

May 2010

RECOVERY ACT

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



GAO

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Highlights of [GAO-10-604](#), a report to the Congress

Why GAO Did This Study

This report responds to two ongoing GAO mandates under the American Recovery and Reinvestment Act of 2009 (Recovery Act). It is the latest in a series of reports on the uses of and accountability for Recovery Act funds in 16 selected states, certain localities in those jurisdictions, and the District of Columbia (District). These jurisdictions are estimated to receive about two-thirds of the intergovernmental assistance available through the Recovery Act. This report also responds to GAO's mandate to comment on the jobs estimated in recipient reports. GAO collected and analyzed documents and interviewed state and local officials and other Recovery Act award recipients. GAO also analyzed federal agency guidance and spoke with individual federal officials.

What GAO Recommends

GAO updates the status of agencies' efforts to implement previous GAO recommendations and makes 24 new recommendations to improve management and strengthen accountability to the Departments of Education, Transportation (DOT), Energy (DOE), Housing and Urban Development (HUD), Treasury, Labor, and Health and Human Services, and to the Environmental Protection Agency (EPA), and to the Office of Management and Budget (OMB), and their responses are shown on the following pages. GAO also proposes a matter for congressional consideration described on the following page.

View [GAO-10-604](#) or [key components](#). For state summaries, see [GAO-10-605SP](#). For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

RECOVERY ACT

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What GAO Found

As of May 7, 2010, approximately \$114.8 billion, or 41 percent of the approximately \$282 billion of total Recovery Act funds for programs administered by states and localities, had been paid out by the federal government. Most outlays to date have been for health and education and training, but, increasingly, investments in transportation, community development, energy, and the environment will characterize new spending.

Education

As of April 16, 2010, the 16 states and the District had drawn down about \$14.3 billion (64 percent) of their State Fiscal Stabilization Fund (SFSF) for education stabilization; \$3.2 billion (56 percent) SFSF for government services; \$1.8 billion (28 percent) for Elementary and Secondary Education Act (ESEA) Title I, Part A; and \$2.1 billion (29 percent) for Individuals with Disabilities Education Act (IDEA), Part B. Much of the Recovery Act education funds have been used to pay teachers and other education staff. Education is continuing to award SFSF funds and taking actions to ensure monitoring of funds. To address concerns GAO raised, Education required states to submit plans to monitor their subrecipients' use of SFSF funds and will be following up with states.

Highway Infrastructure Investment and Public Transportation Funding

Nationwide, the Federal Highway Administration obligated \$26.2 billion for over 12,000 projects, and the Federal Transit Administration obligated \$8.7 billion for about 1,000 grants. Highway funds were used primarily for pavement improvement projects, and public transportation funds were used primarily for upgrading transit facilities and improving bus fleets. GAO recommends that DOT determine the types of data, performance measures, and authority needed to collect data and report on whether these investments produced long-term benefits. Publicly available data overstates the amount of Recovery Act funds benefiting economically distressed areas. GAO recommends that DOT advise states to correct their reporting on distressed area designations to reflect current DOT decisions. DOT is considering GAO's recommendations. DOT concurred in part with GAO's March 2010 recommendation that it gather and report more timely information on the progress states are making in meeting the maintenance-of-effort requirements; GAO plans to continue to monitor DOT's actions.

Weatherization Assistance Program

The Recovery Act provides \$5 billion for weatherization funding nationwide. As of March 31, 2010 (the most recent data available), recipients had spent about \$659 million to weatherize about 80,000 homes; this represents about 13 percent of the 593,000 homes originally planned for weatherization. GAO makes several recommendations to DOE to develop and clarify program guidance in such areas as training and certification of workers. DOE generally agrees with all of GAO's recommendations.

Federal Medical Assistance Percentage (FMAP)

As of March 31, 2010, the 16 states and the District have drawn down about \$12.7 billion in increased FMAP funds for the first two quarters of fiscal year 2010, representing over 92 percent of the total grant award available for this time period. The increased FMAP continues to help states cover their increased caseloads and frees up states' funds, which help finance other needs. Medicaid enrollment continued to grow, and the increase remains primarily attributable to children. States and the District remain concerned about the sustainability of their programs without these funds and most have already reduced or frozen certain provider payment rates or imposed new provider taxes. For other program changes, states will need to consider how maintenance of eligibility requirements within the Patient Protection and Affordable Care Act, passed in 2010, could affect the financing of their Medicaid programs.

Public Housing Capital Fund, Tax Credit Assistance Program (TCAP), and the Recovery Act Section 1602 Program (Section 1602 Program)

Housing agencies met the March 17, 2010, deadline to obligate, reject, or return a portion of the \$3 billion in formula grants. As of May 1, 2010, agencies had drawn down about \$1 billion of these funds for projects such as replacing roofs or windows. HUD is reviewing obligations made just before the deadline to determine if any should be recaptured. HUD plans to redistribute any recaptured or returned funds this summer. As of April 30, 2010, HUD had obligated \$2.25 billion for TCAP and Treasury had obligated \$5.45 billion for the Section 1602 Program to develop or rehabilitate units. State Housing Finance Agencies (HFA) reported concerns about their responsibility to recapture program funds from noncompliant projects and restrictions on using interest-bearing repayable loans. GAO recommends that Treasury define the actions HFAs must take to recapture funds—Treasury agrees—and that Congress consider directing Treasury to permit HFAs to disburse funds as interest-bearing repayable loans.

Other Selected Recovery Act Programs**Workforce Investment Act (WIA) Dislocated**

Workers Program: As of March 31, 2010, at least \$426.6 million (about 34 percent) of funds allotted to states had been drawn down, according to Labor estimates. States reported training considerably more participants than they did during the same time period in the previous year; half the states reported at least doubling the number of participants in training. However, Labor's data on spending is limited by state reporting inconsistencies. GAO recommends that Labor assess and monitor whether states are reporting financial information that adheres to Labor's requirements. Labor agrees. **Clean Water and Drinking Water State Revolving Funds:** The

Recovery Act appropriated \$4 billion for the Environmental Protection Agency's (EPA) Clean Water State Revolving Fund (SRF) and \$2 billion for the Drinking Water SRF. Nationwide, these funds are being used to support over 3,000 projects. Although EPA and states have expanded their oversight, current procedures, such as site inspections, may not be adequate. GAO recommends that EPA work with the states to implement specific oversight procedures to monitor and ensure subrecipients' compliance with Recovery Act provisions. EPA neither agrees nor disagrees. **Head Start and Early Head Start Programs:** As of March 16, 2010, the Office of Head Start (OHS) had committed 93 percent of the \$1.5 billion in Recovery Act funds designated for expansion. As of March 31, 2010, grantees had drawn down 10 percent of the first-year awards. OHS had awarded 832 grants intended to expand programs to an additional 59,000 children. However, some grantees faced start-up challenges, and incomplete data and management information hinder OHS's oversight. GAO recommends that OHS take steps to address specific management information needs. OHS disagrees; GAO continues to believe OHS should do so. **Justice Assistance Grants (JAG) and Community Oriented Policing Services Hiring Recovery Program (CHRP):** JAG recipients generally funded law enforcement and other personnel and purchased police equipment. CHRP recipients hired new officers or retained positions.

State and Local Fiscal Issues

One of the purposes of the Recovery Act is to stabilize state and local government budgets. Recovery Act funds were used by states and localities to fund a range of programs and services and thereby helped to partially address budget gaps. However, officials reported that they continued to take actions to further address existing budget shortfalls. Several states' budget documents assumed that Congress will enact an extension of the increased Medicaid FMAP.

Accountability and Recipient Reporting

OMB met some objectives in its Single Audit Internal Control Project to encourage earlier reporting of internal control deficiencies and corrective actions, but further efforts are needed. GAO recommends OMB issue more timely Single Audit guidance and help ensure federal agencies provide more timely management decisions on corrective action plans. OMB agrees. Progress continues to be realized in improving completeness and quality of recipient data; however, errors and reporting inconsistencies remain. GAO makes recommendations to Education, HUD, and OMB for improving reporting guidance. Education and OMB agree; HUD agrees to take action on one recommendation but not on another. GAO continues to believe that further guidance from HUD on reporting subcontractor jobs is needed.

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May 26, 2010

Report to the Congress

States and local governments continue to rely heavily on funds from the American Recovery and Reinvestment Act of 2009 (Recovery Act).¹ Fiscal stresses remain, however, and many states and localities are still experiencing declines in revenues due to the effects of the recession. The most recent simulations in our state and local fiscal model show that the state and local government sector continues to face growing long-term fiscal challenges over time, which have been exacerbated by the current recession. Our model projects operating deficits of about \$39 billion for 2010 and \$124 billion for 2011. The cumulative 2-year projected operating deficit totals approximately \$163 billion.²

The Recovery Act's recurring mandate specifies several roles for GAO, including conducting bimonthly reviews of how Recovery Act funds are being used in selected states and whether they are achieving the stated purposes of the act.³ Specifically, the stated purposes of the Recovery Act are to

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

In this report, the latest in a series in response to the act's mandate, we update and add new information on 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

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

²See GAO, *State and Local Governments' Fiscal Outlook March 2010 Update*, [GAO-10-358](#) (Washington, D.C.: Mar. 2, 2010).

³Recovery Act, div. A, title IX, § 901, 123 Stat. 191.

funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they received. As in GAO's previous reports, we collected and reported data on programs receiving substantial Recovery Act funds in 16 selected states, certain localities, and the District of Columbia, and have made recommendations when changes could result in improvements.⁴ Individual summaries for the selected states and the District are compiled into an electronic supplement, [GAO-10-605SP](#), and are also accessible through GAO's Recovery Act page at www.gao.gov/recovery/. The selected jurisdictions for our in-depth reviews contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental assistance available through the Recovery Act.⁵ For this report, we visited a nonprobability sample of more than 300 entities within the 16 states and the District for our program reviews. These entities represented a range of types of governments and the program areas shown in table 1. The local governments also varied by population sizes and economic conditions (unemployment rates greater than or less than the state's overall unemployment rate).

⁴GAO, *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C. Mar. 3, 2010); *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: Dec. 10, 2009); *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); *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: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, D.C.: Apr. 23, 2009).

⁵The selected states are Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas. We also visited the District of Columbia.

Table 1: GAO's May 2010 Recovery Act Coverage of States and Localities

Number of States Visited	16^a
Number of Local Governments Visited to Review Overall Use of Funds	45
Number of Entities Visited by Program Area	
Education	54
Transit Capital Assistance Program	7
Edward Byrne Memorial Justice Assistance Grants	38
Community Oriented Policing Services Hiring Recovery Program	13
Workforce Investment Act of 1998	18
Clean and Drinking Water State Revolving Funds	44
Weatherization Assistance Program	42
Public Housing Capital Fund	50
Tax Credit Assistance Program	26

Source: GAO Analysis of States' and Localities' Use of Recovery Act funds.

Note: Entities include government officials and agencies, transportation and transit authorities, school districts, charter schools, housing authorities, public utilities, police departments and nonprofit organizations. Appendix VI provides a complete list of the entities visited for this report.

^aThe District of Columbia is also included in GAO's bimonthly reviews of the use of Recovery Act funds.

As in past reports, the programs we selected for review were chosen primarily because they have begun disbursing funds to states or have known or potential risks. The risks can include existing programs receiving significant amounts of Recovery Act funds or new programs. In some cases, we have also collected data from all states, and from an array of localities, to augment the in-depth reviews. This report focuses on the following programs:

- Federal Medical Assistance Percentage (FMAP);
- State Fiscal Stabilization Fund (SFSF);
- Title I, Part A of the Elementary and Secondary Act of 1965 as amended (ESEA);
- Parts B and C of the Individuals with Disabilities Education Act, as amended (IDEA);
- Federal-Aid Highway Surface Transportation and Transit Capital Assistance Programs;
- Edward Byrne Memorial Justice Assistance Grants (JAG);
- Community Oriented Policing Services (COPS) Hiring Recovery Program (CHRP);
- Workforce Investment Act of 1998 (WIA) Dislocated Worker Program;
- Clean Water State Revolving Fund;

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- Drinking Water State Revolving Fund;
 - Weatherization Assistance Program;
 - Public Housing Capital Fund;
 - Tax Credit Assistance Program (TCAP)
 - Section 1602 Program; and
 - Head Start and Early Head Start.

The Recovery Act also requires us to comment on the estimates of jobs created or retained after the recipients have reported. In this report, we provide updated information concerning recipient reporting in accordance with our mandate for quarterly reporting.⁶ The Recovery Act requires that nonfederal recipients of Recovery Act funds, including grants, contracts, and loans, submit quarterly reports which are to include a list of each project or activity for which Recovery Act funds were expended or obligated and information concerning the amount and use of funds and jobs created or retained by these projects and activities.⁷ The latest of these recipient reports covered the activity as of the Recovery Act's passage through the quarter ending March 31, 2010.

In this report, we also discuss state and local budget stabilization; federal requirements and guidance; and oversight, transparency, and accountability issues related to the Recovery Act and its implementation. The report provides overall findings, discusses agency actions in response to the open recommendations we made in our prior reports, and presents new recommendations. GAO's oversight of Recovery Act programs have resulted in more than 43 Recovery Act products. See the GAO Related Products section of this report for a list these products.

In conducting our work for this report, we analyzed guidance and interviewed officials at the Office of Management and Budget (OMB). We also analyzed grant awards—as well as relevant regulations and federal agency guidance on programs selected for this review—and spoke with relevant program officials at the Departments of Education, Energy,

⁶The Recovery Act requires recipients of funding under the act to report quarterly on the use of these funds, including jobs created or retained with Recovery Act funding. The first recipient reports filed in October 2009 cover activity from February 2009 through September 30, 2009. The second quarterly recipient reports were filed in January 2010 and cover activity through December 31, 2009. The third quarterly recipient reports were filed in April 2010 and cover activity through March 31, 2010.

⁷Recovery Act, div. A, § 1512, 123 Stat. 287-288. We will refer to the quarterly reports required by section 1512 as recipient reports.

Health and Human Services (Centers for Medicare & Medicaid Services and Office of Head Start), Housing and Urban Development, Transportation, Justice, and Labor, as well as the Environmental Protection Agency. In addition, we spoke to entities that play roles in oversight of Recovery Act spending, including federal agency inspectors general, state and local auditors, as well as the Recovery Accountability and Transparency Board, which was established by the Recovery Act.⁸ We also integrated information from our prior Recovery Act reports into this review where appropriate.

Where statements about state law are attributed to state officials, we did not analyze 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 March 4, 2010, to May 26, 2010, 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.

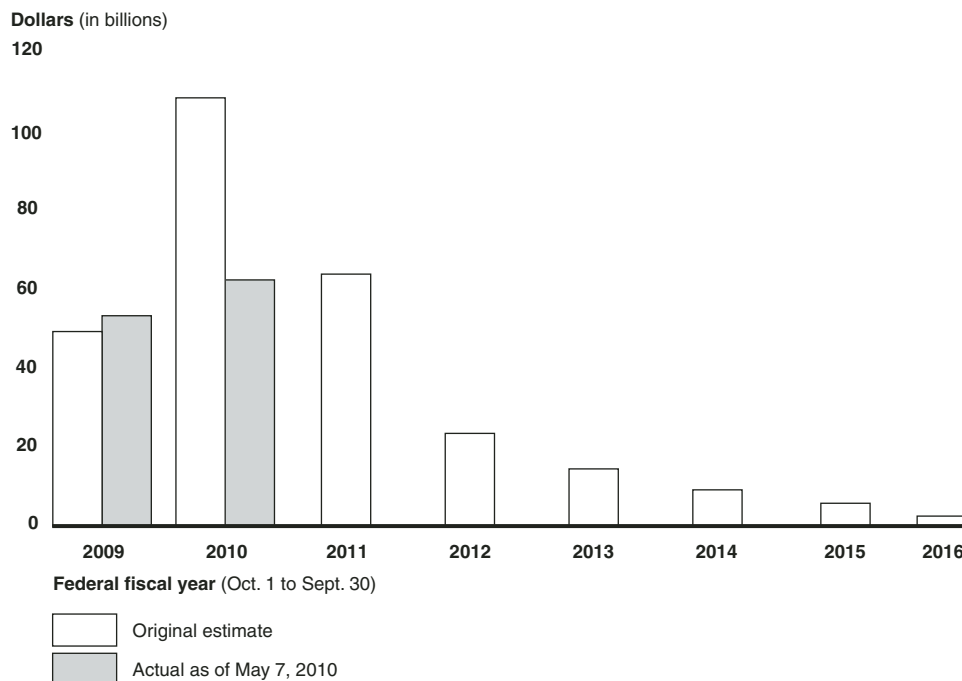
Background

In its report on the economic impact of the Recovery Act, the Council of Economic Advisors (CEA) reported that as of March 31, 2010, approximately \$373.4 billion had been outlayed or provided to households and businesses in the form of tax reductions. In addition to that amount, CEA reported that another \$151.2 billion had been obligated. The CEA found that after being stable at roughly \$80 to \$85 billion per quarter over the last three quarters of calendar year 2009, total Recovery Act funding

⁸The Recovery Act established the board to coordinate and conduct oversight of covered funds to prevent fraud, waste, and abuse. The board is composed of a chairperson and 12 inspectors general. To carry out its oversight mission, the board employs 47 staff, of whom 19 are detailed from agencies throughout the federal government. In addition, the board established three committees drawn from the 12 inspectors general on the board. Recovery Act, div. A, §§ 1521-1525, 123 Stat. 289-293.

outlays plus tax cuts rose to \$112 billion in the first quarter of 2010. This is consistent with what we have said in past reports: that projected outlays will peak in fiscal year 2010, with outlays expected to be more than twice the level of fiscal year 2009 outlays. Figure 1 shows the estimated federal outlays (in billions of dollars) to states and localities for fiscal years 2009 through 2016. It also shows actual outlays as of May 7, 2010, as reported by federal agencies on www.Recovery.gov.

Figure 1: 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 shown in figure 1, actual federal outlays to states and localities under the Recovery Act totaled approximately \$114.8 billion through May 7, 2010. More than half—\$61.9 billion—has been paid out since the start of fiscal year 2010 on October 1, 2009. Outlays not only vary in amounts over time, but also have shifted by sector. As shown in table 2, outlays in health and education and training constituted 88 percent of total outlays to states and localities in fiscal year 2009, while outlays for transportation, income security, energy and the environment, and community development were all substantially less. However, by fiscal year 2012, investments in highways, transit, high-speed rail, and other transportation infrastructure

will be the largest share of state and local Recovery Act funding, albeit of a substantially smaller total outlay. Taken together, transportation spending—along with investments in the community development, energy, and environmental areas—that are geared more toward creating long-term economic growth opportunities will represent approximately two-thirds of state and local Recovery Act funding after 2011. Thus, across the years, it is projected that spending will shift from a primary focus on recovery to a primary focus on investment.

Table 2: Composition of State and Local Recovery Act Funding, Fiscal Year 2009 Actual and Fiscal Years 2010 through 2019 Estimated

	Composition of outlays in percent			
	Actual	Estimated		
	2009	2010	2011	2012-2019
Health	60	39	17	1
Education and training	28	37	46	8
Transportation	6	9	14	40
Income security	3	7	10	21
Community development	3	5	7	13
Energy and environment	1	3	7	17
Total	100%	100%	100%	100%
Total dollars in billions	\$52.9	\$103.7	\$63.4	\$61.9

Source: GAO analysis of CBO, FFIS, and Recovery.gov data.

Note: Percentages may not total due to rounding.

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 States Remain Concerned about Sustainability of Their Programs

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, 2010.⁹ On February 25, 2009, the Centers for Medicare and 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, is comprised of three components: (1) a "hold harmless" provision, which maintains states' regular FMAP rates at the highest rate of any fiscal year from 2008 through 2011, (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.

Increased FMAP Key to States' Continued Efforts to Finance Medicaid Program Growth

The increased FMAP available to the 16 states and the District for the third quarter of fiscal year 2010 averaged nearly 11 percentage points higher than the original 2010 FMAP rates, with increases ranging from about 9 percentage points in Iowa to nearly 13 percentage points in Florida. For all states, the largest proportion of the increased FMAP was attributable to the across-the-board increase of 6.2 percentage points; however, qualifying increases in unemployment rates also contributed to the increase in each of the states. The "hold harmless" provision further contributed to the increased FMAP in five sample states, albeit to a lesser extent (see table 3). With the exception of Iowa, all of the sample states and the

⁹Recovery Act, div. B, title V, § 5001. The Department of Health and Human Services (HHS) Office of Inspector General found that HHS's Office of the Assistant Secretary of Planning and Evaluation and CMS correctly calculated the increased FMAP in accordance with applicable provisions of the Recovery Act. See HHS Office of the Inspector General, *Review of the Calculations of Temporary Increases in Federal Medical Assistance Percentages Under the American Recovery and Reinvestment Act*, A-09-09-00075; and *Review of the Calculation of Additional Medicaid Funding Awarded Under the American Recovery and Reinvestment Act*, A-09-09-00080.

District have reached the maximum unemployment increase component possible under the Recovery Act.¹⁰

Table 3: Original and Preliminary Increased Third Quarter 2010 FMAP Rates and Components of the Increase for 16 States and the District

State	Original FMAP, fiscal year 2010 ^a	Preliminary increased FMAP, fiscal year 2010, third quarter ^a	Percentage point FMAP increase	Component and its percentage contribution to the FMAP increase ^b		
				Across the board	Unemployment increase	Hold harmless
Arizona	65.75	75.93	10.18	61	35	4
California	50.00	61.59	11.59	53	47	0
Colorado	50.00	61.59	11.59	53	47	0
Dist. of Col.	70.00	79.29	9.29	67	33	0
Florida	54.98	67.64	12.66	49	36	15
Georgia	65.10	74.96	9.86	63	37	0
Illinois	50.17	61.88	11.71	53	46	1
Iowa	63.51	72.55	9.04	69	31	0
Massachusetts	50.00	61.59	11.59	53	47	0
Michigan	63.19	73.27	10.08	62	38	0
Mississippi	75.67	84.86	9.19	67	26	7
New Jersey	50.00	61.59	11.59	53	47	0
New York	50.00	61.59	11.59	53	47	0
North Carolina	65.13	74.98	9.85	63	37	0
Ohio	63.42	73.47	10.05	62	38	0
Pennsylvania	54.81	65.85	11.04	56	44	0
Texas	58.73	70.94	12.21	51	34	15
Average			10.77	58	39	2

Source: GAO analysis of HHS data.

Note: Fiscal year refers to the federal fiscal year, which begins October 1st and ends September 30th. Beginning in the third quarter of fiscal year 2009, HHS changed how it calculates the increased FMAP rates. Specifically, HHS calculates preliminary FMAP rates using Bureau of Labor Statistics unemployment estimates and adjusts these FMAP rates once the final unemployment numbers become available.

^aThe original fiscal year 2010 FMAP rates were published in the Federal Register on February 2, 2010. The third quarter fiscal year 2010 FMAP rates are preliminary.

^bAverage percentage does not add to 100 percent due to rounding.

¹⁰Under the Recovery Act, once a state qualifies for an unemployment increase, the increase is maintained through June 30, 2010, regardless of subsequent changes in unemployment rates. Beginning in July 2010, states may experience reductions in increased FMAP rates if their unemployment rates have declined.

For states to qualify for the increased FMAP, they must comply with a number of requirements, including the following:

- States generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid programs on July 1, 2008.¹¹
- States must comply with prompt payment requirements.¹²
- States cannot deposit or credit amounts attributable (either directly or indirectly) to certain elements of the increased FMAP in any reserve or rainy-day fund of the state.¹³
- 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, 2008.¹⁴

In addition, CMS requires states to separately track and report on increased FMAP funds.

To help states comply with these requirements, CMS provided guidance in the form of State Medicaid Director letters and written responses to

¹¹See Recovery Act, div. B, title V, §5001(f)(1)(A).

¹²Under 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).

¹³A state is not eligible for certain elements of increased FMAP if any amounts attributable directly or indirectly to them are deposited in or credited to a state reserve or rainy-day fund. Recovery Act, div. B, title V, §5001(f)(3).

¹⁴In 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.

frequently asked questions,¹⁵ and the agency continues to work with states on an individual basis to resolve any compliance issues that may arise. Although 12 sample states initially reported making adjustments to their Medicaid program to comply with Recovery Act requirements, such as rescinding prior program changes or canceling planned changes, most states recently reported that—beyond minor adjustments to some of their prompt payment tracking mechanisms—they have not made additional changes to comply with the requirements.

As of March 31, 2010, the 16 states and the District have drawn down \$12.7 billion of \$13.8 billion, or over 92 percent of the total award for the first two quarters of federal fiscal year 2010¹⁶ (see table 4). The national drawdown mirrors the experiences of our sample states, with the 50 states, the District, and largest U.S. insular areas having drawn down about 92 percent of the total grant award for this time period, or \$18.6 billion of \$20.3 billion awarded.

¹⁵For example, as of May 3, 2010, CMS's Web site included State Medicaid Director Letters related to the availability or use of increased FMAP funds. See <http://www.cms.hhs.gov/SMDL/SMD/list.asp?sortByDID=1a&submit=Go&filterType=none&filterByDID=-99&sortOrder=ascending&intNumPerPage=10>.

¹⁶As of the same date, the sample states had drawn down \$22.3 billion of \$22.7 billion awarded for federal fiscal year 2009, or 98 percent of the total award. 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. 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.

Table 4: FMAP Grant Awards for the First and Second Quarters of Federal Fiscal Year 2010 and Funds Drawn Down for 16 States and the District, as of March 31, 2010

Dollars in thousands

State	First and second quarter 2010 increased FMAP grant awards ^a	Funds drawn down	Percentage of funds drawn down
Arizona	\$469,246	\$452,850	96.51
California	2,365,250	2,249,542	95.11
Colorado	203,343	126,142	62.03
Dist. of Col.	84,130	72,877	86.62
Florida	1,086,366	1,028,785	94.70
Georgia	357,401	357,401	100.00
Illinois	808,943	576,710	71.29
Iowa	138,325	127,011	91.82
Massachusetts	671,348	613,475	91.38
Michigan	513,618	513,618	100.00
Mississippi	188,409	160,759	85.32
New Jersey	534,986	464,522	86.83
New York	2,762,154	2,568,269	92.98
North Carolina	481,742	481,742	100.00
Ohio	718,673	627,765	87.35
Pennsylvania	926,901	866,119	93.44
Texas	1,448,391	1,440,493	99.45
Sample total	\$13,759,226	\$12,728,082	92.51
National total^b	\$20,266,960	\$18,627,696	91.91

Source: GAO analysis of HHS data as of March 31, 2010.

^aThe FMAP grant awards listed are for the first and second quarters of federal fiscal year 2010, through March 31, 2010.

^bThe national total includes the 50 states, the District of Columbia, and five of the largest U.S. insular areas.

While the increased FMAP funds are for Medicaid services only, the receipt of these funds may free up funds that states would otherwise have had to use for their Medicaid programs. 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. For example, most states reported that the availability of the increased FMAP has been a major factor in their ability to support continued Medicaid enrollment growth, which has continued to

increase during fiscal year 2010. Between October 2009 and February 2010, overall enrollment across the 16 states and the District grew by about 1 percent, with a cumulative increase of 13.5 percent since October 2007.¹⁷ The increase in Medicaid enrollment continues to be attributable primarily to children, a population that is sensitive to economic downturns.¹⁸

In addition, more than half of the states and the District also reported using freed-up 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 reported using these funds to help finance their State Children's Health Insurance Program or other local 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.

Most States Remain Concerned about Sustaining Their Medicaid Programs without Increased FMAP Funds

When asked about the longer-term outlook for their Medicaid programs, all but two states continued to report a concern regarding the sustainability of their Medicaid programs after increased FMAP funds are no longer available.¹⁹ Due to these concerns, all but one state reported having implemented or proposed actions to adjust their Medicaid programs. Most commonly, states reported reducing or freezing Medicaid payment rates for practitioners or institutional providers. In addition, for the remainder of fiscal year 2010 and for fiscal year 2011, 10 states reported proposed reductions or freezes to Medicaid payment rates to certain providers; 7 states reported proposed reductions in benefits and

¹⁷The percentage increase is based on state-reported monthly Medicaid enrollment data, some of which are preliminary and subject to change.

¹⁸While children comprised the largest proportion of the increased enrollment, the rate of enrollment growth among the nondisabled, nonelderly adult population group was twice the rate of enrollment growth for children.

¹⁹When asked about the factors driving their concerns, most states reported (1) the size of the increase in the state's share of Medicaid payments, (2) the current projection of the state's economy and tax revenues into 2011, and (3) the current projected growth in the state's Medicaid enrollment in 2011. Ohio and Texas reported that they were not concerned about program sustainability after increased FMAP funding is no longer available.

services; and 5 sample states and the District reported new proposed provider taxes.²⁰

Under the Recovery Act, the temporary increase in the FMAP ends on December 31, 2010. Most states have indicated that legislation extending the increased FMAP funding would help address their concerns about program sustainability. Although such legislation has been proposed but not enacted, 10 sample states and the District reported that their proposed 2011 budgets had assumed a continuation of increased FMAP for an additional 6 months.²¹ Regardless of when increased FMAP funding ultimately ends, however, states' shares of Medicaid payments will increase. For example, when compared to preliminary third quarter fiscal year 2010 increased FMAP rates, we estimate that sample states' 2011 FMAP rates will decrease by an average of 10.5 percentage points, ranging from 7 percentage points in Michigan to 12 percentage points in Florida.^{22,23} How states will react to the return to regular FMAP rates will differ based on multiple factors, including their unique economic conditions and the size of their Medicaid populations. For example, while several states were not certain as to what they would do after Recovery Act funding ends, three states and the District reported that they would consider tightening Medicaid eligibility standards. When deciding about changes to program eligibility standards, however, states will need to consider provisions

²⁰In general, Section 1903(w) of the Social Security Act provides for a reduction of federal Medicaid funding based on state health care-related taxes, including state taxes on providers, unless certain requirements are met.

²¹See, for example, the Transitional Federal Medical Assistance Percentage Act, H.R. 4260, 111th Cong; S. 2833, 111th Cong.

²²Our estimates are based on the most recently available increased FMAP rates and the 2011 regular FMAP rates. The actual change in FMAP rates will depend on what the increased FMAP rates will be at the time the Recovery Act funding ends.

²³For example, if a state's FMAP decreases by 10 percentage points from an increased rate of 60 percent to its regular 2011 FMAP rate of 50 percent, its federal match will drop from \$1.50 to \$1 for each \$1 the state spends on eligible Medicaid expenditures.

within the recently enacted Patient Protection and Affordable Care Act (PPACA).²⁴

Similar uncertainty may exist in terms of states' responses to other provisions of PPACA. For example, the law requires states to expand Medicaid eligibility by 2014 to cover a new category of persons—generally those who are not otherwise already covered under mandatory eligibility categories, such as adults under age 65 who are not disabled, pregnant, or living with dependent children. By 2014, states must cover persons in this group with income levels up to 133 percent of the federal poverty level. However, states have the option to expand eligibility immediately, or to phase in coverage at lower income levels via a state plan amendment and to begin receiving federal funds for these individuals at the regular FMAP rate.²⁵ It remains to be seen how states will respond to this option or other provisions in the legislation.

²⁴Pub. L. No. 111-148, as amended by the Health Care and Education Reconciliation Act of 2010, Pub.L. No. 111-152. The act includes a provision which generally precludes states from receiving federal Medicaid funding if they apply eligibility standards that are more restrictive than those in effect on the date of its enactment until the date the Secretary determines that a health benefit exchange established by the state is fully operational, which must be no later than January 1, 2014. Pub. L. No. 111-148, § 2001(b)(2), 124 Stat. 118, _____. Beginning on January 1, 2011, this provision may have limited applicability if a state certifies to the Secretary that it has a budget deficit or projects to have a budget deficit in the following fiscal year. According to CMS, the agency is currently developing guidance on various PPACA provisions.

²⁵CMS, State Medicaid Director Letter #10-005, *New Option for Coverage of Individuals under Medicaid* (Apr. 9, 2010). See <http://www.cms.gov/SMDL/SMD/itemdetail.asp?filterType=none&filterByDID=0&sortByDID=1&sortOrder=descending&itemID=CMS1234610&intNumPerPage=10>.

Education Is Continuing to Award SFSF Funds, Beginning to Award Recovery Act School Improvement Grants, and Taking Actions to Ensure the Monitoring of Recovery Act Expenditures

Draw Down Rates for Education Recovery Act Funds Increase and Continue to Vary by State

Rates of draw down of education funds under the Recovery Act increased and continue to vary by state and program. As of April 16, 2010, states covered by our review had drawn down 64 percent (\$14.3 billion) of the awarded education stabilization funds, 56 percent (\$3.2 billion) of the government services funds,²⁶ 28 percent (\$1.8 billion) of Recovery Act funds for Title I of the Elementary and Secondary Education Act of 1965 (ESEA), and 29 percent (\$2.1 billion) of Recovery Act funds for Part B of the Individuals with Disabilities Education Act (IDEA). Also, as of April 16, 2010, the Department of Education (Education) had approved the State Fiscal Stabilization Fund (SFSF) Phase II applications of 10 of the 17 states covered by our review, thereby awarding these 10 states 100 percent of the education stabilization funds that the Department had allocated to them. The seven remaining states were awaiting approval of their Phase II applications, and therefore, had not yet been awarded the final portion of their education stabilization funds.²⁷ Three states had drawn down 90 percent or more of their awarded education stabilization funds, and four had drawn down 90 percent or more of their government services funds.²⁸

²⁶States 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).

²⁷The 10 states covered by our review that had received approval on their SFSF Phase II applications as of April 16, 2010, are Arizona, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, New Jersey, North Carolina, and Ohio. As of May 13, 2010, another state covered by our review – Colorado – had also received approval on its SFSF Phase II application.

²⁸Illinois drew down 100 percent of its awarded SFSF education stabilization funds, including Phase II education stabilization funds, and distributed the funding to local educational agencies (LEA) as General State Aid payments.

Only the District of Columbia had not drawn down any education stabilization funds.²⁹ (See table 5.)

Table 5: Percentage of Awarded Recovery Act Education Stabilization, Government Services, ESEA Title I, and IDEA, Part B Funds Drawn Down by States as of April 16, 2010

Numbers in percentage

State	Percentage of awarded Recovery Act funds drawn down			
	Education stabilization funds	Government services funds	ESEA Title I ^a	IDEA
Arizona	61 ^b	39	33	31
California	90	100	41	32
Colorado	91	70	20	22
District of Columbia	0	22	1	4
Florida	35 ^b	32	33	33
Georgia	87 ^b	54	22	25
Illinois	100 ^b	87	16	35
Iowa	78 ^b	67	32	54
Massachusetts	64 ^b	52	22	28
Michigan	71 ^b	99	22	20
Mississippi	73	34	19	13
New Jersey	87 ^b	98	9	17
New York	39	15	20	18
North Carolina	47 ^b	90	32	38
Ohio	38 ^b	23	27	34
Pennsylvania	43	33	39	34
Texas	38	7	28	27
Total	64	56	28	29

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

^aESEA Title I draw down percentages do not include Title I School Improvement Grants.

^bDenotes states with approved SFSF Phase II applications that had been awarded 100 percent of their allocated education stabilization funds as of April 16, 2010.

²⁹The District of Columbia's education office developed new accountability measures for federal education funds prior to drawing down funds. District LEAs reported expending about \$16.4 million in education stabilization funds as of April 16, 2010. However, these expenditures were not reflected in Education's draw down data as of April 16, 2010, because, according to District officials, there is a lag between expending local funds and drawing down federal funds as reimbursement.

Education's SFSF Phase II Applications Require Data Collection and Reporting Intended to Increase Transparency and Advance Reform, but Some States Face Challenges in Providing Data

To receive the second phase of SFSF funding (Phase II), states had to complete an application in which they described their ability to provide data to address 37 indicators and descriptors that support the four assurances they made to receive their initial SFSF funding: to advance reforms in achieving equity in teacher distribution; enhancing standards and assessments; supporting struggling schools; and establishing a statewide longitudinal data system. Whereas in Phase I SFSF applications, governors were required to make these four assurances, in Phase II applications, governors are required to confirm that they are or will be able to provide specific data related to each assurance area and make them publicly available.³⁰ Education believes the data and information that states will publicly report under the indicators and descriptors will better enable states and other stakeholders to identify strengths and weaknesses in education systems and determine where concentrated reform effort is warranted, and enable Education to verify that a state is fulfilling the commitments it made in order to receive SFSF funds. These 37 indicators and descriptors include, for example, the percentage of core academic courses taught by teachers who are highly qualified in the highest-poverty and lowest-poverty schools, and the number and percentage of students who graduate from high school in 4 years, at the state, local, and school level, broken down by subgroups.

As of May 13, 2010, Education had approved applications for 11 of the 17 states in our review. Education officials reported that they had received initial applications from every state, and the applications that have not yet been approved have required follow-up but generally need minor changes and clarifications. Education will conduct either a desk or on-site review of SFSF spending in each state annually, with half of the states receiving the on-site review each year. Prior to a desk review or on-site visit, Education staff will request that the state submit specific documentation relating to the allocation and uses of funds, fiscal oversight, maintenance-of-effort, progress in the four reform areas, subrecipient monitoring, and recipient reporting.

³⁰If a state is not currently providing such data, it must identify data sources and submit a plan for ensuring this information will be publicly reported no later than September 30, 2011. As a part of this plan, each state will need to establish milestones and a date by which the state expects to reach each milestone, describe the nature and frequency of publicly available reports that the state will publish on its progress, and identify the amount and source (federal, state, or local) of funds that will support the efforts.

Phase II applications represented a significant effort by Education that will allow it to document and track the status of the SFSF assurances. Education released proposed requirements for Phase II in July 2009, and after receiving comments from 60 parties on the proposed requirements, definitions, and approval criteria, it released final requirements and state applications in November 2009. The final requirements made some changes to the proposed requirements in response to comments, including clarifying that states are required to maintain a public Web site that provides the data and information that are responsive to the indicator and descriptor requirements and reducing the burden on states by not requiring states to provide estimates of teacher impact on student achievement but instead requiring that states provide student growth data to teachers.

State officials expect challenges with collecting some of the data required by Education. For example, Iowa reported that it collects data for 25 of the 37 indicators and descriptors and provided information on how it planned to address the remaining 12. However, in a letter to Education, Iowa officials expressed various concerns about some of the indicators and descriptors, including concerns over being able to protect the privacy of students. Other state officials expressed concerns about their ability to obtain student data, especially when students leave the state for college, and when it would be costly to obtain data from private institutions of higher education. Conversely, Massachusetts officials said that the state is collecting much of the data, and a significant benefit of these data collection and reporting requirements is that this information will now be publicly available in one place.

State officials described other implementation challenges. Arizona officials said that rural or small districts with limited capacity for submitting data into a statewide data warehouse might face challenges in getting quality and timely data to the state. According to Massachusetts officials, funding is another challenge, in that nearly all of the state's annual budget for elementary and secondary education (inclusive of federal, state, and other sources) goes to local educational agencies (LEA), and state education officials said that it is hard to get funding for statewide initiatives such as a teacher quality data system. Finally, North Carolina officials noted that while the state could sign that it was meeting the assurances related to intervening in the lowest-performing schools, the funds are awarded to the LEA and the state cannot control LEA decisions in allocating funding to particular schools.

Further, some state officials reported that their states are simply continuing or building on previous initiatives to meet the SFSF assurances. According to Iowa Education officials, as a result of prior actions, Iowa has highly qualified teachers dispersed across the state and will not have to take other actions to address the SFSF assurance on equitable teacher distribution. Massachusetts officials explained that improving teacher quality—which includes efforts related to the assurance on equitable teacher distribution—was a priority for the department before the Recovery Act. Also, even though SFSF education stabilization funds flow to LEAs and institutions of higher education (IHE), some state officials reported that these subrecipients faced financial challenges implementing reform efforts to further the goals contained in the four assurance areas. Arizona officials noted that, given the state’s budget situation, the SFSF money has not been used directly toward education reform efforts by many of its LEAs—although Arizona officials told us that LEAs and IHEs are actively working toward the assurances. Education officials said that states are only required to sign that they will meet the assurances and do not have to undertake new initiatives or otherwise indicate that Recovery Act funds are being directly spent on meeting the assurances. We will continue to monitor state challenges and efforts to address the assurances in our subsequent Recovery Act reports.

In other cases, states’ applications for Phase II funding describe plans and initiatives that are conditioned on the receipt of funds, in addition to SFSF, under separate federal competitive grants which have not been awarded yet. While Education has approved some of these applications containing these conditional plans, Education officials said they will require states to amend their plans and their applications, if the state cannot carry them out. Colorado’s application, for example, included a plan for collecting education data that hinges in part on receiving an additional \$400,000 in federal or private funds, according to state officials. Additionally, North Carolina’s application included a “plan A” and “plan B” for its longitudinal data system, based on whether or not it received a Race to the Top grant.³¹ According to state officials, if North Carolina received such a grant, it would spend \$5 million on its data system compared to \$54,700 if it did not, but even if the state is unable to implement plan A, it would meet

³¹Race to the Top is a competitive grant program, administered by Education, to encourage and reward states that are implementing significant reforms in the four education areas described in the Recovery Act.

About Half of States in GAO's Review Have Been Approved for School Improvement Grants, Which Require States and LEAs to Focus Their Intervention Efforts on a Smaller Number of Schools Than in the Past

SFSF requirements but would not have all of the Web-based tools for local entities or the ability to collate certain information at the state level.

The Recovery Act appropriated \$3 billion for the ESEA Title I School Improvement Grant (SIG) Program, which provides funds to states for use in ESEA Title I schools identified for improvement³² in order to substantially raise the achievement of their students. These funds are made available by Education to states based upon a formula and are then awarded by states to LEAs on a competitive basis. According to Education officials, this was due to new program requirements and was a major change from previous years, in which state educational agencies (SEA) could distribute the funds noncompetitively. Under ESEA, states must give priority for grants to LEAs that demonstrate the greatest need for such funds and the strongest commitment to ensuring that such funds are used to enable the lowest-achieving schools to raise student achievement. The regulatory requirements, effective in February 2010,³³ direct states to prioritize the use of SIG funds in each state's persistently lowest-achieving Title I schools.³⁴ To receive funds, states must identify their persistently lowest-achieving schools, and an LEA that wishes to receive a SIG grant must submit an application to its SEA identifying which schools with the greatest need it commits to serve and how it will use SIG funds to implement four school intervention models in these schools. The four models are:

- turnaround model, which includes replacing the principal and rehiring no more than 50 percent of the school's staff;
- restart model, in which an LEA converts the school or closes and reopens it as a charter school or under an education management organization;
- school closure model, in which an LEA closes the school and enrolls the students who attended the school in other, higher-achieving schools in the LEA; or

³²Under ESEA, schools in improvement have failed to meet adequate yearly progress for at least 2 consecutive years.

³³Final requirements for SIG were published in December 2009 (74 Fed. Reg. 65618 (Dec. 10, 2009)) and were amended by interim final requirements published in January 2010 (75 Fed. Reg. 3375 (Jan. 21, 2010)). These requirements were effective February 8, 2010.

³⁴To identify the persistently lowest-achieving schools in the state, a state educational agency must take into account both (1) performance of all students in a school on the state's assessments in reading/language arts and mathematics combined and (2) the lack of progress by all students on those assessments over a number of years.

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- transformation model, which addresses four specific areas intended to improve schools, including replacing the principal and implementing a rigorous staff evaluation and development system.

As of April 19, 2010, 9 of the 17 states in GAO's review had been approved to receive SIG funds.³⁵ On that date, Education officials indicated that they had received initial applications from all states, but had asked some to resubmit their applications. Education officials said they have worked with states to facilitate their competitive grant process, with much of the discussion between states and Education focused on developing processes and criteria by which states would evaluate LEA applications and capacity to implement the improvement models. According to Education officials, the department worked to coordinate the definition of persistently lowest-achieving schools to ensure alignment between SIG and SFSF.³⁶ Starting in November 2009, Education began hosting a series of 10 Webinar calls, and by April 2010, Education officials reported that many of these calls had been used to address particular concerns of individual states.

States have had varying reactions to the changes to the SIG program. According to Education officials, the new competitive nature of the funding for LEAs has required states to change their mindset from thinking of the SIG program as a formula grant—through which many schools get smaller percentages of the program's funds—to one in which priorities must be set, and fewer schools receive more substantial funds. In the past, Massachusetts SEA officials said they were overextended by the rising number of schools identified as needing improvement and stated that the new approach capitalizes on recent state legislation that gave the state more tools and authority over low-performing schools. Iowa officials, by contrast, expressed concerns that their persistently lowest-achieving schools—representing a small proportion of schools—will be eligible to apply for up to \$2 million over 3 years, while other low-performing schools may receive no funds for school improvement. Arizona officials told us that some of the schools that have been identified as persistently lowest-achieving are rural, and officials felt that the intervention models under

³⁵State applications for the \$3 billion in Recovery Act SIG funding, as well as an additional \$546 million in regular fiscal year 2009 SIG funding, were due to Education on February 28, 2010.

³⁶SFSF and SIG, as well as the Race to the Top Fund, include requirements related to struggling schools, so Education sought to make the definitions and requirements for struggling schools consistent among all three programs.

The States We Reviewed Reported That They Met SFSF Maintenance-of-Effort Requirements or Obtained a Waiver in 2009

SIG might be more difficult to implement than they would be in urban areas, particularly with regard to replacing staff.

In order to meet maintenance-of-effort (MOE) requirements under SFSF, a state must maintain state support for K-12 education and IHEs at least at fiscal year 2006 levels in fiscal years 2009, 2010, and 2011.³⁷ While maintaining state support at no less than fiscal year 2006 levels, states must first use education stabilization funds to restore funding to the greater of fiscal year 2008 or 2009 levels for state support provided to K-12 LEAs and IHEs in fiscal years 2009 through 2011. Education disseminated several guidance documents to states in the spring and summer of 2009 to assist them in defining their MOE amounts. In determining, for MOE purposes, the state level of support for K-12 education in fiscal year 2006, Education guidance said states must include funding provided through their primary formulas for distributing funds to school districts. However, Education also allowed states some flexibility in choosing the basis they use to measure MOE, as well as in what they include or exclude in their MOE definition. For example, state support for education can be measured on the basis of either aggregate or per-pupil expenditures.

While every state, as part of its initial application for SFSF, had to assure it would either meet the MOE levels or waiver requirements, Education directed states to amend their SFSF applications to reflect any final budget changes and, in the amended applications, provide a final assurance that they will meet MOE levels. Specifically, according to Education guidance, a state must amend its SFSF application if there are changes to the reported levels of state support for education that were used to determine the MOE amount or to calculate the amounts needed to restore state support for education to the fiscal year 2008 or 2009 level. Education officials reported they are continually reviewing the resubmissions, and Education developed a plan to monitor state implementation of the SFSF program that includes obtaining documentation substantiating the state's level of support for MOE purposes, for both K-12 and IHEs. We had recommended in November 2009 that the Secretary of Education take further action to enhance transparency by requiring states to include an explanation of changes to MOE levels in their SFSF application resubmissions. Education agreed with our recommendation, but in March

³⁷The Recovery Act authorizes the Secretary of Education to waive MOE requirements if a state demonstrates that it has funded education at the same or greater percentage of the total state revenues than it did in the preceding year.

2010, we reported that guidance from Education did not require states to include an explanation for changes made to MOE calculations. However, in May 2010, in keeping with our recommendation, Education notified states that, if states made changes to their MOE data in their SFSF applications, they must provide a brief explanation of the reason the data changed. Also, in April 2010, Education sent a letter to states noting that Education continues to monitor each state to ensure that it meets its fiscal obligations, and that if Education determines that a state is failing to do so, it will take appropriate enforcement actions, including recovering previously awarded SFSF funds.

The states we reviewed reported that they met SFSF MOE levels in fiscal year 2009 or obtained waivers, but some have ongoing concerns about maintaining spending in the future. For fiscal year 2009 and 2010, Arizona's budget provided funding for K-12 LEAs and IHEs at 2006 levels, as required. However, for fiscal year 2011, maintaining education funding at the 2006 level to meet MOE requirements was contingent on a statewide sales tax increase, state officials said.³⁸ According to Iowa officials, the Iowa Department of Education had submitted a MOE waiver application for higher education funding for fiscal year 2010. However, the state legislature, later in the fiscal year, provided funding to meet the MOE and the waiver was withdrawn, Iowa officials said. Looking forward to fiscal year 2011, Iowa officials are not sure that the state legislature will allocate enough funds toward higher education in the state's upcoming appropriations bills to meet MOE requirements, and if not, the SEA plans to apply for another waiver from Education.

States Are Using Existing Processes, with Some Additions, to Monitor LEAs' Use of Recovery Act Funds for ESEA Title I and IDEA

States reported using a variety of existing processes for monitoring LEAs' use of Recovery Act funds for ESEA Title I and IDEA Part B and, in some cases, making changes to those processes to increase their oversight of Recovery Act funds. SEAs that receive federal education funds, including funds provided under the Recovery Act, and then pass those funds on to subrecipients, typically LEAs, are required to monitor the subrecipients' use of the funds to ensure compliance with federal laws and regulations. Federal education funds provided under ESEA Title I and IDEA Part B, including Recovery Act funds, flow from the federal government to the states and generally flow to LEAs under funding formulas defined in federal statute. SEAs reported using the following processes to monitor LEAs' use of Recovery Act funds for ESEA Title I and IDEA Part B:

³⁸The Arizona sales tax increase was approved by Arizona voters on May 18, 2010.

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- **Review of LEAs' planned uses for funds:** Prior to awarding federal funds for ESEA Title I and IDEA Part B each year, states review and approve LEA applications describing how the LEAs plan to use the funds. A number of SEAs we reviewed with respect to LEA monitoring, such as Arizona, Colorado, the District of Columbia, Iowa, and Ohio, required LEAs to submit additional applications or information on their planned use of Recovery Act education funds.³⁹ Officials in Arizona, Colorado, and Ohio reported using these approved applications throughout the year to determine if LEAs' funding requests are for approved purposes.
 - **Review of spending data throughout the year:** North Carolina's SEA receives monthly financial reports from LEAs containing information on the amount and type of expenditures, including those from the Recovery Act. In Ohio, throughout the year, LEAs submit detailed requests to the SEA for cash drawdowns that the SEA reviews to ensure LEAs are using the funds appropriately. In other states, such as Arizona, Colorado, Iowa, and Massachusetts, reporting on expenditures from LEAs occurs at the end of each year.
 - **Site visits and other targeted reviews:** SEAs conduct detailed reviews, such as site visits or desk reviews of relevant documents, for selected LEAs during the year. SEAs select the LEAs for these targeted reviews based on risk factors such as amount of funds received and past audit findings. For example, Ohio monitors all LEAs in a 3-year period using a mixture of 4 approaches—site visits, desk reviews, telephone surveys, and self-evaluations. In determining which approach to use on an LEA, Ohio considers certain risk factors such as improvement status, allocation amount, previous audit results, and staffing changes.⁴⁰
 - **End-of-year comparison of planned to actual expenditures:** SEAs require LEAs to submit end-of-year financial reports that the SEAs then compare with the LEAs' approved applications or budgets to verify that those LEAs' actual expenditures conform to their approved planned uses of funds.

³⁹We met with the following eight states and the District of Columbia about their monitoring of LEAs' use of Recovery Act funds for ESEA Title I and IDEA Part B: Arizona, California, Colorado, Iowa, Massachusetts, New York, North Carolina, and Ohio.

⁴⁰ESEA requires uniform statewide standards-based assessments and an accountability system to determine whether Title I schools made adequate yearly progress (AYP). Schools "in improvement" have failed to make AYP for at least 2 consecutive years.

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- **Review of annual audits:** SEAs are required to determine whether their subgrantees have met audit requirements under the Single Audit Act and ensure they have taken appropriate corrective action on instances of noncompliance with federal laws and regulations. SEAs also use information from LEAs' Single Audits to identify which LEAs are at higher risk of misusing federal funds and to help target monitoring efforts.

Some states made additions to their monitoring plans this year that could enhance their monitoring of Recovery Act education funds. As discussed above, a number of states required LEAs to submit separate applications for Recovery Act funds for ESEA Title I and IDEA Part B. The District of Columbia developed a new protocol for monitoring LEAs' use of federal education funds, including Recovery Act funds.⁴¹ The new monitoring protocol includes on-site monitoring visits and desk reviews, both of which include testing expenditures to verify that the funds were used appropriately.⁴² According to District officials, they plan to conduct both an on-site monitoring visit and a desk review of all District LEAs that received Recovery Act funds.

However, we identified issues with monitoring of ESEA Title I and IDEA Part B in some states we visited. For example, more than 10 months after the end of the state's 2009 fiscal year, the Colorado Department of Education had not yet completed its 2009 annual financial reviews for the 6 LEAs that expended Recovery Act funds for the ESEA Title I program in that year, nor had it completed the end-of-year reviews for the 11 LEAs that spent Recovery Act IDEA Part B funds in fiscal year 2009. Also, the North Carolina Department of Public Instruction (DPI) continued with year five of its original 5-year plan to visit LEAs, starting with the highest-risk LEAs in year one and ending in year five with the lowest-risk LEAs, and did not modify its existing process for selecting LEAs for on-site monitoring after the receipt of Recovery Act education funds. As a result, during fiscal year 2010 when LEAs are using a large amount of Recovery

⁴¹According to District of Columbia officials, the new monitoring protocols were needed because of multiple issues identified in past audits related to the District's management of federal education funds and because Education and the District of Columbia Office of Inspector General designated the District's school system as a high-risk entity with respect to management of its federal grants.

⁴²According to District of Columbia officials, the expenditure testing consists of the review of supporting documentation, such as purchase requests, receipts, and invoices that validate the expenditures.

