardianship assistance.

Head Start/Early Head Start

The Head Start program, administered by the Office of Head Start of the Administration for Children and Families within the Department of Health and Human Services, provides comprehensive early childhood development services to low-income children, including educational, health, nutritional, social, and other services, intended to promote the school readiness of low-income children. Federal Head Start funds are provided directly to local grantees, rather than through states. The Recovery Act provided an additional $2.1 billion in funding for Head Start, including $1.1 billion directed for the expansion of Early Head Start programs. The Early Head Start program provides family-centered services to low-income families with very young children designed to promote the development of the children, and to enable their parents to fulfill their roles as parents and to move toward self-sufficiency.

Homelessness Prevention and Rapid Re-Housing Program

The Homelessness Prevention and Rapid Re-Housing Program, administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, awards formula grants to states and localities to prevent homelessness and procure shelter for those who have become homeless. Funding for this program is being distributed based on the formula used for the Emergency Shelter Grants program. According to the Recovery Act, program funds

[16] See Medicaid Federal Medical Assistance Percentage (FMAP) description earlier in this appendix.

should be used for short-term or medium-term rental assistance; housing relocation and stabilization services, including housing search, mediation or outreach to property owners, credit repair, security or utility deposits, utility payments, and rental assistance for management; or appropriate activities for homeless prevention and rapid rehousing of persons who have become homeless. The Recovery Act includes $1.5 billion for this program.

Increased Demand for Services

The Department of Health and Human Services' Health Resources and Services Administration (HRSA) has allocated Recovery Act funds for Increased Demand for Services (IDS) grants to health centers to increase health center staffing, extend hours of operations, and expand existing services. The Recovery Act provided $500 million for health center operations. HRSA has allocated $343 million for IDS grants to health centers.[17]

Internet Crimes Against Children Initiatives

Internet Crimes Against Children Initiatives (ICAC), administered by the Department of Justice, Office of Justice Programs' (OJP) Office of Juvenile Justice and Delinquency Prevention (OJJDP), seeks to maintain and expand state and regional ICAC task forces to address technology-facilitated child exploitation. This program provides funding to states and localities for salaries and employment costs of law enforcement officers, prosecutors, forensic analysts, and other related professionals. The Recovery Act appropriated $50 million for ICAC.

National Endowment for the Arts Recovery Act grants

The Recovery Act provides $50 million to be distributed in direct grants by the National Endowment for the Arts to fund arts projects and activities that preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the current economic downturn.

[17] The Recovery Act provided $2 billion to the Health Resources and Services Administration (HRSA) for grants to health centers. Of this total, $1.5 billion is for the construction and renovation of health centers and the acquisition of HIT systems, and the remaining $500 million is for operating grants to health centers. Of the $500 million for health center operations, HRSA has allocated $157 million for New Access Point grants to support health centers' new service delivery sites, and $343 million for Increased Demand for Services grants.

Neighborhood Stabilization Program 2

The Neighborhood Stabilization Program (NSP), administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, provides assistance for the acquisition and rehabilitation of abandoned or foreclosed homes and residential properties, among other activities, so that such properties may be returned to productive use. Congress appropriated $2 billion in NSP2 funds in the Recovery Act for competitive awards to states, local governments, and nonprofit organizations.[18] NSP is considered to be a component of the Community Development Block Grant (CDBG) program and basic CDBG requirements govern NSP.

Recovery Act Assistance to Firefighters Fire Station Construction Grants

The Recovery Act Assistance to Firefighters Fire Station Construction Grants, also known as fire grants or the FIRE Act grant program, is administered by the Department of Homeland Security, Federal Emergency Management Agency (FEMA), Assistance to Firefighters Program Office. The program provides federal grants directly to fire departments on a competitive basis to build or modify existing non-federal fire stations in order for departments to enhance their response capability and protect the communities they serve from fire and fire-related hazards. The Recovery Act includes $210 million for this program and provides that no grant shall exceed $15 million.