States Have Developed Plans for Monitoring SFSF, Including Government Services Funds

Act funds, North Carolina DPI is conducting on-site visits to LEAs with low-risk ratings. Our reviews of Recovery Act expenditures at two LEAs in North Carolina found one LEA may have used some Recovery Act funds for possibly unallowable expenses under federal regulations and both LEAs made some equipment purchases that, according to LEA officials, were not in compliance with a state procurement directive.⁴³ We have referred those findings to DPI and they are following up.

All the 16 states and the District of Columbia have developed written monitoring plans for SFSF and have submitted them to Education for review, according to Education officials. Unlike ESEA Title I and IDEA Part B, SFSF is a new program established under the Recovery Act and states did not have established processes for monitoring subrecipients of SFSF funds. In September 2009, we reported that some states faced challenges in developing monitoring plans for SFSF funds, and we recommended that Education take 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. Education acted on our recommendation and required states to submit SFSF monitoring plans to Education by March 12, 2010. According to Education officials, Education is reviewing the plans to ensure the plans are adequate and will contact states to discuss any problems they identify with the plans. Officials in several states we met with said they were waiting for Education to approve their plans. For example, officials in the Colorado Governor's office said they had been waiting for feedback from Education about Colorado's SFSF monitoring plan before implementing the plan, but when they had not heard from Education by April 30, 2010, they decided to move ahead with implementation. We informed Education that some states might be delaying their SFSF monitoring efforts until they received feedback from Education, and on May 10, 2010, Education sent an e-mail updating states about its SFSF monitoring plans. The e-mail said that Education will be reaching out to states with feedback on state SFSF monitoring plans soon and that states should not wait until they receive feedback to begin their monitoring efforts.

In some states, developing monitoring arrangements for SFSF funds involved multiple state agencies and required some state agencies to

⁴³See the North Carolina appendix in the e-supplement to this report ([GAO-10-605SP](#)) for more details on these findings.

provide oversight in areas in which they did not have responsibility for monitoring in the past, as discussed in the following examples:

- In North Carolina, the Office of State Budget and Management (OSBM) is responsible for administering SFSF government services funds and monitoring the use of funds by other agencies including the Department of Corrections and the Administrative Office of the Courts. OSBM has not administered federal funds in the past, and to prepare for monitoring other state agencies' use of the government services funds, it reviewed other states' monitoring plans, worked with its internal auditors to design a monitoring protocol, and hired four internal auditors.
- In the District of Columbia, the Office of the State Superintendent of Education (OSSE) is responsible for monitoring the Metropolitan Police Department's (MPD) use of government services funds. Because OSSE normally does not have authority to oversee the MPD, the two agencies are developing a memorandum of understanding outlining their respective roles and responsibilities in regard to the SFSF government services funds.
- In New York, three state agencies are responsible for overseeing the use of SFSF funds—the New York State Education Department, the Division of Budget, and the Division of Housing and Community Renewal. New York developed an SFSF monitoring plan that includes reviews of all SFSF applications and quarterly reports, and on-site monitoring visits, desk reviews, and audits of a sample of school districts, community colleges, and vendors that received mortgage foreclosure prevention grants funded with government services funds.⁴⁴

Officials in Massachusetts and Pennsylvania said they plan to contract with private firms to monitor LEAs' use of SFSF funds. We reported in December 2009⁴⁵ that Massachusetts planned to primarily use the Single

⁴⁴The SFSF monitoring plan was recommended by Education's Office of Inspector General in *New York State System of Internal Control Over American Recovery and Reinvestment Act Funds*, Ed-OIG/A02J0006 (Washington, D.C., Nov. 10, 2009).

⁴⁵GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

States Cite Resource
Limitations as a Challenge to
Their Monitoring Activities

Audit to monitor SFSF expenditures.⁴⁶ Since that time, Massachusetts has expanded this plan to include supplemental on-site audits conducted by a public accounting firm that will provide a more detailed review of SFSF funded transactions.

Pennsylvania contracted with a private firm to monitor LEAs' use of SFSF funds.⁴⁷ According to Pennsylvania officials, monitoring activities over the next 2 years will include on-site visits to LEAs in the state, desk reviews of Recovery Act funding documentation from LEAs, and a survey of all LEAs. According to Pennsylvania officials, monitoring activities are focused on the use of Recovery Act funds, internal controls, and compliance with state regulations.

At a time when effective oversight is needed because of the influx of Recovery Act funds, officials in a number of states said their offices' resource limitations and added workload created by the Recovery Act pose a challenge to effective monitoring. For example, Colorado officials said that they had not completed their 2009 end-of-year reviews of LEAs' uses of Recovery Act funds because of the increased workload associated with reviewing, approving, and monitoring Recovery Act applications and budgets. Ohio officials said that the number of requests for funds from LEAs that they receive and review as part of their oversight processes increased substantially because of the Recovery Act. Officials at the Iowa Department of Education expressed concern that recent staff reductions at the state level and a steady loss of experienced business managers in many LEAs across the state could result in less oversight of funds. North Carolina Department of Public Instruction officials reported that their ability to conduct on-site fiscal monitoring visits to LEAs had been limited because the fiscal monitoring office had only one staff member assigned to on-site monitoring until it hired a second person in February 2010. Similarly, officials in the Arizona Department of Education's Audit Unit expressed concerns about the unit's ability to provide comprehensive, cyclical monitoring of IDEA Part B funds because it only has two auditors to perform on-site fiscal monitoring. Finally, because of resource

⁴⁶Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control weaknesses, noncompliance with laws and regulations, and the underlying causes and risks.

⁴⁷According to Pennsylvania officials, the project plan for the state's SFSF monitoring contract also covers monitoring of Title I and IDEA funds.

Education OIG Has Identified State Weaknesses in Subrecipient Monitoring and Cash Management

constraints, California stopped ESEA Title I on-site monitoring for about a year starting in February 2009 but resumed the monitoring in 2010.

Education’s Office of Inspector General (OIG) has identified issues with states’ internal controls over Recovery Act funds, such as weaknesses in subrecipient monitoring and cash management. During the past year, the OIG has issued reports on the results of its audits of internal controls over Recovery Act funds in a number of states, including California,⁴⁸ Illinois,⁴⁹ New York,⁵⁰ Pennsylvania,⁵¹ and Texas.^{52,53}

The OIG identified weaknesses in SEAs’ monitoring of subrecipients in several states, including in Texas, California and Pennsylvania, and in a separate audit of non-Recovery Act funds, it identified significant problems at a Pennsylvania subrecipient—the Philadelphia School District. The OIG concluded that the procedures that the Texas Higher Education Coordinating Board (THECB) had in place as of September 30, 2009, to monitor recipients of SFSF government services funds might not provide reasonable assurance that Recovery Act funds are safeguarded. However, the IG noted that subsequent to their audit that THECB established policy and procedures to ensure adequate oversight of all subrecipients receiving Recovery Act SFSF government services funds. The OIG recommended that California and Pennsylvania improve their on-site monitoring procedures for ESEA Title I and IDEA because their

⁴⁸U.S. Department of Education Office of Inspector General, *State and Local Controls over ARRA Funds in California*, ED-OIG/A09J0006 (Washington, D.C., Jan. 15, 2010).

⁴⁹U.S. Department of Education Office of Inspector General, *Systems of Internal Control Over Selected ARRA Funds in the State of Illinois*, ED-OIG/A05J0012 (Washington, D.C., Feb. 23, 2010).

⁵⁰U.S. Department of Education Office of Inspector General, *New York State System of Internal Control Over American Recovery and Reinvestment Act Funds*, ED-OIG/A02J0006 (Washington, D.C., Nov. 10, 2009) and U.S. Department of Education Office of Inspector General, *New York State Local Educational Agencies Systems of Internal Control Over American Recovery and Reinvestment Act Funds*, ED-OIG/A02J0009 (Washington, D.C., Feb. 17, 2010).

⁵¹U.S. Department of Education Office of Inspector General, *Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds*, ED-OIG/A03J0010 (Washington, D.C., Mar. 15, 2010).

⁵²U.S. Department of Education Office of Inspector General, *Systems of Internal Control Over Selected ARRA Funds in the State of Texas*, ED-OIG/A06J0013 (Washington, D.C., Jan. 27, 2010).

⁵³The OIG also conducted Recovery Act audits in Indiana, Puerto Rico, and Tennessee.

procedures did not address LEAs' use of Title I and IDEA funds.⁵⁴ The OIG reported that the California and Pennsylvania SEAs rely on Single Audits to monitor whether LEAs are spending federal funds in accordance with applicable laws and regulations, and this approach will not identify or resolve issues with LEAs' administration of federal funds in a timely manner. The OIG also found that the California and Pennsylvania SEAs did not ensure that LEA Single Audit findings were resolved in a timely manner. The OIG's review of the Philadelphia School District found that the district did not have adequate fiscal controls over the use of federal funds and had used federal funds for millions of dollars of unallowable costs, among other problems.⁵⁵ The OIG concluded that federal funds provided to the Philadelphia School District, including those from the Recovery Act, are at significant risk of not being used in compliance with program requirements, and it recommended that Education designate the district as a high-risk grantee.⁵⁶

In October 2009, the OIG issued a report focused on weaknesses in cash management systems in California, Illinois, New York, and Pennsylvania.⁵⁷ The OIG reported that it found a number of instances in these states where SEA cash management systems (1) disburse Recovery Act funds without adequate information on whether LEAs are ready to spend the funds and (2) do not ensure LEAs remit interest earned on Recovery Act funds received in advance of LEA needs. According to the OIG report, although one of the key principles of the Recovery Act is to distribute funding quickly to save and create jobs and promote economic activity, Recovery Act funding should not be distributed to LEAs until the funds are needed to pay Recovery Act-authorized expenses. The report also states that if

⁵⁴Pennsylvania executed a contract to monitor SFSF funds in December 2009. Officials said they developed a plan for SFSF monitoring and submitted it to Education on March 12, 2010, as a part of the state's SFSF Phase II application. State officials said the plan includes monitoring of Title I and IDEA funds and addresses the concerns of the OIG report regarding monitoring funds at LEAs.

⁵⁵U.S. Department of Education Office of Inspector General, *Philadelphia School District's Controls Over Federal Expenditures*, ED-OIG/A03H0010 (Washington, D.C., Jan. 15, 2010).

⁵⁶U.S. Department of Education Office of Inspector General, Alert Memorandum re: *Philadelphia School District Designation as a High-Risk Grantee*, ED-OIG/L03K0002 (Washington, D.C., Apr. 16, 2010).

⁵⁷U.S. Department of Education Office of Inspector General, *State Educational Agencies' Implementation of Federal Cash Management Requirements under the American Recovery and Reinvestment Act*, ED-OIG/L09J0007 (Washington, D.C., Oct. 21, 2009). The OIG report also identified cash management weaknesses in Indiana.

Most States We Reviewed
Reported Public Safety as Their
First Priority for SFSF
Government Services Funds

funding is distributed in advance of when it is needed, SEAs should ensure that LEAs minimize the time between receipt and disbursement of the funds and remit interest earned on the advanced funds in a timely manner.⁵⁸

The Recovery Act provides that SFSF government services funds must be used for public safety and other government services, which may include assistance for education and for modernization, renovation, or repairs of public schools and IHEs.⁵⁹ The act requires recipients to report quarterly on a wide range of items pertaining to how Recovery Act funds, including government services funds, are being used. Information from these recipient reports is available to the public on Recovery.gov, the official Web site for Recovery Act funds.

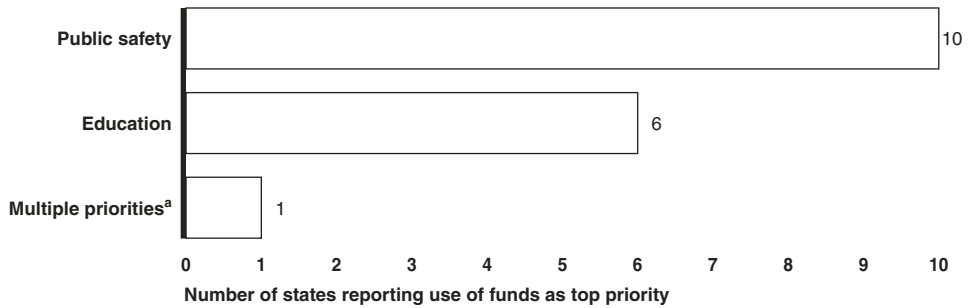
Ten out of the 16 states and the District of Columbia included in our review reported public safety as their first priority for how they spent or planned to spend SFSF government services funds.⁶⁰ For example, Michigan used a majority of its government services funds for over 1,100 full-time jobs within the Michigan State Police and over 3,400 full-time corrections officers, mental health professionals, and food service staff positions within the Michigan Department of Corrections. Colorado reported that the government services funds were used for salaries of corrections personnel responsible for supervising and managing violent and nonviolent offenders. Figure 2 illustrates top priorities for government services funds spending as reported by state officials.

⁵⁸We also reported on Education's efforts to oversee states' cash management of Recovery Act funds in September and December 2009. See GAO, *Recovery Act: Funds Continue to Provide Relief to States and Localities, While Accountability and Reporting Challenges Need to be Fully Addressed*, GAO-09-1016 (Washington, D.C.: Sept. 23, 2009), pp. 57-59 and *Recovery Act: Status of States' and Localities Use of Funds and Efforts to Ensure Accountability*, GAO-10-231 (Washington, D.C.: Dec. 10, 2009), pp. 63-65.

⁵⁹SFSF funds are available to be obligated until September 30, 2011.

⁶⁰Based on expenditures, officials from Arizona, California, Colorado, Georgia, Michigan, Mississippi, New Jersey, North Carolina, Ohio and Pennsylvania reported public safety as their first priority for government services funds.

Figure 2: State Reported Top Priorities for Government Services Fund Spending



Source: GAO analysis of information provided by state officials from the 16 states and the District of Columbia included in our review.
^aIowa did not specify a top priority but reported using government services funds for a range of activities, including education and public safety.

Officials in five other states and the District of Columbia reported education as their top priority for how they spent or planned to spend SFSF government services funds.⁶¹ For example, Texas officials reported they used approximately half of their government services funds to purchase elementary and secondary school textbooks for public schools and most of the remainder of their funds for public IHEs. Texas officials also reported that most public community and junior colleges that received government services funds will use them for technology equipment and upgrades; to create or retain jobs to support enrollment growth; and to purchase instructional materials, furniture, or supplies. Florida officials reported government services funds are being used for education purposes in K-12 schools and IHEs. For K-12 education, government services funds will primarily replace state aid to retain instructional and noninstructional staff in every school district in the state that would have been laid off without the SFSF government services funds. In public IHEs (the state college system and public universities), the grant will enable institutions to hire additional adjunct faculty to maintain course offerings in light of increased student enrollment. Officials in Iowa reported using government services funds for a wide range of activities, including education and public safety. They reported that six state

⁶¹Based on expenditures, officials in the District of Columbia, Florida, Illinois, Massachusetts, New York, and Texas reported preschool education, elementary and secondary education, or higher education as their top priority for government services funds.

agencies used government services funds for retention and ongoing support of employees.⁶²

States and DOT Made Progress toward Meeting Recovery Act Requirements, although DOT Could Improve Data and Better Assess Impact of Funds

States Met the 1-Year Obligation Deadline after Facing Challenges

The states in our review met the 1-year deadline for obligating Recovery Act transportation funds in part because state officials were working with a familiar federal framework. The existing federal surface transportation structure has well-established programs and processes that were understood by state departments of transportation and transit agencies, and others that regularly work in conjunction with these federal programs. Specifically, the Recovery Act highway funds were distributed under rules governing the Federal-Aid Highway Program generally and its Surface Transportation Program in particular. As a result, officials at state departments of transportation were well-acquainted with the type of projects eligible for, and the federal requirements associated with this funding. Similarly, public transportation funds were primarily distributed through well-established programs, with the largest share of these funds distributed through the Transit Capital Assistance Program. Like state departments of transportation, project sponsors (typically transit agencies) were familiar with federal grant application processes.

Obligating funds in a timely manner is an important feature of the Recovery Act, as an economic stimulus package should, as we have previously reported, include projects that can be undertaken quickly enough to provide a timely stimulus to the economy.⁶³ About \$35 billion that the Recovery Act provided for highway infrastructure and public transportation was obligated by the 1-year deadline; therefore, no

⁶²The state agencies included were the Iowa departments of administrative services, corrections, human services, inspections and appeals, public health, and public safety.

⁶³GAO, *Physical Infrastructure: Challenges and Investment Options for the Nation's Infrastructure*, [GAO-08-763T](#) (Washington, D.C.: May 8, 2008).

Recovery Act funds were withdrawn for redistribution.⁶⁴ The Federal Highway Administration (FHWA) obligated about \$26.2 billion of the \$26.7 billion that was apportioned to all 50 states and the District of Columbia for over 12,000 highway infrastructure and other eligible projects nationwide. In addition, by the March 2, 2010, deadline, about \$420 million of the apportioned amount that was not obligated to highway projects was transferred from FHWA to the Federal Transit Administration (FTA) to be obligated for transit projects.⁶⁵ FTA obligated all of the approximately \$8.4 billion that was apportioned to fund public transportation projects as well as all but \$78 million of the about \$420 million transferred from FHWA to FTA. FTA awarded these funds to about 1,000 grants nationwide by the March 5, 2010, deadline.⁶⁶ The U.S. Department of Transportation (DOT) has determined that once Recovery Act highway funds are transferred to FTA, these funds are not subject to the Recovery Act's 1-year obligation deadline for either FHWA or FTA because they are subject to the provisions of the law that apply generally to the transfer of highway funds to FTA.⁶⁷ We do not express an opinion on DOT's determination at this time but are currently exploring this issue further. DOT officials have stated that transferred Recovery Act funds must be obligated by

⁶⁴The Secretary of Transportation was to withdraw and redistribute to eligible states any amount that was not obligated by March 2, 2010, for highway infrastructure and March 5, 2010, for public transportation. The 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 (highways) or grant agreement (public transportation).

⁶⁵Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA. In addition, about \$26 million was transferred to DOT's Maritime Administration (MARAD) for maritime industry projects.

⁶⁶Recovery Act funding for public transportation was distributed through three existing FTA formula grant programs, the Transit Capital Assistance Program, the Fixed Guideway Infrastructure Investment program, and the Capital Investment Grant program, and one discretionary grant program, the New Starts program. An FTA grant may be limited to one specific project or include multiple individual projects.

⁶⁷DOT officials stated that transferred funds are not subject to FHWA's 120-day or 1-year obligation requirement because, consistent with the Recovery Act's requirement that highway infrastructure funding shall be administered as if apportioned under chapter 1 of title 23, and 23 U.S.C. §104(k)(1), funds made available for transit projects or transportation planning are transferred and administered in accordance with chapter 53 of title 49. Thus, according to DOT officials, upon transfer the budgetary resources are transit resources; however, the funds are not subject to FTA's 120-day or 1-year obligation requirement because the transferred funds were not part of the FTA distribution formula but were identified by the state for a specific project. Therefore, DOT officials believe redistribution of these funds within the FTA formula would be inappropriate.

September 30, 2010, after which time funds are no longer available for obligation, consistent with requirements of the Recovery Act.

In our prior reports, we identified several challenges that states struggled to overcome in making progress toward the 1-year time frame for obligations. These issues required DOT to exercise diligence as the deadline approached to ensure that Recovery Act funds were not only obligated in a timely manner but also were used to meet the goals of the act.

Obligations Lagged in Suballocated Areas

In our prior Recovery Act reports, we reported that obligations for projects in suballocated areas generally lagged behind those for statewide projects in many states and considerably behind those in a few states.⁶⁸ Projects funded through suballocated funds may be awarded and administered through local transportation agencies, which are often city or county agencies. Around \$2.8 billion of the Recovery Act funds were under contract as of May 3, 2010, and were being administered by local agencies, according to DOT. These agencies have, according to local, state, and federal officials, experienced difficulties conforming to the federal processes, requirements, and time frame, which created challenges. Challenges associated with locally administered projects are not new. FHWA's April 2009 Recovery Act Risk Management Plan cited oversight by states and lack of experience by local agencies as a risk area needing to be mitigated, and DOT's Office of Inspector General is conducting reviews of locally administered projects.

As the 1-year obligation deadline approached, FHWA increased its oversight. For example, Illinois DOT officials stated they were challenged to complete requests to FHWA to obligate about \$28 million of the funds suballocated to Illinois local governments in a timely manner. Specifically, local governments in Illinois struggled to meet the "project readiness" requirement, which demonstrates the extent to which the proposed project can quickly meet various requirements, such as completing preliminary engineering, obtaining right-of-way, securing agency agreements, and local fund matching, when identifying projects for the

⁶⁸The Recovery Act requires that 30 percent of highway funds be suballocated, primarily based on population, for metropolitan, regional, and local use.

transportation enhancement program.⁶⁹ The local governments ultimately were able to identify projects in time to meet the 1-year obligation time frame, with 2 weeks to spare. In Georgia, one metropolitan planning organization was challenged to help complete obligations of about \$5 million in part because of difficulties related to obtaining right-of-way. However, in mid-February the local organization and state DOT collaborated to re-prioritize several other locally-sponsored and state-level projects thus ensuring that the state met the 1-year obligation deadline.

We previously identified three states—Arizona, Massachusetts, and New Jersey—as having suballocated areas that lagged considerably behind. For example, according to Arizona DOT officials, some local agencies lacked the staff and experience to meet various federal requirements, such as obtaining right-of-way and environmental clearances. DOT officials told us that extensive guidance and oversight from state DOT and FHWA Division Offices to local transportation agencies in Arizona ensured that all suballocated funds were obligated on time. The Arizona DOT initiated a two-pronged oversight strategy to ensure that local agencies met their obligation goals. First, Arizona DOT officials set an internal state deadline and informed local agencies that if their Recovery Act funds were not obligated by late January 2010, the state would replace their local projects with “ready-to-go” projects available in their regions. Second, the Arizona DOT hired several state management consultants and requested that local agencies hire local management consultants to provide assistance in understanding, processing, and meeting various federal requirements. As a result, each state successfully met the 1-year obligation time frame. We will continue to monitor issues related to projects in suballocated areas.

FHWA Transferred Funds to FTA Close to the 1-Year Deadline

Close to the 1-year deadline, states increased the number of requests for FHWA to transfer unobligated Recovery Act highway infrastructure funds to FTA for eligible transit projects. For example, Georgia DOT requested FHWA transfer \$5 million to FTA for use by the Metropolitan Atlanta Rapid Transit Authority to make rail line improvements. Anticipating an increase in requests and to ensure the agency had enough time to

⁶⁹Transportation Enhancement (TE) activities offer funding opportunities to help expand transportation choices and enhance the transportation experience through 12 eligible TE activities related to surface transportation, including pedestrian and bicycle infrastructure and safety programs, scenic and historic highway programs, landscaping and scenic beautification, historic preservation, and environmental mitigation. 23 U.S.C. § 101(a)(35).

complete requests, FHWA stopped accepting transfer requests 2 weeks before the March 2, 2010, deadline and allowed the states to put the funds on an alternate project if the transfer fell through. In the month preceding the obligation deadline, the rate of highway obligations and transfers from FHWA to FTA increased. FTA must obligate these funds through grant agreements, though FTA permits transfers of funds from highway to transit purposes only if states have identified specific “ready-to-go” projects for funding. In our previous report, we noted that, as of February 1, 2010, FHWA had transferred approximately \$332 million. As of March 2, FHWA had transferred about \$420 million—an increase of \$88 million in a 4-week period. By May 3, 2010, FTA had obligated about \$369 million to 58 grants.

Massachusetts requested that FHWA transfer the largest amount of funds—about \$59.7 million—to FTA with \$46.9 million of this request occurring within 2 months of the March deadline. However, as of March 5, 2010, about \$41 million of this transferred amount was not obligated. State and FHWA officials stated that the transferred amount would support 22 grants for “ready-to-go” transit projects that had been identified through the state’s annual planning process. Officials further noted that since Massachusetts is a highly urbanized state with chronically underfunded transit needs, they typically transfer about \$45 million every year from highway funding to balance transportation priorities in their state.

Highway Contracts Were Awarded for Less Than the Original Cost Estimates

Deobligations increased in the weeks following the 1-year obligation time frames, primarily because highway contracts were awarded for less than the original cost estimates. These contract award savings allowed states to fund more projects with the Recovery Act funding than were initially anticipated.⁷⁰ Among the 16 states and District of Columbia that were included in our review, about \$225 million in highway infrastructure project funds were deobligated between the 1-year obligation deadline and April 26, 2010, with about \$197 million of these deobligations resulting from contract award savings. With respect to public transportation, FTA has not deobligated any funding but has been able to use grant

⁷⁰To use contract award savings, a state may need to request that DOT deobligate the funds associated with the contract award savings and then obligate the funds for a new project.

amendments to redistribute the resulting funding from contract award savings.

We previously reported that, for known contract award savings, it was important for DOT to carefully monitor and determine that states did not attempt to circumvent the 1-year requirement, which was intended to ensure that funds were put to use quickly. FHWA regulations and guidance direct states to request that FHWA deobligate funds within 90 days of determining that the estimated federal share of project costs had decreased by \$250,000 or more.⁷¹ However, our analysis of data from the 16 states and the District indicated that for the period from March 2, 2010, through April 26, 2010, about \$16 million in deobligations resulting from contract award savings occurred more than 90 days after the contract was awarded. FHWA was looking into the issue and noted that it was possible some funds went unnoticed and missed the 90-day time frame. Nevertheless, the amount of funds not deobligated within 90 days was a small portion of the total funds available.

Contracts Are Being Awarded, but Contract Award Data Accuracy Is of Concern and Reimbursements Slowed Largely Due to Inclement Weather

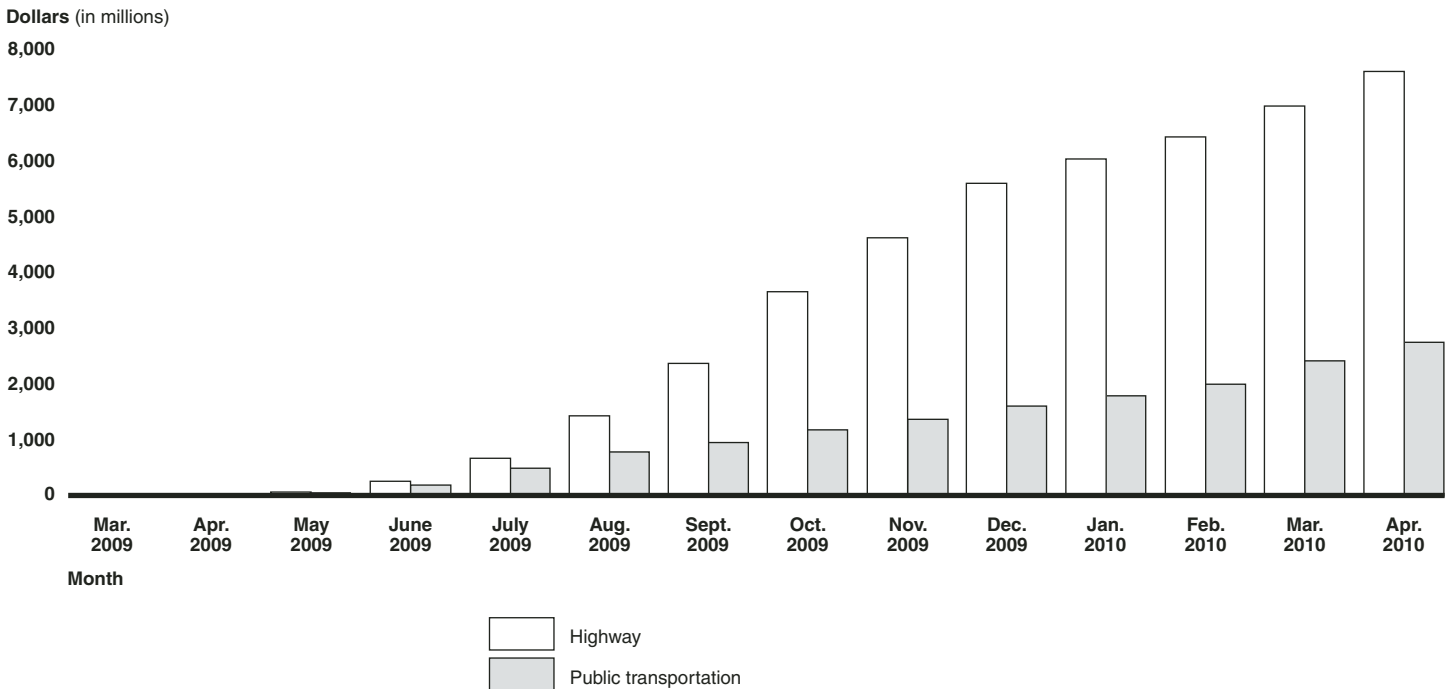
Contract data from FHWA suggests that states made progress in awarding contracts and initiating work. The data show that as of May 3, 2010, about \$22.5 billion (about 87 percent) of the \$25.9 billion obligated by FHWA has been awarded for contracts. About \$16 billion in contracts are underway or completed and about \$2.6 billion have construction completed. About \$19.6 billion of the contracts awarded are being administered by states and about \$2.8 billion of the contracts are being administered by local agencies. However, the accuracy of contract data being obtained from FHWA's Recovery Act Data System is of concern. Four of the 16 states and the District in our review reported having awarded more funds for contracts than were obligated for those contracts. In 1 state, the amount of funding under contract was overstated by \$136 million, or over 25 percent. This occurred because the state reported the date funds had been obligated by FHWA as the date the contract was awarded to the contractor, and reported the amount obligated as the contract award amount. FHWA officials told us they were working on this issue and others we found in reviewing the data. We intend to follow up on these issues in our future reviews.

⁷¹Specifically, 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.

However, since we last reported in March, the pace of highway reimbursements has slowed. After federal funds have been obligated, and once portions of the work have been completed, states and transit agencies may request reimbursement from FHWA and FTA.⁷² Therefore, reimbursements generally lag behind obligations since it takes time for a state or transit agency to bid, award, and start work on specific projects. As of May 3, 2010, FHWA has reimbursed about \$7.6 billion (about 29 percent of the funds available to obligate) to states nationwide, and FTA has reimbursed about \$2.8 billion (about 32 percent) to states and transit agencies nationwide. Reimbursements nationwide from FHWA to the states each month from January through April 2010 slowed to about half to two-thirds of the dollars that were being reimbursed each month from September through December 2009 (see fig. 3).

⁷²States and transit agencies make payments to contractors for completed work, and FHWA or FTA, through the U.S. Department of the Treasury, pays the state or transit agency after it pays out of its own funds for project-related purposes. All reimbursements under transportation programs funded through the Recovery Act must be completed by September 30, 2015, except those for administration, management, and oversight purposes.

Figure 3: Cumulative Recovery Act Highway and Public Transportation Funds Reimbursed by FHWA and FTA Nationwide



Source: GAO analysis of DOT data.

Reimbursements slowed primarily as a result of delays in construction work from poor weather conditions in late 2009 and early 2010 in many states around the nation. FHWA and state officials stated that the northern states typically tend to have a reduced period of contract activity during the winter. For example, according to Massachusetts DOT officials, their typical rate of reimbursements is not linear. Normally, much more of their highway construction work occurs during the spring and summer months, which results in about 42 percent of highway reimbursements occurring in the fall months as contractors complete work and submit bills to the state. Several state DOT officials expect to have increased reimbursement rates through September 2010, but an increase is dependent on two factors: (1) good weather that will allow increased construction work and (2) contractors submitting their invoices in a timely manner after projects are completed.

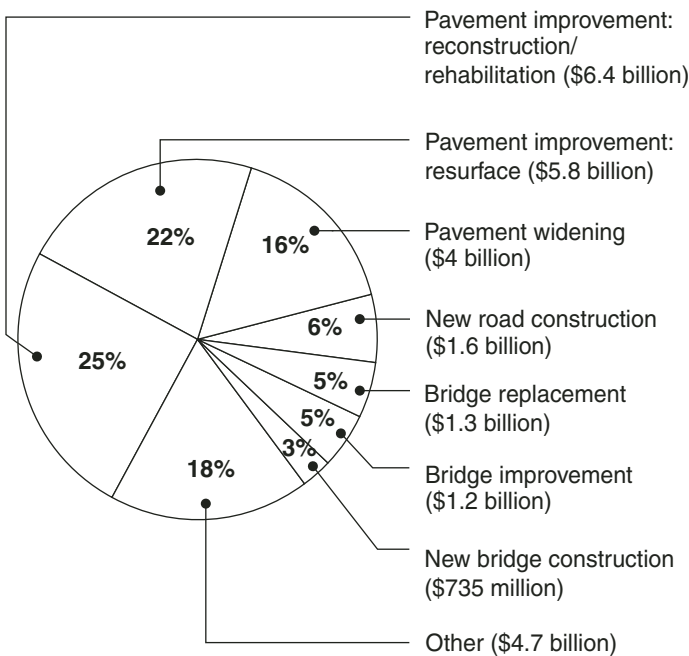
Funds Were Primarily Obligated for Projects Like Improving Pavement and Bridge Conditions, but Assessing the Impact of These Projects on the Transportation System Remains to Be Done

States Used Funds Primarily for Repaving Projects and Addressing Maintenance Backlogs

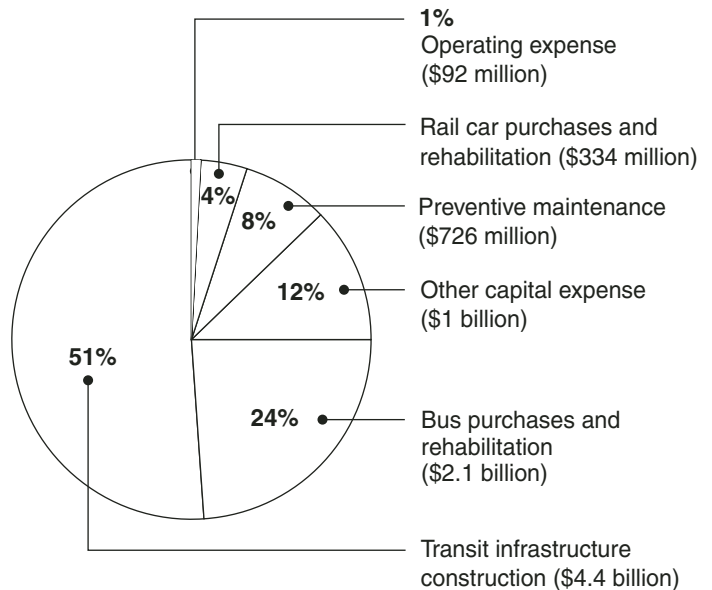
States and transit agencies continue to use Recovery Act funding to improve the condition of the transportation system. Nationwide, about half (or over \$12 billion) of the highway infrastructure Recovery Act funds were obligated primarily for pavement improvement reconstruction, rehabilitation, and resurfacing. About half of the public transportation funds (or over \$4 billion) has been obligated for transit infrastructure construction, such as upgrading power substations or enhancing bus shelters.

Figure 4: Nationwide Recovery Act Highway and Public Transportation Obligations by Project Type

Highway obligations



Public transportation obligations



Source: GAO analysis of DOT data.

Notes: Highway and public transportation percentages may not add to 100 because of rounding.

“Other” includes safety projects, such as improving safety at railroad grade crossings, and transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases. “Transit infrastructure construction” includes engineering and design, acquisition, construction, and rehabilitation and renovation activities. “Other capital expenses” includes leases, training, finance costs, mobility management project administration, and other capital programs. This amount includes Recovery Act funds that were transferred from FHWA to FTA.

Highway and public transportation data are as of May 3, 2010.

States and transit agencies were given added flexibility to use a portion of Recovery Act funds to defray the costs associated with operating their transit systems (as opposed to capital expenses),⁷³ and about 82 transit operators have used about \$92 million, or about 1 percent of overall Recovery Act funding, nationwide. FTA and transit agency officials have stated that a small amount of Recovery Act funds were used for operating assistance because the provision allowing this particular use was not enacted until late June 2009—4 months after Recovery Act funding was made available. Therefore, most transit agencies had already used their transit funds for capital projects and programmed their operating assistance to be paid for by other funding streams. Also, the number of transit agencies using Recovery Act funding for operating expenses could increase, as transit agencies may amend their grant agreements in order to use Recovery Act funding already received for operating expenses.

DOT Is Not Currently Assessing the Impact of Recovery Act Funds on the Transportation System but Is Considering Ways to Better Understand and Measure Impacts

The goals of the Recovery Act were not only to promote economic recovery and to preserve and create jobs but also to make investments in transportation and other infrastructure that would provide long-term economic benefits. However, the Recovery Act did not include requirements that DOT or states measure the impact of funding on highway and transit projects to assess whether these projects ultimately produced long-term benefits.

Although DOT developed a series of performance plans, released in May 2009, to measure the impact of Recovery Act transportation programs, these plans generally did not contain an extensive discussion of the specific goals and measures to assess the impact of Recovery Act projects. For example, while the plan for the highway program contained a section on anticipated results, three of its five measures were the percent of funds obligated and expended and the number of projects under construction. The fourth measure was the percentage of vehicle miles traveled on

⁷³Under the Supplemental Appropriations Act, 2009, recipients and subrecipients of the Transit Capital Assistance Urbanized Area Program funds and the Transit Capital Assistance Nonurbanized Area Program funds may use up to 10 percent of the amount apportioned for operating expenses. Pub. L. No. 111-32 § 1202 (June 24, 2009).

pavement on the National Highway System⁷⁴ rated in good condition. The plan noted before the Recovery Act was passed that the goals were to improve such conditions from 57 percent in 2009 to 60 percent in 2012, but the plan said that goals for improvement with Recovery Act funds were yet to be determined. The fifth goal was number of miles of roadway improved. The plan reported the target for number of miles that were expected to be improved before the Recovery Act was passed, but it said that even with the addition of Recovery Act funds, the new target would remain the same. In its performance plans for transit, also issued in May 2009, DOT set more specific goals, including specific numeric estimates of how Recovery Act funds would improve the condition of the nation's rail and bus fleets.

As we have reported, it is important for organizations both to measure performance to understand the progress they are making toward their goals and to produce a set of performance measures that demonstrates results.⁷⁵ As our prior work has noted, most surface transportation programs lack links to the performance of the transportation system or of the grantees, and programs in some areas do not use the best tools and approaches—such as rigorous economic analysis—to ensure effective investment decisions.⁷⁶ Our work has discussed a range of options for providing decision makers with better analytic information for making more fully informed investment decisions and helping ensure that projects can be evaluated according to their results. These options range from improving the quality of available data and modeling to better evaluating the results of completed transportation projects and increasing use of benefit-cost analysis.⁷⁷

⁷⁴The National Highway System comprises approximately 160,000 miles of roadway, including the Interstate Highway System and other roads important to the nation's economy, defense, and mobility.

⁷⁵GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: Jun. 1996)

⁷⁶GAO, *Surface Transportation: Restructured Federal Approach Needed for More Focused, Performance-Based, and Sustainable Programs*, [GAO-08-400](#) (Washington, D.C.: Mar. 6, 2008)

⁷⁷GAO, *Highway And Transit Investments: Options for Improving Information on Projects' Benefits and Costs and Increasing Accountability for Results*, [GAO-05-172](#) (Washington, D.C.: Jan. 24, 2005).

DOT officials told us their May 2009 Program Performance Plans are being updated and that they anticipate that both Congress and the public will be interested in understanding the impact of Recovery Act funds on transportation. Officials also said DOT currently maintains several databases to which states are accustomed to reporting, and that these databases collect information on the condition and performance of highways, transit, and bridge systems. Officials said they are looking for opportunities to use these data to better understand and measure the outcomes and impact of Recovery Act projects, but plans to do so have not been finalized. For example, the Highway Performance Monitoring System collects data on the condition of highways, including travel and pavement roughness data on the National Highway System and on a sample of other roadways. FHWA officials said they are considering whether they could determine if Recovery Act repaving projects improved the overall condition on that system. The National Transit Database obtains comprehensive data on the finances and operations of transit systems as well as on the condition of transit system revenue-vehicle assets. FTA officials are considering whether they could determine how Recovery Act funds affected levels of transit service, transit ridership, and changes in the average age of transit vehicle fleets. The National Bridge Inventory, which includes all public bridges, could help FHWA study the impact of Recovery Act funds on the condition and performance of the nation's bridges, including whether these funds improved the state of repair.

Finally, DOT officials stated that benefit-cost analysis would help DOT gain insight into the impact of Recovery Act funds. For instance, combining outcome measures from the databases described above with financial data that DOT maintains on expenditures across states could be used to understand the relative benefits produced by Recovery Act projects. Although DOT does not commonly use benefit-cost analysis to assess the use of formula funds to states, such as those provided for highways and transit under the Recovery Act, it does have some experience using this tool in other programs. For example, DOT used benefit-cost analysis as part of its process to determine the relative value of grant applications for the Transportation Investment Generating Economic Recovery, a discretionary grant program also established by the Recovery Act. Similarly, DOT has a tool to determine the cost to maintain a section of highway relative to the cost to improve that section of road. This analysis can be used to guide investment decisions and is also available for states to use. Similarly, DOT has a tool to evaluate the cost of maintaining the existing level of transit service, relative to the cost of

improving transit service, and is working on making a version of this tool available to transit systems for use in making capital investment decisions.

In addition to identifying opportunities to assess the impact of Recovery Act funds, DOT also noted challenges that could limit the scope of their assessment. First, DOT has not traditionally evaluated the economic benefits of their projects and therefore, according to officials, does not have sufficient data and measures to make defensible claims about economic benefits derived from transportation investment at the DOT level. In addition, DOT would need to collect more extensive data from states than it does today to assess the impact of Recovery Act funds and would need to prescribe specific measures and methodologies for data collection. The quality of data collection varies across states, and some states currently measure, collect, and track extensive performance metrics, based on their individual priorities and definitions. According to DOT officials, the department lacks the authority to require states to provide information that is not provided for by law.

Second, because several of DOT's databases use a sampling approach for most roads, it may be difficult to use sampled data to parse the impacts of specific programs like the Recovery Act. In addition, DOT captures data on highways and transit conditions in separate databases from data on expenditures, and these databases cannot currently be linked and analyzed to produce comprehensive performance measures. FHWA has a project underway that will link databases, including finance, pavement, and bridge data, among others, to facilitate future assessments. FTA recently received an appropriation to collect additional data on capital asset conditions.

Finally, officials noted that separating the economic benefit of Recovery Act funds from DOT's regular programs would be difficult. Many transportation projects use multiple sources of funds, including funding from one or more DOT programs, state funding sources, and local government funding. This analysis could be further complicated by the variety of uses of the funds by the decision-making entities (such as states and transit authorities), DOT's ability to isolate other causal factors in the transportation environment (such as the number of vehicle miles traveled), variance in the impact of the recession on various localities relative to the amount of additional funding provided to those areas through Recovery Act programs, and other factors. According to DOT officials, as part of the Conditions and Performance Report, DOT regularly assesses the state of the nation's highways and transit systems. This assessment does not include changes in conditions or performance from

one report to the next, nor does it attribute any such changes to specific programs, such as the Recovery Act.

States echoed concerns with respect to separating the impact of different funding sources. For example, Colorado DOT officials explained that they use a statewide measure to assess road quality but typically do not connect individual projects or funding sources to long-term systemwide metrics. New Jersey DOT officials similarly stated that it would be difficult and potentially time consuming to distinguish the impact of highway infrastructure improvements supported by Recovery Act funds from the numerous local, state, and federal funding streams. At least one state was in the process of developing a state-based program to evaluate transportation investments, but this program was not yet ready to begin collecting and analyzing data. For example, the Massachusetts DOT recently developed an Office for Performance Management that will eventually focus on measuring the impact of the state's entire portfolio of work, but the office is in its early stages of development, and it is uncertain as to when the office will be able to produce results.

Recovery Act Maintenance-of-Effort Requirement Was Challenging to Implement and Warrants Evaluation If Congress Wishes to Apply Such a Requirement in Future Legislation

The Recovery Act required governors to certify that their states 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 was required to identify the amount of state funds planned to be spent from February 17, 2009, through September 30, 2010.⁷⁸

Maintenance-of-Effort Certification Process Was Challenging but Is Nearing Completion

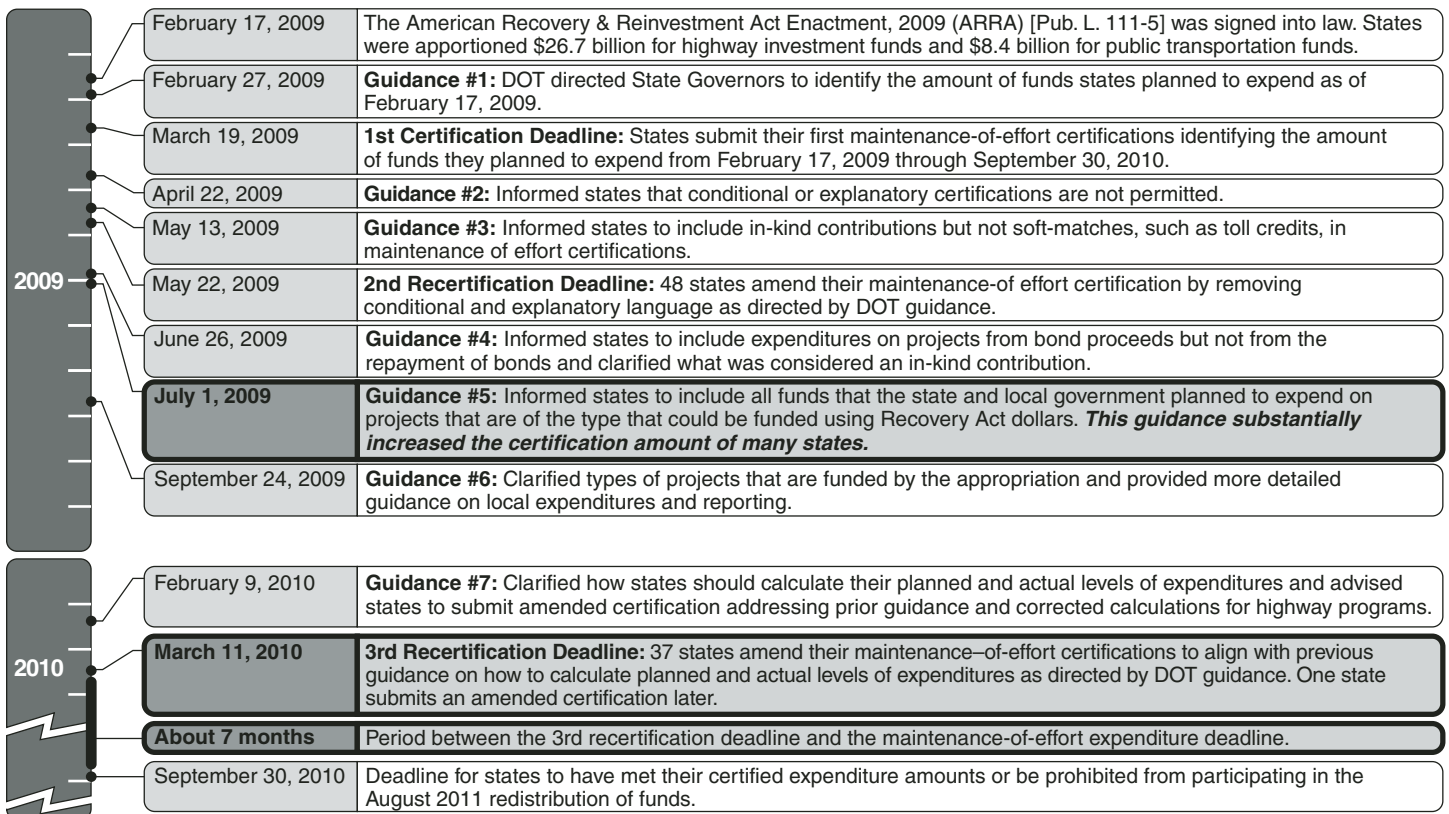
The maintenance-of-effort requirement has proven challenging for DOT and states to implement. Although the Recovery Act gave the states 30 days after enactment of the act to provide their certifications, most states have only recently completed a maintenance-of-effort certification that DOT finds fully acceptable (in compliance with the statute and DOT guidance) for highways. DOT had not yet completed its review for transit and other programs covered by the requirement when we completed our work, but officials stated they expect to complete all reviews by June 1,

⁷⁸A state that does not meet its level of effort will be prohibited from participating in the redistribution of federal-aid highway obligation authority scheduled to occur in August 2011.

2010. As we reported in March 2010, in reviewing earlier certifications, DOT found inconsistencies and confusion among the states, including how states calculated their planned expenditures and how states treated funding related to in-kind contributions, bond proceeds, and aid to local governments. Beginning in March 2010, 38 states submitted revised certifications; these revised certifications often contained new categories of expenditures that were not included in the earlier certifications. DOT had completed its review of the highways portion of the revised certifications but had not yet completed its review for transit and other programs covered by the requirement when we completed our work. Until DOT completes its reviews, states will not know with certainty the expenditure amount they need to meet by the September 30, 2010 deadline. In addition, as we reported in March 2010, in revising their certifications, states were in the position of determining what they planned to expend over a year ago and adjust these planned expenditure levels to reflect guidance from DOT, but could not adjust for the economic and budgetary changes states have experienced over the last year.

We have reported on the process DOT used to implement the maintenance-of-effort requirement in our previous reports. Figure 5 provides an overview of that process.

Figure 5: Timeline of Maintenance-of-Effort Reporting and Decisions



Source: GAO analysis of Department of Transportation guidance.

DOT Does Not Have Timely Information on State Progress toward Maintenance-of-Effort Requirements

In March 2010, we reported that timely information on the progress states are making in meeting the maintenance-of-effort requirements could better inform policymakers' decisions on the usefulness and effectiveness of the maintenance-of-effort requirements and of including similar provisions in future legislation. Timely information is also important to assessing the impact of Recovery Act funding and whether it achieves its intended effects of providing countercyclical assistance and increasing overall spending.

Although nearly 80 percent of the maintenance-of-effort time period has expired, DOT does not have current information on the progress states are making toward meeting their certified amounts. States are required by the

Recovery Act to periodically report actual expenditures, and the most recent report was due on February 17, 2010. However, 38 states had yet to revise their certification on that date. As a result, some states calculated their February expenditure report based on an earlier certification, while others used the March certification as the basis for their expenditure report.

DOT officials stated they cannot compare reported expenditures to the states' most recent maintenance-of-effort certification to assess their progress because they do not know how many states used the older certification and how many states used their most recent certification to calculate their 1-year expenditures. DOT officials noted that some states update their expenditure reports periodically. Also, DOT plans to ask the states to update their expenditure report this fall to reflect expenditures included in the states' most recent certification. However, DOT officials stated that it does not have the authority to require states to submit information outside of the requirements established in the Recovery Act.

Our March 2010 report recommended that DOT gather timely information on the progress states are making in meeting the maintenance-of-effort requirements.⁷⁹ We reported that because the Recovery Act does not require states to again report actual expenditures until February 2011, DOT will not make a determination as to whether states have met their required program expenditures until around 6 months after the maintenance-of-effort provision covered time period expires on September 30, 2010. We recommended that DOT gather these data and report preliminary information to Congress within 60 days of the certified period (Feb. 17, 2009, through Sept. 30, 2010) on (1) whether states met required program expenditures as outlined in their maintenance-of-effort certifications; (2) the reasons that states did not meet these certified levels, if applicable; and (3) lessons learned from the process.

In response to our March 2010 recommendation, DOT officials partially concurred, stating that DOT will (1) encourage states to report preliminary data for the certified period ending September 30, 2010, and (2) deliver a preliminary report to Congress within 60 days of the certified period. However, DOT also noted that states are not legally obligated to submit final actual expenditure amounts before February 17, 2011. As a result,

⁷⁹GAO, *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C.: Mar. 3, 2010).

while we are encouraged and DOT has agreed to provide more timely information that could better inform policymakers' decisions on the usefulness and effectiveness of the maintenance-of-effort requirements, no assurance exists that DOT will receive the information it needs from states to provide this information to Congress.

Although Most of the 16 States and the District of Columbia in Our Review Are on Track, Progress Can Be the Result of Circumstance

Although DOT does not have national data, we obtained data from the 16 states and the District in our review to assess the progress they are making toward meeting the required amount for their maintenance-of-effort certification. The data show these states are on track.⁸⁰ As of January 31, 2010—the end of the time frame for the most recent required state expenditure report—with 59 percent of the maintenance-of-effort time period having expired, these states ranged from 46 percent to 114 percent toward meeting their required maintenance-of-effort certified expenditure amounts. In general, these states and the District indicated they would meet their maintenance-of-effort certification, but most faced declines in the revenues typically used to fund transportation, which could make meeting the required amount for their certification more challenging. For example, our analysis showed by the end of January that Pennsylvania was about 53 percent of the way toward its certified amount.⁸¹ The major source of state revenue for Pennsylvania's transportation system is the state's Motor License Fund, which includes revenues from motor license fees and the state fuel tax. In March 2010, state officials said that the fund is facing a \$150 million revenue shortfall compared with the February 2009 revenue projections when the Recovery Act was enacted.

States' progress toward the certification may have more to do with circumstances that developed after February 17, 2009, than states' efforts to comply with maintenance-of-effort requirements. For example, prior to February 17, 2009, the state of California canceled a bond program it typically uses to fund transportation due to market conditions. As a result, the state did not have to include any revenue from this program in its

⁸⁰To conduct our analysis, we determined whether the expenditure data in the state's February expenditure report matched the state's expenditures from the second or third maintenance-of-effort certification and then determined the percentage of progress they had made toward the certification.

⁸¹According to Pennsylvania DOT officials, the state was about 72 percent toward meeting its certified amount as of April 30, 2010.

maintenance-of-effort certification. However, later in the year, bond market conditions had improved and the state went forward with the bond sale. Because the state made this decision after the enactment date, it does not have to include this revenue in its maintenance-of-effort certification, even though the state has had to revise the certification for other reasons. California officials said that the program will raise enough revenue to allow the state to easily meet its maintenance-of-effort certification despite other state highway revenues being down.

Similarly, in January 2009, the Arizona legislature took action to address revenue shortfalls in the state's Highway User Revenue Fund—a fund that collects motor fuel taxes, vehicle registration, and other fees. Among the actions it took was to reduce funding for highways that the state provided through its DOT to local governments. When the Recovery Act was passed, Arizona was able to substitute Recovery Act funds to pay for the aid to local governments it had previously financed with the Highway User Revenue Fund. However, because the budget decisions to reduce state spending on transportation were made before the enactment date, Arizona was not required to include funding it had typically spent in previous years in its certification.

The converse was also true for some states. States that had decreased expenditures for some projects after the enactment date because of situations beyond their control were not permitted to adjust their certifications downward. For example, Illinois was required to include a state match of \$925,000 that was part of a \$1.85 million federal grant for a rail project that the state had applied for prior to the enactment date. However, later in the year, the state learned that it would only receive \$1.55 million from the federal government, which lowered the state's matching contribution by \$150,000. Yet because this decision was made after the Recovery Act was enacted, the state was not allowed to lower its maintenance-of-effort certification by a similar amount and may therefore miss the requirement by about \$150,000. Illinois is evaluating whether new state expenditures could be credited to this type of activity to address the shortfall. State DOT officials in Georgia and Massachusetts stated that, while they expect to make their maintenance-of-effort certification, poor weather this winter caused some delays in initiating construction, which will add to the time lag in which contractors complete their work and submit invoices. These invoices must be submitted and reimbursed by September 30, 2010, to be included in states' maintenance-of-effort expenditure reports.

In Addition to Timely Reporting, an Opportunity Exists to Evaluate Lessons Learned

A number of programs in the Recovery Act accounting for about \$100.5 billion in Recovery Act appropriations contained new maintenance-of-effort provisions spanning the areas of transportation, education, housing, and telecommunications. These are important mechanisms to help ensure that federal economic stimulus spending achieves its intended effect of providing countercyclical assistance and increasing overall spending and investment. These mechanisms are particularly important in the highway program, as we have found in previous work that increasing federal highway funds influences states and localities to substitute federal funds for funds they otherwise would have spent on highways.

Maintenance-of-effort provisions of this scope have never been attempted before in the surface transportation program. Consequently, policymakers may have some interest in understanding “lessons learned” and to consider similar provisions in either future stimulus legislation or as part of the regular DOT program. As our prior reports have said, the challenges to implementing a maintenance-of-effort provision have been tremendous, to the point that as of May 2010, 15 months into the 19-1/2 month reporting time frame provided for in the Recovery Act, not all states have final certifications in place that DOT finds fully acceptable. As we have reported, these implementation challenges, coupled with the fiscal challenges states have faced raise questions as to whether the maintenance-of-effort provision will achieve its intended purpose of preventing states from substituting federal funds for some of their planned spending on transportation programs. That said, this provision required DOT, through its FHWA division offices in each state, to invest a significant amount of time and to work closely with its state partners to ensure consistency across states on how compliance with the act would be certified and reported. As a result, much of the work—such as developing compliance and oversight processes, reporting requirements, and identifying data for tracking purposes—that can ensure smoother implementation of similar provisions in the future has been accomplished. DOT is in an advantageous position to understand lessons learned—what worked, what did not, and what could be improved in the future.

In addition to implementation challenges, issues we have raised in this and other reports highlight concerns about the design of the Recovery Act maintenance-of-effort requirement. Through our discussions with federal and state officials, a number of lessons learned and suggestions for improvement emerged. Some officials suggested an averaging of prior

expenditures and commitments would be more workable than a point-in-time estimate, although this might also commit states to spending levels that were established when the economy was stronger. A number of officials raised the issue of compliance being measured by expenditures (outlays). Highway projects can take a number of years to build, and, as such, expenditures in any given year generally represent not only a commitment of funds that year but also commitments made potentially for as long as 4 to 5 years prior. Also, outlays are subject to some uncertainty: As Georgia and Massachusetts officials reported, although they expect to make their maintenance-of-effort commitment, meeting the commitment was made more challenging because outlays slowed during the winter of 2009 to 2010. Another approach would be to include an escape clause that would allow states to adjust their commitment if state revenues dip below a predetermined point.

Besides these challenges, an understanding of the impact of the policy—how the maintenance-of-effort requirements affected state budgets and decision making—would be useful. The decline in states’ fiscal positions appears likely to affect many states’ ability to meet the maintenance-of-effort requirement; however, programs subject to a maintenance-of-effort requirement may have fared better than those lacking such a requirement in state decision making. It would be worth exploring, for example, whether and how states made trade-offs between programs. Reducing budgets for some programs, such as health care and prisons, can be difficult even in tough economic times.

Publicly Available Data
Currently Overstate the
Amount of Recovery Act Funds
Directed to Economically
Distressed Areas

Another Recovery Act requirement is to give priority to projects that can be completed in 3 years and are located in economically distressed areas. These areas are defined by the Public Works and Economic Development Act of 1965, as amended. To qualify as an economically distressed area, an 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 that the Secretary of Commerce determines has experienced or is about to experience a “special need” arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short- or long-term changes in economic conditions.

We previously reported 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.⁸² State officials told us they did so to respond to rapidly changing economic conditions, and, according to DOT officials, several states found that the data specified in the Public Works and Economic Development Act failed to recognize areas that suffered severe economic disruption, in part due to the difficulty in obtaining current data. Three states in our review—Arizona, California, and Illinois—developed their own eligibility requirements or applied a special-need criterion that would have increased the number of counties being designated as economically distressed. As we reported in March 2010,⁸³ widespread designations of special-need areas would give added preference to highway projects for Recovery Act funding but would also make it more difficult to target Recovery Act highway funding to areas that have been the most severely affected by the economic downturn.

In early February 2010, FHWA determined that the state DOTs' documentation for Arizona, California, and Illinois for meeting special-need criteria—specifically, demonstrating severe job dislocation resulting from actual or threatened business closure or restructuring—was not consistent with FHWA guidance.⁸⁴ However, FHWA also told these states that it would evaluate other options for them to consider in determining whether an area should be classified as economically distressed using the special-need criteria. According to DOT officials, the analysis of other options for the three states is complete; however, they declined to discuss these options with us because the matter was under review.

⁸²In response to a recommendation we made, FHWA, in consultation with the Department of Commerce, issued guidance on August 24, 2009, that provided criteria for states to use for designating special-need areas for the purpose of Recovery Act funding. 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. FHWA issued "questions and answers" on November 12, 2009, to further address implementation questions.

⁸³[GAO-10-437](#).

⁸⁴Each state used FHWA's special-need criterion that relates to severe job dislocation resulting from actual or threatened business closure or restructuring. These states have been notified of FHWA's determination and advised that in order to be consistent with the FHWA guidance, the states must have data that show a connection between demonstrated severe job losses and actual, identified firm closures and restructurings.

Prior to FHWA's decision, Arizona, California, and Illinois coded these projects in the Recovery Act Data System as being in economically distressed areas. These states have not changed the status of these projects because DOT advised states no change was necessary until FHWA completes its evaluation of other options. As a result, information currently available to the public and disseminated by DOT on the number of projects and funding directed to economically distressed areas is overstated in the Recovery Act Data System. For example, in California, we identified 219 projects with an estimated cost of \$1.1 billion⁸⁵ coded as being in economically distressed areas that currently should not be counted as such. California intends to submit additional data to FHWA once FHWA issues additional guidance on the types of data the state should submit; thus, decisions about whether these areas will ultimately be considered economically distressed are not final. However, information available to the public currently overstates the amount of Recovery Act funds benefiting economically distressed areas.

Recommendations

To better understand the impact of Recovery Act investments in transportation, we believe that the Secretary of Transportation should ensure that the results of these projects are assessed and a determination made about whether these investments produced long-term benefits. Specifically, in the near term, we recommend the Secretary direct FHWA and FTA to determine the types of data and performance measures they would need to assess the impact of the Recovery Act and the specific authority they may need to collect data and report on these measures.

To ensure that the public has accurate information regarding economically distressed areas, we also recommend that the Secretary of Transportation direct FHWA to issue guidance to the states advising them to correct information in the Recovery Act Data System to reflect current DOT decisions concerning the special-need criteria. Projects in areas currently lacking documentation that these areas meet the criteria to be designated as economically distressed should be reported as projects in noneconomically distressed areas.

⁸⁵The Recovery Act project cost dollars are based on the original estimated costs of the projects at a time that precedes the bidding on the projects. As a result, the estimated costs may overstate or understate the actual or current costs of the projects. At the time GAO reviewed these costs, the estimated project costs exceeded the current Recovery Act funds obligated to California by 17 percent.

DOT concurred in part with our March 2010 recommendation that it gather and report more timely information on the progress states are making in meeting the maintenance-of-effort requirements. Because more timely information could better inform policymakers' decisions on the usefulness and effectiveness of the maintenance-of-effort requirements and is important to assessing the impact of Recovery Act funding in achieving its intended effect of increasing overall spending, we are leaving this recommendation open and plan to continue to monitor DOT's actions.

Edward Byrne Memorial Justice Assistance Grant Funds Continue to Help States Support Law Enforcement Priorities

The Recovery Act provides \$2 billion in Edward Byrne Memorial Justice Assistance Grant (JAG) Program funds in fiscal years 2009 and 2010 to state and local governments to be used over the program's 4-year grant period. JAG funds can be used to support a range of activities in seven broad program areas covering (1) law enforcement; (2) prosecution and courts; (3) crime prevention and education; (4) corrections; (5) drug treatment and enforcement; (6) program planning, evaluation, and technology improvement; and (7) crime victim and witness programs.

The Department of Justice's Bureau of Justice Assistance (BJA) allocates JAG funds based on a statutory formula determined by population and violent crime statistics, in combination with a minimum allocation to ensure that each state and eligible territory receives some funding. BJA awards 60 percent of a state's allocation directly to the state, and the state, in turn, must allocate a formula-based share of these funds to its local governments. BJA awards the remaining 40 percent of the state's allocation directly to eligible units of local government within the state. Table 6 shows BJA's Recovery Act JAG formula-based state allocations for the 16 states and the District of Columbia, as well as BJA's Recovery Act JAG direct allocations to localities.

Table 6: Recovery Act Edward Byrne Memorial JAG Program’s State Allocations, Local Allocations, and Total Allocations for 16 States and the District

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

Source: Bureau of Justice Assistance data.

^aDue to rounding, these amounts may not exactly equal 60 percent of the total JAG award.

^bDue to rounding, these amounts may not exactly equal 40 percent of the total JAG award.

^cFor the District of Columbia, all JAG funds are awarded directly to the District.

State and Local JAG Recipients Have Received Their Recovery Act JAG Awards and Have Obligated Funds

In July 2009, we reported that the 16 states and the District of Columbia in our review had not obligated their JAG awards, in part because they were determining how the funds would be used and passed through to local entities. In preparation for our May 2010 report, we visited 7 of these states and found that all 7 had obligated their Recovery Act JAG awards and reported planned uses that are consistent with their states’ priorities and BJA’s allowable uses of JAG funds.⁸⁶ Table 7 provides some examples of planned uses of JAG funds for these states.

⁸⁶We will continue evaluating the impact and use of Recovery Act JAG funds, including JAG funds obligated in the other nine states and the District of Columbia, as well as states’ and the District’s use of JAG funds, their reported impact, and DOJ’s ongoing oversight role.

Table 7: Examples of Planned Uses of Recovery Act JAG Funds for Seven States

State	Examples of planned uses of JAG funds reported by state and local officials
Arizona	To support drug task forces, prosecution projects, and forensics. According to state officials, without Recovery Act funds, the state faced budget cuts and would have had to severely cut or discontinue at least half of the projects previously funded with JAG money.
California	To support local gang and drug reduction efforts, prevent human trafficking, pursue a regional approach to reducing methamphetamine production and distribution, and develop communications infrastructure.
Illinois	To purchase law enforcement equipment, such as in-car video systems, and fund efforts and programs that, according to local officials, in the absence of JAG grants, would have gone unfunded. These efforts and programs include, for example, support for overtime wages of law enforcement agents, mentoring programs and drug treatment programs, domestic violence programs, and specialty courts for nonviolent, repeat offenders.
Massachusetts	According to local officials, to supplement current state public safety programs, retain jobs, and support core services, including supporting local police departments through funding officer and crime analyst salaries in localities adversely affected by local budget conditions.
New York	To support the implementation of recent drug law reform, including helping assistant district attorneys in reducing the number of prison commitments, and continue recidivism pilot programs.
Ohio	According to local officials, to largely support personnel costs, especially the retention of police officers who would otherwise have been laid off given adverse local budget conditions. Additional funds were also used to support the purchase of law enforcement equipment such as a license plate reader.
Pennsylvania	To purchase law enforcement equipment and support personnel costs related to district attorneys' and probation offices. According to state officials, to also support criminal justice priorities, such as juvenile services programs that were adversely affected by budget cuts. Additional funds were used to support initiatives such as records management improvement, prisoner re-entry programs, and at-risk youth employment programs.

Sources: State and selected local Recovery Act JAG administering agencies.

The Department of Justice's Office of Justice Programs Continues to Oversee, Monitor, and Measure Results Achieved by Recovery Act JAG Funds

As we reported in July 2009, BJA and the Office of Justice Programs (OJP)—which oversees BJA and establishes minimum standards for grant monitoring—have reported using many of its existing grant award and oversight processes and procedures to oversee, measure, and monitor Recovery Act JAG funds.⁸⁷ For example, OJP conducts programmatic, administrative, and financial monitoring of its grantees.⁸⁸ This monitoring, among other activities, includes reviews of grantee compliance with program guidelines, as well as on-site monitoring of grantee performance. According to OJP officials, should they determine that a recipient is

⁸⁷GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, GAO-09-829 (Washington, D.C.: July 8, 2009).

⁸⁸During programmatic monitoring, grant managers are to assess the performance of grant programs by addressing the content and substance of a program. Administrative monitoring addresses compliance with grant terms and grantee reporting and documentation requirements (e.g., inventory records for property used for the grant), and financial monitoring reviews expenditures compared to an approved budget.

spending money outside of allowable uses or committing fraud, the officials have several options for action. For example, depending on the severity of the grantee's misuse of OJP funds or fraud, OJP may suspend or terminate a grant. If the underlying offense warrants further action, OJP can refer the recipient or its officials to the Department of Justice debarment official for consideration of a governmentwide suspension or debarment.⁸⁹ Grant recipients that spend money outside of allowable uses may have funds temporarily frozen and reimbursements withheld. Additionally, OJP may refer instances to the Department of Justice's Office of Inspector General (OIG) Audit Division or its Fraud Detection Office. According to OJP officials, as part of any type of DOJ or OIG audit or investigation, recipients are required to develop and implement corrective action plans that address any noncompliance issues noted. Recipients that do not address noncompliance issues are designated as high risk and are subject to sanctions on current or future awards.

As part of its monitoring efforts, OJP has reported plans to conduct on-site monitoring of no less than 30 percent of open, active Recovery Act grants and conducts routine assessments of recipient reporting as required under the act. For example, OJP conducted its first on-site monitoring of a Recovery Act JAG recipient in the city of Lakewood, Colorado, in November 2009, which, according to OJP's report, did not result in any significant findings or recommendations for corrective actions. OJP also monitors reporting submitted by Recovery Act grant recipients to a nationwide data collection system at www.federalreporting.gov and conducts a review of recipient information before it is publicly posted on the Recovery.gov Web site each quarter.

In addition to two performance measures on the number of jobs created and preserved that are required under the Recovery Act recipient reporting requirements, OJP requires JAG grantees to report quarterly on additional performance measures.⁹⁰ Each performance measure is

⁸⁹According to OJP, debarment excludes or disqualifies a person or company for a specific period of time—generally not longer than 3 years—from participating in federal government procurement contracts and covered nonprocurement transactions. A suspension prohibits participation for a temporary period pending completion of an agency investigation and any judicial or administrative proceedings that may ensue.

⁹⁰The Office of Audit, Assessment, and Management (OAAM) serves as the central source for grant management policy and procedures and oversees the programmatic monitoring activities within OJP. In addition, OAAM ensures financial grant compliance and auditing of OJP's internal controls to prevent waste, fraud, and abuse and conducts programmatic assessments of Department of Justice grant programs.

associated with one or more activities within the seven JAG program areas. For example, if JAG Recovery funds are used to support a drug treatment program, the grantee would be required to report on the number of participants who completed the services, among other measures. In addition, recipients must respond to annual narrative questions that ask, among other things, about accomplishments, problems, or barriers the recipient may have encountered, planned activities, and any fiscal or programmatic changes to the recipients' original application. According to BJA officials, they plan to analyze performance measurement data to better determine the usage of Recovery Act JAG funding. We previously reported that BJA has also developed an online performance measurement tool (PMT) for JAG grantees to use to report data. According to BJA, the PMT was refined during the yearlong review that ended in March 2010, and about three-quarters of the grantees are using the new PMT as of May 3, 2010. We will continue monitoring the impact and use of the new reporting tool.

DOJ's OJP Office Conducts Grant Monitoring through Progress Reports and Site Visits

JAG grant recipients are required to submit an annual programmatic report and quarterly financial status reports to BJA. In addition, JAG grantees are required to meet quarterly Recovery Act recipient reporting requirements. Grantees are also expected to provide quarterly progress reports on programmatic performance measures on activities funded by the Recovery Act, using BJA's PMT. OJP also conducts grantee site visits to ensure compliance with grant terms and conditions. In addition, the DOJ Office of Inspector General has made Recovery Act oversight a priority and has issued five reports on the Recovery Act involving JAG, addressing aspects of the awards process and improving transparency.⁹¹

⁹¹See Department of Justice (DOJ), Office of the Inspector General (OIG), Management Advisory Memorandum, *Improving Transparency in the Office of Justice Programs' Planned Use of Edward Byrne Memorial Justice Assistance Grant Program Funds Authorized by the Recovery Act* (March 2009); DOJ, OIG, *Edward Byrne Memorial Justice Assistance Grant Allocation of Recovery Act Funds to Local Municipalities in the State of Illinois* (April 9, 2009); DOJ, OIG, *Recovery Act Oversight Plan* (May 2009); OIG, *Recovery Act Oversight Plan Updated* (October 2009); and DOJ, OIG, *Review of the Edward Byrne Memorial Justice Assistance Grant Program Recovery Act Formula Awards Administered by the Department of Justice's Office of Justice Programs* (December 2009).

COPS Hiring Recovery Program Enhances Community Policing Efforts, though Some Recipients Expressed Concern about the Impact of Fiscal Challenges on Long-Term Police Officer Retention

The Recovery Act's Community Oriented Policing Services (COPS) Hiring Recovery Program (CHRP) is a competitive grant program administered by DOJ that provided \$1 billion in fiscal year 2009 funding to law enforcement agencies to create and preserve jobs and to increase community policing capacity and crime-prevention efforts. CHRP grants to local law enforcement agencies provide 100 percent funding for approved entry-level salaries and benefits for 3 years for newly hired, full-time sworn police officers.⁹² In particular, grantees can use CHRP funds to fill existing, unfunded vacancies or to rehire officers who have been laid off, or are scheduled to be laid off, as a result of budget cuts. At the conclusion of the CHRP grant term, grantees must retain all sworn police officer positions funded through CHRP for at least 1 year. Unlike previous COPS program grants that predate the Recovery Act, CHRP does not impose a local fund matching requirement.⁹³

To distribute CHRP funds, DOJ's COPS developed an open, competitive solicitation for all local, state, and federally recognized tribal law enforcement agencies that have primary law enforcement authority. In April 2009, 7,272 law enforcement agencies responded to the solicitation and submitted applications requesting \$8.3 billion to fund more than 39,000 officer positions. By July 2009, DOJ awarded CHRP funds to 1,046 agencies and funded 4,699 positions from the available \$1 billion. According to DOJ officials, COPS did not deny the nonfunded applications but rather retained them for future funding should additional funds become available.

In its award solicitation, COPS officials requested information from applicants on fiscal health, crime rates, and community policing-related plans.⁹⁴ Fiscal health factors accounted for 50 percent of the total score, and reported crime and planned community policing activities accounted for 50 percent of the final score. According to DOJ officials, this 50-50 split strikes a balance between the purposes of the Recovery Act, which

⁹²CHRP grant funding is based on current entry-level salary and benefits packages in each locality.

⁹³The Community Oriented Policing Services program was created to implement provisions in Title I of the Violent Crime Control and Law Enforcement Act of 1994 (Pub.L. No. 103-322, 108 Stat. 1796 (1994)).

⁹⁴These measures include such factors as changes in budgets for law enforcement agencies and local governments, poverty, unemployment and foreclosure rates, and reported crimes for the previous calendar year.

highlights the role that community policing plays in economic recovery, and the underlying COPS statute and historical mission of supporting public safety and community policing. The results of the scoring were made available for review on the COPS Web site, so that localities (including those that were not funded) could see how they scored.

Under the CHRP statutory provisions, half of award funds are to be made to agencies in communities with populations greater than 150,000 and half are to be made to agencies in communities with populations of 150,000 or less. In addition, at least one-half of 1 percent of the hiring funding available (in this case \$5 million) was allocated to each state or territory with eligible applicants. All agencies were also capped at receiving an award to fund no more than 5 percent of their current actual sworn force strength as reported in their application, up to a maximum of 50 officers.

The 16 states and the District of Columbia in our review received a total of 532 awards funding 2,896 officers with a total value of \$674,262,410 (see table 8). A few localities received awards that would fund the maximum of 50 sworn police officers, but most awards were for smaller numbers of officers.

Table 8: Recovery Act Funding Awarded through CHRP for 16 states and the District

State	CHRP awards	Officers	Award total in state
Arizona	13	56	\$12,632,168
California	109	649	211,192,695
Colorado	13	23	5,019,925
District of Columbia	1	50	12,146,550
Florida	66	428	87,873,220
Georgia	48	184	31,758,831
Illinois	21	106	25,867,708
Iowa	5	22	5,085,712
Massachusetts	13	131	28,984,695
Michigan	46	160	34,587,894
Mississippi	20	41	5,055,231
North Carolina	50	202	30,956,114
New Jersey	18	123	26,813,422
New York	12	96	19,931,056
Ohio	47	336	79,294,927
Pennsylvania	19	93	20,163,683

State	CHRP awards	Officers	Award total in state
Texas	31	196	36,898,579
Total for 16 states and the District of Columbia	532	2,896	\$674,262,410

Source: GAO analysis of Recovery Act CHRP awards.

CHRP Funds Have Facilitated Hiring and Helped Avoid Layoffs

We visited six states and the District of Columbia to specifically discuss the implementation of CHRP. ⁹⁵Overall, we found that local law enforcement agencies have used CHRP grants to hire additional officers and enhance their community policing efforts. In California, for example, CHRP funds allowed Los Angeles to hire 50 officers and start academy classes to put new officers on the street to address the city's gang problems. In the District of Columbia, 49 new recruits are expected to graduate from training at the Metropolitan Police Academy in August 2010, which should enable the District to increase the number of officers on patrol in the community. According to District of Columbia Police Department officials, the CHRP-funded police officers will be assigned to neighborhood patrols and work closely with community members to fight crime. In Pennsylvania, the Philadelphia Police Department was able to start 31 new officers at its training academy and place an additional 19 new officers with previous experience into a shorter training program.

Communities receiving smaller awards generally placed newly hired officers into specific community policing settings. In New Jersey, Trenton officials said that the 18 positions filled under the CHRP grant are expected to enhance the police department's community policing efforts by going beyond core functions to include implementing foot and bike patrols in high-crime areas, having officers attend community events, and generally increasing police presence, which they believe will deter criminals and reduce overall crime. In Harrisburg, Pennsylvania, 8 new officers are to be assigned to foot and bike patrol in designated high-crime areas when they complete their training. In Arizona, Flagstaff applied for and received CHRP funding for 6 police officers. As of February 1, 2010, 3 officers had begun duty on the Flagstaff police force and 3 were at the police academy. According to Flagstaff officials, CHRP funds for staffing for the Drug Abuse Resistance Education program saved it from elimination.

⁹⁵In addition, we collected information from an additional six states regarding CHRP awards in the context of their local fiscal and budget situations.

In other localities, law enforcement agencies have used CHRP funding to prevent layoffs. For example, in Toledo, Ohio, city officials said they were planning to retain 31 police officer positions through CHRP funding. In Youngstown, officials stated that the city uses the CHRP award to retain 9 additional officers within the police department who would otherwise have been laid off. Massachusetts officials also indicated that several cities used CHRP funds to avoid police layoffs. In Florida, Orlando officials reported they used CHRP funds to restore 15 of the 29 officer positions originally cut from their current 2009-2010 budget. In Arizona, Mesa is currently researching the possibility of requesting a grant modification so that it can retain 25 officers rather than hire 25 new ones since budget cuts occurred after the original application for funds was submitted.

Local Officials Are Generally Confident They Can Retain Officers Hired under CHRP, but Some Expressed Concerns

While many officials were confident they would be able to meet the commitment to fund positions created or preserved through CHRP for at least 1 year after the 3-year CHRP grant term expires, law enforcement officials in some locations with whom we spoke were less sure. Officials in several localities (including East Orange and Trenton, New Jersey) expect they will be able to sustain funding with general revenues and with predicted attrition within their departments. In addition, officials from two of the localities we visited—Mesa and Flagstaff, Arizona—did not express concerns with the retention requirement. On the other hand, officials in at least five localities in different states expressed concerns about how they are going to fund positions for the officers hired with CHRP grants after the federal funds run out, and they told us they have begun strategizing to ensure a smooth transition. In Pennsylvania, for example, Harrisburg officials speculated that financial difficulties may affect the city's ability to fund the positions after the award ends. In particular, Harrisburg officials said they may need to leave vacant officer positions unfilled and use newly budgeted money to cover salaries for the CHRP positions already filled. In Florida, Orlando officials said they are still working on strategies to determine how to pay for the 15 officers funded by the CHRP grant after the program ends. Notably, at the conclusion of CHRP, agencies that fail to retain the additional officer positions awarded under the program may be ineligible to receive future COPS grants for a period of 1 to 3 years.

DOJ's COPS Conducts Grant Monitoring through Progress Reports and Site Visits

CHRP grant recipients are required to periodically submit program progress reports and financial status reports to COPS. In addition, CHRP grantees are required to meet Recovery Act Section 1512 reporting requirements every quarter. Grantees are also expected to provide quarterly progress reports describing how CHRP funding is being used to assist the jurisdiction in implementing its community policing strategies. COPS also conducts grantee site visits to ensure compliance with grant

terms and conditions. In addition, the DOJ Office of Inspector General (OIG) issued a report in mid-May 2010, assessing COPS's selection process for CHRP recipients. According to the OIG's report, technical inaccuracies in the COPS's scoring process at DOJ prevented 34 grantees from receiving CHRP grants and allowed 45 CHRP grantees to receive awards when they should not have. In addition, six grantees received more officer positions than they should have and six received fewer officer positions. Further, amidst other shortcomings, the OIG found weaknesses in the procedures COPS used to identify inflated crime statistics in CHRP applications. In sum, the OIG made seven recommendations to COPS. COPS concurred with each and agreed to take the necessary remedial steps. In particular, COPS has agreed to apply the corrected scoring formulas to the CHRP application list and incorporate additional steps to its grantee selection process for fiscal year 2010 grants to ensure those applicants and grantees that were negatively affected by the inaccurate formulas are awarded appropriate fiscal year 2010 funds.

States Used Recovery Act Funds to Increase Training for WIA Dislocated Workers, but National Information on Spending Is Limited

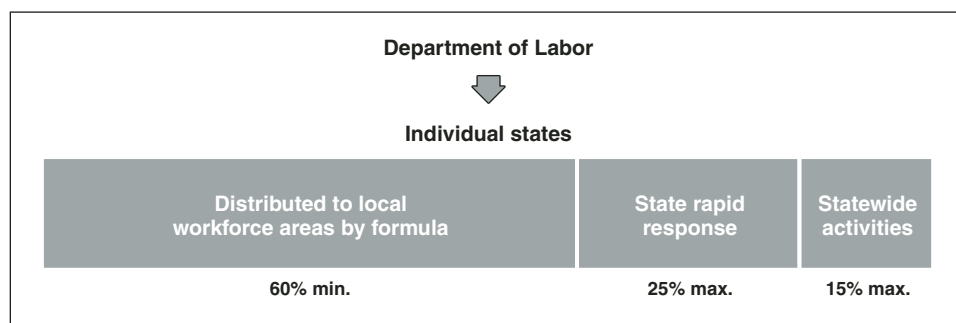
Introduction

The Recovery Act provides an additional \$1.25 billion in funds for Workforce Investment Act (WIA) Dislocated Worker Program activities. Administered by the Department of Labor (Labor), the WIA Dislocated Worker Program is designed to provide workers who have been laid off, or notified that they will be laid off, with employment and training services to help them find employment.⁹⁶ The Recovery Act funds were distributed to states in the same manner as regular WIA Dislocated Worker Program funds. Labor allots funds to states using a statutory formula based on various measures of unemployment. As shown in figure 6, states can reserve up to 15 percent of those funds for statewide activities and up to

⁹⁶In general, a dislocated worker is an individual who has been terminated or laid off, or who has received a notice of termination or layoff, from employment; was self employed but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters; or is a displaced homemaker who is no longer supported by another family member.

25 percent for statewide rapid response services to dislocated workers affected by layoffs and plant closings. States distribute at least 60 percent of the funds to local workforce investment areas. These funds must be expended by June 30, 2011. The local areas, through their local workforce investment boards (WIB), have flexibility to decide how to use the funds to benefit dislocated workers in their localities.

Figure 6: Distribution of Recovery Act Funds to the Dislocated Worker Program



Source: Department of Labor and P.L. 105-220.

Recovery Act funds can be used for all activities allowed under the WIA Dislocated Worker Program, including core services, such as job search and placement assistance; intensive services, such as skill assessment and career counseling; and training services, including occupational skills training, on-the-job training, registered apprenticeship, and customized training. Labor advised states that training should be a significant focus for Recovery Act funds, but before a dislocated worker can be enrolled in training, local one-stop centers must determine that the individual cannot get or retain a job with the core and intensive services noted above.⁹⁷ Labor also advised states that needs-related payments and supportive services, such as transportation and child-care, should be made available for individuals who need these services to participate in job training. WIA emphasized customer choice in training services, and therefore most training is typically purchased by WIA participants using individual training accounts (ITA).⁹⁸ To facilitate increased training for high-demand occupations, the Recovery Act expanded the methods for providing

⁹⁷At a one-stop center, customers can access the services of a variety of federally funded employment and training programs.

⁹⁸Except in limited circumstances, WIA requires the use of individual training accounts (ITA) through which WIA participants purchase services from training providers.

training with Recovery Act funds, allowing states to directly enter into contracts with institutions of higher education or other training providers.⁹⁹

For this report, we conducted a nationwide Web-based survey of state workforce agencies regarding their use of Recovery Act funds for dislocated workers. We received a response from all 50 states and the District of Columbia for a response rate of 100 percent. We supplemented our survey results by conducting site visits in five states (California, Florida, Massachusetts, Michigan, and North Carolina), which were chosen based on factors such as the unemployment rate, geographic region, and the amount of Recovery Act funds allotted. During these site visits, we interviewed state and local workforce officials for a total of five state-level agencies and 10 local WIBs. We also reviewed Labor's guidance issued to state and local areas receiving Recovery Act funds and analyzed national drawdown data provided by Labor.

States Have Made Progress Using Recovery Act Funds for Dislocated Workers, However Labor's Data on Spending Activity Is Limited by State Reporting Inconsistencies

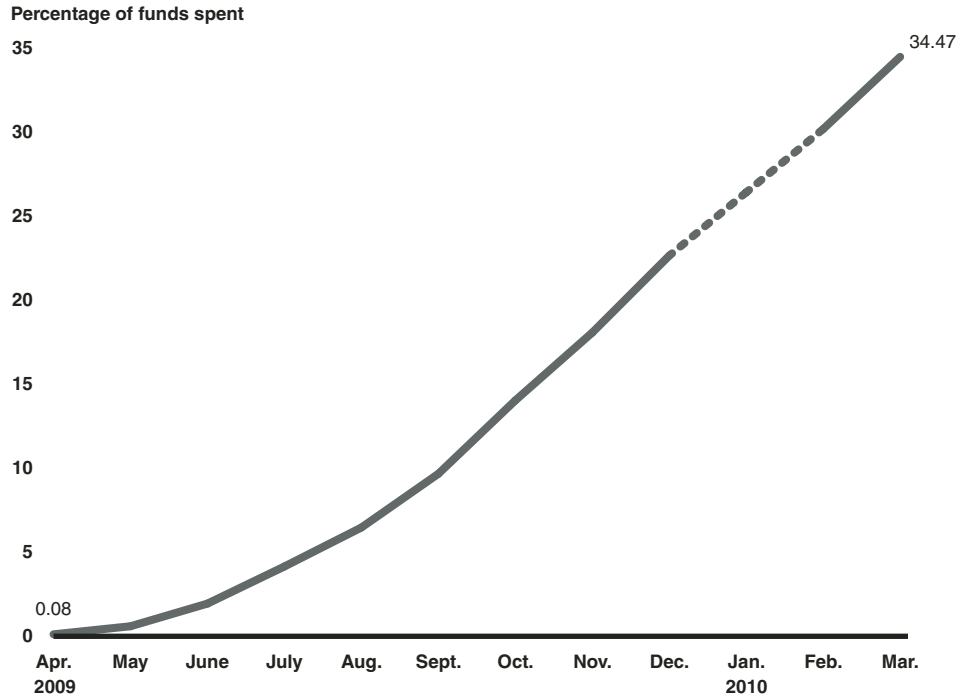
States have made progress in using Recovery Act funds for the WIA Dislocated Worker Program. As of March 31, 2010, at least 34 percent of these Recovery Act funds (\$426.6 million) allotted to the states had been drawn down nationwide, according to Labor estimates.¹⁰⁰ Drawdowns represent cash transactions: funds drawn down by states and localities to pay for program expenses.¹⁰¹ Across the 50 states and the District of Columbia drawdowns have been steadily increasing since April of 2009 (see fig. 7).

⁹⁹Under the Recovery Act, a local workforce area may enter into such a contract only if the board determines that it would facilitate the training of multiple individuals in high-demand occupations and would not limit customer choice.

¹⁰⁰According to Labor officials, the total amount of nationwide drawdowns is a minimal estimate because of programming issues with Labor's New Core Financial Management System. Labor expects the programming concerns to be addressed within the next 30 days, and Labor officials said that actual drawdown amounts will be posted at that time.

¹⁰¹These cash drawdowns are from the Department of Health and Human Services' Payment Management System. These funds may be drawn down no more than 3 days in advance of paying bills.

Figure 7: National Drawdown Rates for Recovery Act Funds for the WIA Dislocated Worker Program, as of March 31, 2010



Source: GAO analysis of Department of Labor data.

Note: According to officials, drawdown amounts for the month of January are not available because Labor transitioned to a new computer system.

However, drawdowns do not provide a complete picture of the extent to which states and localities have used WIA funds to provide services, since actual payments for services can occur long after funds are contractually obligated and services are provided. To determine how much funding states have available for spending, Labor collects additional information, including data on expenditures—actual cash disbursements—and obligations—financial commitments made by states and local areas for which payment has not yet been made.¹⁰² Labor requires states to submit

¹⁰²For example, an obligation would be incurred when the state or local area enters into a contract with a service provider for training, but training has not yet been completed or the service provider has not yet been paid. More specifically, obligations refer to the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period. 29 C.F.R. § 97.3 (2009)

quarterly financial reports on both the Recovery Act and the regular WIA-funded Dislocated Worker Program and reviews these reports to assess states' spending activity.

Accurate data on obligations are necessary not only to monitor state spending, but also to determine whether or not unused program funds should be recaptured and redistributed. WIA allows Labor to recapture funds from states that are not spending their funds within established timeframes and redistribute them to states that have met certain benchmarks. Specifically, Labor may recapture state funds when total obligations do not meet 80 percent of their annual allotment.¹⁰³ While Labor has used its recapture authority to a limited extent in the past, Labor officials told us they do not anticipate the recapture of Recovery Act dislocated worker funds because of the demonstrated need for Recovery Act funding in state and local areas across the country.

However, state-reported data on obligations are not always consistent. For example, Labor officials said that some states may report obligations made at the local level—the point at which services are delivered—while other states may sometimes report funds as obligated when they are simply allocated from the state to the local level. In a 2002 report on WIA spending, we found that states did not use a consistent definition for obligations and that what they reported to Labor on obligations differed.¹⁰⁴ In response to our recommendation in the 2002 report, Labor issued revised guidance that clarified that states should include data on

¹⁰³Labor may recapture funds from states with total obligations less than 80 percent of their annual allotment at the end of the first program year. Labor officials said that for these purposes, total obligations include cash disbursements and financial commitments for which payment has not yet been made. Labor applies the same recapture process to the end of the second program year. At both intervals, Labor may redistribute these funds to other states that have met the requisite total obligation rate. By the end of the three-year grant period, Labor may recapture any state funds that have not been fully expended. Because states' WIA grants expire after 3 years, funds recaptured by Labor at the end of the third year may not be redistributed to other states. Rather, Labor must return the funds to the U.S. Treasury.

¹⁰⁴GAO, *Workforce Investment Act: States' Spending Is on Track, but Better Guidance Would Improve Financial Reporting*, GAO-03-239 (Washington D.C.: November 22, 2002). In addition, in 2009 Labor's Office of Inspector General found that Congress should improve state and local reporting of WIA obligations. For more information, see U.S. Department of Labor Office of Inspector General, *Semiannual Report to Congress*, Volume 62 (April 1–September 30, 2009).

obligations made at the local level in their financial reports.¹⁰⁵ At the same time, Labor provided financial training and technical assistance to states.¹⁰⁶ Despite previous efforts, during our current review some state officials noted confusion about federal reporting requirements on obligations. Labor officials also told us that ensuring the consistency of state-reported data on obligations is an ongoing grant management challenge that is complicated by employee turnover at state and local WIA agencies, as well as state-level financial terminology that may differ from that used by the federal government. Labor officials said they have recently taken additional steps to address this challenge by convening a work group of federal, state, and local officials to discuss reporting issues and conducting training Webinars on financial reporting requirements. In addition, they emphasized that the state officials who certify financial reports have a responsibility to ensure their accuracy.¹⁰⁷

While Labor officials have recently increased technical assistance to improve the consistency of reported data, they have not assessed the extent and nature of reporting inconsistencies for these data. Labor's regional offices examine states' quarterly financial reports by performing edit checks before forwarding reports to Labor's national headquarters, and they conduct on-site comprehensive reviews of states' WIA programs every 3 years.¹⁰⁸ However, officials said that while they review every state certified financial report for errors and omissions, they do not routinely scrutinize the accuracy of the obligations data reported to Labor unless they find an obvious irregularity.¹⁰⁹ Of the five states we visited during our

¹⁰⁵On November 3, 2002, Labor issued Training and Employment Guidance Letter 16-99, Change 1.

¹⁰⁶Labor officials said that they aided the states on financial issues in several ways, including by providing technical assistance, classroom training, Labor and OMB guidance, and internet resources, including live Webinars which are archived online and available to all grantees.

¹⁰⁷Labor officials were referring to organization-wide or program-specific audits that are conducted under OMB Circular A-133, which implements the Single Audit Act.

¹⁰⁸Labor's comprehensive reviews cover programmatic, financial, and compliance issues. The reviews are conducted in each state, at minimum, every three years.

¹⁰⁹Labor officials also said that one component of comprehensive monitoring efforts is to review the accuracy of reports. However, officials said that these comprehensive reviews address many program elements, so they target their efforts and the specific program elements examined may vary from review to review. For example, a comprehensive review may examine quarterly financial reporting, but not necessarily look specifically at local level obligations. Officials did note that if there is a finding, reported data is reviewed, validated, and corrected.

States Reported Using Recovery Act Funds to Increase the Number of Dislocated Workers Served to Help Meet High Demand

study, we found that Florida's quarterly reports to Labor do not include data on obligations made at the local level, as required.¹¹⁰ Labor officials said that they had not identified this as an issue in past WIA comprehensive reviews and will work closely with Florida to address the issue. Despite the issues raised during our review, Labor officials expressed confidence in the accuracy of state-reported data on obligations, but they acknowledged that they have not assessed the extent or nature of reporting inconsistencies across the states.

Many states said they experienced a considerable increase in demand for services by dislocated workers due to high unemployment and few available jobs, according to our survey. According to a number of states that we visited, these economic conditions contributed to serving a much higher number of dislocated workers than previous years, which was reflected by a large increase in customer volume at many one-stop centers. For example, Michigan state officials said that customer volume for the typically slow month of December jumped from 7,000 customers in 2007 to 14,000 customers in December of 2009.

Given the increased demand, 48 states reported that they served more dislocated workers with intensive services, such as comprehensive assessments and case management, between July 1 and December 30, 2009, than they did during the same time period in the prior year (see fig. 8). At least 43 states attributed this increase directly to Recovery Act funds. In addition, states must provide more intensive services—including career counseling, individual employment plans, and assessments to determine the best training options for each individual—in order to place more workers in training as encouraged by Labor. As New Hampshire noted, without the additional Recovery Act funds, they would not have had the capacity to maintain the level of intensive services to an increased number of program participants. Overall, states estimated that they increased intensive services by as much as 571 percent, with a median increase of 83 percent, since the same time period the previous year.¹¹¹

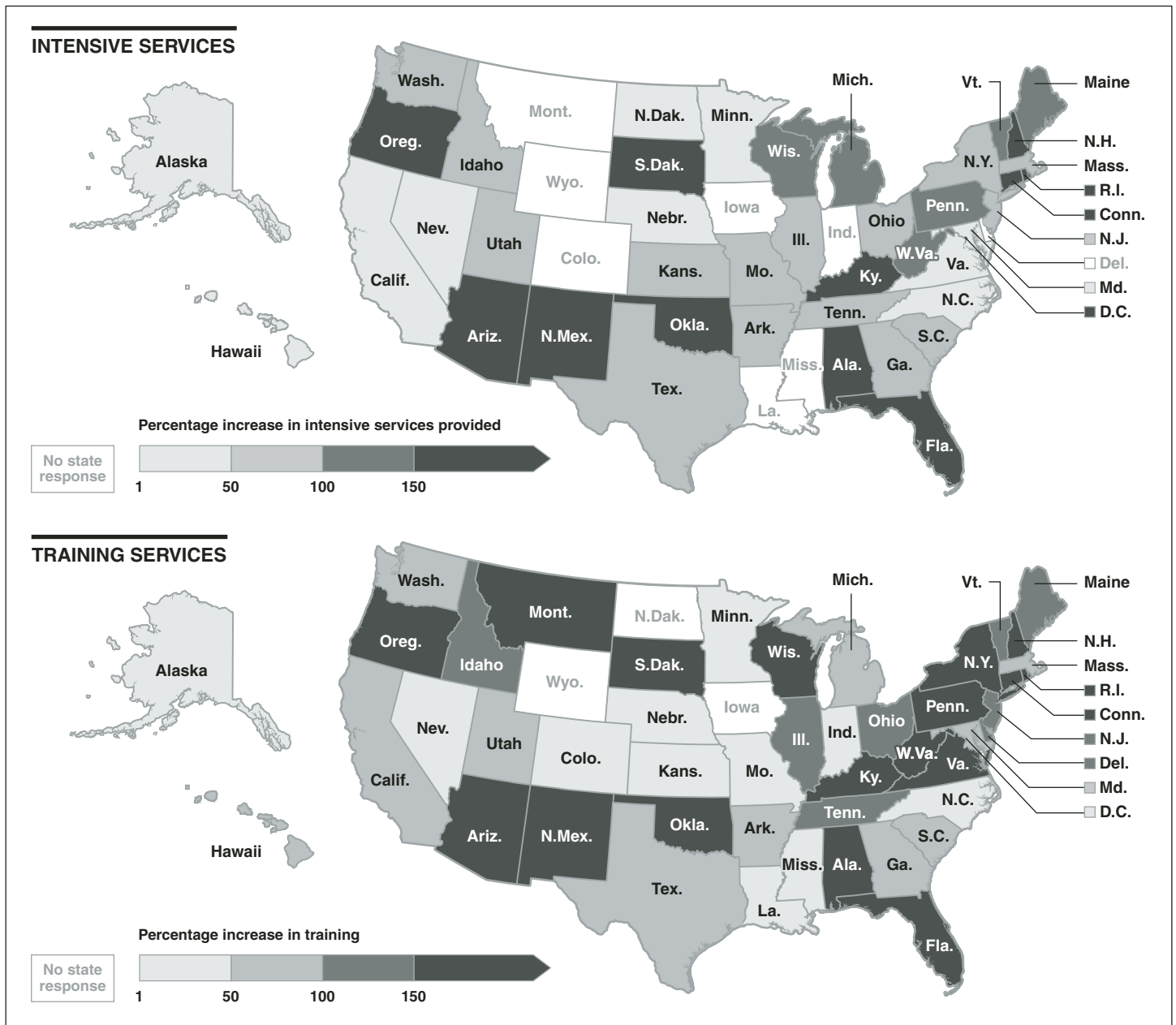
¹¹⁰Florida has been reporting funds as obligated when they were allocated from the state to the local level and this data did not reflect local level financial commitments.

¹¹¹Eight states did not report a percent increase in intensive services. GAO did not verify the methodology that states used to determine the increase in the number of participants receiving intensive services.

With regard to training, all states and the District of Columbia said that they provided more dislocated workers with training than they did during the same time period in the prior year (see fig. 8). At least 46 states responded that this increase was linked directly to the availability of Recovery Act funds. For example, officials in Los Angeles, California, stated that Recovery Act funds have increased the availability of training programs and their area's ability to train more job seekers for high growth sectors, which would not have otherwise been possible. Overall, states reported a median increase of 100 percent in the number of dislocated workers trained, with some experiencing increases as much as 608 percent, compared to the same time period the previous year.¹¹²

¹¹²Three states did not report a percent increase in training. GAO did not verify the methodology that states used to determine the increase in the number of participants receiving training.

Figure 8: State-Reported Increases in Intensive Services and Training Compared to the Same Time Period in the Previous Year (July 1-December 30, 2009 versus July 1-December 30, 2008)



Source: GAO survey; National Atlas of the United States of America (base map)

More than half of the states reported that they set spending targets or provided incentives or guidance to encourage local areas to use the

Recovery Act funds for training of dislocated workers. At least 30 states said that they provided incentives and/or guidance to encourage local areas to use Recovery Act funds for training WIA dislocated workers. For example, Washington's state legislature provided \$7 million as an incentive, matching 75 percent of every regular WIA or Recovery Act dollar used for group training, and 25 percent of every such dollar used for ITAs. In addition, 27 states set a spending target for training, specifying either (1) a target date by which a certain percentage of dislocated worker funds should be spent or (2) a target amount of dislocated worker funds that should be spent on training activities. For example, in Arizona local areas were given a target date of June 30, 2010 to have all funds expended, and in New York, a state policy directed local areas to spend 50 percent of their dislocated worker allocations on training. Of the 27 states that set a spending target, 22 reported that they were "very likely" to meet their target given the current rate of expenditures.

Despite widespread increases in the number of participants receiving intensive services and training, some states reported factors that may have prevented or limited an increase in these services. Twenty-five states and the District of Columbia experienced a decrease in program year 2009 WIA Dislocated Worker formula funding, and at least two reported that the decrease in formula funding limited their ability to increase the number of participants receiving intensive services and training.¹¹³ For example, Michigan's WIA Dislocated Worker formula funds decreased by approximately 43 percent between program years 2008 and 2009, and as a result, Michigan state officials said that the Recovery Act funds essentially replaced the loss in funding. In addition, some states and local areas said that some dislocated workers were not interested in training because they believed their job loss was temporary or would prefer a job instead of receiving training.

¹¹³The WIA 2009 program year runs between July 1, 2009 and June 30, 2010. In addition, GAO has previously found that as states and localities have implemented WIA, they have been hampered by funding issues, including statutory funding formulas that are flawed. As a result, states' funding levels may not always be consistent with the actual demand for services. For more information see GAO, *Workforce Investment Act: Issues Related to Allocation Formulas for Youth, Adults, and Dislocated Workers*, [GAO-03-636](#), (Washington, D.C.: April 25, 2003) and GAO, *Workforce Investment Act: Potential Effects of Alternative Formulas on State Allocations*, [GAO-03-1043](#), (Washington, D.C.: August 28, 2003).

While Most States Continued to Rely Primarily on Traditional WIA Training, Over Half the States Used Their New Flexibility to Contract for Training Classes

Most states primarily used Recovery Act funds for ITAs, which allowed dislocated workers to purchase training from community colleges and other training providers, as they do with regular WIA funds. As shown in table 9, 43 states that could report on types of training funded by Recovery Act funds said they used these funds for ITAs, according to our state survey.¹¹⁴ While 36 states reported that they used Recovery Act funds for on-the-job training, far fewer dislocated workers participated in this type of training (see table 9). Massachusetts officials we visited said that it is difficult to work with employers to provide this type of training in the current economy because so few jobs are available. Florida officials told us they received a waiver to reimburse employers up to 90 percent of participants' wages and on-the-job training costs rather than the 50 percent allowed under WIA, but it too soon to tell if this incentive will increase opportunities for this type of training. As also shown in table 9, some states reported using Recovery Act funds for customized training and apprenticeships. For example, Michigan officials said they are using some of their 15 percent statewide funds to develop apprenticeships in energy conservation jobs.

Table 9: Types of Training Provided by States and Number of Participants Served from Time State Began Using Recovery Act Funds through January 31, 2010

Types of Training	Number of states that reported using at least some Recovery Act dollars to provide these services to dislocated worker participants	Number of dislocated worker participants who received services funded in whole or part by Recovery Act dollars
Individual training accounts	43	96,544
On-the-job training	36	3,102
Customized training	15	774
Apprenticeships	5	54

Source: GAO survey.

To quickly increase training capacity, the Recovery Act expanded the authority of local areas to contract with institutions of higher education and other training providers for group classes and over half the states

¹¹⁴Eight states did not provide this information on our state survey. Some states may not track this information because Labor did not require them to report on dislocated workers who received services funded by the Recovery Act separate from those who were served with regular WIA formula funds.

reported that they are making use of this new flexibility. While some states did not track this information, 26 states reported that local areas used some of their Recovery Act funds to contract for training classes. Several of the local areas we visited told us they are contracting for training, which included some practices that may prove promising.

- In San Diego, California, for example, the local board set aside about 40 percent of their Recovery Act training funds to contract for classes. They used this opportunity to develop new partnerships with employers, community colleges, and public universities and purchased classes that addressed local in-demand industries such as health care, biotechnology, and green technology. The board required that 90 percent of participants who take these Recovery Act-funded classes complete them. To ensure that participating colleges are able to meet this requirement, the one-stop centers screened participants' likelihood to succeed before enrolling them in these classes.

However, some states and local areas we visited reported that contracting for training was not always a viable option. For example, in Grand Rapids, Michigan, officials said that community colleges were reluctant to develop group training programs because Recovery Act funds are temporary and would not be available to support these programs once the funds are exhausted. In addition, officials in Bristol County, Massachusetts, said that they needed to quickly place people in training because of high demand for services, so they did not have time to develop contracts for training.

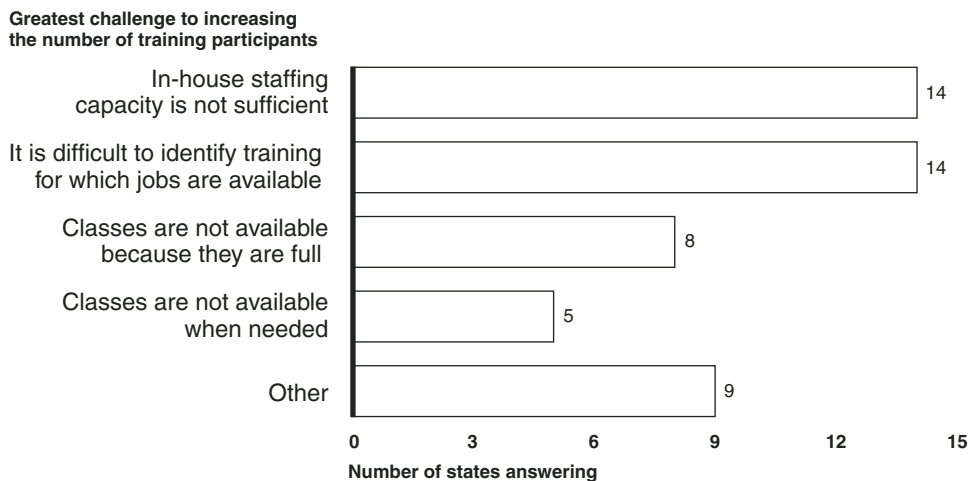
States Faced Some Challenges in Increasing Training Opportunities and Providing Training for Green Jobs

All but one state reported that they faced challenges in their efforts to enroll more dislocated workers in training.¹¹⁵ The most frequently reported challenges were insufficient staffing capacity and difficulty identifying training for available jobs (see fig. 9). Staffing capacity challenges affected both one-stop centers and training providers. For example, Florida officials said that it was difficult to quickly ramp up one-stop centers' staffing capacity because many applicants did not want temporary jobs funded by the Recovery Act, and new hires needed to be trained. As shown in figure 9, 13 states reported challenges related to availability of training classes: 8 states reported that classes were not available because they were full, and 5 reported that classes were not available when needed. For example, officials in Detroit, Michigan, said that community college

¹¹⁵One state did not respond to this question.

training classes had long waiting lists and a few participants were traveling as far as Toledo, Ohio, to attend a community college.

Figure 9: Greatest Challenges States Experienced in Striving to Increase Training Participants Using Recovery Act Funds



Source: GAO survey.