Recovery Act Impact on Child Support Incentives

Under title IV-D of the Social Security Act, the Administration for Children and Families (ACF), within the Department of Health and Human Services, administers matching grants to states to carry out their child support enforcement programs, which enhance the well-being of children by identifying parents, establishing support obligations, and monitoring and enforcing those obligations. Furthermore, ACF makes additional incentive payments to states based on their child support enforcement programs meeting certain performance goals. These activities are appropriated annually and the Recovery Act does not appropriate funds for either of them. However, the Recovery Act temporarily provides for incentive payments expended by states for child support enforcement to count as

[18]NSP, a term that references the NSP funds authorized under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008, provides grants to all states and selected local governments on a formula basis. Under NSP, HUD allocated $3.92 billion on a formula basis to states, territories, and selected local governments. The term “NSP2” references the NSP funds authorized under the Recovery Act on a competitive basis.

state funds eligible for the matching grants. This change is effective October 1, 2008, through September 30, 2010.

Transportation Investment Generating Economic Recovery Discretionary Grants

Administered by the Department of Transportation's Office of the Secretary, the Recovery Act provides $1.5 billion in competitive grants, generally between $20 million and $300 million, to state and local governments, and transit agencies. These grants are for capital investments in surface transportation infrastructure projects that will have a significant impact on the nation, a metropolitan area, or a region. Projects eligible for funding provided under this program include, but are not limited to, highway or bridge projects, public transportation projects, passenger and freight rail transportation projects, and port infrastructure investments.

Transit Investments for Greenhouse Gas and Energy Reduction Grant Program

The Transit Investments for Greenhouse Gas and Energy Reduction (TIGGER) Grant program, administered by the Federal Transit Administration within the Department of Transportation, is a discretionary program to support transit capital projects that result in greenhouse gas reductions or reduced energy use. The Recovery Act provides $100 million for the TIGGER program, and each submitted proposal must request a minimum of $2 million.

Senior Community Service Employment Program

The Senior Community Service Employment Program (SCSEP), administered by the Employment and Training Administration within the Department of Labor, promotes useful part-time opportunities in community service activities for unemployed low-income persons who are 55 years or older and who have poor employment prospects. The Recovery Act provides $120 million for SCSEP.

Services*Training*Officers *Prosecutors (STOP) Violence Against Women Formula Grants Program

Under the STOP Program, the Office on Violence Against Women within the Department of Justice, has awarded over $139 million in Recovery Act funds to promote a coordinated, multidisciplinary approach to enhance services and advocacy to victims, improve the criminal justice system's response, and promote effective law enforcement, prosecution, and judicial strategies to address domestic violence, dating violence, sexual assault, and stalking.

Supplemental Nutrition Assistance Program (formerly the Food Stamp Program)

The Supplemental Nutrition Assistance Program (SNAP), administered by the Food and Nutrition Service within the Department of Agriculture, serves more than 35 million people nationwide each month. SNAP's goal is to help low-income people and families buy the food they need for good health. The Recovery Act provides for a monthly increase in benefits for the program's recipients. The increases in benefits under the Recovery Act are estimated to total $20 billion over the next 5 years.

Wildland Fire Management Program

The Department of Agriculture's Forest Service administers the Wildland Fire Management Program funding for projects on federal, state, and private land. The goals of these projects include ecosystem restoration, research, and rehabilitation; forest health and invasive species protection; and hazardous fuels reduction. The Recovery Act provided $500 million for the Wildland Fire Management program.

Workforce Investment Act Title I-B Grants

The Workforce Investment Act of 1998 (WIA) programs, administered primarily by the Employment and Training Administration within the Department of Labor, provide job training and related services to unemployed and underemployed individuals. The Recovery Act provides an additional $2.95 billion in funding for state formula grants for Youth, Adult, and Dislocated Worker Employment and Training Activities under Title I-B of WIA. These grants are allocated to states, which in turn allocate funds to local entities. The adult program provides training and related services to individuals ages 18 and older, the youth program provides training and related services to low-income youth ages 14 to 21, and dislocated worker funds provide training and related services to individuals who have lost their jobs and are unlikely to return to those jobs or similar jobs in the same industry.

Appendix III: Local Entities Visited by GAO in Selected States and the District of Columbia

Table 13: Highway Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Arizona	Phoenix	Arizona Department of Transportation
	Phoenix	Maricopa Association of Governments
	Prescott	Northern Arizona Council of Governments
California	Burlingame	City of Burlingame
	Sacramento	California Department of Transportation (Caltrans)
District of Columbia	Washington	District Department of Transportation
Florida	Alachua	Alachua County
	Clay	Clay County
	Duval	Duval County
	Union	Union County
Illinois	Springfield	Illinois Department of Transportation
	Springfield	Federal Highway Administration - Illinois Division Office
Mississippi	Attala County	State Aid Road Construction
	Bolivar County	Mississippi Department of Transportation
New Jersey	Trenton	New Jersey DOT
New York	New York City	New York City Department of Transportation
Texas	Plano	City of Plano

Source: GAO.