Although Labor encouraged states to provide training for green jobs, a number of state officials told us they had not yet determined what constituted green jobs, making it difficult to provide training in this area. Three states said that they were waiting for Labor to provide additional guidance on this topic; however, 18 states reported on our survey that they established their own definition for green jobs or occupations. In our September 2009 Recovery Act report, we recommended that Labor provide additional guidance on the nature of green jobs to better support providing youth with employment and training in green jobs and Labor is taking steps to do this (see the New and Open Recommendations section of this report).¹¹⁶ In addition, officials in one state agency and one local area we visited told us they found fewer opportunities to train for green jobs than anticipated. For example, Massachusetts officials told us that a couple of local areas in the state thought they would be able to provide training for weatherization jobs funded by the Recovery Act. However,

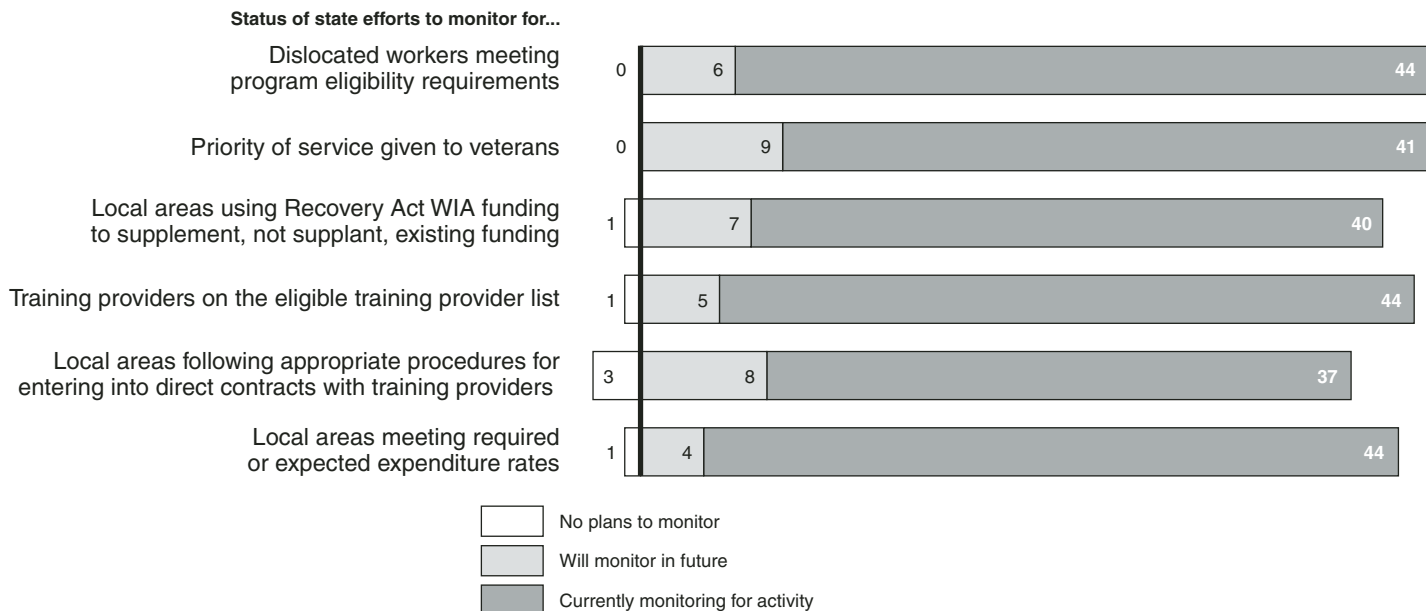
¹¹⁶GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, GAO-09-1016 (Washington, D.C.: Sept. 23, 2009).

rather than creating new jobs, most of the weatherization jobs were taken by workers who already had the necessary skills.

Nearly All States Reported Monitoring Local Areas for Compliance with Recovery Act and WIA Requirements

Forty-nine states and the District of Columbia reported in our survey that they monitor or plan to monitor local areas for compliance with Recovery Act and WIA requirements. Labor’s regulations and guidance require that each state and local area conduct regular oversight and monitoring of the program to determine compliance with WIA, programmatic, accountability, and transparency provisions of the Recovery Act, and Labor’s guidance. Monitoring of local areas varied by state, but often included assessments for program activities, such as whether dislocated workers meet eligibility requirements of the program or priority of service is given to veterans (see fig. 10). In some cases, states reported that they do not currently monitor for a given activity, but plan to do so. In addition, states noted several other types of monitoring activities they undertake, such as reviews to ensure the appropriate reporting of data elements.

Figure 10: Recovery Act-Funded and WIA Dislocated Worker Program Activities Being Monitored by States



Source: GAO survey of state administrators.

Note: The number of states reporting on each activity may not total 51 in all cases due to some states responding “don’t know” or not providing a response. Twenty states also detailed additional activities being monitored.

The five states we visited said that they are relying on existing WIA monitoring structures to oversee the use of Recovery Act funds. State and local officials generally noted that because implementation of the Recovery Act-funded WIA Dislocated Worker Program was so similar to the traditional WIA program, minimal changes to fiscal and programmatic monitoring structures and tools were required. State-level monitoring of WIA Dislocated Worker Program varied by state, but nearly all states monitoring activities included financial auditing, site visits, and file reviews.

Beyond required WIA program and fiscal monitoring, several audit institutions have also conducted studies of the states' use of Recovery Act and other funds for WIA programs, including the Dislocated Worker Program. For example, the Office of Inspector General for the Florida Agency for Workforce Innovation recently found unallowable use of federal funds for some meals purchased by the Tampa Bay Workforce Alliance and recommended repayment with nonfederal funds.¹¹⁷ In California, the Legislative Analyst's Office found that Recovery Act and WIA reports are not easily available to the state legislature or to the public. They recommended that copies of reports be made available to the legislature and available online.¹¹⁸ At the federal level, Labor's Office of Inspector General recently issued a report which found that Labor issued comprehensive and timely guidance to the states on Recovery Act provisions and use of funds, but recommended that Labor focus on strategies to promote consistency in the WIA plans submitted by local workforce investment boards.¹¹⁹

¹¹⁷Agency for Workforce Innovation Office of Inspector General, *Investigation of Food Expenditures at Tampa Bay Workforce Alliance* (Jan. 20, 2010).

¹¹⁸Legislative Analyst's Office of California, *Labor and Workforce Development Programs: Overview of ARRA* (Mar. 17, 2010).

¹¹⁹U.S. Department of Labor Office of Inspector General Office of Audit, *Recovery Act: Actions Needed to Better Ensure Congressional Intent Can Be Met in the Workforce Investment Act Adult and Dislocated Worker Programs* (Mar. 31, 2010).

Labor Has Taken Actions to Support the Use of Recovery Act Funds for Dislocated Workers and Increase Transparency, although Participant Information Is Not Yet Publicly Available

Labor has provided support for state and local efforts by taking actions such as issuing guidance, monitoring implementation, providing technical assistance, and conducting a program evaluation. In March 2009, Labor announced state allotments and issued comprehensive guidance on implementing the Recovery Act. Shortly thereafter, Labor administered a checklist to gauge each state's readiness for implementing Recovery Act activities and to help federal officials target technical assistance. The checklist covered a broad range of topics, including states' plans for training staff and monitoring activities. In addition, Labor held conferences in each of its regions to provide a forum for discussing experiences and issues in implementing Recovery Act-funded programs, including WIA dislocated worker activities. Labor also began a 2-year evaluation on July 1, 2009, to assess state actions in implementing the Recovery Act for the WIA Dislocated Worker Program, among others.

Although Labor made some changes to its WIA reporting requirements to enhance transparency and provide participant information on dislocated workers served with Recovery Act funds, this information is not yet publicly available. In May 2009, Labor issued guidance requiring states to submit monthly summary reports on all participants who were served with both Recovery Act funds and regular WIA formula funds starting on July 15, 2009. While Labor has not publicly disseminated this information, officials told us they developed a statistical model to estimate the number of participants who received Recovery Act-funded services, which is still being tested for its accuracy. In addition, Labor required states to begin submitting detailed quarterly data on individual participants on May 15, 2010. In the past, this information—called the WIA standardized record data (WIASRD)—was submitted once a year and only on individuals who exited the program. For this quarterly data submission, Labor also changed a data field to allow states to report on participants funded in whole or in part by Recovery Act funds and track outcomes for those participants such as job placement and employment retention.

Conclusions

Labor has taken steps to ensure transparency and accountability for WIA Dislocated Worker Recovery Act funds. Requiring states to submit information on participants who received services funded by the Recovery Act and their outcomes is an important step toward this goal. When this information is available, it may provide a picture of the role Recovery Act funds played in helping dislocated workers. In addition, Labor monitors states' use of funds through drawdowns and state-submitted quarterly financial reports. However, Labor and some state workforce officials noted that confusion still exists among the states and reported obligations data continue to be inconsistent. Without an indication of the extent and

nature of the problem, it will be difficult for Labor to determine whether its technical assistance to states has resulted in improvements in the quality of states' data on obligations.

Recommendations for Executive Action

To enhance Labor's ability to manage its Recovery Act and regular WIA formula grants and to build on its efforts to improve the accuracy and consistency of financial reporting, we recommend that the Secretary of Labor take the following actions:

- To determine the extent and nature of reporting inconsistencies across the states and better target technical assistance, conduct a one-time assessment of financial reports that examines whether each state's reported data on obligations meet Labor's requirements.
- To enhance state accountability and to facilitate their progress in making reporting improvements, routinely review states' reporting on obligations during regular state comprehensive reviews.

Agency Comments

We provided Labor a draft of this report section for review. The department provided written comments, which are reprinted in appendix IV. Labor agreed with our recommendations to improve the accuracy and consistency of financial reporting. Labor indicated that the lack of consistency across states and local areas in understanding both the definition and application of certain financial terms, along with variations in accounting methods among state and local WIA agencies, makes it difficult to draw reliable conclusions from the reported financial data. Labor noted that they have already taken a number of steps to address the issue, including the provision of extensive training, the formation of an internal working group dedicated to this issue, and it plans to issue a Training and Employment Guidance Letter to ensure that state and local areas are aware of the correct definitions of key financial terms. Labor also noted that it is monitoring Florida's progress on correcting reporting deficiencies and will continue to provide technical assistance to ensure the state's compliance with reporting requirements.

Projects Funded by EPA's Clean Water and Drinking Water State Revolving Funds Are Under Way, although Procedures May Not Be in Place to Ensure Adequate Oversight

The Recovery Act appropriated \$4 billion for the Environmental Protection Agency's (EPA) Clean Water State Revolving Fund (SRF) program and \$2 billion for the Drinking Water SRF program.¹²⁰ These funds were used to help support over 3,000 projects and are a significant increase compared to federal funds awarded as annual appropriations to the SRF programs in recent years. From fiscal years 2000 through 2009, annual appropriations averaged about \$1.1 billion for the Clean Water SRF program and about \$833 million for the Drinking Water SRF program.¹²¹ EPA's Clean Water and Drinking Water SRF programs, established in 1987 and 1996, respectively, provide states and local communities independent and permanent sources of subsidized financial assistance, such as low- or no-interest loans for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations.

In addition to providing increased funds, the Recovery Act included some new requirements for the SRF programs. For example, states were required to have all Recovery Act funds awarded to projects under contract within 1-year of enactment—which was February 17, 2010—and EPA was directed to reallocate any funds not under contract by that date.¹²² According to EPA, all 50 states met the 1-year deadline. Further, states were required to use at least 50 percent of Recovery Act funds to provide assistance in the form of principal forgiveness, negative interest loans, or grants. These types of assistance are referred to as additional subsidization and are more generous than the low- or no-interest loans that the Clean Water and Drinking Water SRF programs generally provide.

¹²⁰The \$4 billion in Recovery Act funds includes about \$39 million in Clean Water Act (CWA) Section 604(b) Water Quality Management Planning Grants. Section 604(b) of the CWA requires the reservation each fiscal year of a small portion of each state's CWSRF allotment - usually 1 percent - to carry out planning under Sections 205(j) and 303(e) of the CWA. States generally use 604(b) grants to fund regional comprehensive water quality management planning activities to improve local water quality. In this section of the report, any reference to Recovery Act funds excludes these planning grants.

¹²¹EPA allocates clean water funds to the states based on a statutory formula and allocates drinking water funds to states based on the 2003 Drinking Water Infrastructure Needs Survey.

¹²²The Recovery Act requires states to have all funds awarded to projects "under contract or construction" by the 1-year deadline. EPA interprets this as requiring states to have all projects under contract in an amount equal to the full value of the Recovery Act assistance agreement by the deadline, regardless of whether construction has begun, according to a September 2009 memorandum. Thus, in this report, we use "under contract" when referring to this requirement. Further, according to EPA's March 2, 2009, memorandum, the agency will deobligate any Recovery Act SRF funds that a state does not have awarded to projects under contract by the 1-year deadline and reallocate them to other states.

Despite Challenges, States Met Recovery Act Requirements for the SRFs

States were also required to use at least 20 percent of funds as a “green reserve” to provide assistance for green infrastructure projects, water- or energy-efficiency improvements, or other environmentally innovative activities.¹²³ In addition, under the Recovery Act, states should give priority to projects that were ready to proceed to construction within 12 months of enactment.

The 14 states we reviewed for the Clean Water and Drinking Water SRF programs met all Recovery Act requirements specific to the SRFs.¹²⁴ Specifically, the states we reviewed had all projects under contract by the 1-year deadline and also took steps to give priority to projects that would be ready to proceed to construction within 12 months of enactment. Eighty-eight percent of projects were under construction within 12 months of enactment. In addition, the Clean Water and Drinking Water SRF programs in the 14 states we reviewed exceeded the 20 percent green reserve requirement, using 29 percent of Recovery Act SRF funds in these states to provide assistance for projects that met EPA criteria for the green reserve. In addition, these states met or exceeded the 50 percent additional subsidization requirement.¹²⁵ Overall, the 14 states distributed a total of 76 percent of Recovery Act funds as additional subsidization.

SRF officials in most of the states we reviewed said that they faced challenges in meeting Recovery Act requirements, especially the 1-year contracting deadline. Under the base program, it could take up to several years from when funds are awarded to a state before a loan agreement is signed, according to EPA officials. The compressed time frame imposed by the Recovery Act posed challenges, and some state SRF officials told us

¹²³EPA interprets these requirements as applying separately to the Clean Water and Drinking Water SRF programs in each state, such that each SRF in a state must use at least 50 percent for additional subsidization and 20 percent for green reserve projects, according to a March 2, 2009, memorandum.

¹²⁴The 14 states we reviewed are Arizona, California, Colorado, Florida, Georgia, Iowa, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas.

¹²⁵Our initial review of EPA data found that North Carolina had used 49 percent of its grant for additional subsidization. Staff from that program had interpreted the Recovery Act as requiring that 50 percent of project funds, which do not include administrative set asides, be awarded as additional subsidization. However, the 50 percent requirement was to be based on the full grant amount. When we informed state program officials of the miscalculation, state officials told us they would rectify this immediately. As of May 10, 2010, the issue was rectified and data systems were updated accordingly.

that their workloads increased significantly as a result of the 1-year deadline. Among the factors affecting workload were the following:

- *Reviewing applications for Recovery Act funds was burdensome.* Officials in some states said that the number of applications increased significantly, in some cases more than doubling compared with prior years, and that reviewing these applications was a challenge. For example, New Jersey received twice as many applications than in past years, according to Clean Water and Drinking Water SRF officials in that state.
- *Explaining new Recovery Act requirements was time-consuming.* Because projects that receive any Recovery Act funds must comply with Buy American requirements and Davis-Bacon wage requirements, state SRF officials had to take additional steps to ensure that both applicants for Recovery Act funds and those awarded Recovery Act funds—referred to as subrecipients—understood these requirements.
- *Some applicants and subrecipients required additional support.* Many states took steps to target Recovery Act funds to new recipients. According to SRF officials in some states, some new applicants and subrecipients required additional support in complying with SRF program and Recovery Act requirements. In the states we reviewed, nearly half of Clean Water SRF subrecipients had not previously received assistance through that program, and nearly two-thirds of Drinking Water SRF subrecipients had not previously received assistance through that program.
- *Project costs were difficult to predict.* Officials in some states told us that actual costs were lower than estimated for many projects awarded Recovery Act funds and, as a result, some states had to scramble to ensure that all Recovery Act funds were under contract by the 1-year deadline. For example, in January 2010, officials from Florida’s SRF programs told us that some contracts for Recovery Act-funded projects in the state had come in below their original project cost estimates, and that this was likely to be the program staff’s largest concern as the deadline approached. However, lower estimates also allowed some states to undertake additional projects that they would otherwise have been unable to fund with the Recovery Act funding.

States used a variety of techniques to address these workload concerns and meet the 1-year contracting deadline, according to state SRF officials with whom we spoke. Some states hired additional staff to help administer the SRF programs, although SRF officials in other states told us

that they were unable to do so because of resource constraints. For example, New Jersey hired contractors to help administer the state's base Clean Water and Drinking Water SRF funds, allowing experienced staff to focus on meeting Recovery Act requirements, according to SRF officials in that state. Moreover, some states hired contractors or used contractors provided by EPA to provide assistance to both applicants and subrecipients. For example, California hired contractors—including the Rural Community Assistance Corporation—to help communities apply for Recovery Act funds. Furthermore, states took steps to ensure that they would have all Recovery Act funds under contract even if some projects dropped out because of Recovery Act requirements or time frames. For example, most of the states we reviewed awarded a combination of Recovery Act and base funds to projects to allow for more flexibility in shifting Recovery Act funds among projects.

States also used a variety of techniques to ensure that they would meet the green reserve requirement. For example, state SRF officials in some states told us that they gave preference to green reserve projects, and sometimes ranked these projects higher than other projects with higher public health benefits. Further, some of the states we reviewed conducted outreach to communities and nonprofit organizations to solicit applications for green projects. State and local officials told us that communities can face challenges in funding green projects because these projects often lack a designated funding stream (such as user fees). In order to make green projects more attractive to communities, some states offered additional subsidization to all green projects. In addition, a few states relied on a small number of high-cost green reserve projects to meet the requirement. For example, New York's Drinking Water SRF program provided approximately \$23 million in green reserve funds to a single project, and SRF officials from that state told us that, absent this project, they would have been nervous about meeting the requirement for drinking water projects. SRF officials in some states told us that few types of drinking water projects—relative to clean water projects—qualify for green reserve funds.

Recovery Act Funds Went to Many Disadvantaged Communities and New Recipients

The 14 states we reviewed distributed more than \$2.8 billion in Recovery Act funds among nearly 1,400 water projects through their Clean Water and Drinking Water SRF programs. These states took a variety of approaches to distributing funds. For example, three states distributed at least 95 percent of Recovery Act funds as additional subsidization, while three other states distributed only 50 percent as additional subsidization, the smallest amount permitted under the Recovery Act. Overall, these 14 states distributed approximately 76 percent of Recovery Act funds as

additional subsidization, with most of the remaining funds provided as low- or no-interest loans that will recycle back into the programs as subrecipients repay their loans. As the funds are repaid, they can then be used to provide assistance to SRF recipients in the future. Furthermore, some states distributed funds among a large number of projects, while other states distributed funds among a relatively small number of projects. For example, Ohio distributed approximately \$279 million among 336 projects, while Texas distributed more than \$326 million among 46 projects. Some states funded more projects than originally anticipated because other projects were less costly than expected, according to officials. For example, Texas was able to provide funds to 10 additional projects because costs—especially material costs—were lower than anticipated for other projects.

States we reviewed used at least 43 percent of Recovery Act project funds (\$1.2 billion) to provide assistance for projects that serve disadvantaged communities.¹²⁶ Most of the states we reviewed took steps to target some or all Recovery Act funds to these low-income communities, generally by considering a community's median household income when selecting projects and determining which projects would receive additional subsidization in the form of principal forgiveness, negative interest loans, or grants. According to state officials from 10 Drinking Water SRF programs and 9 Clean Water SRF programs,¹²⁷ 49 percent of all projects funded by those states' SRF programs serve disadvantaged communities, and more than 99 percent of these disadvantaged communities were provided with additional subsidization. State and local officials in some states told us that Recovery Act funds—especially in the form of additional subsidization—have provided benefits to disadvantaged communities in their states. For example, according to officials from California's Clean Water SRF program, that state used funds to provide assistance for 25 wastewater projects that serve disadvantaged communities, and approximately half of these projects would not have gone forward as quickly or at all without additional subsidization.

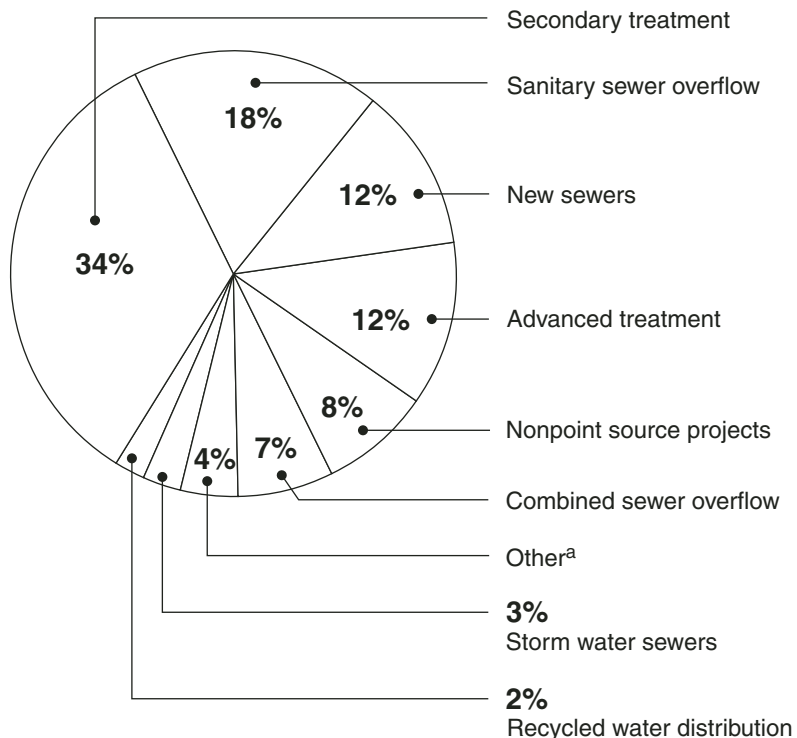
¹²⁶States differ in how they define disadvantaged communities. In general, disadvantaged community status takes into account factors such as median household income and community size. At least one state included in this report determines disadvantaged community status at the county level.

¹²⁷Because two states do not maintain information on which projects serve disadvantaged communities and four additional states maintain only limited information on which projects serve disadvantaged communities, we cannot provide complete information on the number of projects that serve these communities.

Officials from the City of Fresno confirmed that one of these projects—which will replace septic systems with connections to the city’s sewer systems in two disadvantaged communities—would not have gone forward without additional subsidization. Local officials told us that this project will decrease the amount of nitrates in the region’s groundwater, which is the source of the city’s drinking water.

The Clean Water SRF programs from the 14 states we reviewed used Recovery Act funds to provide assistance for 890 projects that will meet a variety of local needs. Figure 11 shows how the 14 states distributed Recovery Act funds across various categories, and figure 12 shows the number of projects that fall into each of these categories.

Figure 11: Share of Recovery Act Funds Provided to Clean Water SRF Projects in 14 States, by Category



Source: GAO analysis of EPA data and information provided by states.

^aThree states—California, Massachusetts, and Texas—reported awarding Recovery Act funds to other types of Clean Water SRF projects or project components. These projects include, for example, expanding a disposal system, constructing a reclaimed water delivery system, and constructing a wind turbine.

In the states we reviewed, the Clean Water SRF programs used more than 70 percent of Recovery Act project funds to provide assistance for projects in the following categories:

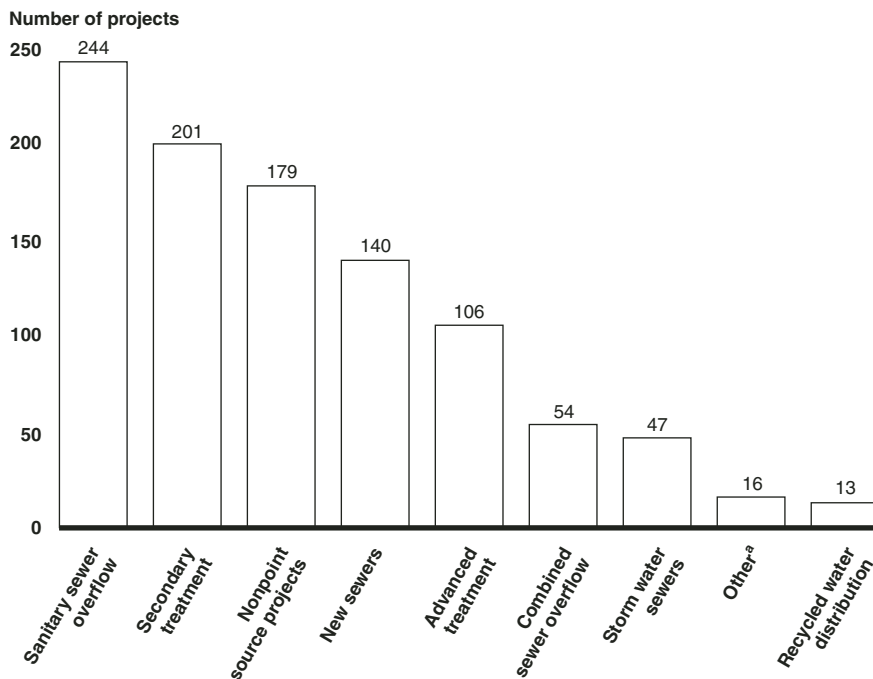
- *Secondary treatment and advanced treatment.* States we reviewed used nearly half of all Recovery Act project funds to support wastewater infrastructure intended to meet or exceed EPA's secondary treatment standards for wastewater treatment facilities. Projects intended to achieve compliance with these standards are referred to as secondary treatment projects, while projects intended to exceed compliance with these standards are referred to as advanced treatment projects. For example, Massachusetts' Clean Water SRF program awarded over \$2 million in Recovery Act funds to provide upgrades intended to help the City of Leominster's secondary wastewater treatment facility achieve compliance with EPA's discharge limits for phosphorous.
- *Sanitary sewer overflow and combined sewer overflow.* States we reviewed used about 25 percent of Recovery Act project funds to support efforts to prevent or mitigate discharges of untreated wastewater into nearby water bodies. Such sewer overflows, which can occur as a result of inclement weather, can pose significant public health and pollution problems, according to EPA. For example, Pennsylvania used 56 percent of its Clean Water SRF project funds to address sewer overflows from municipal sanitary sewer systems and combined sewer systems.¹²⁸ In another example, Iowa's Clean Water SRF program used Recovery Act funds to help the City of Garwin implement sanitary sewer improvements. Officials from that city told us that during heavy rains, untreated water has bypassed the city's pump station and backed up into basements of homes and businesses, and that the city expects all backups to be eliminated as a result of planned improvements.

In addition to funding conventional wastewater treatment projects, 9 of the 14 Clean Water SRF programs we reviewed used Recovery Act funds to provide assistance for projects intended to address nonpoint source pollution—projects intended to protect or improve water quality by, for example, controlling runoff from city streets and agricultural areas. The Clean Water SRF programs we reviewed used 8 percent of project funds to

¹²⁸Combined sewer systems are designed to collect rainwater runoff, domestic sewage, and industrial wastewater in the same pipe.

support these nonpoint source projects, but nonpoint source projects account for 20 percent (179 out of 890) of all projects (see fig. 12). A large number of these projects—131 out of 179—were initiated by California or Ohio. For example, California used Recovery Act funds to provide assistance for the Tomales Bay Wetland Restoration and Monitoring Program, which restores wetlands that had been converted into a dairy farm.

Figure 12: Clean Water SRF Projects Awarded Recovery Act Funds in 14 States, by Category



Source: GAO analysis of EPA data and information provided by states.

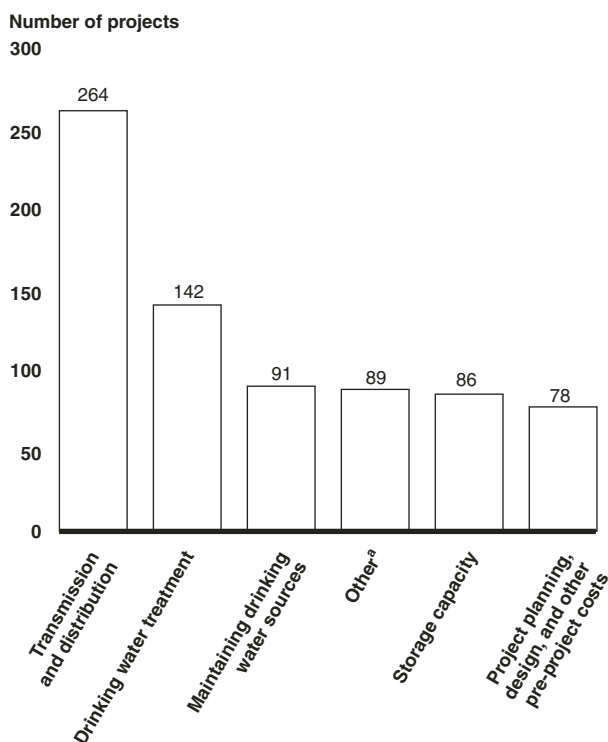
Note: Some projects fall into more than one category.

^aThree states—California, Massachusetts, and Texas—reported awarding Recovery Act funds to other types of Clean Water SRF projects or project components. These projects include, for example, expanding a disposal system, constructing a reclaimed water delivery system, and constructing a wind turbine.

With regard to Drinking Water SRF programs, the 14 states we reviewed used Recovery Act funds to provide assistance for 504 projects. EPA does not require states to report the amount of funds awarded for Drinking Water SRF projects by category, but we collected information on the types

of projects funded by the 14 Drinking Water SRF programs.¹²⁹ Figure 13 shows how many projects received Recovery Act funds across a variety of categories.

Figure 13: Drinking Water SRF Projects Awarded Recovery Act Funds in 14 States, by Category



Source: GAO analysis of EPA data and information provided by states.

Note: Some projects fall into more than one category.

^aOther Drinking Water SRF projects or project components include, for example, consolidating drinking water supplies, creating new systems, and implementing drinking water security measures.

The Drinking Water SRF programs in these 14 states used Recovery Act funds to support projects that are largely concentrated in two categories:

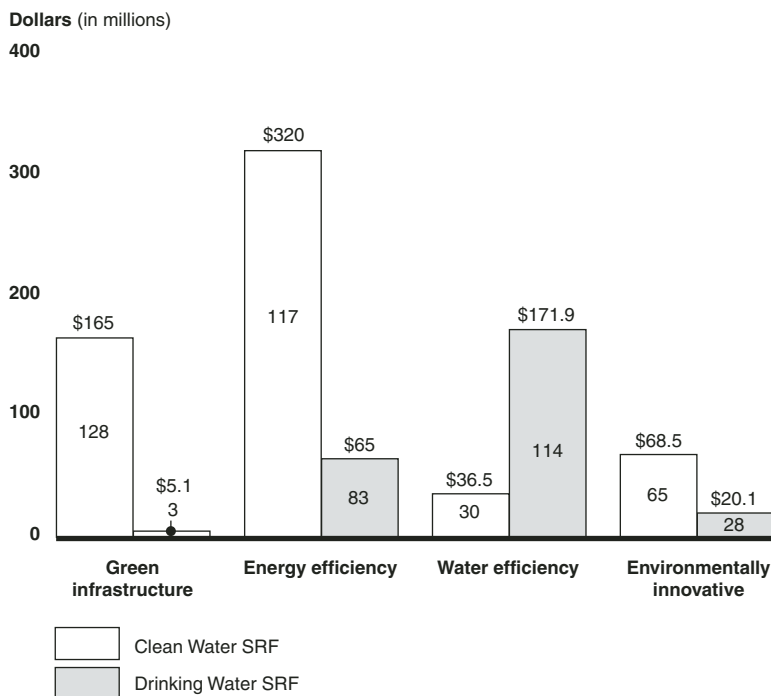
¹²⁹For 12 of the 14 states, we collected this information from state SRF officials. Officials in Pennsylvania and New York told us that they had provided this information to EPA through the agency's Drinking Water SRF Project Benefits Reporting System (PBR), and we obtained this information from EPA for those two states.

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- *Transmission and distribution.* More than half (264) of Drinking Water SRF projects awarded Recovery Act funds in these 14 states involve installing or replacing transmission pipes and distribution networks to improve water pressure or prevent possible contamination caused by leaks or breaks in the system. For example, Colorado used Recovery Act funds to help the City of Lamar construct a new transmission main line. As another example, Arizona used Recovery Act funds to help the City of Eloy implement, among other things, improvements to its North Toltec water distribution system. Officials from Eloy told us that the improvements to the distribution system would help address concerns about low water pressure and discolored water in that city.
 - *Drinking water treatment.* Approximately 28 percent (142) of projects funded in the states we reviewed include drinking water treatment costs, which are expenses related to the installation, replacement, or upgrade of treatment facilities. These projects may include the installation of new nitrate treatment facilities, improved filtration methods for surface water, or construction improvements for chlorine storage techniques. For example, in Texas, the City of Laredo is using Recovery Act funds to provide upgrades to the upper plant of its Jefferson Street Water Treatment Facility. The facility is composed of an upper plant and a lower plant, but the lower plant, which was built in the 1930s and is located in a flood plain, has experienced water quality issues. The upgrades to the upper plant are intended to meet the current capacity of both plants.

Of the 1,394 projects awarded Recovery Act funds by the Clean Water and Drinking Water SRF programs in the states we reviewed, more than one-third (506) address the green reserve requirement. Of these green projects, 467 (92 percent) were awarded additional subsidization. Figure 14 shows the number of projects that fall into each of the four green reserve categories included in the Recovery Act. Many of these projects are intended to improve energy or water efficiency and are expected to result in cost savings for some communities as a result of these improvements. For example, the Massachusetts Water Resources Authority is using Recovery Act funds provided through that state's Clean Water SRF program to help construct a wind turbine at the DeLauri Pump Station, and the Authority estimates that, as a result of this wind turbine, more than \$350,000 each year in electricity purchases will be avoided. Furthermore, some projects provide green alternatives for infrastructure improvements. For example, New York's Clean Water SRF program provided Recovery Act funds to help construct a park designed to naturally filter stormwater runoff and reduce the amount of stormwater

that enters New York City’s sewers. More than half of the city’s sewers are combined sewers, and during heavy rains, sewage sometimes discharges into Paerdagat Basin, which feeds into Jamaica Bay.

Figure 14: Green Reserve Projects Awarded Recovery Act Funds in 14 States, by Category



Source: GAO analysis of EPA data and information provided by states.
 Note: Some projects fall into more than one category.

Although EPA and States Have Expanded Existing Oversight Procedures to Address Recovery Act Requirements, They May Not Have Procedures in Place to Ensure Adequate Oversight

EPA has modified its existing oversight of state SRF programs by planning additional performance reviews beyond the annual reviews it is already conducting, but these reviews do not include an examination of state subrecipient monitoring procedures. Specifically, EPA is conducting midyear and end-of-year Recovery Act reviews in fiscal year 2010 to assess how each state is meeting Recovery Act requirements. As part of these reviews, EPA has modified its annual review checklist to incorporate elements that address the Recovery Act requirements. Further, EPA officials will review four project files in each state for compliance with Recovery Act requirements and four federal disbursements to the state to help ensure erroneous payments are not occurring. According to EPA officials, because of these added reviews, EPA is providing additional scrutiny over how states are using the Recovery Act funds and meeting

Recovery Act requirements as compared with base program funds. As of May 14, 2010, EPA completed field work for its mid-year Recovery Act reviews in 13 of the states we reviewed and completed final reports for 3 of these states (Iowa, Ohio, and Pennsylvania). EPA has plans to begin field work in the final state at the end of May 2010.

Although the frequency of reviews has increased, these reviews do not examine state subrecipient monitoring procedures. In 2008, the EPA Office of Inspector General (OIG) examined state SRF programs' compliance with subrecipient monitoring requirements of the Single Audit Act and found that states complied with the subrecipient monitoring requirements but that EPA's annual review process did not address state subrecipient monitoring procedures.¹³⁰ The OIG suggested that EPA include a review of how states monitor borrowers as part of its annual review procedures. EPA officials told us that they agreed with the idea to include a review of subrecipient monitoring procedures as part of the annual review but have not had time to implement this suggestion because EPA's SRF program officials have focused most of their attention on the Recovery Act since the OIG published its report. EPA officials also told us that they believe the reviews of project files and federal disbursements could possibly identify internal control weaknesses that may exist for financial controls, such as weaknesses in subrecipient monitoring procedures. These reviews occur as part of the Recovery Act review and aim to assess a project's compliance with Recovery Act requirements and help ensure that no erroneous payments are occurring.

In terms of state oversight of subrecipients, EPA has not established new subrecipient monitoring requirements for Recovery Act-funded projects, according to EPA officials. Under the base Clean and Drinking Water SRF programs, EPA gives states a high degree of flexibility to operate their SRF programs based on each state's unique needs and circumstances in accordance with federal and state laws and requirements. According to

¹³⁰EPA Office of Inspector General, *Special Report: Innovative Techniques for State Monitoring of Revolving Funds Noted*, Report No. 08-P-0290 (Washington, D.C., Sept. 29, 2008). To comply with the Single Audit Act Amendments of 1996, pass-through entities shall among other things, monitor subrecipients' use of federal awards through site visits, limited scope audits, or other means. Congress passed the Single Audit Act to promote, among other things, sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities. The Single Audit Act requires an organization-wide financial audit that includes all federal programs and an audit of the entity's compliance with laws and regulations of each major federal program if the entity spends more than \$500,000 in federal funds during the year.

EPA officials, although EPA has established minimum requirements for subrecipient monitoring, such as requiring states to review reimbursement requests, states are allowed to determine their own subrecipient monitoring procedures, including the frequency of project site inspections.

While EPA has not deviated from this approach with regard to monitoring Recovery Act-funded projects, it has provided states with voluntary tools and guidance to help with monitoring efforts. For example, EPA provided states with an optional inspection checklist to help states evaluate a subrecipient's compliance with Recovery Act requirements, such as the Buy American and job reporting requirements. EPA has also provided training for states on the Recovery Act requirements. For example, as of May 14, 2010, EPA has made available 11 on-line training sessions (i.e., webcasts) for state officials to help them understand the Recovery Act requirements. EPA has also provided four workshops with on-site training on its inspection checklist for state officials in California, Louisiana, New Mexico, and Puerto Rico.

Although EPA has not required that states change their subrecipient oversight approach, many states have expanded their existing monitoring procedures in a variety of ways. However, the oversight procedures in some states may not be sufficient given that (1) federal funds awarded to each state under the Recovery Act have increased as compared with average annually awarded amounts; (2) all Recovery Act projects had to be ready to proceed to construction more quickly than projects funded with base SRF funds; and (3) EPA and states had little previous experience with some of the Recovery Act's new requirements, such as Buy American provisions, according to EPA officials. The following are ways in which oversight procedures may not be sufficient:

- *Review procedures for job data.* According to OMB guidance on Recovery Act reporting, states should establish internal controls to ensure data quality, completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act.¹³¹ We found that most states we reviewed had not developed review procedures to verify the accuracy of job figures reported by subrecipients using supporting documentation, such as certified payroll records. As a result, states may be unable to verify the accuracy of these figures. For example,

¹³¹OMB, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, M-09-21 (Washington, D.C., June 22, 2009).

Mississippi SRF officials told us that they do not have the resources to validate the job counts reported by comparing them against certified payroll records. However, these officials said they review the job counts reported by subrecipients for outliers. In addition, during interviews with some subrecipients, we found inconsistencies among subrecipients on the types of hours that should be included and the extent that they verified job data submitted to them by contractors. Specifically, in New Jersey one subrecipient told us they included hours worked by the project engineer in the job counts, while another subrecipient did not. Furthermore, in Ohio, we interviewed subrecipients from 25 of the largest SRF projects in the state that had awards by the end of 2009 to learn about how they verified job counts reported by contractors. Of the 16 projects that had activity to report, 14 did not have a process to verify contractor job counts with payroll or other records.

- *Review procedures for loan disbursements.* According to EPA officials, the agency requires states to verify that all loan payments and construction reimbursements are for eligible program costs. In addition, according to EPA guidance, states often involve technical staff who are directly involved in construction inspections to help verify disbursement requests because these staff have additional information, such as the status of construction, that can help states accurately approve these requests. However, we found that in two states we reviewed, technical or engineering staff did not review documentation supporting reimbursement requests from the subrecipient to ensure these requests were for legitimate project costs. For example, officials in Pennsylvania told us that technical staff from the state's Department of Environmental Protection—which provides technical assistance to SRF subrecipients—do not verify monthly payments to subrecipients that are made by the Pennsylvania Infrastructure Investment Authority, the state agency with funds management responsibility for the state's SRF programs. Instead, Department of Environmental Protection staff approve project cost estimates prior to loan settlement, when they review bid proposals submitted by contractors, and Pennsylvania Infrastructure Investment Authority officials verify monthly payments against the approved cost estimates.
- *Inspection procedures.* According to EPA officials, the agency requires that SRF programs have procedures to help ensure subrecipients are using Recovery Act SRF funding for eligible purposes. While EPA has not established required procedures for state project inspections, it has provided states its optional Recovery Act

inspection checklist to help them evaluate a subrecipient's compliance with Recovery Act requirements, such as the Buy American and job reporting requirements. Some states we reviewed have adopted EPA's Recovery Act inspection checklist procedures and modified their procedures accordingly. For example, California and Arizona plan to implement all elements of EPA's checklist for conducting inspections of Recovery Act projects, according to officials in these states. Other states have modified their existing inspection procedures to account for the new Recovery Act requirements. For example, officials from Georgia said they added visual examination of purchased materials and file review steps to their monthly inspections to verify that subrecipients are complying with the Buy American provision. Some states modified their inspection procedures in ways that were different from EPA's guidance. For example, we found that the Massachusetts Department of Environmental Protection's inspection checklist included procedures for reviewing Buy American requirements, but these procedures were different from EPA's guidance. The EPA checklist specifies the type of documents that should be used to support compliance with Buy American, while the Massachusetts Department of Environmental Protection checklist does not specify what types of documentation the inspector should review. Massachusetts officials explained that they developed the state's Recovery Act inspection procedures before EPA had made its Recovery Act checklist available to states.

In contrast, the Pennsylvania Department of Environmental Protection's inspection procedures do not include a review of Recovery Act requirements. For example, we found that inspection reports for three Recovery Act projects we visited in Pennsylvania did not include inspection elements that covered Davis-Bacon or Buy American provisions. Instead, the Pennsylvania Infrastructure Investment Authority requires subrecipients to self-certify their compliance with these Recovery Act requirements when requesting payment from the state's funds disbursement system. Registered professional engineers who work for the subrecipients must sign off on these self-certifications and subrecipients could face loss of funds if a certification is subsequently found to be false, according to the Executive Director of the Authority.

- *Frequency and timing of inspections.* According to EPA officials, the agency does not have formal requirements on how often a state SRF program must complete project inspections, and the frequency and complexity of inspections vary by state for the base SRF programs. Officials from several states told us they have increased the frequency

of project site inspections. For example, Colorado SRF officials said the state is conducting quarterly project site inspections of each of the state's Recovery Act funded SRF projects, whereas under the state's base SRF programs, Colorado inspects project sites during construction only when the state has concerns. In addition, state SRF officials from New York and Texas told us that they each were in the process of hiring a contractor to inspect Recovery Act-funded projects. In New York, inspections will document and report on compliance with Recovery Act requirements and any suspicions or incidents of fraud, waste, and abuse. Similarly, in Texas, inspections will aim to detect and prevent fraud, waste, and abuse. However, we found that two states—Ohio and Arizona—either did not conduct site inspections of some projects that are complete or had not yet inspected projects that were near completion. For example, as of April 19, 2010, Ohio EPA had inspected about 41 percent of its Clean Water SRF projects, but our review of Ohio's inspection records showed that at least 6 projects are complete and have not been inspected, and a number of others are nearing completion and have not been inspected. In Arizona, we found that the state's existing procedures for scheduling on-site project observations, which are based on a project's schedule for drawing down funds, did not always ensure that the state conducted inspections before construction was complete or nearly complete because projects did not draw down funds at the same rate construction was completed. As a result, two projects we visited were completed or nearly completed, but Arizona SRF officials had not yet inspected them because the subrecipients had not drawn down enough funds to trigger an inspection.

- *Monitoring compliance with Recovery Act requirements.* We found issues in several states during interviews with SRF subrecipients that raise concerns about some subrecipients' compliance with Recovery Act requirements. For example, in Arizona, we found that a contractor had installed some water meters that were marked as made in Mexico. We reported this to the subrecipient, who confirmed our finding, and as a result, the contractor replaced approximately 100 meters with American-made products at the contractor's expense. In addition, we interviewed one subrecipient in Ohio whose documentation of Buy American compliance raised questions as to whether all of the manufactured goods used in its project were produced domestically. In particular, the specificity and detail of the documentation provided about one of the products left questions as to whether it was produced at one of the manufacturer's nondomestic locations. Further, another subrecipient in Ohio was almost 2 months late in conducting

The Federal and State
Accountability Community Is
Conducting Oversight of the
Use of Recovery Act Funds
Awarded through the SRFs

interviews of contractor employees to ensure payment of Davis-Bacon wages.¹³²

The Recovery Act provided the EPA OIG \$20 million available through September 30, 2012, to perform oversight activities, including oversight of the Clean Water and Drinking Water SRF programs. The OIG is conducting performance audits of EPA's and states' use of Recovery Act funds for the SRF programs and unannounced forensic site inspections of Recovery Act-funded SRF projects, as well as providing training to states and subrecipients on how to detect fraud, waste, and abuse.

Since December 2009, the EPA OIG has published two performance audit reports of the SRF programs and currently has two under way:

- *EPA's implementation of green reserve project guidance.* The OIG reported on February 1, 2010, that EPA had not provided states with clear and comprehensive guidance on how to determine the eligibility of green reserve projects awarded through the Clean Water and Drinking Water SRF programs.¹³³ The OIG recommended, and EPA agreed, that EPA should develop and revise green reserve guidance for states and review states' submitted green reserve projects and accompanying business cases.
- *Preparation to meet the 1-year deadline to have projects under contract.* The OIG reported on December 17, 2009, on the steps EPA and states had taken or could take to ensure that drinking water projects would meet the Recovery Act deadline to be under contract or construction by February 17, 2010.¹³⁴ The OIG made several recommendations that EPA implemented, including that EPA identify and monitor projects not under contract, establish a contingency action plan, and complete its written procedures for reallocating funds not under contract.

¹³²EPA's Award Terms and Conditions require subrecipients to interview a sufficient number of contractor employees within the first 2 weeks of the initial payroll and within 2 weeks of the final payroll for the project.

¹³³EPA Office of Inspector General, *EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects*, 10-R-0057 (Feb. 1, 2010).

¹³⁴EPA Office of Inspector General, *EPA Action Needed to Ensure Drinking Water State Revolving Fund Projects Meet the American Recovery and Reinvestment Act Deadline of February 17, 2010*, 10-R-0049 (Dec. 17, 2009).

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- *Evaluation of EPA's and states' oversight activities.* The OIG has a performance audit currently under way that is reviewing how effectively EPA and states ensure Recovery Act Clean Water SRF projects achieve intended project and environmental goals. This OIG audit is focused on how states oversee projects and how EPA oversees states. OIG officials told us that part of this audit will examine what requirements the states have for monitoring SRF projects.
 - *Evaluation of EPA's internal controls for recipient reports.* While not exclusive to the SRF programs, the OIG is also conducting a performance audit of EPA's data quality review processes for recipient reporting, including those receiving SRF funds. That audit is assessing whether EPA has effective internal controls to ensure recipient reports are complete, accurate, and timely and to identify and correct material omissions.

In addition, the OIG is inspecting subrecipients in all 10 EPA Regions. According to the Director of the EPA OIG's Forensic Audit Product Line, as of May 1, 2010, the OIG has initiated site reviews in 5 of the 10 EPA Regions, and the site reviews have resulted in two reports being issued and other matters being referred for further review. The purpose of these site visits is to determine compliance with selected Recovery Act requirements for SRF subrecipients. In particular, the reviews concentrate on the Buy American and Davis-Bacon requirements, as well as the propriety of the subrecipient's procurement actions. The OIG's site visits include a tour of the project, interviews with the subrecipient and contractor personnel, review of the subrecipient's systems to be used for reporting purposes, and review of procurement documentation.

The OIG is also conducting investigations into allegations of fraud in Recovery Act-funded projects. The allegations have come through proactive efforts, audit referrals, and hotline complaints. The OIG has also been providing Recovery Act-specific fraud training and fraud awareness and education materials to EPA and state officials, and subrecipients and contractors. As of January 31, 2010, the OIG had conducted 95 briefing and training sessions to over 3,300 participants to help them deter and detect fraud schemes.

State auditors and evaluators in four of the states we reviewed have published audit reports of their state's SRF programs' use of Recovery Act funds or have audit activities under way.

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- The Ohio Office of Internal Audits (OIA) published a Recovery Act program audit of the state's Clean Water and Drinking Water SRF programs in March 2010.¹³⁵ The division reported that Ohio EPA did not use risk analysis to select project site inspections and recommended that Ohio EPA develop a risk-based approach to monitoring. In addition, Ohio's OIG completed an investigation of a Clean Water SRF Recovery Act project and concluded that the project may not comply with the Buy American requirements.¹³⁶ The Ohio OIG recommended that Ohio EPA consult with the U.S. EPA to review and make a compliance determination.
 - Pennsylvania's Bureau of Audits, which performed a risk assessment of about 90 state programs that received Recovery Act funds, rated both the Clean Water and Drinking Water SRF programs and 13 other state programs as high risk. The bureau initiated compliance audits of two SRF projects in March 2010 and has plans to complete compliance audits of six additional projects.
 - Officials from the Florida Auditor General told us in January 2010 that the agency had begun preliminary risk assessment procedures at the Florida Department of Environmental Protection with respect to the Clean Water and Drinking Water SRF programs.
 - In Colorado, a 2009 Single Audit Act report on the SRF programs identified a deficiency in the Colorado Water Resources and Power Development Authority's internal controls over the Recovery Act SRF programs. According to the audit report, the authority did not determine whether its subrecipients had valid Central Contractor Registration certifications on file before issuing the SRF loans, a requirement under the Recovery Act and accompanying regulations. The Authority concurred with the finding and stated that it was unaware of the requirement—which was one among several new requirements associated with the Recovery Act—until EPA provided a Recovery Act training manual in September 2009. Because Colorado had set an early deadline for its localities to have all projects under contract by September 31, 2009—more than 4 months earlier than the Recovery Act deadline—it had already executed the majority of the

¹³⁵Ohio Office of Budget and Management, Office of Internal Audit, *Environmental Protection Agency Clean Water and Drinking Water State Revolving Funds ARRA Program Audit, Audit Period: December 1, 2009 to February 12, 2010*, 2010-EPA-01 (Mar. 9, 2010).

¹³⁶Ohio Office of Inspector General, Report of Investigation, No. 2009398. March 10, 2010.

loans by the time it learned of the need to check the certifications. According to the report, once the Authority and Colorado Department of Public Health and Environment officials learned of the requirement, the department notified all subrecipients, and by December 31, 2009, all subrecipients had complied. Responsible officials also stated they would verify that appropriate procedures are in place for future subawards.

Conclusions

EPA and the states successfully met the Recovery Act deadlines for having all Clean Water and Drinking Water SRF projects under contract by the 1-year deadline, and almost all projects were under construction by that date as well. Furthermore, Recovery Act funds were distributed to many new recipients and supported many projects that serve disadvantaged communities. Clean Water and Drinking Water SRF program funds have supported a variety of projects that are expected to benefit clean water and public health in a variety of ways. However, as demonstrated above, the oversight mechanisms used by EPA and the states may not be sufficient to ensure compliance with all Recovery Act requirements. The combination of a large increase in program funding and number of projects undertaken, compressed time frames, and new Recovery Act requirements present a significant challenge to EPA's current oversight approach.

Recommendation for Executive Action

We recommend that the EPA Administrator work with the states to implement specific oversight procedures to monitor and ensure subrecipients' compliance with the provisions of the Recovery Act-funded Clean Water and Drinking Water SRF programs.

Agency Comments

We provided EPA with a draft of this section for review and comment. EPA neither agreed nor disagreed with the recommendation. The agency also provided technical comments, which we incorporated into the section as appropriate.

The Department of Energy's Recovery Act Weatherization Program Faces Challenges in Meeting Increased Production Targets While Ensuring Program Requirements Are Being Met

According to the Department of Energy (DOE), during the past 33 years the Weatherization Assistance Program has helped more than 6.4 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. According to DOE, these improvements enable families to reduce energy bills, allowing these households to spend their money on more pressing needs. DOE distributes Weatherization Assistance Program funds through grants to state-level agencies in each of the states, the District of Columbia (District), and five territories and two Indian tribes. State-level agencies (recipients) then contract with local agencies to deliver weatherization services to eligible residents.

Recovery Act Provides for a Large Increase in Weatherization Production

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which represents a significant increase for a program that has received about \$225 million per year in recent years. In addition to Recovery Act funds, DOE continued to receive appropriations for weatherization of \$200 million for fiscal year 2009, \$250 million in supplemental funding appropriated by the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009, and another \$210 million for fiscal year 2010.¹³⁷ Because yearly DOE appropriations for weatherization are considered “no year money,” recipients of these funds may carry over balances from previous fiscal years. DOE guidance instructs recipients to spend their Recovery Act weatherization funds first, but also encourages recipients to use their appropriations in the appropriate year to avoid carrying over balances. In addition to the DOE funds, states and territories have access to Low Income Home Energy Assistance Program (LIHEAP) funds administered and distributed by the U.S. Department of Health and Human Services, of which up to 15 percent may be spent on weatherization, according to LIHEAP guidance. About \$752 million in fiscal year 2009 and about another \$737 million in fiscal year 2010 were available to states and territories for weatherization through LIHEAP. This represents a significant increase from previous

¹³⁷DOE submitted a request for \$300 million for fiscal year 2011 for Weatherization Assistance Program yearly appropriations.

years.¹³⁸ Using Recovery Act funds, DOE plans to weatherize approximately 593,000 homes by March 2012.¹³⁹ One of DOE's goals is to increase total weatherization production to a rate of 30,000 homes per month by the end of 2010.¹⁴⁰ When compared to the average rate of production in recent years before the Recovery Act was passed, which was around 100,000 homes annually, this new targeted production is more than three and a half times the previous production rates.

During 2009, DOE obligated about \$4.73 billion of the Recovery Act's weatherization funding to the states, territories, and tribes, while retaining about 5 percent of funds to cover the department's expenses, such as those for training and technical assistance, and management and oversight for the expanded weatherization program. DOE first provided each recipient with the first 10 percent of its allocated funds, which could be used for start-up activities such as hiring and training staff, purchasing needed equipment, and performing energy audits of homes, among other things (see fig. 15).¹⁴¹

¹³⁸ Although about \$752 million in LIHEAP funds was potentially available for weatherization in fiscal year 2009 and about another \$737 million was available in fiscal year 2010, these are estimates based on 15 percent of the total of about \$5 billion and about \$4.9 billion in total LIHEAP funds that were available in fiscal year 2009 and fiscal year 2010, respectively. State agencies administering the LIHEAP determine what percentage of total LIHEAP funding to use on weatherization. In recent years, states have spent about 10 percent of their LIHEAP funds on weatherization, but state agencies may ask for a waiver in order to spend up to 25 percent of their respective LIHEAP total allocations on weatherization. The U.S. Department of Health and Human Services submitted a request for \$3.3 billion in LIHEAP funding for fiscal year 2011, of which 15 percent—about \$495 million—would potentially be available for weatherization. Up to 10 percent of total LIHEAP funding may be carried over from one fiscal year to the next. In previous years, the estimated amount available through LIHEAP for weatherization ranged from about \$256 million to about \$362 million.

¹³⁹ Homes refers to housing units, which include single-family units, units within a multifamily building, and mobile homes. DOE defines a weatherized unit as a dwelling unit on which a DOE-approved energy audit or priority list has been applied and weatherization work has been completed, and the final energy audit has taken place.

¹⁴⁰ This total production goal of weatherizing about 360,000 homes annually would include weatherization funded with Recovery Act funds, as well as with DOE yearly appropriations.

¹⁴¹ During an energy audit, auditors visually inspect the building shell and mechanical systems; conduct diagnostic, health, and safety tests; and record the location, condition, and dimensions of walls, ceilings, floors, windows, doors, and mechanical systems. According to DOE, before work is conducted, auditors should use this information to select cost-effective measures which would make the unit more energy-efficient and prepare work orders to ensure that appropriate measures are installed. After weatherization work is completed, another energy audit and final inspection should be conducted.

Figure 15: Pointing Out Ceiling Cracks During an Energy Audit of a Home in Georgia



Source: GAO.

Energy audit of home in Georgia

Before recipients could receive the next 40 percent of their funds, DOE required each to submit a weatherization plan outlining how it would use its Recovery Act weatherization funds. These plans identify the number of homes to be weatherized and include strategies for monitoring and measuring performance. By the end of 2009, DOE had approved the weatherization plans of all 58 recipients, including all of the states, the District, all five territories and two Indian tribes. Each recipient now has access to at least 50 percent of its funds, and DOE plans to provide access to the remaining funds once a recipient has completed weatherizing 30 percent of the homes identified in its weatherization plan and meets other requirements. The other requirements include the recipient fulfilling the monitoring and inspection protocols established in its weatherization plan; monitoring its local agencies at least once each year to determine compliance with administrative, fiscal, and state policies and guidelines; ensuring that local quality controls are in place; inspecting at least 5 percent of completed units during the course of the respective year; and

submitting timely and accurate progress reports to DOE, and monitoring reviews confirm acceptable performance.

Under Section 1603 of the Recovery Act, funds are available for obligation by DOE until September 30, 2010, and DOE officials told us they plan to meet this requirement. DOE officials told us that as of May 12, 2010, although DOE had obligated a total of \$4.73 billion of the Recovery Act's weatherization funding to the recipients, about \$1.4 billion of that total had not yet been obligated by recipients to their respective local weatherization agencies. DOE has indicated that the recipients are to spend their Recovery Act weatherization funds by March 31, 2012.

DOE officials indicated that its goals are for each recipient to have weatherized 30 percent of the homes identified in their respective weatherization plans and obligated 100 percent of their respective allocations to their local agencies by September 30, 2010. However, DOE's funding announcement does not clarify whether these goals are fixed deadlines for all recipients, nor has DOE clarified how recipients are to obligate funds without having access to the remaining 50 percent of their allocation. Some recipients are concerned about the consequences of not meeting these targets. For example, a large association representing local weatherization agencies told us that state agencies are very concerned their funds will be reallocated if they do not meet these production and spending targets. In addition, in February 2010, a California state official told us that DOE urged timely obligation and expenditure of funds and strongly encouraged larger states to aggressively achieve the 30 percent production goal; as a result, California established the September 30 target for meeting this goal. In an audit issued February 2, 2010, the California State Auditor expressed concern that California would lose the remainder of its Recovery Act weatherization allocation if the Department of Community Services and Development, which administers the state's weatherization program, were unable to weatherize 30 percent of the homes in its state plan by September 30, 2010, and recommended that the agency seek an extension of this milestone from DOE.¹⁴² In regard to this increased pressure to spend Recovery Act funds and weatherize homes rapidly, a DOE Inspector General (IG) report issued in February 2010 indicated that the DOE IG is concerned that the understandable desire to

¹⁴²California State Auditor, Bureau of State Audits, *Department of Community Services and Development: Delays by Federal and State Agencies Have Stalled the Weatherization Program and Improvements Are Needed to Properly Administer Recovery Act Funds*, Letter Report 2009-119.2 (Sacramento, Calif., Feb. 2, 2010).

Recipients' Ability to Meet
Targets for Weatherizing
Homes Using Recovery Act
Funds Varies Greatly

spend the weatherization funds on a catch-up basis may lead to an environment conducive to wasteful, inefficient and, perhaps even abusive, practices.¹⁴³

Recipients' ability to use available funds for weatherization and to weatherize the number of homes targeted varies considerably. Recipients have only used a small percentage of their Recovery Act funds, but DOE has indicated that the recipients are to spend the funds by March 31, 2012. As of March 31, 2010, recipients had spent about \$659 million. With 2 years until the deadline, this only represents about 14 percent of the total \$4.73 billion in Recovery Act funds available for weatherization activities.

Although Some States Are Meeting or Exceeding Targets, Others Are Behind Schedule

Although nationwide weatherization funds are being spent slowly, many of the states in our review are meeting or exceeding their targets for weatherization production outlined in their respective weatherization plans. For example, officials from the Illinois Department of Commerce and Economic Opportunity, which administers the state's weatherization program, expect to meet or exceed their goals of spending 40 percent of the Recovery Act funds and weatherizing 40 percent of the total homes in its Recovery Act plan by June 30, 2010. In Florida, the Department of Community Affairs indicated that the state was about 30 percent below its overall goal as of March 31, 2010, but that with a recent increase in production, they should meet their target of weatherizing at least 5,700 homes statewide by the end of September 2010, and at least 19,090 dwellings by March 31, 2012. Officials in Iowa and Mississippi also indicated the states are exceeding their targets for weatherizing homes with Recovery Act funds. As of March 31, 2010, local agencies in Iowa had spent about \$14.1 million and had completed weatherizing 1,176 homes, or about 16 percent of the state plan's target for using Recovery Act funds. In Mississippi, which DOE identified as one of the front-runners nationwide in meeting its targets, the state's Division of Community Services reported that it had weatherized about 45 percent of the total of 5,468 planned as of March 31, 2010, which was ahead of its scheduled production. New York's Division of Housing and Community Renewal reported that although

¹⁴³Department of Energy Office of the Inspector General, *Special Report: Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act*, OAS-RA-10-04 (Washington, D.C., Feb. 19, 2010).

agencies in the state had only weatherized about 3 percent of the total of 45,000 homes planned, agency officials were confident that they would not only meet but exceed their goal. Because New York has used most of its Recovery Act funding on multifamily units, production there may appear slow even though many units are in process. According to state officials, this may be because units in multifamily projects cannot be counted as completed until all work on each unit is finished and the project has been inspected and accepted as complete by the local weatherization agency.¹⁴⁴

Other recipients in our review, such as the District, Georgia, and North Carolina, are behind schedule. The District, which only began spending Recovery Act funds to weatherize homes in March 2010, had only completed about 14 percent of the total homes in its plan as of March 31, 2010. As of the end of March 2010, 1,538 homes had been weatherized in Georgia using Recovery Act funds, about 11 percent of the homes identified in its state plan. Although Georgia did not meet its goal of weatherizing about 500 homes per month in March 2010, DOE has asked the state to increase its monthly production to 700 units from April through September 2010. According to North Carolina's weatherization program manager, as of March 31, 2010, local agencies there had only completed weatherizing 1,715 homes, or approximately 7 percent, of the homes identified in the state plan. Although California was not in our review during this reporting cycle, we have previously noted delays in the implementation of California's Recovery Act weatherization program. By March 31, 2010, California had only weatherized 2,934 homes, less than 7 percent of the 43,400 total homes to be weatherized with Recovery Act funds.

Nationwide, as of March 31, 2010, about 80,000 homes had been weatherized throughout the United States with Recovery Act funds, or about 13 percent of the 593,000 homes originally planned for weatherization. According to DOE, only two states—Washington and Idaho—had completed the weatherization of at least 30 percent of the homes outlined in their state plans and had therefore been given access to the remaining 50 percent of their funds. DOE also indicated that six other states—Delaware, Maine, Mississippi, Ohio, Tennessee, and Vermont—were very close to meeting the 30 percent target as of March 31, 2010.

¹⁴⁴New York officials reported that work on 10,546 units was currently under way and that energy audits—which are required before weatherization can take place—of an additional 14,008 units had been completed. Once these 24,554 units are completed, New York will have weatherized about 58 percent of the units in its weatherization plan.

State Officials Offered a Number of Reasons for Delays in Spending Program Funds

State officials provided several reasons for the delay in spending weatherization funds. Some state and local agencies needed time to develop the infrastructure required for managing the significant increase in weatherization funding and ensuring compliance with Recovery Act requirements. Several states in our review, such as Illinois and Iowa, waited to begin weatherizing homes using Recovery Act funds until the Department of Labor had issued the Davis-Bacon prevailing wage rate for weatherization work.¹⁴⁵ In Florida, local agencies did not begin weatherizing homes using Recovery Act funds until September 2009 because the state agency and local agencies needed time to hire and train new staff, identify and certify new contractors, and implement Davis-Bacon wage requirements. In Pennsylvania, officials told us that their Recovery Act-funded weatherization program was delayed, in part because it took time to implement a training and certification program for workers.

Concerns about hiring more workers may have also contributed to the difficulty in rapidly increasing production. As state and local agencies hire new employees, they must also find a way to adequately train these workers. Moreover, the temporary nature of Recovery Act funds has led to long-term concerns about having to lay off workers; for example, some state and local agencies told us they are reluctant to use funds to hire nontemporary employees because of concerns about the “cliff effect” of having to lay them off when Recovery Act funds are no longer available after March 2012. In Georgia, for example, one service provider told us they decided to initially use contractors instead of the in-house crews they had used, in part because they did not want to hire staff and then lay them off just 2 years later.¹⁴⁶ Two local agencies in New York told us that they do not wish to hire employees if they would have to lay them off after

¹⁴⁵The Davis-Bacon provisions of the Recovery Act require that all laborers and mechanics employed by contractors and subcontractors on Recovery Act-funded projects be paid at least the prevailing wage, including fringe benefits, as determined by the Secretary of Labor. 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 first determination of wage rates for weatherization work conducted on residential housing units in each county of the 50 states and the District. The rates were revised in December 2009.

¹⁴⁶Service providers weatherize homes; local agencies manage service providers but are sometimes qualified to provide weatherization services themselves.

Inconsistent Program Implementation Raises Concerns as to Whether Program Requirements Are Being Met

Recovery Act funds are gone. North Carolina officials also said that they do not like to hire employees if they would have to lay them off. They eventually did hire additional personnel, but told them their term of employment was only through the end of the Recovery Act funding. Nationwide, DOE plans to add over 30,000 jobs to its network of weatherization providers by the end of 2011. According to available sources, as of March 31, 2010, 14,600 jobs have been created through the use of Recovery Act weatherization funds.

Recipients and local weatherization agencies face the challenge of using their Recovery Act funds to increase production significantly, while ensuring that these funds are spent in compliance with Recovery Act requirements and the weatherization program requirements. While the Recovery Act prioritizes moving funds into the economy quickly, recipients of funds are also expected to invest these funds with a high level of transparency and are held accountable for results under the Act. DOE relies upon recipients to ensure that about 900 local agencies nationwide are in compliance with program requirements. Among the requirements that DOE has for the use of its weatherization funds are those relating to verifying client eligibility, limiting the maximum statewide average expenditure per home, training for the weatherization workforce, ensuring local agencies have adequate internal controls, state monitoring of weatherization work, and ensuring that weatherization be cost-efficient, meaning that the resulting energy savings from the work should be at least equal to the amount spent on the work.

In our review, we found that these DOE requirements are not being consistently implemented and it is unclear whether these requirements are being met. In general, we found that this is due to a combination of a wide degree of discretion in DOE guidance relative to some of these requirements and state and local agencies that have not implemented the program in a consistent manner. We identified consistency concerns in these areas:

- Determination and documentation of client income eligibility varies between states and local agencies.
- Different methodologies exist for determining the \$6,500 maximum average weatherization expenditure limit per home.
- Training and certification requirements for weatherization workers vary greatly among the states.

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- Internal controls to ensure local weatherization agencies comply with program requirements are applied inconsistently.
 - Some states have implemented monitoring systems, but other states have not yet fully developed their monitoring systems.
 - States' methods to ensure weatherization work is cost-effective vary and many states are only just beginning to measure long-term energy savings.

Determination and Documentation of Client Income Eligibility Varies

The Recovery Act amended requirements on client eligibility to increase the number of households that would qualify for weatherization. Previously, a household was only eligible to receive weatherization services through this program if the household income was at or below 150 percent of the federal poverty threshold. The Recovery Act increased eligibility from 150 percent to 200 percent of the federal poverty threshold.

In determining income eligibility, DOE indicates that agencies should verify income by checking documents such as proof that the person receives Supplementary Security Income or Temporary Assistance for Needy Families, either of which makes a person automatically eligible. Other proof of income, such as W-2 forms or documentation of LIHEAP eligibility, is also acceptable. DOE guidance further indicates that this proof of income must be for the year before the application date. DOE gives recipients discretion in determining the method of calculating eligibility, so long as recipients are using a consistent policy throughout their territory. In particular, DOE allows the income data for the year to be annualized in order to determine eligibility—for example, by multiplying by four the amount of income received by the applicant during the most recent three months.¹⁴⁷ Regarding documentation of eligibility, DOE guidance indicates that local agencies should maintain proof of client eligibility in their case files, but leaves to the discretion of each recipient what sort of proof of eligibility its local agencies should maintain. Finally, if no other documents for verification are available, DOE also allows

¹⁴⁷In terms of prioritizing clients to serve, DOE provides recipients with flexibility in targeting their services to maximize program effectiveness. Its regulations indicate that recipients are to give priority consideration to “high residential energy users” and “households with a high energy burden” in addition to the other priority categories of elderly, persons with disabilities, or families with children.

applicants to self-certify their income. However, allowing self-certification without additional documentation does not adequately prevent ineligible participants from potentially receiving program benefits.

In our review of local agency practices, we found that the flexibility in the DOE guidance allows for a great deal of variation in how eligibility was determined, thereby generating concerns as to whether program requirements are being met. For example, regarding eligibility determination, one local agency in Illinois concluded that if the applicant has previously qualified for LIHEAP, then the applicant automatically qualified for weatherization since the LIHEAP income level is 150 percent of poverty level—a lower threshold than the 200 percent needed for weatherization. In Pennsylvania, at one local agency where we reviewed files, we found two client files where income information was more than 12 months old and eligibility was confirmed simply by calling the client and asking if their income had changed. While in some cases eligibility requirements were adequately documented, in others it did not appear that local agencies were consistently adhering to DOE guidance. For example, we found that the files we reviewed at one local agency in Illinois appeared to meet documentation guidance. Applicants provided documents that demonstrated their income, such as wage statements, W-2s, and unemployment insurance letters. Income eligibility was annotated on the weatherization application form and documentation was copied and put in the file. In other states, however, the case files did not consistently include appropriate documentation. For example, the checklist on Georgia's application does not include all types of income listed in DOE's guidance, and the 25 files we reviewed did not include evidence that interest or dividend information—specifically listed as income on DOE's guidance—was considered during application. In Florida, the 36 client files we reviewed typically contained the required eligibility information, but there were exceptions. For example, several files were missing required documentation, including proof of a disability (required for priority services) or a copy of a Social Security card, and these problems were not noted by the state field monitors. Similarly, a report issued by the New Jersey Office of the State Auditor found that the process to determine program eligibility in New Jersey was inadequate.¹⁴⁸ The report indicated that auditors could not determine the eligibility of

¹⁴⁸See New Jersey State Legislature, Office of Legislative Services, Office of the State Auditor, *Department of Community Affairs, American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility* (Apr. 1, 2009 to Dec. 4, 2009), 5.

sample households receiving weatherization assistance because of the lack of supporting documentation for income and number of household members and the lack of Social Security numbers maintained by the weatherization agencies. New Jersey auditors identified 12 instances in which applicants with household incomes that exceeded \$100,000 in 2008 were approved because they did not provide complete information about their annual income.

Methodology for Calculating the \$6,500 Maximum Average Varies

Since 2001, the average expenditure limit per home for DOE weatherization was about \$2,500 but was adjusted annually to reflect changes in consumer prices. The Recovery Act increased this limit to \$6,500. According to DOE, recipients are provided flexibility in establishing costs per unit limits, but are responsible for ensuring that local agencies in their territory comply with these limits. DOE guidance indicates that this average expenditure limit may be based on all work performed in a respective state instead of on a unit-by-unit basis. DOE regulations indicate that allowable expenditures to use when calculating this statewide average include labor, materials, and related matters; additionally, cost categories for administration are fixed at no more than 10 percent of the allocation. We found that states used a variety of methods in determining the items included in the calculation, making it difficult to establish that recipients are following DOE's guidance. For example, in New York, state officials determined how many total units to weatherize using Recovery Act funds by taking the state's total allocation, subtracting costs to local agencies for administration, liability insurance, capital expenditures such as for vehicles, and costs for financial audits, and then dividing the remaining allocation by \$6,500. Texas' Recovery Act state weatherization plan indicates that it plans to measure average expenditures per home by dividing the state's total expenditures for program operations by total homes weatherized using Recovery Act funds. In Georgia, the average cost calculation includes materials, labor, and program support, and state officials said agencies have the discretion to include some administrative costs under program support, if amortized. However, the calculation excludes administration, training and technical assistance, and health and safety items. Officials in North Carolina told us that the average amount that local agencies are permitted to spend is up to \$4,000 per home. In Illinois, the maximum cost per home for labor and materials is \$5,200; the remaining \$1,300 is for program support. Mississippi's state agency has directed local agencies to spend no more than \$4,500 to purchase labor and materials for each home. The remaining

\$2,000 per home may be spent on overhead costs, such as program staff salaries, travel, supplies, rent, and utilities.

Worker Training and Certification Requirements Vary among the States

DOE required recipients to address in their weatherization plans how the training of the respective state's current and expanded workforce (employees and contractors) would be conducted. According to DOE, the agency is in the process of developing a national platform for weatherization training and national standards for weatherization certification and accreditation standards program, which it estimates will take about 2 years. DOE's guidance for recipients indicates that training activities and technical assistance should be designed to maximize energy savings; minimize production costs; improve program management and crew and contractor "quality of work;" or reduce the potential for waste, fraud, abuse and mismanagement. The local service providers should be the primary recipients of training and technical assistance activities.

Most of the states that we visited require their weatherization workers to be trained and certified, but requirements varied between states, raising concerns as to whether workers were adequately trained to weatherize homes. In Iowa, for example, all crews and contractors are required to have training in lead paint safe work practices, and all auditors are required to receive training in areas such as basic furnace maintenance; mold, moisture, and ventilation; and combustion health and safety. The state reimburses local agencies for travel, meals, and lodging when workers attend state-sponsored training and the state provides local agencies with non-DOE funds that can be used for crew and contractor training and to obtain other weatherization-related training. In contrast, Texas does not require certification of local agency staff—although training is provided on topics such as heating and cooling systems, Lead Safe Weatherization, manufactured housing, and material installation techniques. In the District, officials told us there is no requirement that contractors receive special weatherization training or certification.

Other states we visited have training and certification requirements that seem less stringent than Iowa but more involved than Texas or the District. In Pennsylvania, for instance, state officials said that workers are required be certified or "on a path to certification" by July 2010. This means that all incumbent and existing weatherization workers would need to submit an application to be approved for certification, or approved with recommended coursework, prior to July 2010 (see fig. 16). In Illinois,

contractors are trained in a 1-week training course, usually offered through the local community college. One week training sessions in Illinois include basics of heat transfer and heat loss, construction fundamentals, residential energy use, energy measures, basic HVAC systems, and weatherization program overviews. According to state officials, the agency that administers the program in New York does not require certification for all weatherization workers, but it does mandate that all workers receive training in specific areas and encourages all local weatherization agencies to provide their workers with appropriate training.

Figure 16: Heating Systems Laboratory, Weatherization Training Center at the Pennsylvania College of Technology in Williamsport, Pennsylvania



Source: GAO.

Weatherization training center at the Pennsylvania College of Technology in Williamsport, Pennsylvania

Extent of Internal Controls Varied Greatly across the States We Visited

DOE has issued guidance requiring recipients of Recovery Act weatherization funds to implement a number of internal controls to mitigate the risk of fraud, waste, and abuse. DOE provides recipients with the discretion to develop and implement these internal controls in accordance with each state's weatherization plan. Local agencies use various methods to prevent fraudulent or wasteful use of Recovery Act funds, such as conducting risk assessments. For example, some local agencies reported that new contractors are subjected to a higher level of scrutiny than more experienced contractors.

The extent to which local weatherization agencies have established controls to ensure compliance with weatherization program and Recovery Act requirements varies greatly by state. While we found that internal controls existed at the local agencies we visited, we often found evidence that local officials did not consistently adhere to them, thereby making it difficult to mitigate the risk of fraud, waste, and abuse. In Florida, for instance, in over half of the 36 client files that we reviewed, we found one or more instances in which work listed as completed was not consistent with the work that was recommended. For example, installation of a new hot water heater, refrigerator, or smart thermostat was either recommended in the audit but not done, or done without a recommendation that it was needed, and the reasons for these actions were not recorded. In 22 of the 29 homes we visited in Florida, we found that all work charged to the program was authorized, performed, and appeared to be of acceptable quality, but for the other 7, some of the authorized improvements were either not completed or of questionable quality. Moreover, we found three potential health or safety issues that had not been addressed.

The state agency in Mississippi found deficiencies at one local agency relating to inventory control, health and safety issues, wage rates required by the Recovery Act's Davis-Bacon provision, and internal controls. In Pennsylvania, we found that the state's program guidelines do not specify how the agencies should manage the work subcontractors perform. For example, according to agency officials at one local agency, most changes are handled verbally, especially if they are minor—that is, below \$100. However, 8 of the 13 client files we reviewed at this agency did not contain any evidence that changes to the work order were authorized. Two of these changes were significant: a total of about \$6,000 in one case and about \$3,000 in another.

Although Some States Have Implemented Monitoring Systems, Others Are Still in Development

According to DOE officials, its monitoring policy has been significantly strengthened under the Recovery Act. DOE is in the process of hiring staff to provide national oversight to the Recovery Act weatherization program. DOE officials told us that they have increased monitoring of recipients from every two years to quarterly in most cases, and they are planning to hire a contractor to review at least 5 percent of the homes weatherized independent of the state monitoring process. DOE officials told us that each recipient will be assigned a project officer who will review the recipient'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. As part of this enhanced monitoring, DOE's weatherization project officers will be able to track each state's performance using monthly reports submitted by recipients on homes weatherized, funds spent, and other information. DOE also requires state weatherization agencies to conduct on-site monitoring of all weatherization service providers to inspect the management of funds and the production of weatherized homes. These monitoring visits consist of a financial review of the service provider's records pertaining to salaries, materials, equipment, and indirect costs; program reviews of the service provider's records, contracts, and client files; and a production review, consisting of the inspection of weatherized homes by the state agencies and by the service provider. DOE requires that each state agency inspect at least 5 percent of the weatherized homes and each service provider inspect all of the completed homes or homes in the process of being weatherized. If an inspection reveals reporting inconsistencies, quality control issues, or other problems, the state agency is generally required to increase the number of homes monitored and frequency of inspections.

We found that some states in our review, such as Mississippi and New York, have monitoring systems in place that impose additional monitoring requirements beyond those set forth by DOE. Mississippi has three levels of oversight. The first level is conducted by an independent division of the state agency that administers the program; officials from this division told us that they monitor 10 percent of the total number of homes weatherized. The division scrutinizes fiscal and programmatic records to determine, for example, whether community action agencies are meeting Davis-Bacon wage rate requirements and whether activities performed by contractors relate to the appropriate funding source. The second level of review is conducted by regional weatherization coordinators, and includes

monitoring an additional 20 percent of the total number of homes. Weatherization staff from the state's Division of Community Services are responsible for the third level of review, which includes monitoring 10 percent of the homes that were monitored by the regional coordinators, as well as an additional 2.5 percent of homes not reviewed by the regional coordinators. The second- and third-level reviews will include examining local agency files and monitoring contractor performance. New York's state weatherization agency has two sets of inspectors—program inspectors and fiscal inspectors—and both visit each local agency at least once every 2 months. Program inspectors review files to ensure that the local agency has followed program guidelines in determining eligibility and that the work has been properly inspected. Fiscal inspectors perform on-site reviews of agency accounting procedures in which they determine whether funds are properly accounted for and that the agency has proper internal controls in place.

Through active monitoring, some states have imposed more stringent monitoring or terminated contracts for local agencies found to be not in compliance with requirements. In New York, for example, two recipients of Recovery Act weatherization funds have been placed under "special conditions," which means that before any vouchers can be submitted for reimbursement, they must first be reviewed and approved by the on-site fiscal monitor. In Iowa, inspectors identified 12 major and 12 minor findings at one local agency. They found numerous weaknesses in the local agency's oversight of contractors' work, and noted that the work completed on numerous homes did not meet the required state standards. Although Recovery Act funds had not been used, the state agency believed the weaknesses were so serious that it suspended Recovery Act funding to the agency in September 2009. Mississippi also terminated the contract of a local agency, citing substandard performance by staff and contractors. Poor staff performance was attributed to a lack of supervision and oversight by local agency management, as well as the hiring of unqualified staff.

Monitoring systems in other states we visited, however, were not yet complete. In Georgia, for example, the administering agency has contracted with the University of Georgia Cooperative Extension for program oversight to be conducted by 26 monitors—13 desk monitors and 13 field monitors. However, monitoring did not start until March 2010, and 5 of the 26 positions were vacant as of April 1, 2010. As of March 31, 2010, the state agency in Illinois had not inspected any homes at 19 local agencies; these 19 agencies received more than a quarter of the state's weatherization program allocation. Finally, some state agencies have not

been meeting their own monitoring standards in the past. In Pennsylvania, for example, the state agency guidelines indicate program monitoring should be conducted a minimum of twice during the program year. We found, however, that none of the five local agencies whose files we reviewed had been monitored more than once per year, and four of the agencies did not receive an annual monitoring visit during 1 of the past 3 program years prior to the Recovery Act.

States' Methods to Ensure Weatherization Work Is Cost-Effective Vary and Many States Are Only Just Beginning to Measure Long-Term Energy Savings

A long-term goal of the weatherization program is to increase energy-efficiency through cost-effective weatherization work, and DOE relies on its recipients to ensure compliance with this cost-effectiveness requirement. By focusing more on energy savings, DOE can better ensure that the cost-effectiveness of weatherization work can be maximized. Federal regulations require that weatherization materials installed must be cost-effective, resulting in energy cost savings over the lifetime of the measures.¹⁴⁹ This is often reflected in a savings to investment (SIR) ratio of at least 1.0—meaning that the resulting energy savings from the work should be at least equal to the amount spent on the work. DOE leaves to the discretion of recipients how to ensure that their local agencies are in compliance with this measure. To assist in this measure, DOE developed the National Energy Audit Tool (NEAT) to determine the types of weatherization measures that are cost-effective in single-family homes and small multifamily buildings with fewer than five units, and developed the Manufactured Home Energy Audit (MHEA) for mobile homes. In lieu of using the NEAT and MHEA processes, recipients may develop priority lists that must be approved by DOE every 5 years. Recipients that use priority lists must ensure cost-effectiveness by developing separate priority lists for single-family homes, multifamily buildings, and mobile homes.

We found variation in how some local officials are determining what weatherization work should be performed based on consideration of cost-

¹⁴⁹Under 10 C.F.R. § 440.21(d), each individual weatherization material and package of weatherization materials installed in an eligible dwelling unit must be cost-effective. These materials must result in energy cost savings over the lifetime of the measures, discounted to present value, that equal or exceed the cost of materials, installation, and on-site supervisory personnel as defined by DOE. States have the option of requiring additional related costs to be included in the determination of cost effectiveness.

effectiveness.¹⁵⁰ Within Texas, for example, we found some local agencies are using various DOE approved processes; including NEAT, a 12-category priority list, and another energy audit tool. The Texas priority list identifies cost-effective recurring measures that can be performed on eligible homes. The approved measures are grouped by 12 major categories and include measures aimed at reducing air infiltration; sealing ducts; installing attic, sidewall, and floor insulation; replacing refrigerators and water heaters; and installing sun screens on windows. The priority list does not include replacing windows or doors but does state that a maximum of \$400 can be expended on miscellaneous repairs, such as repairing windows. In Texas, we found that by using NEAT, one agency justified spending a significant amount of Recovery Act funding installing new windows and doors, even though these measures produce a much lower payback in terms of reducing the energy costs of low-income recipients (about a 1.4 SIR) and are not included in the priority list. Conversely, another agency in Texas relied on the priority list to support installing basic weatherization measures, such as measures to reduce air infiltration and attic and wall insulation that offered much greater energy savings (some with SIRs of 14 or more) for the money invested than the windows and doors allowed by NEAT. However, based on a comparison of these two approaches, it appears that if Texas emphasized the use of the priority list whenever possible, more energy cost savings would be provided, and at the same time, less money per home would be spent on the installed weatherization measures.

In regards to measuring long-term energy savings, DOE guidance also indicates that local agencies should conduct energy audits before and after completing weatherization work and record the results. DOE has conducted surveys on the amount of energy savings over time from weatherization efforts and is currently in the process of undertaking such a survey. According to DOE officials, the agency is conducting an independent evaluation of energy savings through Recovery Act-funded weatherization and reductions in clients' energy bills. This evaluation, which is being conducted under the supervision of Oak Ridge National Laboratory, uses billing data from before and after the weatherization work took place. It will provide statistics on a regional basis and by

¹⁵⁰In Texas, 18 of the 44 local agencies were using another energy audit, Texas EZ, at the completion of our work. According to Texas officials, the EZ audit tool is being phased out after all the agencies are trained to use the NEAT audit tool. Both energy audit tools work basically the same and are used to calculate a SIR that can, in turn, be used to measure the cost-effectiveness of weatherization measures.

primary heating fuel and housing type. The results are scheduled to be issued in 2012. DOE has indicated it will focus on developing better methods for measuring energy savings in the future by, for example, working with utility companies to gain access to the utility statements of clients whose homes have been weatherized.

While some states are actively measuring energy savings, others are only just beginning to do so. Without such data, assessment of program effectiveness based upon energy savings will not be possible. Some states, such as New York and Iowa, are actively measuring energy savings. In its Recovery Act state plan submitted to DOE, New York estimated the energy savings for the 2009 program year, both on an annual basis and after 15 years. Iowa engages a private consultant each year to assess program costs and results. The most recent assessment, completed June 1, 2009, found first-year client fuel savings averaged \$388. Other states have plans to measure energy savings. The Pennsylvania state agency, for example, has entered into an agreement with Pennsylvania State University to prepare an annual report that will include, among other things, an analysis of the energy savings for the homes weatherized by each weatherization agency and an analysis of the cost-effectiveness of the individual weatherization measures. One local agency in the state was working with utility companies to obtain 13 months of energy statements for clients whose homes had been weatherized to measure energy savings over time. Georgia is implementing a statewide Web-based reporting tool expected to be in place by July 2010 that will provide real-time information about energy savings in weatherized homes. In addition, monitors will educate clients on energy savings tips and track the results of those efforts. Each of the three local agencies we visited in Georgia already collects copies of energy bills as part of the application process. Mississippi also plans to measure energy savings in weatherized homes by comparing homeowner-supplied energy bills 12 months before weatherization efforts begin to bills from the subsequent 12 months.

Weatherizing Multifamily Units Presents New Concerns and Program Officials Are Still Developing Expertise

Multifamily housing units present new concerns for agencies administering the program. DOE officials have acknowledged that multifamily projects are distinct from the weatherization of single-family homes. For example, in a study prepared for DOE's Office of the Weatherization and Intergovernmental Program in 2007, the department's Oak Ridge National Laboratory noted that program funds are used primarily for weatherization of single-family homes and evaluating the performance of multifamily residences is more complex. Although weatherizing multifamily buildings can improve production numbers quickly, state and local officials have found that expertise with multifamily

projects is limited and that they lack the technical expertise for weatherizing large multifamily buildings. We also found that state agencies are not consistently dividing weatherization costs for multifamily housing with landlords. Finally, state agencies can feel compelled to focus upon multifamily units as a way to quickly increase their production numbers.

Some state and local officials with whom we spoke acknowledged their limited expertise with multifamily projects. Officials from one local agency in Pennsylvania told us that 2 years ago, they discovered that there were no energy auditors in the state who were familiar with auditing multifamily projects. They noted that the state agency's guidance neither addresses audits nor includes a priority list for multifamily housing. North Carolina does not have an approved energy audit program or priority list to complete multifamily units, and Georgia is in the process of developing an approach to weatherize multifamily units. Iowa officials told us that they are currently developing guidelines for local agencies to pursue weatherization of multifamily buildings if they wish. They said they are not certain that they have the technical expertise for weatherizing large multifamily buildings and believed that a local agency would have to contract with an engineer or other expert to run an audit. According to state officials, it is unclear whether any Iowa local agencies will tackle a building larger than five floors because their audit tool is not appropriate for those buildings.

In contrast to most of the other states we visited, New York weatherizes a large number of multifamily dwellings. In its approved plan, the state agency in New York estimated that multifamily projects would constitute over half of its units weatherized using Recovery Act funds. But New York officials acknowledged that many factors delay the completion of multifamily projects. For example, while all local weatherization agencies in the state are approved to conduct energy audits of one- to four-family homes, only 6 out of 65 local agencies are approved to conduct their own audits of multifamily projects. The remaining agencies must contract with a state-approved entity. Local agencies' demand for more energy audits as a result of the influx of funding from the Recovery Act has created a backlog, resulting in delays in starting projects. The state agency is in the process of training local agencies to allow them to conduct their own energy audits of multifamily projects, but according to state officials, this process takes at least 1 year. The state agency hopes to have over 30 local agencies approved to do multifamily energy audits by the end of the year.

Multifamily housing weatherization also disrupts normal reporting of production. According to state officials, units in a multifamily project

cannot be counted as completed until all work on each unit is finished and the project has been inspected and accepted by the local weatherization agency. At one agency we visited in New York, over 100 one- to four-family homes had been weatherized by March 1, 2010. The director noted that in March, two multifamily projects totaling 300 units would be completed, raising the agency's production from 100 to over 400 in just 1 month.

Finally, state agencies are not consistently sharing weatherization costs for multifamily housing with landlords. In New York, the state agency's policies indicate that the owners of a multifamily project must contribute to the overall cost of the project. This contribution typically covers 25 percent of the project's cost, but the exact terms of the ownership participation are up for negotiation. In Texas, however, owners of multifamily rental properties are not required to make any contribution to weatherization project costs. Similarly, Iowa state officials said that its current state policy does not require landlords to contribute to weatherization costs.

Despite the lack of familiarity with weatherizing multifamily units, states can feel compelled to focus upon them as a way to quickly increase their production numbers. For example, the Texas state agency that administers weatherization at the state level recognized that achieving its weatherization target will be dependent upon increased attention to weatherizing multifamily units. Moreover, Texas state officials told us DOE encouraged the weatherization of multifamily units. However, Texas state officials also recognize that they and staff in their local agencies have limited experience and training on weatherizing multifamily units. The state agency's on-site inspections of 27 multifamily units weatherized by one local agency found that the work completed on 13 units was not acceptable and return visits to correct workmanship deficiencies would be required. These findings were consistent with our own observations at one multifamily site. Accordingly, they have been working with DOE to develop critically-needed training.

Conclusions

The weatherization program requires cooperation and coordination between numerous federal, state, and local agencies. Together, these entities face challenges in meeting increased production targets while ensuring program requirements are being met in a consistent manner. We have identified a number of concerns related to the program's implementation, including (1) ensuring the eligibility of clients, (2) calculating maximum average cost per unit, (3) establishing training and certification for workers, (4) installing and enforcing internal controls at local agencies, (5) monitoring of the work, and (6) developing and

implementing standards for measuring the cost-effectiveness of weatherization work. Furthermore, although weatherizing multifamily units is considered a way to quickly increase the number of weatherized homes, it presents new concerns for agencies administering the program, including a lack of technical expertise for weatherizing large multifamily buildings, inconsistencies in cost-sharing arrangements with landlords, and a tendency to rely upon the weatherization of multifamily units as a way to quickly increase production numbers.

Recommendations for Executive Action

Given the concerns we have raised about whether program requirements are being met, we recommend that DOE, in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that

- establishes best practices for how income eligibility should be determined and documented and issues specific guidance that does not allow the self-certification of income by applicants to be the sole method of documenting income eligibility.
- clarifies the specific methodology for calculating the average cost per home weatherized to ensure that the maximum average cost limit is applied as intended.
- accelerates current DOE efforts to develop national standards for weatherization training, certification, and accreditation, which is currently expected to take 2 years to complete.
- develops a best practice guide for key internal controls that should be present at the local weatherization agency level to ensure compliance with key program requirements.
- sets time frames for development and implementation of state monitoring programs.
- revisits the various methodologies used in determining the weatherization work that should be performed based on the consideration of cost-effectiveness and develops standard methodologies that ensure that priority is given to the most cost-effective weatherization work. To validate any methodologies created, this effort should include the development of standards for accurately measuring the long-term energy savings resulting from weatherization work conducted.

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- considers and addresses how the weatherization program guidance is impacted by the introduction of increased amounts of multifamily units.

In addition, given that state and local agencies have felt pressure to meet a large increase in production targets while effectively meeting program requirements and have experienced some confusion over production targets, funding obligations, and associated consequences for not meeting production and funding goals, we recommend that DOE clarify its production targets, funding deadlines, and associated consequences while providing a balanced emphasis on the importance of meeting program requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to DOE for review and comment. In its response, DOE officials generally agreed with our recommendations and indicated that they will take steps to develop and clarify program guidance related to the issues GAO raised. DOE also provided technical comments reflecting recent agency actions and achievements, which we incorporated, as appropriate.

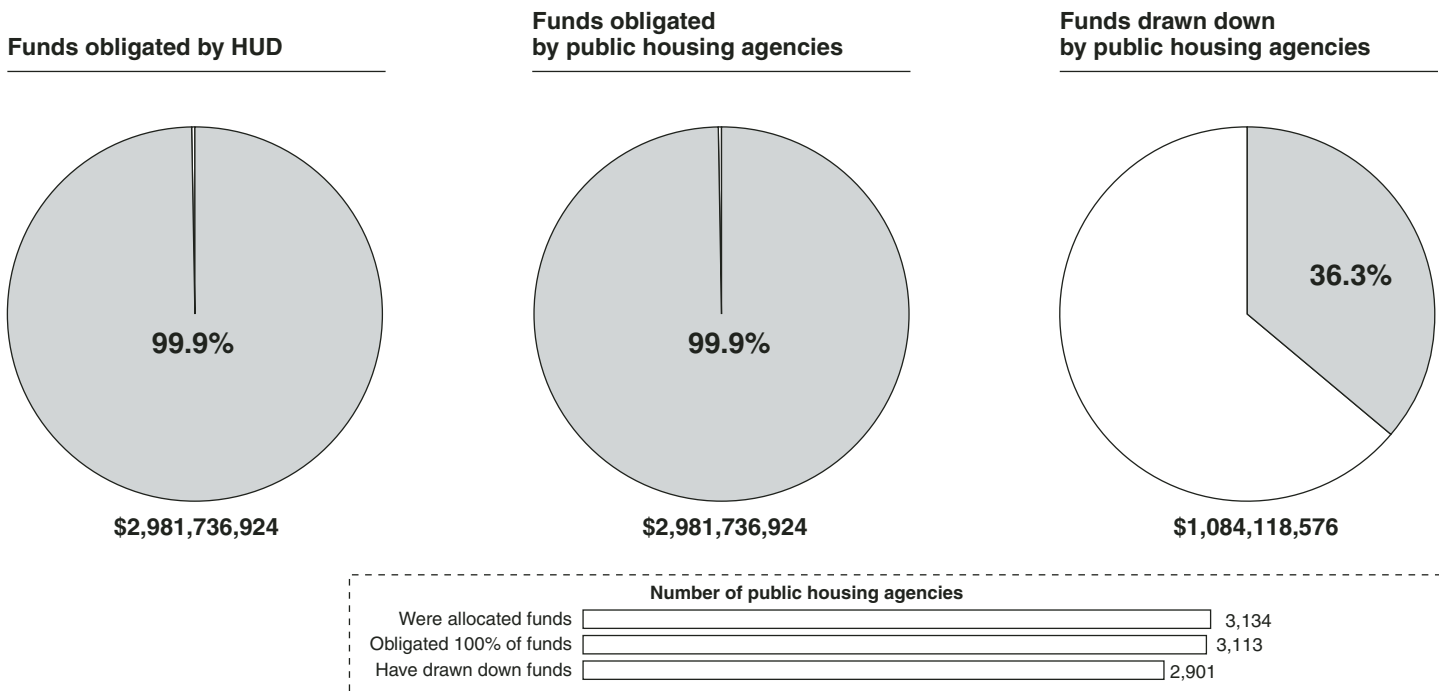
While Housing Agencies Met the Recent Recovery Act Obligation Deadline, HUD Has Not Finalized Its Strategy for Monitoring Recovery Act Funds Going Forward

The Recovery Act required 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 3,134 public housing agencies shortly after passage of the Recovery Act and, after entering into agreements with housing agencies, obligated these funds on March 18, 2009. Public housing agency officials said they are using these funds to support a variety of improvement projects at public housing sites, including roofing and gutter work, replacing windows and doors, rehabilitating unit interiors, and replacing heating, cooling, and hot water systems.

The Recovery Act required that housing agencies obligate 100 percent of their formula grant funds within 1 year of when the funds became available to them and directed HUD to recapture funds not obligated at that time and to reallocate them to housing agencies in compliance with the obligation requirement. According to HUD officials, all housing agencies met the March 17, 2010, formula grant obligation deadline by either obligating all of their funds by March 17, 2010, or rejecting or returning a portion of their formula grant funds. The Recovery Act also required that housing agencies expend 60 percent of their formula grant funds within 2 years from when the funds became available and expend

100 percent of their funds within 3 years from when the funds became available. According to HUD data as of May 1, 2010, 2,901 housing agencies had drawn down funds totaling \$1.08 billion from HUD, or about 36 percent of the total allocated to housing agencies, in order to pay for project expenses already incurred (see fig. 17). There were 1,852 housing agencies that had already drawn down at least 60 percent of their funds, including 944 that had drawn down 100 percent.

Figure 17: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down Nationwide as of May 1, 2010



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

Although they met the obligation deadline, officials with some of the 37 housing agencies we visited told us they experienced challenges in obligating their Recovery Act funds but no single factor was widely shared among them. In a few cases, housing agency officials noted that adhering to the Buy American provision of the Recovery Act impacted their obligation of Recovery Act funds. For example, officials with one housing agency noted that because HUD's guidance on the Buy American provision was delayed, the housing agency decided not to use Recovery Act funds to install security cameras in their public housing communities and instead switched to other projects. The housing agency officials later learned that

the cameras, although foreign-made, may have been eligible because they were manufactured by a U.S. trade partner. Officials with two housing agencies noted that it took time to amend their procurement documents to reflect the Buy American provision. Finally, officials with four housing agencies noted they experienced challenges in finding products or supplies for their projects that would comply with the Buy American provision. For example, officials with one housing agency told us that it was more difficult than expected to find bathroom and plumbing fixtures that would satisfy the Buy American requirement. Going forward, housing agencies may face similar challenges in meeting the September 2010 obligation deadline for the Recovery Act competitive grants.

Another challenge raised by officials with two of the public housing agencies we visited was complying with HUD's Section 3 requirement to try to employ low-income persons residing within the public housing community.¹⁵¹ Officials with one housing agency noted that they did not have a list of Section 3-compliant contractors in the area, so the housing agency had to take time to ensure that the contractors bidding on its Recovery Act project could satisfy the requirement. Officials with the other housing agency noted that the Section 3 requirement created confusion among some contractors who wanted to bid on Recovery Act work, as the contractors were not previously aware of the requirement or had not previously entered into contracts with the government. The housing agency officials noted, however, that they ultimately received many bids for their project and were able to meet the obligation deadline. Again, housing agencies may face similar challenges complying with the Section 3 requirements in meeting the competitive grants obligation deadline.

HUD officials credit their additional communication with and outreach to housing agencies in the months and weeks leading up to the deadline for enabling so many housing agencies to obligate all of their funds on time.

¹⁵¹Section 3 is a provision of the Housing and Urban Development Act of 1968 that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency. Among other requirements under this provision, housing agencies are to meet goals including (1) 30 percent of the aggregate number of new hires shall be Section 3 residents (low- and very low-income persons residing in the community in which HUD funds are spent regardless of race and gender), (2) 10 percent of all covered construction contracts shall be awarded to Section 3 business concerns (businesses that substantially employ low- and very low-income persons residing in the community in which HUD funds are spent), and (3) 3 percent of all covered nonconstruction contracts shall be awarded to Section 3 business concerns.

For example, HUD field staff in Texas said they held weekly conference calls with housing agencies and followed up individually with housing agencies that experienced challenges or requested assistance. HUD field staff in New Jersey told us they sent out urgent notices via e-mail to remind housing agencies of the importance of obligating all their funds by the March 17 deadline, while field staff in Illinois told us they had daily contact with housing agencies that still had funds to obligate as the deadline approached in order to strategize ways to expedite the obligation process with them. In addition to regular communication with housing agencies, HUD field staff also provided technical assistance—often related to procurement—that housing agency officials said was essential in helping them meet the deadline. For example, officials at one New Jersey housing agency said they relied heavily on the HUD field office to help them meet the deadline. These officials noted that the HUD field office provided them with a checklist that identified necessary documents to be included in their contracts, as well as specific language about Recovery Act requirements to be included in their bid solicitations in order to meet the obligation deadline. Similarly, a housing agency official in Illinois said that HUD field staff provided tremendous assistance related to a mixed-finance project, with which the housing agency had no prior experience. As a result of HUD’s assistance, the housing agency was able to award the contract in February 2010, about a month before the deadline. Other housing agency officials noted that HUD field staff provided valuable assistance related to evaluating bids and making change orders to contracts to ensure all funds were used. As housing agencies strive to meet the upcoming competitive grant deadline, it may be important for HUD field staff to continue to provide additional communication with and outreach to housing agencies.

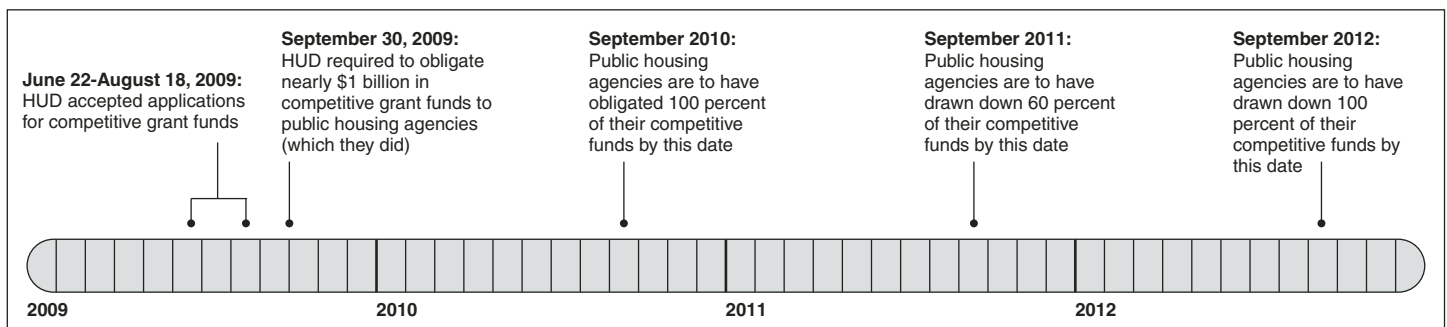
Housing Agencies Continue to Make Progress Obligating Competitive Grant Funds

In addition to awarding Capital Fund formula dollars, HUD was also required under the Recovery Act 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 396 competitive grants totaling \$995 million 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:

- For the creation of energy-efficient communities, HUD awarded 36 grants totaling \$299.7 million for substantial rehabilitation or new construction and 226 grants totaling \$305.8 million for moderate rehabilitation. For example, in Georgia, funds for substantial rehabilitation are being used to install exterior insulation, new roofs, photovoltaic panels, energy-efficient appliances, heat pumps, and windows in public housing units. In Arizona, funds for moderate rehabilitation are being used to retrofit 281 units with improvements such as low-flow faucets, showerheads, and toilets.
- For gap financing for projects that were stalled due to financing issues, HUD awarded 38 grants totaling \$198.8 million.
- For public housing transformation, HUD awarded 15 grants totaling \$95.9 million to revitalize distressed or obsolete public housing projects.
- For improvements addressing the needs of the elderly or persons with disabilities, HUD awarded 81 grants totaling \$94.8 million.

As of May 1, 2010, housing agencies had reported obligations totaling about \$174 million for 265 grants, according to HUD data. The Recovery Act requires housing agencies to obligate 100 percent of these funds within 1 year from the date when they received their grants, or by September 2010 (see fig. 18).

Figure 18: Timeline for Public Housing Capital Fund Competitive Grants under the Recovery Act



Source: GAO.

HUD Plans to Redistribute Returned and Recaptured Funds after Reviewing Selected Housing Agencies' Obligations

Some housing agencies have returned to HUD all or a portion of the competitive and formula grant Recovery Act funds awarded to them, according to HUD officials. As of April 1, 2010, three housing agencies had returned approximately \$14.2 million in competitive grant funds. In

addition, twenty-one housing agencies refused to accept or returned to HUD approximately \$3.26 million in Recovery Act formula grant funds, according to HUD officials. Of these 21 housing agencies, 18 either did not accept the funds allocated to them or returned all of the funds allocated to them—a total of \$2.96 million—prior to the obligation deadline. According to HUD officials, 9 of these 18 housing agencies had disposed of their public housing units (by, for example, demolishing or selling them) or soon would be doing so. The remaining 9 housing agencies gave other reasons for either not accepting the funds or returning them later:

- three housing agencies stated that they did not have a need for the funds;
- three others said they thought Recovery Act projects would be too time-consuming;
- two housing agencies simply said they could not meet the obligation deadline; and
- one housing agency's units are vacant because they are in a Superfund site and all residents were relocated by the Environmental Protection Agency.¹⁵²

In addition, three housing agencies returned a portion of their formula grants—\$303,015 of the \$700,663 total allocated to them—to HUD prior to the deadline. According to HUD officials, all three of the housing agencies that returned a portion of their formula grants had trouble obligating all of their funds and therefore had funds left over. One had bids come in lower than expected, another had disposed of some of its public housing units, and the third did not have any eligible work items to which funds could be obligated before the deadline. Knowing they would be unable to meet the March 17, 2010, deadline, these three housing agencies chose to return their unobligated Recovery Act funds.

According to HUD officials, HUD will redistribute the \$17.46 million of competitive and formula grant funds that were rejected or returned by housing agencies by awarding a new set of competitive grants. HUD plans to redistribute these funds to qualified housing agencies that previously applied for competitive grants but did not receive them because HUD had

¹⁵²Superfund is the name given to the environmental program established to address abandoned hazardous waste sites. It is also the name of the fund established by the Comprehensive Environmental Response, Compensation and Liability Act of 1980. A Superfund site is an uncontrolled or abandoned place where hazardous waste is located, possibly affecting local ecosystems or people.

obligated all of the nearly \$1 billion allocated to the program. Given HUD's emphasis on green, energy efficient housing, HUD will limit the redistribution of funds to those applications for energy retrofit projects. Prior to funding any of the remaining applications, HUD plans to verify that potential recipients are still able to complete the work outlined in their original applications and that they are currently in compliance with Recovery Act requirements.