Note: Total number of highway entities visited by GAO is 17.

Table 14: Transit Entities Visited by GAO

States and the District of Columbia	City/county	Entity
California	Oakland	Metropolitan Transportation Commission
	San Diego	San Diego Association of Governments
	San Francisco	San Francisco Municipal Transportation Agency
Colorado	Denver	Regional Transportation District
	Fort Collins	Transfort
Georgia	Atlanta	Metropolitan Atlanta Rapid Transit Authority (MARTA)
	Lawrenceville	Gwinnett County Transit
Iowa	Ames	Ames Transit Agency
	Atlantic	Southwest Iowa Transit Agency
	Des Moines	Des Moines Area Regional Transit Authority
	Fort Dodge	Mid-Iowa Development Association
Illinois	Arlington Heights	Pace, the Suburban Bus Division of the Regional Transportation Authority
	Chicago	Chicago Transit Authority
New Jersey	Newark	New Jersey Transit
New York	Buffalo	Niagara Frontier Transportation Authority
	Glens Falls	Greater Glens Falls Transit
	New York City	Metropolitan Transportation Authority
North Carolina	Boone	AppalCART
	Charlotte	Charlotte Area Transit System
	Raleigh	North Carolina Department of Transportation Public Transportation Division
Pennsylvania	Allentown	Lehigh and Northampton Transportation Authority (LANTA)
	Allentown	Lehigh Valley Planning Commission (LVPC)
	Harrisburg	Pennsylvania Department of Transportation Bureau of Public Transportation
	Philadelphia	Southeastern Pennsylvania Transportation Authority (SEPTA)
	Pittsburgh	Port Authority of Allegheny County

Source: GAO.

Note: Total number of transit entities visited by GAO is 25.

Table 15: Educational Entities Visited by GAO

States and the District of Columbia	City	Name
Arizona	Arlington	Arlington Elementary District
	Buckeye	Buckeye Elementary District
	Congress	Congress Elementary District
	Cornville	Desert Star Community School, Inc.
	Prescott	Yavapai Community College District
	Tempe	Maricopa County Community College District
	Tonapah	Saddle Mountain Unified School District
California	Caruthers	Alvina Elementary Charter School
	Los Angeles	Los Angeles Unified School District
District of Columbia	Washington	District of Columbia Public Schools
	Washington	Friendship Public Charter School
	Washington	William E. Doar, Jr. Public Charter School
Illinois	Glenview	Glenview School District 34
	Springfield	Illinois State Board of Education
	Springfield	Springfield School District 186
New York	Jasper	Jasper-Troupsburg Central School District
	New York	New York City Department of Education
North Carolina	Charlotte	Charlotte-Mecklenburg Schools
	Weldon	Weldon City Schools

Source: GAO.

Note: Total number of educational entities visited by GAO is 19.

Table 16: Housing Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Arizona	Glendale	City of Glendale Community Housing Division
	Phoenix	City of Phoenix Housing Department
	Phoenix	Housing Authority of Maricopa County
	Pinal	Pinal County Housing Department
	Tucson	City of Tucson Department of Housing and Community Development
Colorado	Denver	Housing Authority of the City and County of Denver
	Holyoke	Holyoke Housing Authority
	Kersey	Housing Authority of the Town of Kersey
Georgia	Athens	Athens Housing Authority
	Atlanta	Atlanta Housing Authority
	Macon	Macon Housing Authority
Iowa	Des Moines	Des Moines Municipal Housing Agency
	Evansdale	Evansdale Municipal Housing Authority
	Mason City	North Iowa Regional Housing Authority
	Ottumwa	Ottumwa Housing Authority
Illinois	Chicago	Chicago Housing Authority
	Ottawa	Housing Authority for LaSalle County
Massachusetts	Boston	Boston Housing Authority
	Revere	Revere Housing Authority
Mississippi	Gulfport	Mississippi Regional Housing Authority No. VIII
	Picayune	The Housing Authority of the City of Picayune
New Jersey	Newark	Newark Housing Authority
	Plainfield	Housing Authority of Plainfield
	Rahway	The Housing Authority of the City of Rahway
	Trenton	Trenton Housing Authority
Texas	San Antonio	San Antonio Housing Authority (SAHA)

Source: GAO.