According to HUD officials, HUD will redistribute these funds once the final amount to be redistributed is determined. HUD is concerned that it may have to recapture additional funds, as housing agencies may not have followed proper procedures or may have directed funds to ineligible uses in the rush to meet the formula grant obligation deadline. According to HUD officials, 548 (about 18 percent) of the 3,113 housing agencies that met the Recovery Act formula grant funds obligation deadline had obligated less than 90 percent of those funds as of February 26, 2010. HUD field staff planned to conduct a quick-look review of all Recovery Act formula grant obligation documents generated between February 26, 2010, and March 17, 2010, by these 548 housing agencies. This review is to include questions such as whether necessary approvals were in place for work items and whether obligations correspond to work items in the housing agency's approved annual plan. The officials stated that they expect to complete these reviews by June 1, 2010. HUD officials told us they plan to recapture any affected funds and add them to the \$17.46 million to be redistributed. HUD officials estimated that they may be able to redistribute these funds by early to mid-summer 2010.

HUD's Plans for Monitoring of Recovery Act Funds Continue to Evolve

During the first year of implementation, HUD's strategy for monitoring Recovery Act formula funds included conducting remote and on-site reviews of housing agencies' administration of Recovery Act requirements. HUD conducted these reviews for both nontroubled and troubled agencies, as determined under its Public Housing Assessment System.¹⁵³ According to a HUD official, they completed remote reviews of all 3,116 housing agencies that did not return their formula grant funds and on-site reviews of 172 troubled housing agencies and 538 nontroubled housing

¹⁵³HUD developed the Public Housing Assessment System 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.

agencies that HUD identified through its risk-level classification. Based on these reviews, HUD officials identified three common areas of concern that it will continue to monitor going forward: (1) procurement issues, (2) contract administration, and (3) failure to include Recovery Act work items in HUD-approved 5-year work plans. For example, HUD officials stated that they are currently providing their field office staff with additional training on procurement and contract administration requirements, so that they may provide housing agencies with additional technical assistance in these areas. In addition, HUD officials told us that their field offices are working with housing agencies to ensure that their 5-year plans are updated to include any missing Recovery Act work items and that the plans subsequently go out for public comment for the requisite 10 days.¹⁵⁴

HUD has developed a second-year strategy for monitoring Recovery Act funds but has not finalized its approach. For example, HUD has developed a draft four-tier approach for monitoring formula grant funds that includes:

- the quick-look review, described above, of Recovery Act formula grant obligation documents generated between February 26, 2010, and March 17, 2010;
- either onsite or remote reviews of all troubled and approximately 25 percent of nontroubled housing agencies, which HUD will identify through a risk-level classification that is presently still being developed;
- quality assurance and quality control reviews by HUD's Office of Field Operations; and
- independent reviews of housing agencies identified by HUD as being the top 100 to 125 funded agencies with the largest formula grant award amount, which will be performed by an outside contractor.

While it is an important step forward for HUD to establish a strategy for monitoring Recovery Act funds, HUD has not fully specified the steps to be taken in other elements of its second year monitoring strategy. For example, HUD has not yet finalized the internal controls it will need to ensure housing agencies comply with statutory and regulatory guidance. Finally, HUD is still developing a data collection and analysis plan for

¹⁵⁴Housing agencies are required to submit to HUD a 5-year plan that includes a statement of the goals and objectives of the public housing agency. (42 U.S.C. 1437c-1(a)).

internal reporting activities on elements such as grant performance, progress, and outcomes.

Similarly, HUD's second-year strategy also includes a draft four-tier approach for monitoring competitive grant funds. For the first tier, HUD plans to conduct remote reviews for all 393 competitive grants by August 20, 2010. For the second tier, HUD plans to conduct quality assurance and quality control reviews for a random sample of 20 to 25 percent of remote reviews by September 2010. The third tier will consist of a review of obligations made by housing agencies that had not fully obligated their grant funds within 2 weeks of the September 2010 deadline. HUD expects this review to occur in October and November 2010. Finally, the fourth tier of HUD's monitoring strategy includes onsite reviews of the 8 troubled housing agencies that received competitive grant funds and were designated as troubled as of September 30, 2009. HUD expects to conduct these onsite reviews from January to March 17, 2011.

As part of its second year strategy, HUD also developed an estimate of the agency's resource needs to carry out its Recovery Act responsibilities. The officials noted that they developed this estimate in response to our recent recommendation that HUD develop a management plan to address its resource needs to administer both the Recovery Act funds and the existing Capital Fund. HUD noted that during the first recipient reporting period, an estimated 600 staff hours were spent on entering comments into FederalReporting.gov. HUD officials also noted that in the most recent recipient reporting process, the agency review period again required a substantial staff effort that was difficult to sustain. HUD determined that it will need an additional 11 full-time equivalent staff to provide services including recipient reporting support, training on energy efficiency requirements, and data analysis. However, this estimate does not include any resources for managing the regular Capital Fund program. We believe it is essential for HUD to put in place a strategy for monitoring Recovery Act funds going forward that specifies the steps to be taken, and as we previously recommended, the resources that will be required for administering both the Recovery Act and existing Capital Fund program.¹⁵⁵

Officials in some HUD field offices also stated that they encountered difficulties monitoring Recovery Act activities alongside their regular

¹⁵⁵GAO, *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, GAO-10-437 (Washington, D.C.: Mar. 3, 2010).

duties, while operating at unchanged or reduced staffing levels. For example, officials at one field office stated that over a five month period, 37 of their 40 staff members were devoted nearly full-time to Recovery Act-related work, such as conducting reviews and providing technical assistance. Another field office experienced a 20 percent reduction in its staffing over the past 2 years. The officials from the field office stated that their staff that traditionally have not been involved in the Capital Fund program have assisted with remote reviews or desk reviews in order for HUD's Capital Fund staff to complete the larger number of on-site reviews required for monitoring of the Recovery Act funding. Officials in another field office told us that it received additional funding to conduct oversight but also lost staff, therefore making it more difficult to keep up with both Recovery Act and routine work providing monitoring of HUD's Section 8 program. HUD staff in another field office told us that the administration of Recovery Act grants limited their ability to conduct timely monitoring and technical assistance over other program areas. For example, the field office postponed some planned monitoring activities for other HUD programs, such as Section 8 and Hope VI, until later in fiscal year 2010. In part because of the additional time HUD staff spent assisting housing agencies, all housing agencies met the obligation deadline by either obligating all of their funds by March 17, 2010, or rejecting or returning a portion of their formula grant funds. As the deadline for obligating the competitive grant funds approaches, HUD staff may again have less time to dedicate to their regular duties. As we previously recommended, HUD needs to develop a management plan to determine the adequate level of agency staff needed to administer both the Recovery Act funds and the existing Capital Fund program going forward.

The HUD Office of Inspector General's reviews of public housing agencies echoed the need for continued monitoring of Recovery Act funds, and it continues to conduct capacity and performance audits on housing agencies nationwide. As of April 30, 2010, the HUD Inspector General had issued 19 Public Housing Capital Fund audit reports, and it is in the process of conducting 10 others. For example, it found that one troubled housing agency that received \$34.5 million in Recovery Act funds had weaknesses related to internal controls, financial operations, procurement, and inventory, which the HUD Inspector General determined could hinder the expenditure of Capital Funds.¹⁵⁶ It

¹⁵⁶HUD Office of Inspector General, *HUD Needs to Ensure That the Housing Authority of New Orleans Strengthens Its Capacity to Adequately Administer Recovery Funding*, 2010-AO-0801 (Dec. 15, 2009).

recommended, among other things, that HUD ensure that the housing agency provide documentation for or repay eight unsupported disbursements totaling \$321,462; maintain adequate staffing levels and amend its financial policies to specify approving officials and procedures; and modify its procurement policy to ensure contractor compliance. The housing agency concurred with all nine of these recommendations and had closed one of them as of March 4, 2010.

The HUD Inspector General also found that although another housing agency had the capacity to administer its approximately \$423 million in Recovery Act funds, 7 out of 10 contracts reviewed did not contain information regarding the energy-efficiency and Buy American provisions and lacked written procedures to document and verify contractors' compliance with the Buy American provision.¹⁵⁷ Correspondingly, the HUD Inspector General recommended that the Director of the New York Office of Public Housing instruct the housing authority to ensure that contracts contained appropriate language related to both these provisions, develop written procedures to determine contractors' compliance, and finalize its policies and procedures manual to document the responsibilities of its different departments. The housing agency has until July 10, 2010, to submit management decisions to the HUD Inspector General regarding the recommendations.

Many Housing Agencies Reported No Problems with Concurrently Managing Recovery Act and Regular Capital Fund Grants, but Some Face Challenges

Public housing agencies were responsible for continuing to manage their regular Capital Fund grants while striving to meet the Recovery Act grant obligation deadline. During the first year prior to the obligation deadline, housing agencies had to make decisions about how to spend not only their Recovery Act funds but also their regular Capital Funds from grant years 2007, 2008, and 2009. Most housing agencies we visited reported that Recovery Act-related activities did not have any noticeable effect on their ability to administer their regular Capital Fund programs, and they expected to obligate their regular Capital Funds by the deadline.

To determine whether housing agencies may have moved more slowly in obligating their regular Capital Funds, we compared the 1-year obligation rates for ten housing agencies' regular Capital Funds for grant years 2008

¹⁵⁷ Mandatory standards and policies for energy efficiency are contained in a New York State energy conservation plan, issued in compliance with the Energy Policy and Conservation Act (P.L. 94-163). See HUD Office of Inspector General, *The New York City Housing Authority Had the Capacity to Administer Capital Funds Provided Under the American Recovery and Reinvestment Act*, 2010-NY-1803 (Mar. 12, 2010).

and part of year 2009 against their 1-year obligation rates for grant years 2006 and 2007.¹⁵⁸ We did not observe any common trends in obligation rates among the ten housing agencies that provided us with their obligation rate data. After 1 year, some housing agencies had obligated their 2008 funds at a faster rate than in prior years, while other housing agencies had obligated their 2008 funds more slowly. For example, an official with a housing agency in Ohio—which had regular Capital Fund 1-year obligation rates of 28 percent for 2008, 33 percent for 2007, and 92 percent for 2006—stated that managing the agency’s Recovery Act funding delayed its ability to obligate its 2008 regular Capital Fund grant by about 4 to 6 months, as the agency wanted to concentrate its efforts on meeting the Recovery Act obligation deadline. This official noted that now that they have met the obligation deadline for the Recovery Act funding, they are focused on meeting the 2008 regular Capital Fund obligation deadline in June 2010. In contrast, a housing agency in Georgia had obligated a greater percentage of its 2008 regular Capital Funds after 1 year (90 percent) than it had obligated of its 2007 (83 percent) and 2006 (62 percent) regular Capital Funds after 1 year.

Housing agencies we visited had generally obligated less of their 2009 regular Capital Funds than they had obligated of prior year funds, which is not surprising given that the agencies have only had a few months to obligate these funds rather than a full year. For example, 6 months after receiving its funds, another housing agency in Ohio had obligated none of its 2009 regular Capital Funds, while after 1 year it had obligated 31 percent of its 2008 regular Capital Funds. Officials with this housing agency attributed part of the delay in obligating their regular 2009 funds to efforts needed to manage their Recovery Act funds.

Officials with one housing agency told us they also experienced delays in receiving approvals from HUD that have created delays in their regular Capital Fund projects. Officials with a housing agency in Illinois told us that they did not have access to their 2009 regular Capital Funds until several months later than expected, which they attributed in part to HUD’s focus on Recovery Act issues. According to HUD field office officials in Illinois, many of the housing agencies in that state did not receive access to their 2009 regular Capital Fund grants in the Line of Credit Control

¹⁵⁸ One-year obligation rates refer to the percentage of funds housing agencies obligated within 1 year of receiving the funds from HUD. HUD provided housing agencies with their 2009 regular capital fund grants in September 2009, so a 1-year obligation rate could not yet be determined for these funds.

System until 3 or 4 months or more after the grants were awarded in September 2009 because the field office decided to provide a higher level of oversight to ensure the housing agencies were in compliance with environmental review regulations. The officials told us that this extra scrutiny was a direct result of issues that they identified in the course of conducting their remote and on-site reviews of Recovery Act grants.

HUD has recognized that housing agencies may be moving more slowly in obligating their regular Capital Funds in part because of having to also manage their Recovery Act funds. In its fiscal year 2011 budget request for the Capital Fund, HUD is requesting approximately \$450 million less than it requested for fiscal year 2010. HUD notes in its request that this reduced amount takes into consideration the additional \$4 billion appropriated to the Capital Fund in the Recovery Act. According to HUD's request, there remains an estimated \$18 to \$24 billion backlog of modernization needs that housing agencies are trying to address through the Recovery Act funds and their regular Capital Fund grants.

Congress Responded to Declining Demand for Low-Income Housing Tax Credits by Creating Two New Programs

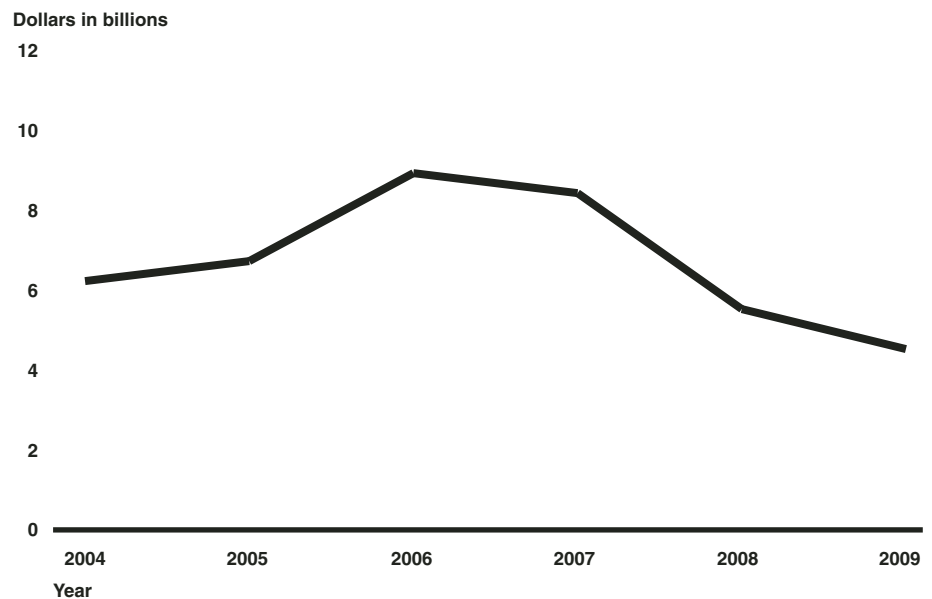
In recent years, the Low-Income Housing Tax Credit (LIHTC) program has been regarded as the primary vehicle for affordable housing production and preservation. In 2008 and 2009, the program was severely disrupted when the credit markets collapsed and project owners could not obtain backing for projects that would have qualified for the credit. In February 2009, Congress created two new programs as part of the Recovery Act—the Tax Credit Assistance Program (TCAP), administered by HUD, and the Grants to States for Low-income Housing Projects in Lieu of Low-income Housing Credits Program under Section 1602 of the Recovery Act (the Section 1602 Program), administered by Treasury.¹⁵⁰ These programs address the gap in financing for LIHTC projects caused by the decline in investor demand and the resulting low prices for tax credits.

Congress established the LIHTC program in 1986 as an incentive for project owners and investors to provide affordable rental housing for households with incomes at or below specified levels. The incentive was

¹⁵⁰Pursuant to the Recovery Act, GAO is to review the use of funds of programs included under the act's Division A, Appropriations Provisions. TCAP is a Division A program, while the Section 1602 Program is included under Division B, Tax and Other Provisions. GAO chose to include the Section 1602 Program in its review because, like TCAP, it supplements the LIHTC program, and state housing finance agencies (HFA) are implementing the two programs simultaneously.

needed because rental income and other returns from investment in low-income housing would generally not be sufficient to cover the costs of developing and maintaining such properties. Under the LIHTC program, Treasury allocates tax credits to state housing finance agencies (HFA), which in turn award the tax credits to affordable rental housing projects. Project owners sell the tax credits to private investors and use the proceeds (tax credit equity) to build affordable housing. In return for contributing tax credit equity to the projects, private investors receive tax credits over a 10-year period. Projects must comply with LIHTC requirements for 15 years, including maintaining affordable housing units. Since its inception in 1986, the LIHTC program has provided financing for more than 1.7 million units of affordable housing and attracted increasing levels of equity that reached nearly \$9 billion in 2006. Equity generated by the sale of LIHTCs began to decline in 2007, dropped sharply to about \$5.5 billion in 2008, and was predicted to fall to about \$4.5 billion in 2009 (see fig. 19).

Figure 19: Total Estimated Tax Credit Equity, 2004–2009

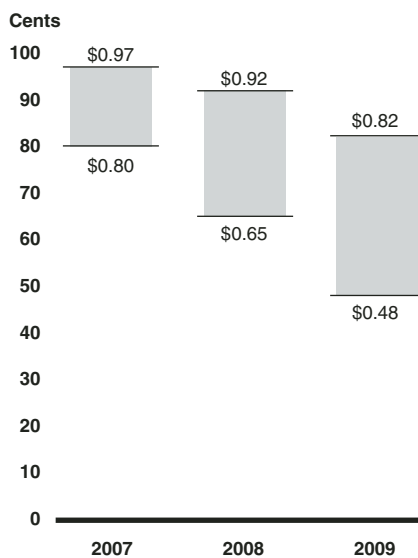


Source: Ernst & Young estimates.

The onset of financial struggles for large national banks and for Fannie Mae and Freddie Mac contributed greatly to the decline in demand for tax

credits.¹⁶⁰ As the demand for tax credits declined, so did the prices investors were willing to pay for them. The price paid per dollar of credit has declined since 2007, creating funding gaps in projects that had received tax credit allocations in 2007 and 2008. As a consequence, many planned construction and rehabilitation projects have stalled. Figure 20 summarizes the range of average prices per tax credit paid at closing in 2007, 2008, and 2009 as reported by the HFAs. For example, the 54 HFAs reported that average tax credit prices paid by investors in 2007 range from a high of 97 cents to a low of 80 cents. By 2009, the averages had dropped to 82 cents and 48 cents, respectively.

Figure 20: Range of Average Price Paid Per Tax Credit at Project Closing in 2007, 2008, and 2009

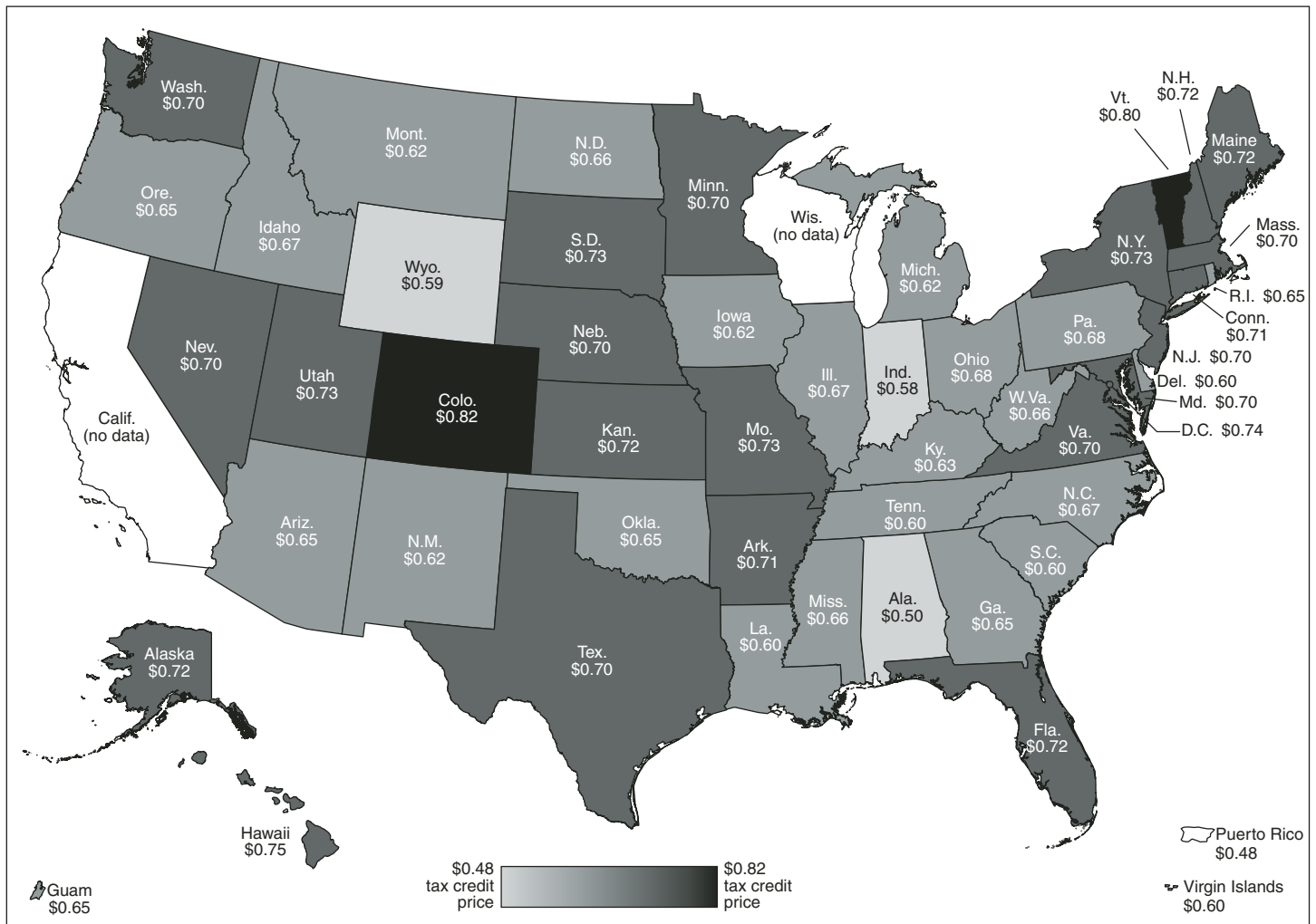


Source: GAO survey of HFAs.

¹⁶⁰Large banks, Fannie Mae, and Freddie Mac purchased the majority of LIHTCs in recent years. Congress established Fannie Mae and Freddie Mac with two key housing missions: to (1) provide stability in the secondary market for residential mortgages and (2) serve the mortgage credit needs of targeted groups such as low-income borrowers. On September 6, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship out of concern that their deteriorating financial condition (\$5.4 trillion in outstanding obligations) would destabilize the financial system. See GAO, *Fannie Mae and Freddie Mac: Analysis of Options for Revising the Housing Enterprises' Long-term Structures*, [GAO-09-782](#) (Washington, D.C.: Sep. 10, 2009).

Figure 21 shows the range of average LIHTC price at project closing for each HFA in 2009. For example, Colorado reported the highest average tax credit price (82 cents) and Puerto Rico reported the lowest (48 cents).

Figure 21: Average LIHTC Prices at Closing, by HFA in 2009



Source: GAO survey of HFAs; Map Resources (map).

The two new programs that Congress designed, TCAP and the Section 1602 Program, would be implemented by the HFAs themselves as a means of boosting the production of affordable housing projects, including those that had been stalled by decreased demand and falling prices. These

programs were designed primarily as stopgap measures for affordable housing until demand for LIHTC could be restored.

- TCAP provides gap financing to be used by HFAs in the form of grants or loans for capital investment in LIHTC projects through a formula-based allocation to HFAs.¹⁶¹ HUD obligated \$2.25 billion in TCAP funds to HFAs. The HFAs were to award the funds competitively according to their qualified allocation plans, which explain selection criteria and application requirements for housing tax credits (as determined by the states and in accordance with Section 42 of the Internal Revenue Code).¹⁶² Projects that were awarded low-income housing tax credits in fiscal years 2007, 2008, or 2009 were eligible for TCAP funding, but HFAs had to give priority to projects that were “shovel-ready” and expected to be completed by February 2012. Also, TCAP projects had to include some tax credit equity from the sale of LIHTCs. HFAs must commit 75 percent of their TCAP awards by February 2010 and disburse 75 percent by February 2011. Project owners must spend all of their TCAP funds by February 2012. As of the end of April 2010, 52 HFAs were participating in the program, and all (except for South Carolina) had committed 75 percent of their funds by February of this year.¹⁶³ HUD can recapture TCAP funds from any HFA whose projects do not comply with TCAP requirements. In these cases, HFAs are responsible for recapturing funds from project owners. Furthermore,

¹⁶¹HFAs in each state, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands receive LIHTC allocations. The Recovery Act directed HUD to distribute TCAP funds in accordance with the fiscal year 2008 HOME Investment Partnerships Program (HOME) formula allocations to state participating jurisdictions, thereby limiting the funds to states as defined by the HOME (HOME formula). Guam and the U.S. Virgin Islands are defined as “insular areas” under HOME, rather than as “states,” and therefore, did not receive TCAP funds. While TCAP funds were distributed based on the HOME formula, HOME requirements generally do not apply to TCAP funds.

¹⁶²This report uses the terms obligation and outlays when discussing funds that HUD and Treasury provide to HFAs. By obligation, we mean that the respective federal agencies have entered into agreements with HFAs for a specified amount of funds. By outlays, we mean that the federal agencies have released funds to an HFA. We use the terms commitments and disbursements to discuss funds provided by HFAs to projects. By commitments we mean the HFA has entered into an agreement to provide funds to a project owner. By disbursement we mean that the HFAs have released funds to project owners.

¹⁶³HUD told us that South Carolina did not make the 75 percent commitment deadline because it did not have enough projects that needed TCAP assistance and that met the threshold requirements. HUD has requested that all HFAs tell HUD whether they will have uncommitted funds. HUD plans to reallocate uncommitted funds, including any from South Carolina, during the summer of 2010 to HFAs that need additional TCAP assistance.

because TCAP funds are federal financial assistance, they are subject to certain federal requirements, such as Davis-Bacon¹⁶⁴ and the National Environmental Policy Act (NEPA).¹⁶⁵ These acts, respectively, require that projects receiving federal funds pay prevailing wages and meet federal environmental requirements.

- The Section 1602 Program allows HFAs to exchange returned and unused tax credits for a payment from Treasury at the rate of 85 cents for every tax credit dollar. HFAs can exchange up to 100 percent of unused 2008 credits and 40 percent of their 2009 allocation.¹⁶⁶ HFAs may award Section 1602 Program funds to finance the construction or acquisition and rehabilitation of qualified low-income buildings in accordance with the HFA's Qualified Allocation Plan, which establishes criteria for selecting LIHTC projects. Section 1602 Program funds may be committed to project owners that have not sold their LIHTC allocation to private investors, as long as the project owner has made good faith efforts to find an investor. However, some HFAs have required Section 1602 Program projects to include some tax credit equity from private investors. Section 1602 Program funds are subject to the same requirements as the standard LIHTC program, and like TCAP funds, may be recaptured if a project does not comply with the requirements. HFAs may submit applications to Treasury for Section 1602 Program funds through 2010. The last day for HFAs to commit funds to project owners is December 31, 2010, but they can continue to disburse funds for committed projects through December 31, 2011, provided that the project owners paid or incurred at least 30 percent of eligible project costs by the end of 2010. Congress appropriated 'such sums as may be necessary' for the operation of the Section 1602 Program. The Joint Committee on Taxation originally estimated the budget impact of this program at \$3 billion. As of the end of April 2010, however, Treasury had obligated more than \$5 billion to HFAs in Section 1602 Program funds. A Treasury official stated that the agency did not expect to receive many additional applications before the December 31, 2010 deadline. Section 1602 Program funds are not considered by Treasury to be federal financial assistance and, therefore, the Section 1602 Program is not subject to many of the

¹⁶⁴40 U.S.C. 3141-3144, 3146-3148



¹⁶⁵42 U.S.C. 4321et seq.

¹⁶⁶Forty-nine HFAs, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands participated in the Section 1602 Program to date. New York is the only state that has not requested Section 1602 Program funds as of May 1, 2010.

requirements placed on TCAP. On December 9, 2009, the U.S. House of Representatives passed the Tax Extenders Act of 2009 (H.R. 4213), which includes an extension of the Section 1602 Program for 1 year. The Senate passed the bill renamed the American Workers, State, and Business Relief Act of 2010 with amendments on March 10, 2010. As of May 1, the bill was awaiting reconciliation.

Figure 22 summarizes the similarities and differences between the two programs.

Figure 22: Summary of Major TCAP and Section 1602 Program Requirements

	 TCAP	 Section 1602 Program
Administered by:	HUD	Treasury
Submissions:	Statement of Intent to receive TCAP funds from HFAs due to HUD June 3, 2009. Single application.	Rolling applications from HFAs to Treasury accepted through December 31, 2010. Multiple applications accepted.
Allocation method/type:	Formula allocation, to be administered as grant or loan program.	Exchange of tax credits at \$0.85/\$1.00, to be administered as a cash payment or noninterest bearing, nonrepayable loan program.
Tax credits required in funded projects?	Yes	No
Reporting requirements:	Complex (IDIS, RAMPS, federalreporting.gov)	Simple (Treasury Spreadsheet)
Other requirements:	Federal requirements apply (NEPA, Davis Bacon, and others)	
	Projects must adhere to requirements of the Section 42 LIHTC program (rent, income, use restrictions)	
	HFAs responsible for asset management	
	HFAs must impose recapture conditions and restrictions	

Source: GAO analysis of TCAP and Section 1602 Program information.

As of April 30, 2010, HUD reported that it had made outlays of about \$371 million (16.5 percent) from the \$2.25 billion in TCAP funds obligated to all HFAs. Treasury had made outlays of about \$742 million (13.6 percent) from the \$5.45 billion in Section 1602 Program funds obligated to all HFAs. In five previous Recovery Act reports, we have collected and reported data

on programs receiving substantial Recovery Act funds in 16 selected states and the District of Columbia. These 16 states and the District of Columbia together have about 65 percent of the U.S. population and will receive an estimated two-thirds of the TCAP funds and about 60 percent of the Section 1602 Program funds. Figure 23 lists the TCAP and Section 1602 Program obligations and outlays for the 16 states and the District of Columbia as of April 30, 2010.

Figure 23: TCAP and Section 1602 Obligations and Outlays for the 16 States and the District of Columbia as of April 30, 2010

	TCAP	Obligations	Outlays	Percentage	Section 1602 Program	Obligations	Outlays	Percentage
Arizona		\$32.3	\$13.5	41.7%		\$37.6	\$0.0	0.0%
California		325.9	25.5	7.8		478.1	42.4	8.9
Colorado		27.4	7.2	26.5		17.8	5.6	31.5
Washington, D.C.		11.6	5.7	49.3		33.8	0.2	0.7
Florida		101.1	16.7	16.5		580.4	22.9	3.9
Georgia		54.5	13.3	24.4		195.6	27.6	14.1
Illinois		94.7	22.9	24.2		264.5	16.9	6.4
Iowa		19.0	4.5	23.9		72.8	33.9	46.6
Massachusetts		59.6	10.2	17.1		110.3	4.1	3.8
Michigan		64.0	9.2	14.4		285.9	12.3	4.3
Mississippi		21.9	0.0	0.0		29.7	0.0	0.0
New Jersey		61.2	3.6	5.9		123.5	29.5	23.9
New York		252.7	63.7	25.2		0.0	0.0	0.0
North Carolina		52.2	3.0	5.8		95.0	48.9	51.4
Ohio		83.5	5.5	6.6		118.1	19.5	16.5
Pennsylvania		95.1	17.8	18.7		229.9	76.0	33.0
Texas		148.4	4.6	3.1		594.1	15.2	2.6
Total		1,504.9	227.0	15.1		3,267.0	355.0	10.9

Dollars obligated (in millions)
 Dollars outlaid (in millions)

Source: GAO analysis of HUD and Treasury data.

The differences in the TCAP obligations across the states and the District of Columbia are a result of HUD's HOME formula, which is based on

State Housing Finance
Agencies Expected TCAP and
the Section 1602 Program to
Help Fund More Than 116,000
Units Subject to LIHTC
Requirements Nationwide

population size and which HUD used to set the amount of TCAP funds for each HFA as required by the Recovery Act. This formula results in larger states receiving more TCAP funds. The difference in the Section 1602 Program obligations across the states and the District of Columbia is the result of the levels requested by each HFA. In those states that had a larger number of unused and returned tax credits and in which there was a demand for affordable housing projects, the HFAs may have requested a larger obligation of Section 1602 Program funds. The difference in spending across the 16 states and the District of Columbia depends on the level of construction activity, the HFA's implementation timeline, and when the HFA requested Section 1602 Program funds. For example, Treasury officials told us that the Mississippi Home Corporation requested funds for the first time in February 2010. As figure 23 shows, Arizona, Colorado, New York, and the District of Columbia have disbursed more than 25 percent of their TCAP funds, and Colorado, Iowa, North Carolina, and Pennsylvania have disbursed more than 25 percent of their Section 1602 Program funds.

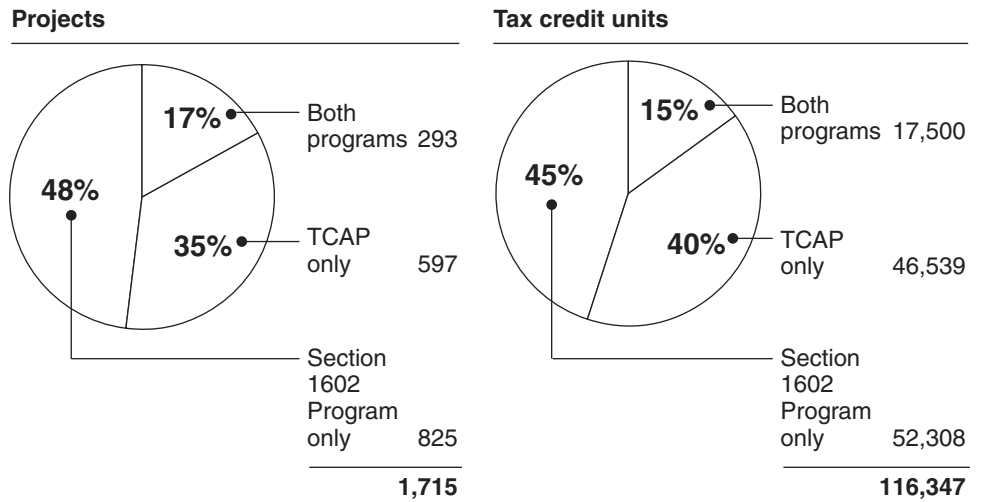
To determine the magnitude of the impact that HFAs expected from the two programs, we conducted a Web-based survey of all 54 HFAs that received TCAP and Section 1602 Program funds. All HFAs responded.¹⁶⁷ Almost two-thirds of the HFAs (35) reported that the two programs would have a high impact on developing a healthy affordable housing market, and an additional 14 said that the two programs would have some impact. Four thought that the two programs would have "little or no" impact, and one did not know. The HFAs reported that they were expecting to develop or rehabilitate more than 116,000 tax credit units in about 1,700 projects using TCAP and the Section 1602 Program.¹⁶⁸

Figure 24 illustrates the number of projects and tax credit units that states expect to develop under each program and, in some instances, by combining programs.

¹⁶⁷We also interviewed a cross-section of HFAs and conducted site visits of projects that had received either TCAP or Section 1602 Program funds. The Georgia, Illinois, Ohio, and Pennsylvania appendixes in the e-supplement of this report provide information on our site visits ([GAO-10-605SP](#)).

¹⁶⁸A "tax credit unit" is a unit that is subject to rent and income restrictions under the LIHTC requirements.

Figure 24: Number of Projects and Tax Credit Units Expected to Be Developed under TCAP and the Section 1602 Program



Source: GAO survey of HFAs.

HFAs told us that 411 of the 1,715 projects expected to be developed had previously been stalled—that is, construction had been put on hold due to financing issues. Of these stalled projects, HFAs said that 63 had received LIHTC allocations in 2007, 242 had received allocations in 2008, and 106 had received allocations in 2009. About 129 of the 411 stalled projects were restarted with TCAP funds, 178 were restarted with Section 1602 Program funds, and about 50 were restarted using both TCAP and Section 1602 Program funds. The remaining projects (54) were either restarted without TCAP or Section 1602 Program funds or remained stalled.

As previously noted, about 16.5 percent of TCAP funds and 13.6 percent of Section 1602 Program funds had been disbursed by HFAs to projects as of April 30, 2010. Many projects are in the planning or early construction phase and, therefore, significant amounts of funds have not been disbursed. Other projects, however, are further along. Figure 25 includes examples of TCAP and Section 1602 funded projects in various phases of development.

Figure 25: Examples of TCAP and Section 1602 Program Funded LIHTC Projects



Denver Gardens located in Denver, Colorado is a 100 unit project funded with TCAP funds by the Colorado Housing and Finance Authority (CHFA). CHFA's Denver Gardens was the first TCAP project in the country to receive TCAP funds. The project owner of Denver Gardens is rehabilitating all units and common areas including expanding the activities room pictured on the right.



Southview Senior Apartments is a 40 unit building for seniors in Des Moines, Iowa. The Iowa Finance Authority (IFA) committed Section 1602 funds to the project after the project's initial investor refused to provide its Tax Credit Equity just after the project owner had finished construction. The Section 1602 funds filled a substantial financing gap, and the project owner was able to make arrangements with a new investor despite the drop in tax credit prices over time. IFA told us that this project would have faced foreclosure without the assistance of Section 1602 program funds.



The project owner of Bayside Village in Pascagoula, Mississippi is preserving the exterior windows and many of the blackboards and lockers in the historic renovation of a high school built in 1937. The school will be renovated into 57 apartment units for the independent elderly using Section 1602 Program funds from the Mississippi Home Corporation.

Source: GAO.

Consistent with Recovery Act requirements to give priority to TCAP projects expected to be completed by February 2012 and to meet

commitment and disbursement deadlines under both the TCAP and Section 1602 Program, HFAs reported that the most important criterion for selecting projects under both programs was the project owners' ability to meet program deadlines. In both survey comments and follow-up interviews, HFAs cited readiness to proceed as the major determinant in drafting selection criteria for both programs. In the case of TCAP, HFAs noted previous compliance with federal requirements such as NEPA and Davis-Bacon as the second most important selection criterion. HFAs indicated that the status of financing was critical for both programs. Most of the selection criteria reflect the priority for shovel-ready projects, such as having engineering and construction drawings completed and plans submitted for local approval. Figure 26 ranks HFA selection criteria based on the relative frequency with which HFAs responding to our survey reported that a particular criterion was very important when committing TCAP and Section 1602 Program funds.

Figure 26: Ranking of HFA Selection Criteria Based on Level of Importance for TCAP and Section 1602 Program Funds

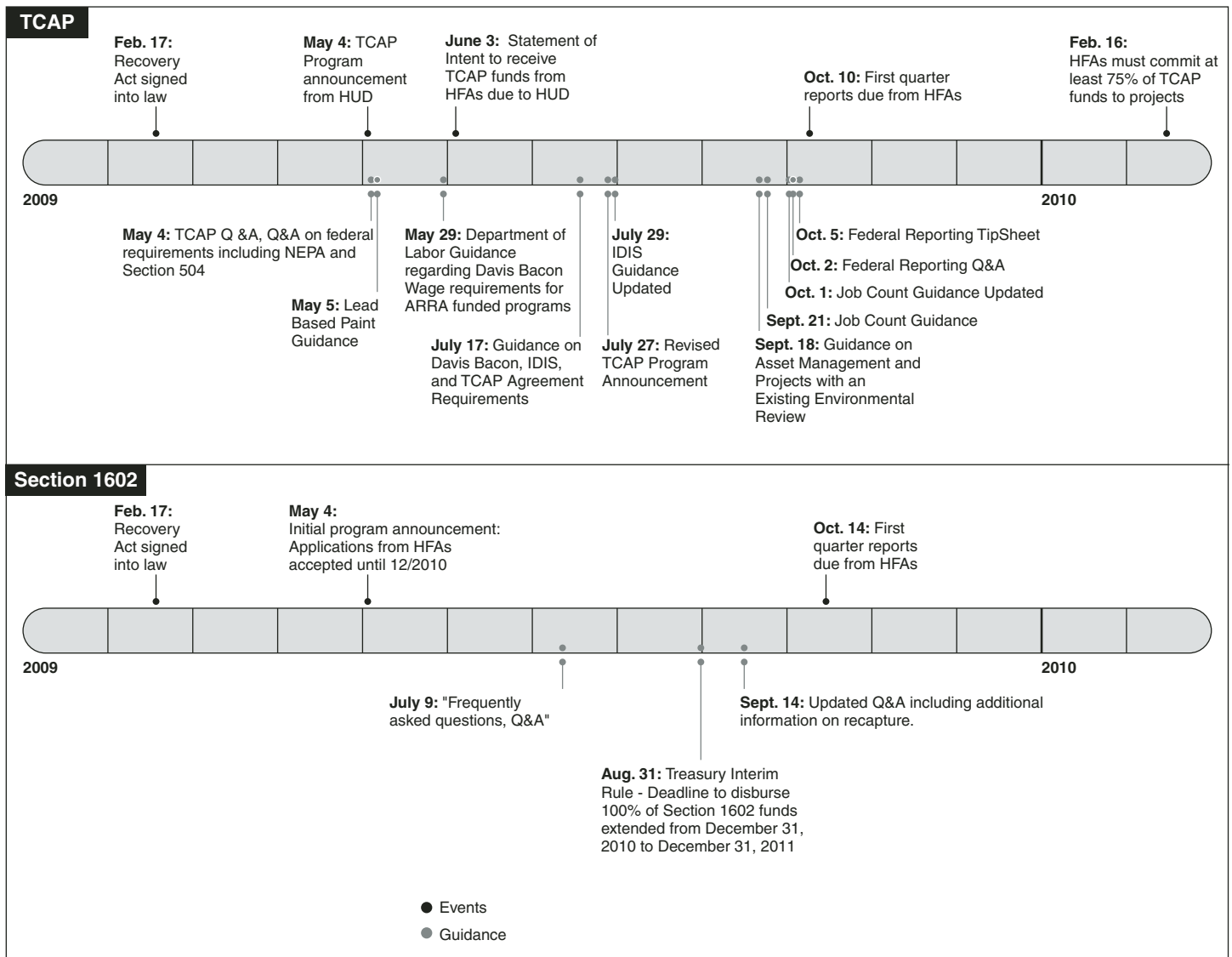
TCAP	Selection criteria ranking	Section 1602 Program
① Ability to complete project within program deadlines		
Project has met or will meet federal requirements including prevailing wage and environmental review	②	Status of financing
Status of financing	③	Development team capacity and track record
Commitment of investors	④	Extent to which projects meet critical housing needs in your state.
Development team capacity and track record	⑤	Status of engineering and construction drawings completed
Status of engineering and construction drawings completed	⑥	Certified documentation of estimated date of closing
⑦ Submission of plans or approvals to local government		
Extent to which projects meet critical housing needs in your state.	⑧	Amount of tax credits with investor commitment
Certified documentation of estimated date of closing	⑨	Job creation
Job creation	⑩	Tax credit allocation year (e.g., preference for projects allocated older tax credits)

Source: GAO survey of HFAs.

HUD and Treasury Had Limited Resources and Time to Develop New Program Guidance

Because TCAP and the Section 1602 Program were new programs for HUD and Treasury, respectively, the agencies needed to develop guidance that covered all aspects of the programs. Further, both TCAP and the Section 1602 Program had to be structured to be consistent with the existing LIHTC program, so the guidance had to be carefully crafted. Moreover, HUD had to develop additional guidance to address the federal requirements that applied to TCAP. To meet these challenges, HUD and Treasury issued initial program guidance in early May 2009 and followed up with clarifying guidance as shown in the following Figure 27.

Figure 27: Timeline of TCAP and Section 1602 Program Implementation, February 2009-February 2010



Source: GAO analysis of TCAP and Section 1602 Program information.

The timing of HUD’s guidance for TCAP, which HUD revised frequently, presented challenges to some HFAs. HUD required that HFAs apply for TCAP funds by June 3, 2009, just 30 days after the initial program announcement. According to our survey, by July 31, 2009, at least 16 HFAs had begun accepting applications from project owners for TCAP funds. However, HUD continued issuing clarifying guidance on certain TCAP

requirements on 10 separate dates between May and November 2009. In our Web survey of 54 HFAs, 10 HFAs noted challenges in program implementation related to HUD's gradual release of guidance. However, many HFAs recognized the challenges posed by the creation of a new program and, when asked whether they were satisfied with the assistance they received, gave HUD a positive score. Overall, about two-thirds (34) of the HFAs told us that they were very or somewhat satisfied with HUD assistance. Nine responded that they were somewhat dissatisfied, and one said that it was very dissatisfied. Nine HFAs said they were neither satisfied nor dissatisfied, and one HFA did not answer the question. In response to open-ended questions about HUD assistance, 10 HFAs specifically commented on the challenge of developing the program given the timing of TCAP guidance.

According to HUD officials, developing TCAP (and its associated forms and guidance) represented a significant challenge because the agency was granted no additional administrative resources. HUD's Office of Affordable Housing Programs administers TCAP, and four existing staff from the HOME program have been given the additional task of working part-time on the program. In addition to the limited resources dedicated to developing and administering the program, HUD officials noted the tight statutory timelines for implementation as a challenge to developing guidance. Congress passed the Recovery Act in February 2009, and HUD issued its initial announcement on TCAP in May 2009 so that HFAs could begin to implement TCAP at the state level. As we have seen, HUD must ensure that TCAP recipients are compliant with federal requirements such as Davis-Bacon and NEPA and must also meet the recipient reporting requirements of the Recovery Act. HUD noted that creating guidance on these requirements took special consideration, especially because some of the requirements were unfamiliar to many participants in the LIHTC program.

Treasury also faced challenges in implementing a new program that had to be consistent with the existing LIHTC program within a short time frame. Treasury officials told us that they operate the Section 1602 Program with five staff who work on the program about 25 percent of the time. Unlike TCAP, where HUD did not receive funds for administrative expenses, Treasury received funds to assist in its implementation of the Section 1602 Program. According to Treasury officials, of the amount appropriated to Treasury under the Recovery Act to cover administrative expenses, approximately \$3 million has been made available to the Office of the Fiscal Assistant Secretary to operate both the Section 1602 and Section 1603 (Renewable Energy) Programs. The program director said that staff

assigned to the program also had the benefit of guidance from two Internal Revenue Service (IRS) staff that were very knowledgeable with LIHTC requirements. Treasury's approach was to issue guidance at the beginning of the program and then follow up with clarifying "Frequently Asked Questions" in response to specific inquiries posed by industry participants such as HFAs, project owners, and attorneys. Treasury issued its initial program announcement in May 2009 as well but did not provide additional guidance until July, when it issued clarifications in the form of frequently asked questions, which it updated in September 2009. Treasury designed a program that accepted multiple applications from HFAs for an extended period (until December 31, 2010). This approach allowed HFAs time to gauge needs and apply for funds accordingly. Treasury noted that the speed at which the program needed to be implemented combined with the need to make the program guidance consistent with existing LIHTC rules took time and posed challenges. However, because the Section 1602 Program was not subject to the same federal requirements as TCAP, Treasury was able to develop a more streamlined program.

Overall HFAs were pleased with the assistance Treasury provided. In response to our survey, the majority of HFAs (46) reported that they were very or somewhat satisfied with Treasury's assistance, 6 were neutral, and 1 was dissatisfied. In response to an open-ended question asking for comments on the type of assistance received from Treasury, 20 HFAs said that Treasury staff were responsive to their inquiries. A few HFAs commented that the guidance was sensible (6), but others said that it was delayed or unclear (7).

HFAs Expressed Concerns with Restrictions on Structuring Section 1602 Program Disbursements and Potential Liability for Recapture of Funds under Both Programs

HFAs Were Concerned about Requirements for Structuring Section 1602 Program Disbursements

HFAs said they were limited by Section 1602 Program restrictions that prevented them from structuring their disbursements to project owners as conventional loans. Treasury's initial program announcement on May 1, 2009, required HFAs to disburse Section 1602 Program funds as grants rather than loans, and later clarified its guidance to allow non-interest-bearing, nonrepayable loans. Treasury guidance states that funds are repayable in the event of recapture due to noncompliance. In response to our open-ended survey questions on how the Section 1602 Program could be improved and how HFAs plan to manage program compliance, seven HFAs recommended changing Treasury's guidance to allow HFAs to disburse funds as repayable loans. In our follow-up interviews, HFAs cited three reasons for their concerns.

First, some HFAs we interviewed told us that grants and the loans allowed by Treasury were more difficult to secure and enforce in both the short- and long-term than conventional loans. HFAs told us that using conventional loans gave them a better bargaining position when negotiating with other lenders to establish the order in which funds will be repaid when due and upon events of default. HFAs also said they can use loan provisions to demand repayment in the event the project owner does not comply with Section 1602 Program requirements and the funds need to be recaptured and returned to Treasury during the 15-year compliance period. Further, HFAs said courts are more familiar with enforcing conventional loans.

Second, some HFAs we interviewed reported that projects may be capable of covering debt service and noted that the inability to require these projects to repay Section 1602 Program funds represented a lost source of funding for future affordable housing development by HFAs. One national investor with whom we spoke also noted that while repayable loans might pose some accounting concerns for investors, repaid loans would be a source of needed resources in further developing affordable housing. This investor stated that if HFAs could choose how to structure disbursement of these funds on a case-by-case basis, they could optimize the use of federal funds while ensuring that the structure fits the investor's terms for the transaction.

Third, some HFAs said that Section 1602 Program funds should be treated the same as TCAP funds. Both programs were designed to provide gap financing for LIHTC projects. HUD allows HFAs to provide TCAP funds to projects through grants or loans and gives the HFAs flexibility to make the decision on a case-by-case basis. The Director of the Office of Affordable Housing Programs, which implements TCAP, told us that TCAP is included under the HOME section of the Recovery Act and so HUD allowed loans as it does under the HOME program. Further, HUD said that the Recovery Act did not prohibit HFAs from making loans by HFAs to project owners, and thus HUD gave HFAs the flexibility to make loans or grants as appropriate for each project. In contrast, a Treasury official told us that Treasury considered allowing conventional loans after receiving feedback from HFAs and project owners; however, Treasury determined that the Recovery Act did not provide the authority for HFAs to issue loans. Without the flexibility to disburse Section 1602 Program funds as conventional loans, HFAs would be limited in securing their interests and enforcing program requirements in the short- and long- term.

Many HFAs Fear That They Could Be Liable for Recapture of TCAP and Section 1602 Program Funds

HFAs raised concerns about their liability for recapturing and repaying funds to Treasury and HUD if project owners failed to comply with LIHTC requirements. Although TCAP and the Section 1602 Program helped provide gap financing for low-income housing projects, 16 of the 54 HFAs in our survey responded to open-ended questions by citing concerns about HFA liability under both the TCAP and Section 1602 Program recapture provisions. HFAs are responsible for returning funds to HUD and Treasury if a project is not placed in service or fails to comply with LIHTC requirements. Under both programs, HFAs are responsible for imposing recapture conditions and restrictions on project owners. In contrast, under the conventional LIHTC program, HFAs are not liable for recapturing funds if a project owner fails to comply with LIHTC requirements. Rather, their obligation is to report any noncompliance to the IRS, and the IRS takes any further action with respect to recapture.

With respect to TCAP, HFA officials told us that they viewed HUD's guidance on recapture as too stringent because HUD required HFAs to fully return all TCAP funds to HUD if a project owner did not comply with TCAP deadlines or LIHTC requirements. In contrast, the conventional LIHTC program requires project owners, rather than the HFAs, to return a graduated amount of their tax credits, with the amounts based on the timing of the noncompliance over the 15-year compliance period.

With regard to the Section 1602 Program, in May 2009, Treasury provided initial guidance on recapture, but the information was unclear about recapture amounts and HFA liability in the event it is unable to recapture funds from project owners. In September 2009, Treasury clarified that the amount recaptured would be the amount of the Section 1602 Program award minus one-fifteenth of the total for each year of the 15-year compliance period in which compliance was not at issue. Also, it established that if an HFA was unable to collect the recapture amount from a liable party, then Treasury would not require the HFA to return the Section 1602 Program funds for that project, as long as the HFA took "all appropriate actions" to collect the funds from the liable party. While some HFAs said that Treasury's September guidance was helpful, others said they thought Treasury should more clearly specify what it would consider appropriate actions.

Treasury officials told us they are concerned that any attempt to apply a nationwide definition of "appropriate action" to all HFAs and to all

circumstances could be counterproductive. Treasury officials said that noncompliance is fact specific and actions appropriate in one instance are not necessarily appropriate in other instances. State laws as well as specific contract terms may also impact HFA actions. Additionally, Treasury officials were concerned that HFAs may interpret such guidance as a justification to limit their activities to those provided in the guidance in circumstances where other actions may be more appropriate. Treasury said they will be conducting compliance reviews with each HFA and suggested that a more effective approach may be to discuss and evaluate each HFA's plans with respect to recapture during the reviews. However, we believe that the absence of clearly defined actions that HFAs must take could lead to inconsistent enforcement of the recapture requirement across HFAs. Treasury can make clear that these actions represent the minimum that should be done but are not the only actions HFAs are expected to take to recapture funds from project owners.

In our interviews with HFAs, one HFA official told us that concerns about risk and liability related to recapture of funds from either program delayed his agency's board decision to approve participation in the programs. As a result, this agency did not request Section 1602 Program funds under Treasury's rolling application process until February 2010, thereby delaying the implementation of the Section 1602 Program in his state. In addition, in response to an open-ended question in our survey that asked about managing the recapture provisions, HFAs noted they were unsure whether they would have sufficient resources to return funds to HUD or Treasury if they were unsuccessful or delayed in obtaining funds from the project owners. Two HFAs commented on state law limitations to enforcing recapture or the possibility of lengthy court proceedings related to enforcing recapture. These challenges are made more complex without the HFA knowing what efforts they need to take to meet Treasury requirements in taking appropriate actions. Without greater specific guidance for HFAs on what constitutes appropriate recapture actions, Treasury cannot fully ensure consistent program compliance across all locations.

HFAs Reported Other Challenges Associated with Implementing TCAP

Responses to our survey of the 54 HFAs suggested that implementing TCAP challenged the agencies in several ways. As we have seen, many HFAs reported that both TCAP and the Section 1602 Program had a high impact in terms of funding construction projects, particularly those that had been stalled. TCAP contained requirements that were not included in the LIHTC or Section 1602 Programs. HFAs said these requirements increased their administrative costs and prevented them from fully reporting TCAP program impact. As TCAP is a temporary program in

which HFAs had committed more than 75 percent of funds and project owners are taking steps to comply with these requirements, it may not be feasible to fully consider and address these issues. The HFAs' perception of these issues may be useful to policymakers in designing similar programs in the future.

First, TCAP was subject to the Davis-Bacon provisions of the Recovery Act, which require that all laborers and mechanics employed by contractors and subcontractors on Recovery Act-funded projects be paid at least the prevailing wage, including fringe benefits.¹⁶⁹ This provision applied to all TCAP projects, regardless of size. In contrast, Davis-Bacon is not triggered under other HUD programs unless the project includes a minimum number of units. For example, Davis-Bacon is not triggered unless a project financed with HOME funds includes 12 or more units. Forty-eight HFAs reported that a total of 681 projects (40 percent of all expected TCAP projects) would not have been required to comply with Davis-Bacon prior to receipt of TCAP funds. In a prior report, we found that federal, state, and local officials responsible for programs that are newly subject to Davis-Bacon requirements had mixed views on the extent to which they expected these requirements would affect program costs.¹⁷⁰ Our survey of HFAs participating in TCAP generally showed that they expected increases in both the cost to administer the program and delays in construction as a result of meeting these requirements. In one case, the requirement more than doubled an HFA's monitoring workload compared with its past HOME-funded projects. In addition, 32 HFAs reported increases in administrative costs of up to 10 percent due to complying with Davis-Bacon monitoring and reporting. HFAs also reported increases in project development costs as a result of applying Davis-Bacon wages. Fifteen HFAs said that they expected increased project costs of up to 5 percent, 9 reported increases of 5 to 10 percent, 4 reported increases of 11 to 15 percent, and 6 reported increases of 16 to 20 percent. Figure 28 shows the expected administrative and project development costs related to Davis-Bacon compliance.

¹⁶⁹Section 1606 of the Recovery Act applies Davis-Bacon to all programs under Division A of the act, which includes TCAP.

¹⁷⁰GAO, *Recovery Act: Officials' Views Vary on Impacts of Davis-Bacon Act Prevailing Wage Provision*, GAO-10-421 (Washington, D.C.: Feb. 24, 2010).

Figure 28: Expected Percentage Cost Increases for Complying with Davis-Bacon, by HFA Survey Response

Expected cost increase associated with Davis Bacon compliance	Number of HFAs	
	Increased HFA administrative costs	Average increased per project development costs
None	6	4
More than 0% to less than 5%	17	15
5-10%	15	9
11-15%	2	4
16-20%		6
21-25%		2
26-30%	2	2
More than 30%	3	1
Don't Know (Did not respond)	8 (1)	8 (3)






Source: GAO survey of HFAs.

Some HFAs, project owners, and investors reported that projects in rural areas were likely to face the most difficulties in introducing Davis-Bacon wages because the wages negotiated in construction contracts in rural areas are often lower than wages required by Davis-Bacon. For example, an HFA we interviewed told us that one of its rural project owners applied for Section 1602 Program funds, which do not require Davis-Bacon compliance, because it expected the Davis-Bacon wages would make its projects cost-prohibitive. In our prior reports, we recognized that HUD, in implementing its Lead Hazard Reduction Program under the Recovery Act, reported that grantees were provided additional time to complete their work plans to ensure contractors understood Davis-Bacon requirements. Federal officials and program participants should consider the needed time and costs for meeting these requirements as they establish plans and guidance. Likewise, in creating similar programs with differing requirements, policymakers should recognize that program participants will select those projects with the least restrictions.

Second, the Recovery Act requires TCAP projects to comply with NEPA requirements for environmental reviews. HFAs told us that they expected this requirement would delay the start of construction on TCAP projects. Twenty HFAs expected up to a 3-month delay in start of construction between a project owner's application for TCAP funds and HUD's

approval to use TCAP funds, 19 HFAs expected a 3 to 6 month delay, and 6 expected a 6 to 9 month delay (see fig. 29). One HFA stated that it set a 120-day closing deadline on project owners after committing TCAP funds and that the environmental review process was the most common reason projects could not meet this deadline.

Figure 29: Number of HFAs Citing Delays in Starting Construction Caused by NEPA Compliance

	Number of HFAs	
Expect up to a 3 month delay		20
Expect a 3-6 month delay		19
Expect a 6-9 month delay		6
Answered "Don't Know"		2
Did not answer the questions		7

Source: GAO survey of HFAs.

Half of the HFAs expected up to a 5 percent increase in HFA administrative costs related to compliance with NEPA. HFAs said that the costs, which must be paid from HFA funds, relate to staff time and contract fees for outsourcing NEPA reviews and compliance monitoring. One HFA we conducted a follow-up interview with reported that the cost would be about \$160,000 in staff time and resources. Another HFA reported the cost of hiring an engineering firm to conduct environmental reviews was \$200,000. Four of the 10 HFAs we interviewed told us that some projects were delayed because the HFA had to repeat the NEPA process for projects in which a different funding entity had already completed a previous review. For example, if a local jurisdiction had completed an environmental review for a project under the HOME program that later received a commitment of TCAP funds from an HFA, in many cases, the project would have to undergo a second NEPA review. A HUD official told us that unless the environmental condition of the property had changed since the completion of the last review, the new review should be straightforward because the HFA can accept the existing environmental tests and studies. However, even in the case where there is no change in environmental condition, the HFA still must comply with paperwork and public notice requirements. The HUD official we interviewed said that in these circumstances, the administrative and public notice process adds a minimum 30-day delay to the release of TCAP funds. HUD could not tell us the number of projects that needed second NEPA reviews. One HFA with no NEPA experience told us that it had selected

TCAP projects with previously-completed NEPA reviews because it understood that no additional review would be required for these projects. When it discovered that it would need to hold a public comment period, this HFA initially thought that HUD had changed its NEPA guidance. Later this HFA recognized that it had misunderstood the process. In the future, clearer guidance from federal officials to recipients that have little experience with program requirements may avoid such misunderstandings. Also, federal officials should consider how to best implement streamlined processes while ensuring compliance with environmental assessment provisions.

Finally, HFAs also noted that they were concerned about underreporting jobs that TCAP funds created because of OMB's requirement that they count only jobs directly resulting from TCAP funding. However, in some cases, TCAP funds were used to purchase land or acquire existing properties and therefore had limited, if any, direct jobs impact. But most of the HFAs we followed up with said that most of the projects receiving TCAP funds would not have moved forward without TCAP and that no jobs would have been created or retained without the injection of those funds. We previously reported that some program recipients were concerned with how jobs were counted.¹⁷¹

Conclusions

HUD and Treasury had limited resources and time to develop two new programs, TCAP and the Section 1602 Program, respectively. Overall, HFAs have been satisfied with assistance received from HUD and Treasury and report that the programs will have a high impact on the health of affordable housing in their states. However, two major concerns noted by HFAs in our survey and follow-up interviews related to what constitute appropriate HFA actions for recapture of Section 1602 Program funds if the project owners fail to comply with program requirements and the inability to structure Section 1602 Program financing as conventional loans.

Under the TCAP and Section 1602 Program, HFAs have greater responsibility for recapturing funds than they do under the conventional LIHTC program. Treasury requires HFAs to return a portion of the funds

¹⁷¹GAO, *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) and *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C.: Mar. 3, 2010).

from project owners who have not complied with LIHTC requirements. Some HFAs said they were concerned about paying back funds themselves if they could not recover funds from the owners. Although Treasury has said that HFAs would not be liable if they had taken all appropriate actions to collect the funds, it has not specified what actions they would have to take in order to avoid liability. Treasury expressed concern that a definition of appropriate actions that would apply nationwide would be counterproductive, because each case of noncompliance was likely to be different. Further, Treasury feared that HFAs would seek to meet only the established standards and would not pursue all possible avenues for recapturing funds on a case-by-case basis and that it preferred to discuss and evaluate each HFA's plans with respect to recapture during compliance reviews. However, the absence of clearly defined actions that HFAs must take could lead to inconsistent enforcement of the recapture requirement across HFAs. Treasury can make clear that these actions represent the minimum that should be done but are not the only actions that HFAs are expected to take to recapture funds from project owners.

Treasury's decision that Section 1602 Program funds must be administered as a grant or non-interest-bearing, nonrepayable loan limits the leverage HFAs have in enforcing and securing their interests. It also limits HFAs' ability to enforce compliance over projects in both the short- and long-term and prevents HFAs from using repaid Section 1602 Program funds for affordable housing development. The primary Treasury official overseeing the Section 1602 Program told us that they were aware of these concerns, but that the Recovery Act did not provide the authority for HFAs to disburse funds as interest-bearing, repayable loans. While the precise extent of Treasury's authority under the statute is not clear, we agree that the Recovery Act does not explicitly state that Treasury can permit the HFAs the flexibility to disburse Section 1602 funds as interest-bearing loans that provide for repayments.¹⁷² Allowing HFAs to choose whether the disbursement of Section 1602 Program funds as grants or interest-bearing loans that require repayment, as they can under the TCAP program, would simplify enforcement and better secure their interests.

¹⁷² Under the Section 1602 Program, the Treasury Department disburses "grants" to the HFAs and they, in turn, disburse the grants as "subawards" to the project owners. *See* section 1602(c)(1) ("A State housing credit agency receiving a grant under this section shall use such grant to make subawards to finance the construction or acquisition and rehabilitation of qualified low-income buildings.").

Recommendation to the Secretary of the Treasury

In order to increase the likelihood that HFAs will comply with Treasury's requirements for recapturing funds, the Secretary of the Treasury should define what it considers appropriate actions by HFAs to recapture funds in order to avoid liability when they are unable to collect funds from project owners that do not comply.

Matter for Congressional Consideration

To provide HFAs with greater tools for enforcing program compliance, in the event the Section 1602 Program is extended for another year, Congress may want to consider directing Treasury to permit HFAs the flexibility to disburse Section 1602 Program funds as interest-bearing loans that allow for repayment.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for review and comment. In a response from an official from the Office of the Fiscal Assistant Secretary, Treasury stated that it agreed with the recommendation that Treasury define what it considers to be appropriate action by HFAs to recapture funds in order to avoid liability. Treasury added that it believed any additional guidance must be focused on assisting HFAs in better understanding their obligations by providing more clearly defined standards and expectations, yet be sufficiently flexible to take into account these variations.

The Office of Head Start Awarded Most Expansion Funds within a Year of the Recovery Act's Passage, but Start-Up Challenges and Data Limitations Remain

Within a year of enactment of the Recovery Act, the Office of Head Start (OHS) had awarded most of the Recovery Act funds to expand the Head Start and Early Head Start programs.¹⁷³ As of March 16, 2010, OHS had committed 93 percent of the \$1.5 billion in Recovery Act funds OHS designated for expansion, making 832 grants, with a few remaining grants pending.¹⁷⁴ The Recovery Act provided \$2.1 billion for Head Start and Early Head Start programs, of which the agency designated a total of \$1.5 billion for expanding the number of children and families served by both programs through fiscal year 2011, as shown in table 10.¹⁷⁵ Consistent with the Recovery Act, a portion of the funds OHS designated for expansion were used to provide for training and technical assistance (T/TA) to the expansion grantees and to monitor the expansion grantees. Grantees provide services to children and families including educational, health, nutritional, social, and other services intended to promote the school readiness of low-income children.

¹⁷³The Head Start program, administered by the OHS 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. This report discusses the use of Recovery Act expansion funds and how OHS has assisted and monitored expansion grantees.

¹⁷⁴OHS plans to award an additional \$6.8 million in Recovery Act funds for the first year of expansion grants in certain states and territories within the next few months. When we spoke with OHS officials on April 27, 2010, they anticipated that these grants would all be awarded by the end of May 2010. These grants are part of the \$1.5 billion OHS designated for expansion under the Recovery Act. According to OHS officials, in the first round of applications that closed in June and July 2009, Alabama, Alaska, Arkansas, Connecticut, Hawaii, Louisiana, Mississippi, New Mexico, Puerto Rico, Tennessee, Wyoming, and other jurisdictions (Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States, and the Republic of Palau) had an insufficient number of applicants that demonstrated the ability to provide high-quality services and the full amounts available for those states and jurisdictions could not be awarded. Because Head Start Act funds are allocated under a prescribed formula ensuring that all states and territories receive a specified portion of available funds (42 U.S.C. §§ 9832(25) and 9835), OHS was unable to award all the funds required. OHS subsequently reissued a grant announcement for these states and territories.

¹⁷⁵123 Stat. 178. The Recovery Act appropriated \$1.1 billion specifically for Early Head Start expansion and the rest for activities under the Head Start Act generally. Of the latter amount, OHS designated \$200 million for Head Start expansion and \$200 million for Early Head Start expansion. The remaining \$600 million in funds was allocated for quality improvements, cost-of-living increases, and other purposes.

Table 10: Use of Recovery Act Funds

Dollars in millions	Recovery Act funds
Head Start expansion	\$200
Early Head Start expansion	1,178
Head Start and Early Head Start expansion training and technical assistance	114
Expansion subtotal	1,492
Quality improvement for existing grantees ^a	354
Cost of living adjustment for existing grantees ^b	122
OHS monitoring of grantees	33
State advisory councils ^c	100
Nonexpansion subtotal^d	609
Total	2,100

Source: GAO analysis of OHS data.

Note: The subtotals may not equal the total due to rounding.

^aThese funds can be used for improvements such as facilities upgrades, improving compensation, and increasing the hours of operation.

^bExisting grantees were eligible to receive cost of living adjustment funds of 1.8 percent for each eligible staff member.

^cState Advisory Councils encourage collaboration among grantees and states. Applications for these one-time grants are due August 1, 2010.

^dAccording to OHS, the amounts designated for quality improvements, cost of living adjustments, monitoring, and state advisory councils were determined consistent with the requirements of the Head Start Act.

Organizations that were already operating a Head Start or Early Head Start program, as well as organizations that had not operated a program previously, were eligible to apply for the Early Head Start expansion grants. Only existing Head Start grantees were eligible to apply for the Head Start expansion. As shown in table 11, OHS awarded funds to both Head Start and Early Head Start programs. Some of the Early Head Start funds went to programs that serve two specific populations: American Indian and Alaska Native (AIAN) programs enrolling children and families from federally recognized tribes or native Alaskan children and families, and Migrant and Seasonal Head Start (MSHS) programs enrolling children

of migrant farm workers.¹⁷⁶ In addition, 59 of the Early Head Start awards made as of March 16, 2010 went to grantees that had never operated either a Head Start or Early Head Start program.

Table 11: Allocation of First-Year Expansion Funds by Type of Grant, as of March 16, 2010

Dollars in millions		
	Funds awarded	Number of grants
Early Head Start	\$618	616
<i>AIAN</i>	17	21
<i>MSHS</i>	16	11
Head Start	96	216
Total	\$713	832
New grantees	57	59
Existing grantees	656	773
Total	\$713	832

Source: GAO analysis of OHS data.

OHS awarded grants in all 50 states and U.S. territories, as shown in table 12. A formula in the Head Start Act allocates Head Start funds across states and territories. Organizations within each state compete for the funds. Consistent with this formula, California received the most Recovery Act funding, followed by Texas and New York.

¹⁷⁶AIAN and MSHS programs also were eligible to apply for additional appropriated funds—apart from the Recovery Act funds—to expand Head Start programs. This expansion made \$10 million available each to existing AIAN and MSHS grantees to serve between 1,200 and 1,300 additional children and families. The Head Start Act permits AIAN organizations to reallocate funds, at their discretion, between Head Start and Early Head Start programs to address fluctuations in client populations. 42 U.S.C. § 9840(d)(3).

Table 12: Number of Grants, Clients, and Total First-Year Award Amounts for both Head Start and Early Head Start Expansion, by State and Territory, as of March 16, 2010

State or territory	Number of grants	Children and families to be served	Total amount awarded for the first year
Alabama	21	1,128	\$15,869,603
Alaska	6	266	2,824,526
Arizona	16	1,461	16,003,545
Arkansas	8	501	6,313,296
California	72	7,438	88,353,551
Colorado	16	812	9,676,172
Connecticut	8	325	3,366,791
Delaware	2	104	1,031,277
District of Columbia	3	133	1,077,636
Florida	36	3,086	40,018,934
Georgia	25	1,831	22,675,558
Hawaii	4	124	1,810,462
Idaho	12	293	3,209,489
Illinois	29	2,580	31,913,810
Indiana	25	1,383	13,872,177
Iowa	14	460	5,784,414
Kansas	23	592	6,498,184
Kentucky	19	1,024	13,015,408
Louisiana	10	675	9,591,673
Maine	5	232	2,540,600
Maryland	12	577	7,289,188
Massachusetts	20	769	10,090,446
Michigan	28	2,141	20,623,761
Minnesota	16	918	12,995,166
Mississippi	13	880	14,581,938
Missouri	24	1,143	14,532,652
Montana	4	224	2,519,080
Nebraska	14	393	4,946,028
Nevada	4	346	4,881,057
New Hampshire	4	132	1,659,939
New Jersey	27	1,215	13,625,931
New Mexico	14	576	6,987,851
New York	67	3,460	42,914,770
North Carolina	36	2,050	28,051,615

State or territory	Number of grants	Children and families to be served	Total amount awarded for the first year
North Dakota	5	158	1,744,890
Ohio	36	2,715	26,804,290
Oklahoma	21	1,073	13,817,759
Oregon	23	1,049	14,266,118
Pennsylvania	41	2,008	22,670,352
Puerto Rico	16	1,147	16,891,473
Rhode Island	4	170	1,373,942
South Carolina	22	1,067	13,235,933
South Dakota	4	160	1,637,248
Tennessee	21	753	9,950,162
Texas	57	4,632	54,632,804
Utah	11	514	5,926,852
Vermont	4	74	768,197
Virgin Islands	1	72	1,194,500
Virginia	25	974	11,350,911
Washington	28	1,272	16,784,652
West Virginia	10	472	5,618,418
Wisconsin	17	1,027	11,741,796
Wyoming	2	72	1,731,552
Grand total	985	58,681	713,288,377

Source: GAO analysis of OHS data.

OHS regional staff allocate expansion awards among budget categories through a Financial Assistance Award document (FAA). FAAs are legally binding and outline how grantees are expected to spend their funds. They state the terms and conditions of the grants, document each grantee's grant number and total award amount, and allocate the funds to budget categories representing different program elements, such as supplies. During the application process, reviewers analyze the applicant's budget for reasonableness; the amounts recorded in the FAA budget categories

represent OHS's conclusions about how organizations should generally spend their funds.¹⁷⁷

As shown in figure 30, the budget category that received the largest allocation of funds across grantees was staffing, including funds for personnel and benefits, which comprised about 40 percent of total expansion grant awards. Staffing covers a range of personnel including teachers, home visitors, bus drivers, food preparers, and administrators.

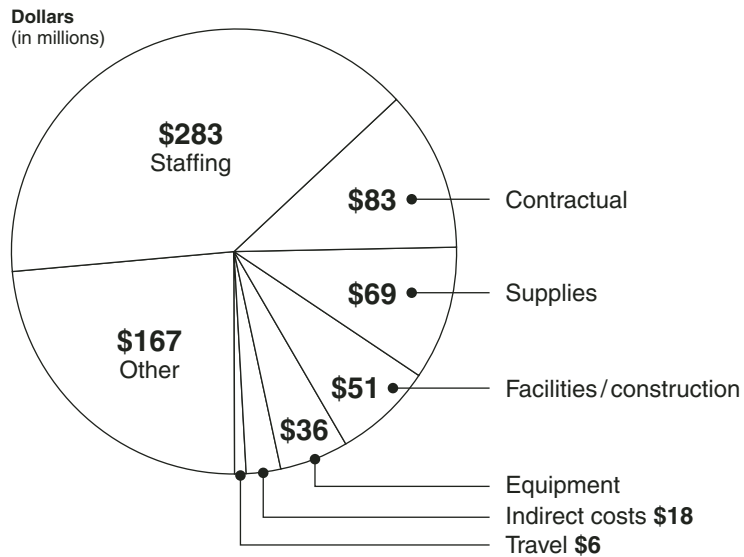
Significant funds were allocated to "other" purposes. Apart from staffing, budget categories included travel, equipment, supplies, facilities, contracts, and "other."¹⁷⁸ "Other" funds totaled \$167 million for the first year of the 2-year grant, representing 23 percent of total expansion awards, and the second-largest category after staffing, as of March 16, 2010. These funds can be used for various activities such as insurance, food, and administrative costs.

In addition to the budget categories, the FAA divides funds by start-up phase (totaling \$247.5 million nationwide) and ongoing costs of operating the program (\$434 million nationwide for the first year of the grants). Some funds were also designated for T/TA, which is used to hire or obtain expertise on developing a Head Start or Early Head Start program and conforming to the Head Start Performance Standards, the regulations against which all grantees are monitored (\$31 million nationwide for the first year of the grants).

¹⁷⁷The FAA typically allocates funds for the budget categories for the first year of the grant, which ends on September 29, 2010. For the second year of the grant, the FAA states the amount of ongoing and T/TA funds that have been approved, but not yet awarded. Department of Health and Human Services policy requires OHS to annually renew ongoing grants. According to OHS officials, dividing the grants over 2 years helps ensure the grantee has a reasonable budget in place to meet grant objectives. To award second-year funds, OHS will generate a new FAA near the end of fiscal year 2010 and divide the ongoing funds for the second year among the budget categories.

¹⁷⁸For example, contracts may be with entities such as start-up planning consultants, agencies to which grantees delegate funds to operate Head Start or Early Head Start programs, or food service providers.

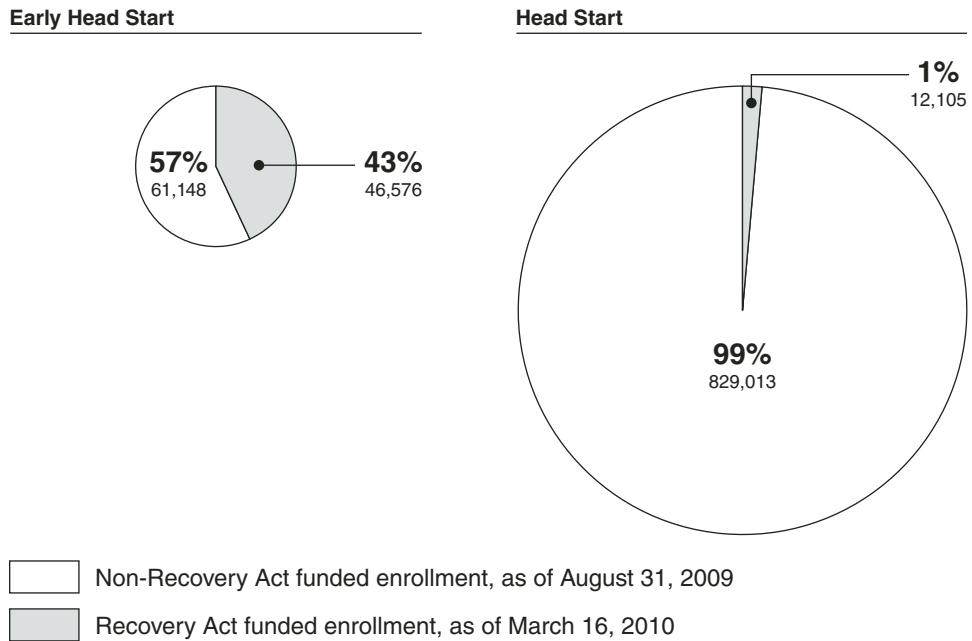
Figure 30: Budget Categories for and Amount of Expansion Funds Awarded for the First Year of the Grant Cycle, as of March 16, 2010



Source: GAO analysis of OHS data.

As of March 16, 2010, OHS had provided expansion funds for grantees to serve about 59,000 additional children and families: 12,000 children under the Head Start program, and about 47,000 additional infants, toddlers, and pregnant women under the Early Head Start program. These figures represent a relatively small increase in total funded capacity for Head Start but a significant increase for Early Head Start, as shown in figure 31. While the Head Start program was established in 1965, the Early Head Start program began in 1994 and has not been funded to enroll as many children and families as Head Start. In August 2009, before Recovery Act funding was provided for additional children and families, reported enrollment for Head Start and Early Head Start together was fewer than 900,000 clients. Reported enrollment had declined slightly in 3 of the past 5 years. The expansion funds will also add children and families to MSHS and AIAN Early Head Start programs, as shown in table 13.

Figure 31: Portion of Total Funded Enrollment for Early Head Start and Head Start Programs That Is Funded by Recovery Act Expansion Grants, as of March 16, 2010



Source: GAO analysis of OHS data.

Table 13: Number of Children and Families Funded to Be Served Under Recovery Act Expansion Grants, by Type of Grantee, as of March 16, 2010

	Number of children and families to be served
Early Head Start	46,576
AIAN	1,088
MSHS	1,116
Head Start	12,105
Total	58,681
New grantees	4,906
Existing grantees	53,775
Total	58,681

Source: GAO analysis of OHS data.

OHS's initial calculation of the number of children and families to be served by Recovery Act expansion funds underestimated the costs of serving each child. OHS originally thought Recovery Act funds would

Prolonged Grant-Making
Process for Early Head Start
Resulted in Low National
Drawdown of Funds and
Shortened Start-Up Periods for
Some Grantees

serve 14,100 additional children and families under Head Start and an additional 55,000 pregnant women, infants, and toddlers under Early Head Start. However, as of March 16, 2010, OHS had provided funding for about 12,000 under Head Start and about 47,000 under Early Head Start.¹⁷⁹ According to OHS officials, the initial goals were problematic for two reasons. First, they said that these projections were based on the average ongoing costs of serving children, but the averages incorporated many existing grantees that serve children for part of the day, while applicants for expansion funds more often sought funds to care for children all day, citing community demand. Historically, many Head Start programs have provided services for part of the day, which cost less than full-day services and enables the same funds to cover more children, albeit with fewer hours of service. However, mothers are now more likely to be in the workforce than when Head Start was established in 1965, so a partial-day schedule is somewhat less likely to meet families' needs than in the past unless it can be complemented by other types of child care. Second, officials also told us that higher costs for teachers than in the past may have affected the accuracy of projections for the number of children they thought programs could serve. Recent statutory changes increased the credential requirements for Early Head Start teachers starting September 10, 2010.¹⁸⁰ While participants in focus groups we conducted with Recovery Act expansion grantees remarked that job applicants were plentiful, many noted that finding qualified applicants was a challenge.¹⁸¹

OHS did not meet its initial goal to award Early Head Start expansion grants by the end of fiscal year 2009 due to several factors, contributing to a low drawdown (spending) rate and shortened start-up periods for some grantees. OHS posted the full Head Start and Early Head Start expansion grant announcements online May 4, 2009 and May 8, 2009, respectively, nearly 3 months after the Recovery Act was enacted (a synopsis of the announcement was published on April 2, 2009). The following month, OHS officials predicted that they would award most of the funds by the end of September 2009. However, by that time, only \$96 million in first-year funds

¹⁷⁹As of March 31, 2010, Recovery Act grantees reported enrolling nearly 29,000 children and families across both programs.

¹⁸⁰42 U.S.C. § 9840a(h)(1).

¹⁸¹We conducted seven focus groups with Recovery Act expansion grantees. The groups included both Head Start and Early Head Start grantees, as well as some brand new grantees. We asked participants about the challenges they faced expanding their program, and their experiences with OHS.

had been awarded, all to Head Start grantees, as shown in figure 32. Awarding of Early Head Start expansion grants began in November 2009 and continued through March 2010.

OHS officials explained that several factors slowed the process of making Early Head Start awards:

- **High volume of applications.** Instead of the 1,000 applications OHS expected, about 1,200 potential grantees applied for the \$1.5 billion available for expansion. These applications could be lengthy. OHS allowed 60 pages for the narrative section and an additional 60 pages for appendixes and other required submissions. According to OHS officials, panel reviews of all applications took about 6 weeks due to this unexpectedly high volume.
- **Application audits.** The Department of Health and Human Services (HHS) Office of the Inspector General (OIG) audited the fiscal management capabilities of potential brand-new grantees, those that had not previously received a Head Start or Early Head Start grant. As part of the application review process, OHS is required to review new potential grantees' fiscal capability.¹⁸² For Recovery Act expansion applicants, the OIG conducted the audits. Each of the 83 audits of potential new grantees lasted more than a week, according to officials, and some audits resulted in the exclusion of applicants from consideration. Once a potential grantee was excluded, OHS had to select a replacement. Sometimes the replacement applicant had to be reviewed by the OIG as well.¹⁸³
- **Governor approval.** The Head Start Act requires that OHS give the governor of each state with new grantees 45 days to disapprove the funds.¹⁸⁴ While no governor declined the funds, officials reported that response times varied.

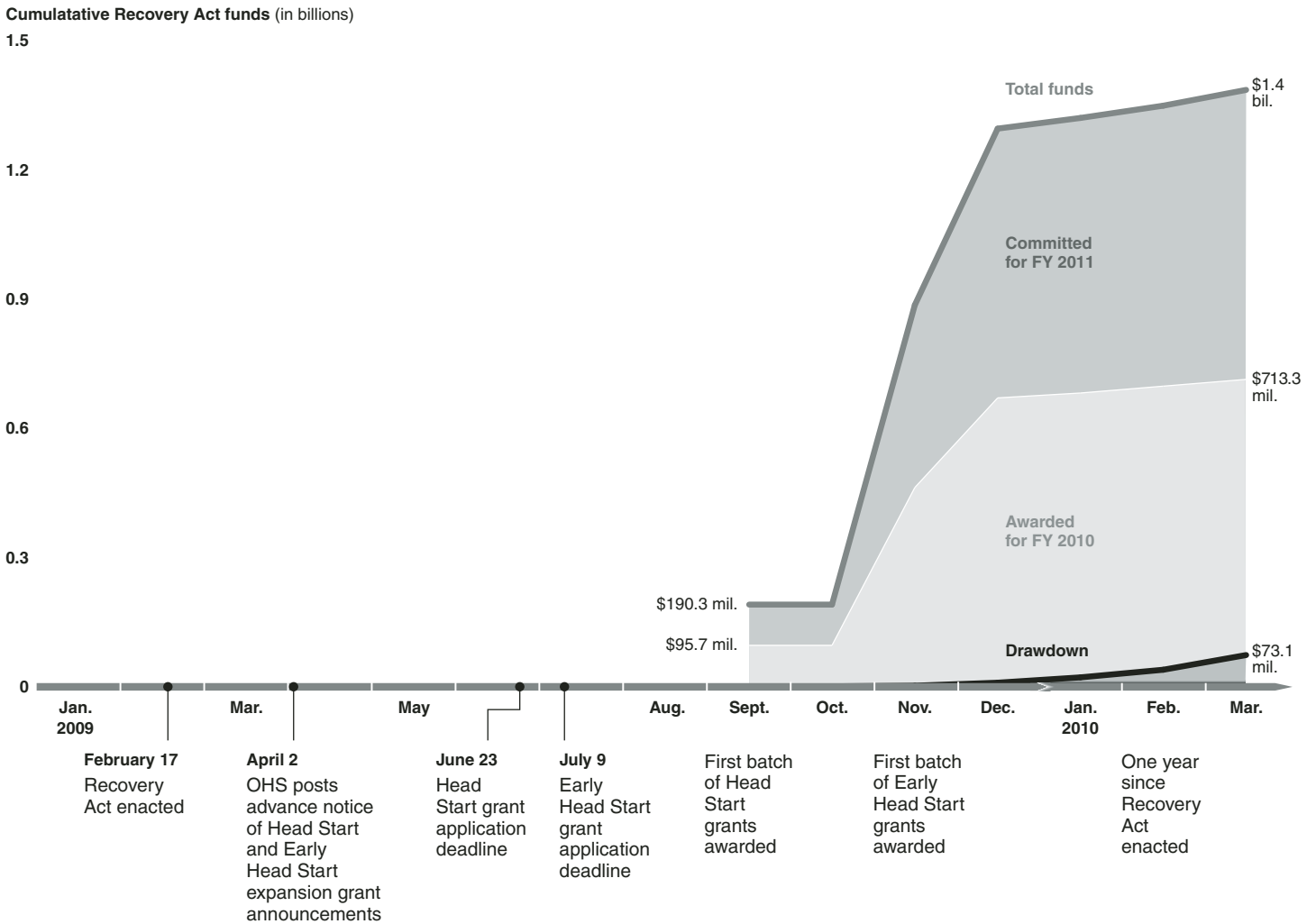
¹⁸²45 C.F.R. § 1302.10(b)(2) (2009).

¹⁸³These OIG audits focused on internal controls, understanding of Head Start program policies and procedures, board involvement, nonfederal matching funds, and cash-flow. As of April 21, 2010, the OIG had completed field work for 83 new Early Head Start expansion applicant audits. As applicants were rejected, new potential grantees would be reviewed. The OIG found conditions in 14 of its new applicant audits that resulted in displacing the applicant from further consideration. The individual results of these audits will not be released to the public, but they will be summarized in a report that characterizes the general findings.

¹⁸⁴42 U.S.C. § 9838.

The extended award-making process and payment delays may have contributed to the low amount that grantees have drawn down, or spent, as shown in figure 32. Once awards were made, some grantees experienced delays in receiving funds. OHS officials explained that a clerical problem caused delays in some grantees being able to access their grant funds through HHS's Payment Management System. Normally the system is designed to transfer funds to grantees within 1 or 2 business days, but HHS staff encountered problems entering some Recovery Act grants into the system. According to OHS officials, the problems caused delays for a few grantees in two regions. However, some participants in our focus groups told us that they could not access their funds for several days or weeks. As of March 31, 2010, more than a year after the Recovery Act was enacted, grantees had only drawn down 10 percent of the total \$713 million in first-year awards. The figure also shows that second-year commitments bring the total of committed funds to \$1.4 billion.

Figure 32: Timeline with Drawn Down and Cumulative Fiscal Year 2010 Awards and Fiscal Year 2011 Amounts



Source: GAO analysis of OHS data.

Note: While OHS posted an advance notice of the Head Start and Early Head Start expansion announcements on April 2, the full text of the announcements was not available until May 4 and May 8, respectively.

The prolonged award-making process also resulted in a shortened start-up period for some grantees. In their applications, grantees were generally required to propose a future date when they would begin enrolling children and families. This date was based on their understanding of the date at which they would receive the grant funds. However, many Early Head Start awards were certified later than grantees had expected, due to the factors discussed above, among others. Despite these delays, some

focus group participants told us that regional staff pressured grantees to open their programs within the timeline proposed in their application. OHS officials explained that as a result of Recovery Act goals to enroll and serve children and spend Recovery Act funds quickly, some regional staff pressured grantees to start their programs with shortened start-up periods. Officials at OHS central office said that they had discussed with some regional staff members the need to balance the goal of adding services for children and families quickly with the goal of providing high-quality services.

Several grantees explained how the shortened start-up periods put pressure on their organizations. In one focus group, all six participants said that the stress caused by delays in funding was a significant challenge. For example, one focus group participant explained how the delay in receiving notification of the award caused problems in meeting the target opening date specified in the grant application. To meet the date, the regional office wanted the agency to shorten the original start-up period proposed in the organization's application. However, the organization had waited to get notification of the expansion award before beginning its start-up process, which included working with its board and partner organizations. By the time the organization received its award, some of the potential partner organizations were no longer available.

Another focus group participant told us that her organization applied for an Early Head Start expansion grant in June 2009 and received a call from an HHS official in August 2009 saying that it would be awarded the grant, but it was not until December that the organization received the grant funds. When it submitted its application, the organization had planned to develop partnerships with child care centers in its county. The focus group participant told us that since that time, the child care centers had closed because many unemployed parents had no money to pay for childcare. These closures reduced the options for partnerships. Similarly, a focus group participant from a rural state said that by the time her organization had access to its grant funds, the facility it wanted to use was unavailable, so a new facility had to be found.

OHS Has Helped Grantees Meet Program Requirements and Initiated Monitoring, but Incomplete Data Hinder Oversight

OHS has taken steps to assist expansion grantees, and focus groups made up of expansion grantees generally indicated they were receiving the assistance they needed. OHS has provided several forms of assistance to Head Start and Early Head Start expansion grantees.

- OHS provided written guidance, records of conference calls, and other materials on its Web sites—the Early Head Start National Resource

Center (ehsnrc.org) and the Early Childhood Learning and Knowledge Center (eclkc.ohs.acf.hhs.gov/hslc)—which are clearinghouses for OHS official guidance, research, tip sheets, and answers to commonly asked questions.

- OHS funded a series of five orientation sessions for Early Head Start expansion grantees in Washington, D.C., in early 2010, at which the new grantees could also learn from existing grantees. At least one regional office conducted its own orientation session.¹⁸⁵
- OHS e-mailed guidance to grantees on Recovery Act requirements and Recipient Reporting, with ongoing e-mail reminders from OHS to complete Recipient Reporting.

OHS also uses third parties to assist grantees with T/TA and with selecting and training start-up planners. For example, OHS used \$1.04 million in Recovery Act funds to expand its contract with Zero to Three, a national nonprofit research and consulting organization, to conduct T/TA. OHS also awarded a competitive contract to Zero to Three to identify and train start-up planners who may assist grantees in initiating programs that comply with Early Head Start standards.¹⁸⁶ The list of Early Head Start start-up planners that OHS selected for the training was posted to an OHS Web site as of March 2010 and training began April 26, 2010. Most grantees received their awards in November and have begun the start-up phase. At one focus group held in March 2010, we asked the participants if they had hired a start-up planner, and four of the six new grantees had already hired a start-up planner.

Focus groups made up of expansion grantees generally indicated that they had experienced some challenges in implementing their expansion grant but varied in whether they felt additional assistance from OHS was needed. Some groups suggested additional assistance, such as formal clarifications of policies and more OHS staff, while one focus group had no suggestions for additional assistance.

¹⁸⁵Region IX—which serves Arizona, California, Hawaii, Nevada, and Pacific insular areas—conducted an orientation.

¹⁸⁶OHS grant announcements for the expansion encouraged new Early Head Start grant applicants to include a start-up planner as part of their start-up budget and plan.

Most focus groups noted difficulties with Recovery.gov reporting, including reporting on jobs created and retained, and cited inadequate reporting guidance. For example, after OMB's clarifications December 18, 2009, some focus groups noted confusion about how to calculate jobs created and retained. However, three focus groups indicated that reporting requirements had presented little to no challenge. As GAO has previously reported, some grantees had difficulties reporting reliable job figures.¹⁸⁷ Progress in improving the quality of reporting among recipients of Recovery Act funds in general is discussed in the Recipient Reporting section of this report and will continue to be a focus of GAO review.

Focus groups often praised OHS regional staff for the assistance they provided. Regional staff serve as a point of contact for grantees' questions. Nevertheless, we also heard in several focus groups that grantees sometimes doubted the reliability of guidance from regional staff and one focus group mentioned taking precautions against future citations by obtaining written confirmation of oral guidance. Additionally, some focus group members said it was difficult to use HHS's Payment Management System.

OHS Has Taken Some Steps to Monitor Expansion Grantees

OHS has taken initial steps to monitor Recovery Act expansion grantees, as shown in table 14. OHS generally monitors grantees through regional offices that report selected information to the OHS central office in Washington, D.C.¹⁸⁸ OHS regional offices directly monitor grantees by conducting periodic on-site monitoring and communicating with grantees about issues ranging from enrollment to a program's financial and

¹⁸⁷We previously reported information in the media discussing concerns with Head Start grantees' jobs reports. 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), 10. We subsequently interviewed officials at two Head Start programs, and also reported that HHS officials said that HHS operating agencies were addressing data quality through outreach, reporting error detection, and identifying nonreporters. GAO, *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, GAO-10-437 (Washington, D.C.: Mar. 3, 2010), 103-104.

¹⁸⁸OHS monitors grantees' adherence to the Head Start Program Performance Standards and other OHS regulations, which apply to both Head Start and Early Head Start programs and cover many activities designed to protect and teach children, promote health, and responsibly manage federal funds.

governance systems.¹⁸⁹ The OHS central office also monitors key data, including total award amounts and monthly reported enrollment, and oversees regional monitoring.

Table 14: Status of OHS Monitoring Activities

OHS monitoring of grantees	Status
Expanded monitoring contract: OHS contracted with Danya International to provide monitoring services to augment regional staff efforts. According to officials, the contract will support the oversight of all Head Start and Early Head Start programs, including approximately 500 first-year reviews for new Early Head Start grantees under the Recovery Act. Danya must review all Recovery Act grantees by March 30, 2011.	Work began on the contract May 1, 2010.
Initial on-site monitoring: OHS regional staff conducts initial on-site visits to support grantees in meeting the Performance Standards, and identify any early concerns.	As of March 19, 2010, regional staff had conducted 65 initial on-site monitoring visits.
1-year on-site monitoring: OHS will conduct on-site monitoring reviews after 1 year of funding to review grantee files and records for compliance with the Performance Standards. Among other things, OHS staff indicated these reviews will validate grantees' periodic enrollment reporting. Under the Head Start Act, OHS requires an on-site monitoring review after a newly designated agency has provided a Head Start or Early Head Start program for 1 year. 42 U.S.C. § 9836a(c)(1)(C).	As of March 19, 2010, OHS was in the process of developing instructions for the annual on-site monitoring.
Risk management calls: Regional staff call grantees within the first 30 days, within the next 45 days, and then quarterly. Calls may be more frequent, as needed. Through the risk management meetings, OHS's objective is to understand what the grantee is doing, how far along they are in the expansion process, and the amount of the award spent. Participants include regional office staff and the Regional Program Manager, if needed.	OHS has developed a risk management protocol for the calls, which are ongoing.
Monthly enrollment and annual reporting: Grantees are required to report their enrollment at the end of each month, so OHS can compare it to the enrollment for which they were funded. Low enrollment triggers monitoring actions by regional and OHS central offices. Also, all grantees will complete an annual, more comprehensive survey known as the Program Information Report.	Expansion grantees began reporting enrollment data monthly in October 2009. For the annual Program Information Report survey in August 2010, OHS does not plan to ask expansion grantees to report Recovery Act activities separately from their ongoing Head Start or Early Head Start program data. Instead, grantees will report both ongoing and Recovery Act program activities together.

Source: GAO analysis of OHS data.

¹⁸⁹In 2006, OHS reorganized its 12 regional offices to streamline program operations. Currently, OHS regional staff report directly to the OHS central office rather than to regional office administrators. GAO, *Head Start: A More Comprehensive Risk Management Strategy and Data Improvements Could Further Strengthen Program Oversight*, GAO-08-221 (Washington, D.C.: Feb.12, 2008).

Incomplete Data Limit Oversight of Grantee Activities

Incomplete data and management information limit regional offices' ability to monitor grantees and OHS's ability to ensure consistent regional monitoring of Recovery Act grantees and monitor adherence to key Recovery Act goals, such as growth in Head Start and Early Head Start services. Specifically, OHS regional officials sometimes lacked key budget information necessary to monitor grantees' expenditures and the OHS central office did not access information needed to monitor regions' granting of waivers of matching funds. Finally, OHS lacked management information needed to assess in a timely way the extent to which services have been provided to children and families enrolled by Recovery Act grantees.

Budget allocation. In some cases OHS awarded grants without an accompanying budget to guide oversight of grantees' spending. Based in part on budgets submitted by grantees, regional offices generally allocated grant funds among several explicit budget categories—including staffing, equipment, and facilities—to provide a structure for overseeing grantees' subsequent expenditures. However, OHS data show that in some cases, regions allocated entire expansion awards to the “other” budget category. As of March 16, 2010, 77 grantees' entire awards were allocated to the “other” category, totaling \$73.5 million out of \$713 million in Recovery Act funds for the first program year. Additionally, we found that staff in regional offices used the “other” category inconsistently. Two of 12 regional offices are responsible for 73 of the 77 FAAs for which all funds were allocated to “other,” as of March 16, 2010.

In an effort to release awards quickly to meet the goals of the Recovery Act, OHS officials said some regional offices sometimes allocated all funds to the “other” category instead of taking the time to analyze each grantee's budget needs. Several FAAs were revised weeks or months after grant funds were issued to distribute the funds among specific budget categories, and OHS officials said that all FAAs attributing all funds to “other” will be revised. However, 77 FAAs remained unrevised as of March 16, 2010. When we met with OHS on April 25, 2010, they did not indicate that this had changed. Without a reliable budget framework, OHS regional staff cannot ensure that grantees are retaining sufficient funds to address key program priorities through the end of the grant period, such as adequate staffing. As more funds are drawn down, the continued absence of a budget framework would pose additional difficulties in assuring that funds last throughout the grant period.

Waivers of matching funds. The OHS central office did not routinely review Recovery Act grants to determine whether grantees received a waiver of a requirement to match federal funds with nonfederal resources for 20 percent of the approved program costs. The OHS central office can approve a waiver of certain grantee requirements, including the matching requirement. For Recovery Act grants, the central office delegated the authority for granting waivers for that requirement to the regional offices.¹⁹⁰ Regional offices varied in the number of waivers they granted. For example, our analysis of FAA data found that three regions issued no waivers; Region X issued waivers for 33 percent of grants; and other regions issued waivers to between 1 and 21 percent of grants.

Regional staff keep track of waiver data, and the OHS central office does not receive reports on the data. Officials at OHS's central office told us they do not regularly review waiver information. Without timely review of waivers of the nonfederal matching requirement, OHS cannot readily determine how pervasive grantees' total dependence on federal funds may be to take timely action to address any grantees or regional areas in which community support for Head Start and Early Head Start programs is lacking. In addition, the OHS central office is unable to identify inconsistent regional policies or determine whether there are inconsistent criteria for granting waivers, which could result in grantees in some regions obtaining waivers while those with similar circumstances in other regions may not.

Provision of service to children and families. The OHS central office receives regular monthly data on enrollment for each Head Start and Early Head Start grantee and separately for Recovery Act grantees, but has not tracked the number of children and pregnant women that expansion grantees are currently serving, as might be indicated by a routine measure of attendance. Grantees are expected to monitor their own monthly average daily attendance and, in some cases, must take action to help families improve children's attendance.¹⁹¹ Attendance data are not

¹⁹⁰ 42 U.S.C. § 9835(b). The purpose of the nonfederal match requirement is to ensure that programs are not completely dependent on federal funds and that the community has invested in the program. Justifications for requesting this type of waiver can include local economic hardship or the burden of providing a proportionate match for a large increase in federal funding, like the expansion grants.

¹⁹¹ Program attendance is defined as the actual presence and participation in the program of a child enrolled in an Early Head Start or Head Start program. 45 C.F.R. § 1304.3(a)(16) (2009).

regularly reported to the OHS regional or central office; instead, the attendance records are provided as part of a larger on-site review, which occurs 1 year into services for Recovery Act expansion grantees.¹⁹² In addition, enrollment does not necessarily signify that services are being provided. Enrollment is defined under the program as the official acceptance of a child by a Head Start program and the completion of all procedures necessary for a child and family to begin receiving services.¹⁹³ For monthly enrollment reporting, grantees should “report the total number of children and/or pregnant women enrolled on the last operating day of the month. Report the total number of enrollees, not the number in attendance.”¹⁹⁴ In contrast, Program Information Reports submitted annually by grantees are more likely to result in some record of services provided than the monthly enrollment reports. Program Information Reports include the definition of “actual enrollment,” defined more narrowly (for purposes of the report)¹⁹⁵ as children—and, for Early Head Start, children and pregnant women—who are not only enrolled but for whom at least one-time services have been provided. However, the Program Information Report does not include monthly average daily attendance or any other measure of regular services provided.¹⁹⁶ Also, for such reports, OHS has not required grantees to report separately on Recovery Act enrollment; rather, data on children and families will be aggregated by reporting organization to include enrollment under grants that programs held before the Recovery Act expansion.

The discrepancies between definitions of enrollment and provision of services may be a reason why expansion grantees’ drawdown of awarded

¹⁹²Currently, for all grantees, OHS monitors are required to conduct limited reviews of enrollment and attendance data. Monitors verify that enrollment records match grantees’ monthly reported enrollment, and that grantees analyze the causes of absenteeism when center-based attendance falls below 85 percent. However, monitors are not required to review any discrepancies between enrollment and attendance or service provision to enrolled children and families. These reviews take place after 1 year of services for Recovery Act expansion grantees, and every 3 years for ongoing grantees.

¹⁹³45 U.S.C. § 1305.2(d). (2009).

¹⁹⁴OHS, “Enrollment Frequently Asked Questions” (grantee guidance on enrollment reporting, last updated April 28, 2009).

¹⁹⁵The definition of “actual enrollment” in the Head Start Act does not include any reference to services actually provided. 42 U.S.C. § 9836a(h)(1)(A).

¹⁹⁶Grantees report data for the Program Information Report each August and the data are compiled for use at the federal, regional, and local levels.

funds has lagged behind reported enrollment. At the end of March 2010, grantees reported almost 29,000 children and families enrolled—49 percent of the number of children and families they are funded to serve—while they had drawn down just 10 percent of awarded funds. Several expansion grantees reported enrollment numbers to the online data collection system but also added comments explaining that they are not yet serving some enrolled children. Further, in recent undercover tests of the enrollment process at certain Head Start centers, GAO found that one Head Start center admitted two fictitious children and left them on its enrollment records for a month.¹⁹⁷ In addition, GAO documented vulnerabilities in the enrollment process and found instances in which staff at some Head Start centers with empty enrollment slots disregarded income to give the impression that applicants should receive higher priority for enrollment than they were actually due. Because Recovery Act grantees are entering a period of rapid enrollment, we will further review enrollment issues as part of our ongoing review of Head Start’s use of Recovery Act funds.

Measuring the extent to which Head Start and Early Head Start are serving children and families is essential to understanding the program’s effect, particularly in a period of start-up when service provision may substantially lag enrollment (as defined by regulation and in monthly reporting).¹⁹⁸ It is not clear that OHS would know if expansion grantees served fewer children and families than they were funded to serve, or for how long this might have been the case, because reported enrollment could meet its target even as enrolled children waited for classrooms to open.¹⁹⁹ Calculating attendance, which fluctuates, may be challenging, but OHS already offers guidance on calculating average daily attendance on its

¹⁹⁷ 45 C.F.R. § 1305.2(b) (2009). GAO, *Head Start: Undercover Testing Finds Fraud and Abuse at Selected Head Start Grantees*, [GAO-10-733T](#) (Washington, D.C.: May 18th, 2010).

¹⁹⁸ Serving low-income children and families is a part of the stated purpose of the Head Start Act and a fundamental measure of Head Start and Early Head Start program performance. 42 U.S.C. § 9831(2). Standards for internal controls state that program managers need operational data to determine whether they are meeting their agencies’ performance plans and meeting their goals for accountability for effective and efficient use of resources. GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

¹⁹⁹ The Head Start Act requires entities carrying out a Head Start program to report monthly on their actual enrollment for such program and, if it is less than the funded enrollment, any apparent reason for the discrepancy. 42 U.S.C. § 9836a(h)(2). However, this requirement does not address any shortfall between enrollment and actual attendance.

Web site. Moreover, an advisory committee to the Secretary of HHS has specifically recommended that attendance be considered along with other factors in determining whether or not OHS should renew an individual grant or make the grant available for competition among organizations. This recommendation has not been implemented; OHS officials indicated that regulations governing the redesignation system are under preparation.²⁰⁰

Conclusions

The Recovery Act's expansion of Head Start and Early Head Start significantly expands OHS's responsibility to monitor grantees' use of funds and ensure that children and families are receiving high-quality services. The short duration of services funded through the Recovery Act makes monitoring more critical because grantees have little time to affect children and families and OHS has little time to correct problems. However, OHS's lack of available data regarding decisions and activities of its regional offices and grantees limits its ability to consistently oversee this rapid expansion and program performance.

OHS's emphasis on awarding funds expeditiously, in accordance with the goals of the Recovery Act, is understandable, although OHS did not meet its goal for awarding Early Head Start funds. However, allocating all awarded funds to the "other" category for some grantees limits appropriate record-keeping, reporting, and oversight in the future. Even if these awards are eventually revised to allocate funds to specific budget categories, the short duration of the Recovery Act grants limits the amount of time in which errors, omissions, and misuse can be identified and remedied.

Without timely review of comprehensive management information about waivers of the 20 percent nonfederal matching requirement OHS central office's ability to understand whether regions are treating grantees consistently is limited. Without reviewing such information, grantees in some regions could obtain waivers while others similarly situated in other regions may not.

²⁰⁰Department of Health and Human Services, Secretary's Advisory Committee on Redesignation of Head Start Grantees, *A System of Designation Renewal of Head Start Grantees* (Washington, D.C., December 2008). The committee provided the Secretary of HHS guidance on developing the system for redesignating grantees required by the reauthorization of the Head Start Act in 2007. 42 U.S.C. § 9836(c).

Finally, the number of children and families served by Head Start and Early Head Start is an essential measure of the program’s impact. Yet, OHS lacks assurance that grantees actually serve the numbers of children in each program they report having enrolled, and for which they are receiving funds. Under the current definition of “enrollment,” grantees—particularly those experiencing obstacles in start-up—could reasonably report full enrollment, while some classrooms sit empty, perhaps due to licensure or other delays. In fact, our recent testimony on irregularities in Head Start enrollment showed that one grantee enrolled a fictitious child who never received services. Reporting figures to Congress and the American public that do not represent children and families for whom services have been provided fails to provide a transparent measure of the important work undertaken by these programs. In addition, without monitoring information on services actually provided, OHS could miss opportunities to assist grantees who are experiencing significant delays in their ability to serve the children they have enrolled.