Note: Total number of housing entities visited by GAO is 26.

Table 17: State and Local Weatherization Entities Visited by GAO

States and the District of Columbia	City/county	Entity
California	Garden Grove	Community Action Partnership of Orange County
	Los Angeles	Pacific Asian Consortium in Employment (PACE)
	Riverside	Community Action Partnership of Riverside County
	Roseville	Project Go, Inc.
District of Columbia	Washington	ARCH Training Center
	Washington	District Department of the Environment
	Washington	United Planning Organization
Iowa	Des Moines	Polk County Public Works Department
	Marshalltown	Mid-Iowa Community Action, Inc.
Massachusetts	Chelsea	Community Action Programs Inter-City, Inc.
	Gloucester	Action, Inc.
Michigan	Jackson	Community Action Agency of Jackson, Lenawee, Hillsdale
	Lansing	Michigan Department of Human Services
	Pontiac	Oakland Livingston Human Services Agency
New York	Centereach	Community Development Corporation of Long Island
	Long Island City	Community Environmental Center
	Syracuse	People's Equal Action and Community Effort
Ohio	Athens	Corporation for Ohio Appalachian Development (COAD)
	Columbus	Mid-Ohio Regional Planning Commission (MORPC)
	Dayton	Community Action Partnership of the Greater Dayton Area (CAP-Dayton)
	Nelsonville	Tri-County (Hocking-Athens-Perry) Community Action
Pennsylvania	Gettysburg	South Central Community Action Programs
	Harrisburg	Department of Community and Economic Development
	Harrisburg	Pennsylvania Housing Finance Agency

Source: GAO.

Note: Total number of weatherization entities visited by GAO is 24.

Table 18: Local Governments Visited by GAO (Government Type, Population and Unemployment)

States	Local government	Type of local government	Population	Unemployment rate
Arizona	Maricopa County	County	3,954,598	8.5%
	Yavapai County	County	215,503	9.5%
California	City of Los Angeles	City	3,833,995	14.0%
	Sacramento County	County	1,394,154	12.2%
Colorado	Adams County	County	430,836	8.1%
	Denver	City and County	598,707	7.7%
	Garfield	County	55,426	5.8%
Florida	Ft. Myers City	City	65,394	12.1%
	Lee County	County	593,136	13.9%
Georgia	Atlanta	City	537,958	11.4%
	Macon	City	92,775	11.7%
	Tift County	County	42,434	10.6%
Illinois	Chicago	City	2,853,114	11.3%
	Joliet	City	146,125	12.2%
	Springfield	City	117,352	8.2%
Iowa	Cedar Rapids	City	128,056	6.6%
	Des Moines	City	197,052	7.3%
	Newton	City	15,042	8.1%
Massachusetts	Boston	City	609,023	9.2%
	Springfield	City	150,640	12.8%
Michigan	Allegan	County	112,975	13.2%
	Flint	City	112,900	26.3%
	Royal Oak	City	57,110	9.9%
Mississippi	Jackson	City	173,861	8.6%
	Meridian	City	38,232	12.2%
	Vicksburg	City	24,974	14.5%
New Jersey	Cumberland County	County	156,830	12.6%
	City of Newark	City	278,980	15.0%
New York	Buffalo	City	270,919	10.8%
	New York City	City	8,363,710	10.2%
	Steuben	County	96,573	9.5%
	Westchester	County	953,943	7.4%
North Carolina	Durham	City	223,284	7.3%
	Halifax County	County	54,983	13.1%

States	Local government	Type of local government	Population	Unemployment rate
Ohio	Athens	City	22,088	8.6%
	Cincinnati	City	333,336	9.3%
	Putnam County	County	34,543	9.0%
	Toledo	City	293,201	12.1%
Pennsylvania	Allentown	City	107,250	12.4%
	Dauphin County	County	256,562	8.1%
	Harrisburg	City	47,148	11.5%
	Lehigh County	County	339,989	9.3%
Texas	Dallas	City	1,279,910	8.7%
	Denton County	County	636,557	7.7%

Source: GAO analysis of U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS).

Notes: Population data are from July 1, 2008. Unemployment rates are preliminary estimates for September 2009 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

Total number of local governments visited by GAO is 44.

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