Recommendations to the
Director of the Office Head
Start

To provide grantees with appropriate guidelines on their use of Head Start and Early Head Start grant funds, and enable OHS to monitor the use of these funds, the Director of OHS should direct regional office staff to stop allocating all grant funds to the “other” budget category, and immediately revise all FAAs in which all funds were allocated to the “other” category.

To facilitate understanding of whether regional decisions regarding waivers of the program’s matching requirement are consistent with Recovery Act grantees’ needs across regions, the Director of OHS should regularly review waivers of the nonfederal matching requirement and associated justifications.

To oversee the extent to which grantees are meeting the program goal of providing services to children and families and to better track the initiation of services under the Recovery Act, the Director of OHS should collect data on the extent to which children and pregnant women actually receive services from Head Start and Early Head Start grantees.

Agency Comments and Our
Evaluation

GAO provided a draft of this report to the Department of Health and Human Services and OHS for comment. HHS disagreed with our conclusion that lack of management information limits its ability to consistently oversee the rapid expansion under the Recovery Act and provided additional information on its actions and capabilities related to our recommendations. HHS also provided technical comments, which we incorporated as appropriate.

With respect to our recommendation that it direct regional office staff to stop allocating entire grants to the “other” budget category and immediately revise all grant awards in which all funds were allocated to the “other” category, HHS noted that it anticipated within the next 15 to 20 days it would complete issuing revised budgets to grantees who had received awards allocated in this fashion. HHS cited automated alerts on unusual levels of monthly drawdown as a supplementary check on the rate of grantee spending, but such alerts do not ensure spending corresponds to program objectives and are not designed to replace ongoing monitoring. The other checks that HHS cited were semiannual and quarterly reports that would rely at least in part on analysis of budget variances that cannot be assessed in the absence of an approved budget.

With respect to our recommendation that it track and review waivers of the non-federal matching requirement and associated justifications, HHS reported that it has a system in place to track waivers of the matching requirement and indicated it is aware of the two regions that have not granted waivers, stating that these regions will use their flexibility to consider such waivers later in the process. We revised our report to reflect HHS’s clarification on how waiver data is tracked. However, our recommendation focuses on timely review of waiver award patterns in addition to tracking.

Finally, with respect to our recommendation that OHS better review the initiation of services, as distinct from enrollment, by collecting data on the extent to which children and pregnant women have received services from Early Head Start and Head Start grantees, HHS expressed confidence that enrollment is a valid indicator of service delivery. In this period of rapid expansion, we remain concerned that enrollment, particularly as defined for monthly reporting purposes, could overstate actual service delivery. We are also concerned that OHS has no plans to ask grantees to separately report on Recovery Act enrollment under the narrower definition of “enrollment” discussed in its comments and more likely to result in some record of services provided. Further, HHS stated that on-site monitors routinely collect and verify attendance data. However, OHS’s on-site monitoring protocol call for attendance records to be reviewed only to determine whether the causes of absenteeism are documented, and no mention is made of collecting attendance data. In addition, given the central role of service delivery in assessing program performance, we believe that a valid measure of this remains an important objective.

Recipients Are Gaining More Experience Reporting, but FTE Data Quality Continues to Be a Major Concern

According to Recovery.gov, as of April 30, 2010, recipients reported on over 179,000 awards indicating that the Recovery Act funded approximately 683,000 jobs during the quarter ending March 31, 2010. As reported by the Board, the job calculations are based on the number of hours worked in a quarter and funded under the Recovery Act and expressed in full-time equivalents (FTEs).²⁰¹ Under the continuous corrections period that the Board implemented in the last reporting round, recipients will be able to modify their third round submissions during the period that began on May 3, 2010, and runs through June 14, 2010. The final update of the third round of recipient reported data is planned for June 16, 2010.

Under the Recovery Act, recipients are to file reports for any quarter in which they receive Recovery Act funds directly from the federal government and are required to submit reports no later than 10 days after the end of each calendar quarter. The Board extended the reporting deadline by several days for all three rounds of reporting. The reports are to be made public 30 days after the end of the quarter; the reports have been made public by this deadline. Reporting requirements apply to nonfederal recipients of funding, including entities such as state and local governments, educational institutions, nonprofits, and other private organizations. In addition, these requirements apply to recipients who receive funding through the Recovery Act's discretionary appropriations, not recipients receiving funds through entitlement programs, such as Medicaid, or tax provisions. Certain other exceptions apply, such as for individuals. In addition, the required reports cover only direct jobs created or retained as a result of Recovery Act funding; they do not include the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs).

Recipient reporting under the Recovery Act represents a step forward in federal spending transparency. However, the exercise is also highlighting problems in obtaining quality recipient reported data due to the overall complexity of funded programs and the nationwide scope. The recipient reporting process is going more smoothly than in the first two rounds as recipients have become familiar with the reporting system and requirements. OMB and the Board's responsiveness to feedback, reflected in updated guidance and system enhancements, has also helped improve

²⁰¹ An FTE is a full-time equivalent, which is calculated as the total hours worked divided by the number of hours in a full-time schedule.

recipient reported data quality and reliability. The FTE calculations, however, continue to result in noncomparable data across Recovery Act funded programs and pose problems for some recipients as evidenced through our field work in selected jurisdictions covering education and public housing programs.

Updated OMB Guidance Is Aimed at Continuing to Improve the Quality of Recipient Reported Data

In our March 3, 2010, Recovery Act report, we noted the lack of guidance to federal agencies on data quality reviews during the continuous corrections period and the difficulty in cross-referencing reports from the first and second submission of reports.²⁰² On March 22, 2010, OMB issued updated guidance on the Recovery Act covering the continuous corrections period, categories of data quality issues, approval process for program specific guidance, and other reporting requirements.²⁰³ The guidance establishes a framework for review of recipient changes during the continuous corrections period. Federal agencies are also required to update their data quality plans to reflect actions planned during the continuous review period. The guidance further states that federal agencies must conduct a final review of the data at the close of the continuous corrections period. In addition, a new administrative and technical category for describing problems identified during the quality review process was established.²⁰⁴ One of the key controls established by the guidance to ensure compliance and avoid duplication of records is a requirement that federal agencies compile a comprehensive list of all awards subject to recipient reporting.

In order to ensure compliance with Recovery Act reporting requirements, the administration issued a memorandum on April 6, 2010, directing federal agencies to use every means available to identify any prime recipient required to file a report on FederalReporting.gov who has failed to do so and hold such recipients accountable to the fullest extent permitted by law.²⁰⁵ OMB reviewed existing guidance and issued a

²⁰²GAO-10-437.

²⁰³OMB Memorandum, *Updated Guidance on the American Recovery and Reinvestment Act*, M-10-14 (Mar. 22, 2010).

²⁰⁴Administrative and technical matters, which may significantly affect the reliability of information reported by recipients, include inadvertent deactivation of reports, duplicate reports, unlinked reports to be deactivated, or technical issues relating to a record identifier.

²⁰⁵Executive Office of the President, Office of Management and Budget, *Open Government Directive—Federal Spending Transparency* (Apr. 6, 2010).

memorandum to federal agencies on May 4, 2010, that outlined actions and strategies designed to assist agencies in fulfilling their responsibility to hold recipients accountable for reporting compliance.²⁰⁶ Ultimately, federal agencies are instructed to take appropriate actions against noncompliant recipients of funds that can include restricting access to the awarded funds until the recipient becomes responsive and implementing other sanctions and remedies.

Third Round Recipient Reporting Data Quality Improved but Remains a Work in Progress

For this third round of recipient reports, we repeated many of the analyses and edit checks we performed and reported on in previous reports covering the first two rounds of recipient reporting.²⁰⁷ The intent of these analyses is to identify recipient report records that showed certain data values or patterns in the data that were either erroneous or suggested that some further review could be merited due to an unexpected or atypical data value or relationship between data values. These analyses are repeated to gauge the extent to which previously identified instances of anomalous data values or patterns continue to recur. We also performed some new analyses examining the relationship between reports across the three rounds of quarterly reporting. We used the data covering the period January 1, 2010, through March 31, 2010 (the first calendar quarter of 2010), from Recovery.gov on April 30, 2010. There were 70,657 prime recipient report records downloaded from Recovery.gov for this third round. This was 4,830 more than submitted in the previous quarter and represents about a 7 percent increase from round two. In our analyses, we also used the round one and round two data from the biweekly updates posted on Recovery.gov as of March 17 and March 24, respectively. Between round one and round two, there was a 16 percent increase in prime recipient reports.

We Identified Fewer Reports with Potential Problems and Inconsistencies but Continued Focus on Data Quality Is Necessary

The number of reports identified in our various edit checks has, for the most part, continued to diminish. For example, in our review of the previous round of quarterly reports, we examined the apparent consistency or coherence between the final report data field and other report data fields. We conducted this same analysis for third round reports. For those reports indicating that they were final reports, we looked at the project status data field and whether the dollar amount

²⁰⁶OMB Memoranda, *Holding Recipients Accountable for Reporting Compliance under the American Recovery and Reinvestment Act*, M-10-17 (May 4, 2010).

²⁰⁷[GAO-10-223](#) and [GAO-10-437](#).

shown for Recovery Act funds received or Recovery Act funds expended was close to the award amount. For this third round of reports, a total of 4,502 prime recipient reports, roughly 6 percent of all prime recipient reports, indicated that the current report was to be the final report. As with the previous round, almost all of those reports showed a “Completed” project status. Unlike the previous round where there were 279 reports where project status was either “Not Started” or “Less Than 50% Completed,” there were 118 such reports reflecting a disconnect between the final report and project status data fields.

For all recipient reports marked as final, we also repeated our analysis to identify final reports showing either possible overspending or notable underspending by counting those reports where the amount reported for both Recovery Act funds received or expended was less than 75 percent of the award amount or exceeded the award amount by 10 percent or more. As before, we did not find any reports where both the amount shown as received or expended exceeded the award amount by 10 percent or more. In round two, we observed about 9 percent of the reports marked as final where neither the value for amount received or expended was within 75 percent of the award amount. In round three, it was about 3 percent of all reports marked as final. Fewer reports are showing incongruence between the reported project status and funding.

Likewise, when we repeated our match of the data fields for Treasury Account Symbol (TAS) codes and Catalog of Federal Domestic Assistance (CFDA) numbers to see if they were congruent with their associated agency name fields,²⁰⁸ we found fewer mismatches in this round than the previous round. In the previous round there were 232 reports as having a mismatch on the CFDA number and 157 reports where there was no TAS match. For the current round, there were 112 CFDA and 117 TAS mismatches. Our examination of data on the number and total amount of small subawards of less than \$25,000 also showed modest reductions of roughly 30 to 50 fewer erroneous reports than identified in the previous round. As in the past, we did not find any reports where the amount

²⁰⁸Both TAS and CFDA values are linked to specific agencies and their programs. The TAS codes identify the Recovery Act funding program source. The two leftmost characters of each TAS code form a data element, which is identical with the two-digit numerical code used in the federal budgetary process to identify major federal organizations. The CFDA is a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits. It contains assistance programs administered by departments. Each program is assigned a unique number where the first two digits represent the funding agency.

reported as received exceeded the reported award amount by more than \$10. However, we did note an increase in the number of recipient reports where the award amount was zero or less than \$10 which may suggest data entry errors or other mistakes. In the previous round, there were 31 such reports; in this round, there were 74 such reports. For each of these analyses, the number of records identified is less than half a percent of the 70,657 prime reports filed. The prime recipient report records also include data on whether or not the federal agency reviewed the record during the data quality review time frames. Our prior analysis and our initial analysis in this round of this data element, in conjunction with our discussions with agency officials, have indicated potential problems and inconsistencies with the data field, which we will be investigating further.

Linking of Reports Has Improved but Problems Persist

In our previous report, we performed a match between round one and round two prime recipient reports using an award key data field.²⁰⁹ For users of the recipient report data downloadable from Recovery.gov, this data element would be used to track recipient reports across quarters. The presence of unlinked or mislinked reports makes analyses of spending or FTEs over quarters problematic in relation to specific projects or programs. Our analysis suggested that there were prime recipient reports that appeared in the first round only or in the second round only but should have been linked to a report in the other round—that is, these unmatched reports were for the same reporting entity. As such, we noted that there would be some double counting of amounts reported. OMB, in its response to that report, described its own analysis of first round reports that did not appear to have a matching report in the second round. OMB reported doing a line-by-line review of first round recipient reports that were flagged as not having a second round report. OMB's response stated that, as a result of the analysis, approximately 93 percent of those unmatched first round reports were filed in the second quarter but, due to a technical issue, could not be matched to the prior quarter report. OMB reported that it was working with the Board to appropriately link reports. In addition, OMB issued guidance to agencies to instruct recipients to follow reporting procedures that would create and preserve a link from a previous quarter's report to the new quarterly report to be submitted. In May 2010, FederalReporting.gov posted information about a new function for recipients that allows them to link or unlink reports in the current

²⁰⁹ An award key is a derived field that identifies an award. This field is derived using a distinct combination of the following component fields: Award_type, Prime_DUNS, Award_id and Order_number.

reporting cycle to a report submitted in the previous reporting cycle. We will follow up on this development during the next cycle of reporting.

To assess the extent of matching that occurred in subsequent updates to the round one and round two data posted on Recovery.gov, after we performed our initial match on data available as of January 30, 2010, we reran the match using the updated data posted on Recovery.gov as of the March 17 and March 24 dates noted above. In our initial match, we observed a match rate of 55 percent between first and second round reports. When we reran the match, the match rate was 71 percent, which shows an improvement in the number of linked reports between quarters.

For this third round of recipient reports, we performed a set of match operations on prime recipient reports using all three rounds of report data. Our intent in this match effort was to further review the tracking of reports from one quarter to the next and identify potential groups of recipient reports that could be indicative of mismatches across quarters or reports not matched but possibly should be. For example, we identified 1,358 prime recipient reports that matched between round one and round three, but did not match with any round two report. While it might be the case that there were recipients that were required to report in rounds one and three, but not round two, it seems unlikely that this would be the case for all these reports. We also identified from our match operations three groups of reports that did not appear in round three:

- recipient reports that appeared in round one only,
- reports that appeared in round two only, and
- reports that matched and were in both rounds one and two.

We examined the final report status field for these three sets of reports since these reports are presumably the last reports from these projects because they were not linked to round three reports. As shown in table 15, we found that more than half of the reports were not marked as final. Similarly, across these three groups, 39 to 46 percent also showed project status as “Not Started” or “Less Than 50% Completed.”

Table 15: Number, Final Report, and Project Status of Prime Recipient Reports Not Appearing in Round Three

Prime recipient reports	Number of reports	Percent not marked as final report	Percent project status is “Not Started” or “Less Than 50% Complete”
Reports appearing in round one only	2,920	57	46
Reports appearing in round two only	4,503	57	42
Reports matched between round one and round two	4,692	52	39

Source: GAO analysis of Recovery.gov data.

Based on these results showing projects that were not marked as final and indicating that they were in the earlier stages of their effort, it seems reasonable to expect that a third round quarterly report should have been filed, but the necessary linkage has not been made. Alternatively, these fields may not show the correct status.

In performing the match, we also encountered some anomalies with the award key values on some recipient reports. Within a round of quarterly reports, the award key value helps link together the prime and subrecipients and vendors for a given award. This linkage is important in tracking Recovery Act funds as they flow from a prime recipient of an award to their subrecipients and vendors. It can be used to show who a prime recipient’s subrecipients and vendors are and the amounts they received. For the round three recipient reports, we counted 26 instances where a unique award key value was associated with more than one prime recipient report rather than a single prime report as expected. We also identified 239 instances of a subrecipient report having a unique award key value. As such, these subrecipient reports could not be associated with a prime recipient report and therefore it is unclear as to who provided their award funding.

Anomalous Local Award Values Raise Concerns about Reported Subrecipient and Prime Award Amounts

For this third round of recipient reports, we also examined a data field referred to as the local amount, which is intended to account for the money flowing in and out of a given geographic region. According to the Recovery.gov Web site’s “Download Center User Guide,” this calculated local amount value for a prime recipient is defined as the total amount of the award minus the sum of awards to subrecipients. We identified 327 prime recipient reports where the local amount value was negative. Our

examination of some of these reports show that associated subrecipient's local amount exceeds the award amount shown on the prime recipient report. While the occurrence of a negative local amount on a prime recipient report indicates the need for further examination of the funding values shown on the prime report and all associated subrecipient reports, it also raises concerns about other instances of inaccurate reporting of funds on either the prime or related subrecipient reports when the local amount calculation does not produce a negative local amount value and therefore is not as readily detected.

The overall results of our edit checks and analyses of this third round of recipient reports were similar to what was observed in the previous round. For some analyses, there was some reduction in the number of recipient reports identified as having either erroneous or anomalous data values. Our matching analyses showed more recipient reports are being linked across quarters, but also suggests that there may be some reports that were linked that should not have been and some reports that were not linked for which a report filed in a subsequent quarter may exist. Although the number of records identified by most of our edit checks and analyses continues to be relatively small compared to the total number of prime recipient reports submitted, the results continue to demonstrate that there is a basis for attention to the quality of information being reported.

State Officials Reported Fewer Third Round Reporting Problems

Despite some problems with FederalReporting.gov during the reporting period, most of the states in our review indicated that the third round of recipient reporting proceeded in a relatively smooth fashion. State officials credited their growing familiarity with compiling and reporting the data as a key reason recipient reporting is becoming easier. For example, District of Columbia officials noted that the process went smoothly primarily because the District agencies have been reporting for several rounds, and there were no changes to the reporting process this quarter. In addition, several state officials indicated OMB's extension of the reporting deadline by a few days because of the issues with FederalReporting.gov helped with their submission of third round data. State officials in Arizona, for example, noted that the extended timeline allowed them additional time to make corrections in data submissions, resulting in more accurate data.

State officials had varying opinions regarding the new continuous corrections period and whether it affects the quality of the recipient reported data. Some indicated that the corrections period provides some benefit, while others were neutral or cited concerns about the reporting change. Officials in Ohio, for example, said that they used the continuous

corrections period to revise second round jobs information to conform to the new FTE calculation methodology. Officials in Georgia said they thought it was a good feature to have, but most state agencies had not used the period to change their reports. A Pennsylvania official noted that the continuous corrections period improves data quality by providing additional opportunities to revise data if errors are subsequently identified. However, it does increase the resources spent on reporting by having to respond to federal agency inquiries throughout the continuous corrections period. Other states also reported that the corrections period requires additional resources. Michigan officials commented that, from their perspective, the quality of the recipient reported data is not affected by the continuous corrections period. They said that they strive to ensure that all reports are submitted with accurate data by the deadline and that the only changes made are done during the recipient review period immediately following the reporting deadline.

States highlighted the challenges presented by the short timeline for recipient reporting and data review. Officials noted that it takes several days following the end of the quarter to compile the data. This leaves few days to ensure that the data are successfully submitted or that data quality issues are corrected before the submission deadline, which creates a situation where recipients are reporting during the last few days of the initial window. Several states suggested that the reporting period should be extended beyond 10 days and that holidays and weekends should be taken into account for the final reporting date. For example, Pennsylvania officials suggested that an additional 5 days should be added to the recipient reporting deadline to improve data quality by providing recipients additional time to compile and review the data. In addition, Colorado officials noted the continuous corrections period does not compensate for a short review period since new entries cannot be made then. They added that the public pays the most attention to the data released at the end of the reporting period rather than data corrected after the initial release.

When asked about the perceived costs and benefits of the recipient reporting exercise, state officials reported benefits resulting from the reporting requirements. Several state officials said that data generated during this reporting process are being used to communicate more directly with citizens. For example, Iowa officials said that the Recovery Act has given the state the impetus to provide citizens with better information on how federal funds are spent in their state. Officials in Massachusetts indicated that they are revising the state's Web site so citizens and state-level managers can see how public money is spent. District of Columbia

officials stated that, prior to the Recovery Act, the District had data analysis infrastructure in place. Due to Recovery Act reporting requirements, however, the District is now able to apply this same data analysis to grants management. In addition, officials in Georgia noted that the new requirements are helpful for state agencies in that they are more focused on internal controls and fiduciary responsibility.

Regarding the costs of recipient reporting, several states pointed out that although there are benefits to improving transparency in how funds are being used and assuring the accuracy of data reported, there are definite costs in terms of time, effort, and other resources. For example, Iowa officials said the technology costs to develop the state's centralized model and its Recovery Act Web site totaled approximately \$300,000. Pennsylvania officials remarked that because of the extra resources devoted to recipient reporting, fewer resources are available to provide other services to state agencies. New Jersey officials echoed Pennsylvania's concerns, noting that the significant staff hours focused on recipient reporting are diverted from program implementation and resolving program problems.

Department of Education Recipients Illustrate Some Difficulties Surrounding the FTE Calculations

As in previous reporting periods, FTE positions funded by Education grants accounted for a large proportion of all reported FTEs. Specifically, Education recipients reported approximately 469,000 FTEs, which represent 69 percent of the approximately 683,000 FTEs reported this period. We found considerable variation among the approaches used by LEA and IHE officials to generate FTE estimates. This could be because officials tended to select a particular methodology based upon what information would be readily available using their existing payroll and financial systems.

OMB guidance allows for two broad approaches to calculating FTEs for a quarter. The first, referred to in guidance as the "general" methodology involves dividing the number of hours worked and funded with Recovery Act dollars in the quarter by the number of hours in a full-time schedule. Most of the LEAs we visited and half of the IHEs we visited used a variation of this approach for at least one of their FTE calculations.²¹⁰ For

²¹⁰Some LEAs use different methodologies to calculate the FTE impact of different Recovery Act grants. For instance, some LEAs used the general methodology to calculate FTEs for ESEA Title I and IDEA Part B, but used the definite term methodology for SFSF.

example, officials at one IHE we reviewed used the actual hours worked during the quarter while officials at several LEAs and one IHE estimated the hours worked during the quarter for employees. We observed a variety of approaches to estimating the hours worked by salaried staff, whose exact hours of work are not always recorded. The second approach, which OMB and Education refer to as the “definite term” methodology, involves estimating the FTE impact of Recovery Act funds over a longer period of time, such as a school year or fiscal year, and then reporting the same FTE figure for each quarter of that time period. Rather than looking at hours worked, this approach generates FTE estimates by comparing annual salary expenses to the Recovery Act allocation. For example, some IHEs using the “definite term” methodology divide the award amount by the average cost of supporting one FTE at the institution to generate a total FTE estimate.

We found that IHEs varied in several ways in how they made this calculation. For example, we found that the University of Colorado and Kutztown University of Pennsylvania included salaries and benefits in their calculation of FTEs, while the University of California and Ramapo College of New Jersey included salaries but did not include employee benefits in their calculations. The decision to include or not include employee benefits in these calculations could significantly impact the reported FTEs. Specifically, dividing the SFSF allocation by a larger denominator (including benefits would result in a higher average cost per FTE) results in a lower FTE estimate. For example, University of California officials told us that average benefits at the university are approximately 23 percent the cost of salary; we calculated that including this level of benefits in addition to the average salary figure they used in their calculation would lower the estimated FTE count by nearly 1,800 FTEs, from just over 9,600 FTEs to just over 7,800 FTEs. This is because dividing the SFSF allocation by approximately \$91,500 (average salary plus benefits costing 23 percent of salary) would result in fewer estimated FTEs than dividing the same allocation by just over \$74,500 (average salary without benefits). When we raised this issue with Department of Education officials, they told us that they had not issued any guidance on this topic but would review whether benefits should be included and would discuss the issue with subrecipients. OMB officials told us they will consider whether additional guidance is needed on this issue. Table 16 provides more detailed examples of methodological variations we found at the 17 LEAs and 14 IHEs where we reviewed FTE calculations.

Table 16: Examples of FTE Methodological Variations Observed in IHEs and LEAs Where We Reviewed FTE Calculations

Variations of the quarterly “general” methodology calculation

- The “general” methodology divides hours worked by the number of hours in a full-time schedule for the quarter.

Differences in calculation of hours worked (numerator)

- Actual hours worked
- Estimated hours worked
 - by dividing teachers’ quarterly salaries by hourly wage rates
 - using information from employee work assignments (e.g., typical hours worked per day or week) and the number of work days or weeks in the quarter

Differences in full time schedule (denominator)

- 520 hours per quarter, assuming a 40-hour work week
 - adjusted to account for full time schedules that are less than 40 hours a week, such as 37.5-hour work weeks
-

Variations in calculations done once for a longer, “definite term” such as a school or fiscal year

- The “definite term” methodology derives an FTE figure from annual salary data and this figure is reported for each quarter of the definite term. Variations of the calculation include
 - determining the percent of FTEs funded by the Recovery Act (by dividing the Recovery Act allocation by the total cost of payroll expenses) and multiplying this percentage by the total number of FTEs in the institution
 - Some institutions included benefits while others did not
 - dividing the amount of Recovery Act funds available for salaries by an average salary figure
 - one institution using this approach included benefits while others did not
 - assuming all or only a portion of SFSF allocation was used to pay salaries
 - applying entire SFSF allocation to salaries or
 - applying the same proportion of the SFSF allocation to salaries as the IHE spends on salaries compared to total expenses
 - making assumptions about which employees were paid with SFSF funds and
 - including only instructional faculty
 - including both instructional and non-instructional employees
 - using a different number of months of salary data when calculating an institution’s annual salary cost
 - 9 months of actual salary data or
 - one single two week payroll.
-

Source: GAO analysis.

We also found that the actual dates underlying the reported data varied across LEAs and in some cases did not correspond exactly to the January 1 to March 31 reporting period. For instance, Chicago Public Schools generated their FTE estimates using payroll data from January 4 to March 12 and will report data from the next payroll as part of its fourth quarterly reporting cycle, and an LEA in Springfield, Massachusetts, reported FTE data through March 19. In North Carolina, recipient reported data for LEAs lags behind the official reporting period by 1 month, but includes 3 months

of expenditures, December 2009 through February 2010.²¹¹ Similarly, in California, where the deadline for LEAs to report data to the state was March 15, officials at Long Beach Unified School District told us they reported on data beginning December 8 and ending March 8, and officials at San Diego Unified School District said their data were from the end of November to the end of February. Such variations in the actual dates underlying reported data could affect comparability.

We also found variation in whether LEAs reported FTEs during the quarter that employees worked or only after being reimbursed with Recovery Act funds. For example, officials at Newark Public Schools told us that during the current reporting period they had reported FTEs for positions paid for using local funds in anticipation of being reimbursed. In contrast, an official at the School District of the City of York in Pennsylvania reported three quarters worth of SFSF FTEs during the March reporting period when the state disbursed SFSF funds. According to U.S. Department of Education officials, it is important that all FTEs paid for with Recovery Act funds be reported even if this does not occur in the quarter that hours were worked, and that officials at each LEA should take a consistent approach in whether they report FTEs when the hours are originally worked or when the LEA is reimbursed with Recovery Act funds. Variation among LEAs in whether FTEs are reported when worked or when reimbursed may also affect comparability of the data in a given quarter. The quarterly tallies do provide a snapshot of the number of FTE positions paid for in a given quarter, including a mix of those positions worked in that quarter or reimbursed in that quarter. Over time, the total number of quarterly FTEs reported should be the same, provided each LEA accounted for FTEs from previous periods properly and consistently. However, the FTE count in a given quarter may or may not reflect the number of annual full-time positions paid with Recovery Act funds over the course of the year.

²¹¹Officials reported that this is the case so that departments can accurately validate the information prior to submission.

Most Reported Jobs Figures at Selected LEAs and IHEs Appeared Reasonable and Were Supported by Documentation, but Several Factors Could Lead to Misreporting of FTEs

For the 17 LEAs and 14 IHEs where we reviewed FTE calculations, we generally found that officials could provide documentation to support their reported FTEs paid for with Recovery Act funds and that those estimates appeared to be reasonable, but we did find a number of potential issues that could lead to misreporting of FTEs. In total, the 17 LEAs and 14 IHEs where we reviewed FTE calculations together reported approximately 32,400 FTEs for ESEA Title I, IDEA Part B, and SFSP, accounting for about 11 percent of the 284,385 reported FTEs for these three programs by the 16 states in our review and the District of Columbia. We identified potential issues in the FTE calculations of 11 of these 31 IHEs and LEAs. Nine of these involved potential underreporting of FTEs either in this quarter or in previous quarters. Table 17 shows the number of LEAs and IHEs where we identified potential issues with FTE calculations.

Table 17: Number of LEAs and IHEs We Reviewed Where We Identified Potential Issues with FTE Calculations

Potential issues identified	Number of LEAs and IHEs
Vendor FTEs not reported on service contracts	5
Cost of benefits not included in FTE calculations that derive FTE estimate from salary information (“definite term” methodology)	2
Funding increases received during the “definite term” were applied to the entire time period without adjusting for closed quarters	2
Other errors, such as computational mistakes or only reporting FTEs for those staff who had not been paid with Recovery Act funds in prior quarters	3

Source: GAO analysis.

Note: One LEA we reviewed is included twice in the above table as we identified two of the potential issues at that LEA.

Five LEAs we reviewed did not include vendor information in their initial FTE calculations, and officials in several LEAs misunderstood the requirement to report vendor jobs or told us they did not know this was required.²¹² This could lead to underreporting of FTEs paid for with Recovery Act funds. For example, Detroit Public Schools officials reported using contractors to a significant degree, including a \$40 million dollar

²¹²OMB guidance says prime recipients should collect information from subrecipients and vendors to the maximum extent practicable in order to generate the most comprehensive and complete job impact. The guidance does not require jobs reporting on materials suppliers or central service providers (indirect jobs) or on the local community (induced jobs).

contract that is 30 percent completed, but told us in April that they had not reported any vendor jobs because they were not aware that this was a requirement. Officials at the Michigan Department of Education told us that vendor reporting on jobs is required and noted that Detroit Public Schools had submitted information on vendors after learning of the requirement. Officials at one California LEA also reported being unaware that there was a requirement to report vendor jobs and therefore reported no vendor jobs despite awarding Recovery Act contracts to vendors for an estimated \$3 million, many of which are for services. In contrast, an official from another LEA in California told us that for the second quarterly report the number of vendor jobs the LEA reported increased from 12 to 79 when LEA officials learned that job estimates needed to be collected from all vendors with Recovery Act contracts. Finally, we also found that the process that the North Carolina Department of Public Instruction uses to report FTEs for all LEAs in the state does not incorporate any jobs information on vendors hired with Recovery Act funds and therefore likely underreports total FTEs paid for with these funds.²¹³ Department of Education officials told us that subrecipients should report FTE information for vendors when direct jobs could be identified.

Midyear funding changes also pose reporting challenges for some subrecipients and in one case may have led to underreporting of FTEs. For example, officials may decide to change how they use Recovery Act funds during the year, which could make the FTE numbers they reported in previous, closed quarters incorrect. Officials in at least one university we reviewed were unsure of whether and how to adjust their reporting in the current reporting cycle in cases where funds had been reallocated, in effect, to reimburse themselves for their prior expenses from previous quarters. For example, officials at Michigan State University received SFSF funds in February 2010 and plan to reallocate these funds to cover salary expenses from previous quarters. These officials said they were not sure how to accurately reflect FTEs over this period and said they would seek guidance on this issue from the state. Officials in Springfield Public Schools in Massachusetts told us they also plan to reallocate these funds to cover salary expenses from previous quarters and that they plan to report those FTEs in the next reporting cycle.

²¹³Department of Public Instruction officials told us that the department will develop a Web based system to collect FTE information from vendors for the July 2010 reporting period.

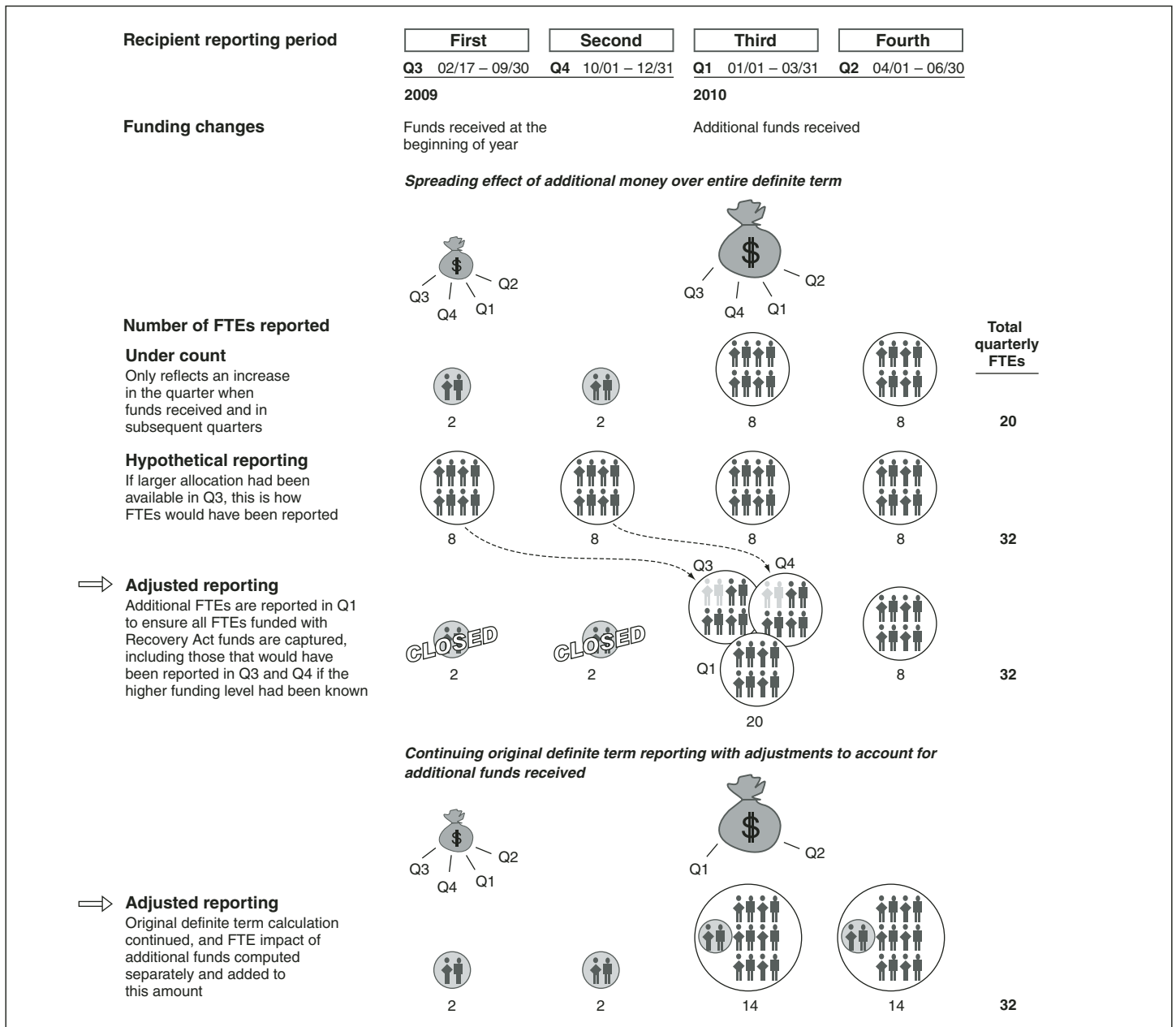
Officials at the Massachusetts Department of Elementary and Secondary Education told us that they will likely issue guidance to their LEAs about how to report FTEs when SFSF funds are reallocated to cover expenses from previous quarters, and that they expect to see a spike in reported FTEs next reporting quarter as multiple quarters worth of FTEs are reported. U.S. Department of Education officials acknowledged that such spikes would likely occur and said that these FTEs should be reported. In contrast, Georgia officials do not plan to adjust their reporting to account for changes in funding levels that affect the FTE numbers they reported in previous quarters, given their method for calculating FTEs. In Georgia, IHEs and LEAs received additional allotments of SFSF funding in the last quarter of 2009 and the first quarter of 2010. The new, higher levels of funding were used to recalculate the impact of FTEs funded by SFSF, resulting in an increase in the number of FTEs reported each quarter. However, the definite term methodology, which Georgia uses, assumes the same FTE figure will be reported for each quarter of the definite term. Neither OMB nor Education guidance explains how to adjust FTE reporting when funding levels change during the definite term and FederalReporting.gov does not allow for adjustments to previous quarterly reports once the continuous corrections period has closed. In the absence of such guidance, Georgia officials told us they thought it was more important to reflect the annualized impact accurately in the current quarter and in future quarters than to “catch up” for previous quarters. In addition, they stated that they did not think it would be appropriate to retroactively assign FTEs to the first and second quarter of recipient reporting because the higher levels of funding had not been available at that time.²¹⁴ They also noted that they had discussed their formula with an Education official after each round of reporting and had not been told to make any changes to it.

In the case when additional Recovery Act funds become available and are reallocated to cover expenses in previous quarters, not adjusting FTE estimates accordingly may result in undercounting. Figure 33 shows potential issues that could arise when using the definite term methodology if funds are reallocated to cover expenses in previous quarters. Recalculating the FTE impact during the definite term could result in undercounting over time unless adjustments are made because the

²¹⁴In commenting on a draft of this report, Georgia officials provided an example to illustrate that the increase in FTEs reported in the third recipient reporting period accurately reflects the increase in funding for that quarter and reiterated their position that catching up for previous quarters was unnecessary.

quarterly FTE impact of additional funds is captured after the adjustment, but not in previous quarters, even though the impact of the funds is being calculated over the entire time period. A Department of Education official agreed that Georgia's method could result in undercounting and said that it would be more appropriate to calculate the FTE impact of the additional funding on a quarterly basis using the "general" methodology described above and to add this figure to the original FTE count generated at the beginning of the definite term.

Figure 33: Potential Issues in FTE Reporting That Can Arise When Funds Are Reallocated to Cover Costs Incurred in Previous Quarters



Source: GAO.

Department of Education
Officials Reported Enhanced
Data Control Systems

Department of Education officials said that the third round of recipient reporting had gone more smoothly than the first two rounds, with department officials identifying fewer serious errors and receiving fewer requests for technical assistance from recipients. Education officials said program staff from SFSF, ESEA Title I, and IDEA review every recipient report submitted through FederalReporting.gov and comment on those that need further attention from recipients. Education officials reported that enhanced data control systems in place through their department and FederalReporting.gov have eliminated many of the “fatal flaw” errors that were problematic in previous rounds of reporting, such as when the award amount, DUNS number, or amount drawn down is inconsistent with the department’s records. Rather, the majority of errors they encountered during the third round of recipient reporting were administrative or technical in nature. Officials continued to provide technical assistance to grantees and posted additional clarifying guidance on Education’s Recovery Web site about recipient reporting, but reported receiving fewer questions this round than in the first two rounds.

Education had few experiences with nonreporters in this round, as most recipients submitted reports on time. Officials reported that 100 percent of SFSF recipients reported in all three quarters thus far. One state did not submit a report this round for ESEA Title I, and officials were in communication with this recipient. For IDEA funding, one state had not yet submitted its Part C report due to a change in its lead agency; officials stated that they were working with the new agency to help it understand its responsibilities. One of the territories had not spent any funds and did not realize it needed to report.

Officials said that the continuous review period, which concluded after our last review of recipient reporting and pertained to the second submission, had been a positive step toward developing quality recipient reported data. The first continuous review period began on February 2, 2010, and lasted until March 15, 2010, during which prime recipients could submit corrections to the data they reported during the second recipient reporting period. Education officials reported that the continuous review period had allowed recipients and the federal agency more time to review and improve the quality of the data initially submitted.

Officials told us that prepopulating fields for recipients could improve data quality and ease some reporting problems experienced by prime recipients. For example, when subrecipients make mistakes in entering a DUNS number or a congressional district, prime recipients experience difficulty uploading reports and must spend time identifying and fixing

these data entry errors. Education officials indicated that since this information is available at the federal level, it would be ideal if these data could be prepopulated for recipients. Education officials told us it was their understanding that federal agencies would not be allowed to prepopulate information, so that it would be clear these data come from the recipients directly rather than the federal government. Officials also stated that prepopulation should be considered if subrecipient reporting is extended to non-Recovery Act programs in the future. OMB officials stated that it was their understanding that the Board is considering the possibility of prepopulation for some data fields in the future.

Education is using recipient reported data to monitor spending in two new ways. First, vendor data are being used in risk management to identify spending that warrants further review. For example, if a vendor address is located far from the subrecipient, or if funds are being used for restaurants and entertainment, potentially unallowable activities, the cognizant program office will be contacted so officials can follow-up and ensure that funds are being spent for allowable purposes. Education officials also told us that Education's Office of the Inspector General has used these data to select which subrecipients to visit and determine what questions to ask. Second, program officials told us that examining subrecipient expenditures has also been helpful in identifying which LEAs to monitor and in preparing for monitoring visits.

Although Many Housing Agencies Used Correct Jobs-Counting Methodology, Unclear Guidance Resulted in Some Underreporting of Hours Worked by Subcontractors

For the third round reporting period, recipients of Public Housing Capital Fund formula grants and competitive grants reported about 11,000 jobs funded by Recovery Act projects, or just over half of the total jobs reported for HUD programs, according to data from Recovery.gov. We reviewed the jobs-counting methodologies used by 16 housing agencies in 15 states and the District of Columbia for an in-depth review of prime recipient jobs-counting methodologies. We found that 13 of the housing agencies followed OMB's December 18, 2009, guidance. Specifically, these 13 housing agencies collected the number of hours worked by contractors or staff that were funded by the Recovery Act and divided that total by 520 hours. However, the other three housing agencies used somewhat different methodologies to estimate the number of jobs. For example, officials from a housing agency in Massachusetts told us they calculated the number of FTEs by summing the number of full-time workers funded by the Recovery Act in each week of the quarter and dividing the total by the number of weeks in a quarter. Because all the workers worked full-time schedules, we found that this methodology produced an equivalent FTE calculation to the OMB methodology. However, this methodology

may not accurately estimate FTEs when part-time workers are included in the calculation. In contrast, officials from a housing agency in Florida told us the jobs number they reported was based on a headcount provided by their contractors of the number of workers hired for each of the two projects. The housing agency's contractors said the workers did not work full days and that the project did not last the full quarter. By counting each part-time position as a full-time position, this methodology overstates the number of FTEs funded. Finally, although officials at a North Carolina housing agency said they used the calculation outlined in the OMB guidance, they also added the jobs they had previously reported from December 2009, resulting in cumulative jobs reported rather than the jobs for only the most recently completed quarter, as required by the OMB guidance.

HUD posted a revised jobs-counting calculator to its Web site in March 2010 for housing agencies to use to calculate and report their jobs information. HUD also sent an e-mail to all housing agencies with a link to the calculator. Of the 16 housing agencies we visited, only 3 reported using HUD's calculator for the third round reporting period. Officials at several of the remaining housing agencies told us they did not use HUD's calculator for a variety of reasons. For example, an official at a housing agency in Colorado told us he did not use the jobs-counting calculator because there was not time to evaluate its effectiveness, accuracy, and ease of use. Furthermore, public housing officials at a housing agency in Michigan felt the jobs-counting calculator was overly complex for what they are trying to capture. According to HUD officials, OMB gave HUD permission to distribute the calculator, but OMB did not officially approve or sanction it. OMB also noted that it had neither reviewed nor approved HUD's calculator.

Instead of using HUD's jobs-counting calculator, officials at 12 housing agencies said they created their own tools to calculate the number of FTEs they reported.²¹⁵ Public housing officials in Michigan told us they required each contractor to submit a jobs tool containing the number of hours worked for the quarter as well as the number of FTEs and then created a spreadsheet that aggregated all of the FTE information from each contractor. Similarly, public housing officials in Illinois told us they developed jobs-tracking templates that each Recovery Act funded contractor had to complete and submit to the housing agency on a

²¹⁵One of the 16 housing agencies did not use a jobs-calculating tool.

monthly basis. Contractors could use the templates to record the hours worked by each employee and subcontractor employee. The housing agency officials told us that by having contractors complete their jobs-tracking template electronically, the template could automatically calculate the number of FTEs for each contractor. The housing agency officials told us they reviewed the FTE calculation for each contractor and developed a master worksheet with information from all projects at the end of the reporting period.

Officials from a Pennsylvania housing agency and officials from an Ohio housing agency both reported using an out-of-date version of HUD's jobs-counting calculator. In March 2010, we had recommended that HUD instruct housing agencies to discontinue using this calculator, which HUD had previously removed from its Web site, because it did not reflect the change from a cumulative FTE calculation to a quarterly FTE calculation made by OMB in its December 2009 guidance. HUD did so in a March 26, 2010, e-mail to housing agencies. However, the instruction to stop using the outdated calculator was not featured prominently in the e-mail, but rather was included in a list of updates and reminders in the second half of the e-mail. After meeting with us, the official from the housing agency in Pennsylvania was able to resubmit a corrected FTE calculation using the updated HUD jobs-counting calculator. Similarly, after meeting with us, the official from the housing agency in Ohio stated that the earlier version of the jobs-counting calculator would not be used for its recipient report. Instead, the official stated that the housing agency would use an internally generated tool to calculate the FTE value. HUD officials said they have continued to include this instruction in subsequent correspondence with housing agencies and would emphasize in future correspondence with housing agencies not to use the outdated jobs-counting calculator. However, HUD's previous instruction does not appear to have been effective in ensuring that all housing agencies are using the correct jobs calculation. Without further action from HUD, housing agencies may continue to incorrectly calculate jobs using the outdated jobs-counting calculator.

OMB guidance states that recipients should use reasonable judgment in determining the appropriate sources of information for determining their jobs estimates. HUD suggested that housing agencies use weekly payroll information to collect hours worked from contractors. Ten public housing agencies reported using payroll documentation as the primary source to determine the number of hours worked by employees on Recovery Act funded projects. Some examples of the payroll documents used by housing agencies include Davis-Bacon wage reports, contractor-certified payroll

records, and paychecks. However, six public housing agencies collected information from different sources. For example, public housing officials in Michigan told us they used a contractor-certified spreadsheet containing information on the number of hours worked by employees and the FTE calculation. While the officials told us they did not require the contractors to provide documentation supporting their FTE calculation, they told us they reviewed the information for reasonableness. Public housing officials in the District of Columbia told us their contractors are responsible for maintaining and reporting information on the number of hours worked and funded by the Recovery Act for the quarter and entering it into the District of Columbia government's reporting Web site. The housing agency officials told us that they do not use payroll records to verify information the contractors report. Instead, they verify the contractors' reported hours by comparing the data reported online through the District of Columbia Web site with hours reported directly to the housing authority through monthly reporting. According to housing officials, all data are compared to summary information on hours worked provided by contractors before uploading it from the District of Columbia's Web site into FederalReporting.gov.

OMB's December 2009 guidance states that to the maximum extent practicable, information should be collected from all subrecipients and vendors in order to generate the most comprehensive and complete job impact numbers available. For the Public Housing Capital Fund grants, public housing agencies are prime recipients, and contractors are considered vendors rather than subrecipients. While OMB has an on-line frequently asked question that discusses the difference between a subrecipient and a vendor, OMB and HUD guidance could more clearly specify whether and when subcontractors are also to be considered vendors—that is, whether the prime recipient is responsible for reporting hours worked by subcontractors employed by contractors of the prime recipient. OMB's guidance defines a vendor as "a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a federal program." We found that at least seven housing agencies included in their FTE calculations the hours worked by contractor and subcontractor employees. However, at least one housing agency did not report this information for subcontractors even when subcontractors were providing essential goods and services for Recovery Act funded projects. Officials at this housing agency told us they only require contractors awarded Recovery Act work to report hours worked for individuals who they directly employ and are working on Recovery Act projects, which does not include any data for work performed by subcontractors on Recovery Act-funded jobs. We believe it is important for

HUD's Data Quality Reviews of Recipient Reports Continue to Find Errors, and Recent OMB Changes Have Facilitated HUD's Reviews

housing agencies to have clear guidance on whether and when subcontractors should be included in their FTE calculations in order to have consistent and complete jobs data.

HUD continued to use automated data checks to flag values in specific fields that were incorrect or that fell outside of parameters HUD had defined as reasonable and to generate comments to notify housing agencies of the potential errors. However, HUD changed its criteria for flagging errors. Specifically, HUD replaced the criteria used in previous reporting cycles to identify potential jobs errors with criteria to identify major jobs overcounts and undercounts, as well as probable jobs overcounts and undercounts.²¹⁶ Further, HUD increased the number of fields it reviewed to flag technical and administrative errors. Overall, HUD flagged 2,965 errors—including 1,097 potential jobs errors—in 1,932 recipient reports, which resulted in comments being sent to these housing agencies on April 21, 2010, notifying them that they needed to review the information they entered for the values flagged as errors. In comparison, for the previous quarter HUD flagged 1,877 errors (in fewer fields) in 1,578 recipient reports. HUD headquarters staff from the Office of Field Operations followed up with these recipients to assist with identifying the correct information to be entered in FederalReporting.gov. One week after the start of the federal agency review period, 732 recipients had updated their reports in response to the comments HUD had sent.

According to HUD officials, its existing approach to data quality review was consistent with the changes OMB outlined in the March 22, 2010, guidance to federal agencies. First, the OMB guidance introduced a new category of errors—administrative and technical errors—for federal agencies to identify and track. HUD officials said they already had been

²¹⁶Previously, HUD identified potential jobs-counting errors by dividing the grant amount by \$205,000 to produce a source value. HUD then compared this source value to the reported FTE value. If the reported FTE value was more than 50 percent above or below the source value, the report was flagged for a potential error. Under HUD's new approach, it identifies a potential jobs overcount by dividing the recipient's award amount by their reported FTEs. A "major jobs overcount" is flagged when the recipient's real award amount divided by their reported jobs is below \$15,800, the annualized federal minimum wage. A "probable jobs overcount" is flagged when the recipient's real award amount divided by their reported jobs is below \$60,000. A "major jobs undercount" is flagged when (1) the recipient received an award greater than \$500,000, (2) the recipient indicated a project completion status of "Greater Than 50% Complete," and (3) the recipient reported creating less than one job. A "probable jobs undercount" is flagged when (1) the recipient had drawn down \$40,000 by the end of the quarter, (2) the recipient marked their project as underway, and (3) the recipient reported less than 0.50 jobs.

working with housing agencies since October 2009 to correct technical errors, such as incorrect award ID numbers; eliminate duplicate reports; and address “egregious” errors.²¹⁷ Second, OMB provided guidance on the steps federal agencies should take to review recipient reports during the continuous corrections period. HUD officials said the process they used during the continuous corrections period after the January reporting period was consistent with the OMB guidance. However, HUD officials told us that the extent to which they were able to work with recipients to correct errors during the April federal agency review period has allowed them to provide assistance to housing agencies with more minor errors to ensure those are corrected as well. As a result, they believe the quality of the data is improving with each reporting cycle.

In a change from prior reporting cycles, the Board and OMB permitted federal agencies to upload comments in bulk rather than manually entering each one. As a result, the commenting step required fewer staff hours to complete. HUD officials said this change allowed them to redirect staff resources to respond to questions from housing agencies and to identify recipients with errors most in need of follow up.

HUD officials told us they are using the continuous corrections period to follow up on the egregious errors that remain unaddressed as of the end of the federal agency review period, as well as minor errors, if time permits. HUD officials are monitoring the list of recipient reports that are updated and are periodically reviewing them to ensure recipients do not introduce additional errors when they make changes to their reports in response to the comments they received. HUD staff will determine the frequency with which they follow up with recipients that have unaddressed errors in their reports as the continuous corrections period progresses. During the continuous corrections period for the round two reporting period, HUD officials said they focused on having housing agencies address the 99 egregious errors that remained unaddressed after the federal agency review period. HUD officials told us they also performed a data quality review of the reports approximately two times per week during this period to monitor corrections and identify any new errors introduced by housing agencies correcting their report. While they were concerned that new errors might be introduced by housing agencies during this period, HUD

²¹⁷According to HUD officials, an egregious error is defined as one in which the award ID contains incorrect numbers or letters, the award amount entered differs from the actual award amount by more than \$500,000, or the award amount divided by the number of jobs reported produces a wage rate below the federal minimum wage for each job.

officials said that they found few new errors and that, in general, the data quality was improved. According to HUD officials, 50 of the 99 egregious errors were resolved during the first week of March.

In the third round reporting period, Public Housing Capital Fund formula grant recipients achieved a reporting rate of nearly 100 percent, with all but 5 of 2,704 recipients required to report successfully submitting reports into FederalReporting.gov, according to HUD officials. Additionally, 100 percent of the 391 capital fund competitive grant recipients required to report successfully reported into FederalReporting.gov by the end of the initial submission period on April 16, 2010. HUD officials said that two of the five recipients that did not report had technical difficulties and submitted reports to HUD outside of FederalReporting.gov using an Excel template from HUD's Web site. A third recipient submitted its report as a subrecipient rather than as a prime recipient. HUD officials told us that the other two simply failed to report and received a warning letter reminding them of their obligation to report on April 29, 2010.

As we reported in March 2009, HUD previously took action to address housing agencies' noncompliance with the reporting requirement. HUD identified six grants for which no report was found in both the first and second reporting cycles and followed up with each housing agency by phone. According to HUD officials, HUD subsequently sent the six housing agencies formal sanction letters and locked their grants in HUD's Electronic Line of Credit Control System. HUD officials told us this disabled the housing agencies' ability to draw down funds until they could demonstrate compliance by either completing the official reporting template developed by OMB and provided by HUD to the housing agency by e-mail or reporting in the third round reporting period. HUD noted that five housing agencies took steps to demonstrate compliance: two completed the template and e-mailed it back to HUD in March 2010, and the other three reported in the April reporting period. The sixth housing agency returned its Recovery Act grant to HUD.

Additionally, the 32 housing agencies that did not report in the second reporting cycle received a warning letter from HUD on March 22. In the April recipient reporting period, HUD officials told us none of the 32 housing agencies had a second consecutive nonreported award. According to HUD officials, some housing agencies with nonreported awards are small and have limited capacity and sophistication, which can make the requirement to report overwhelming for their staff. HUD field staff continue to provide technical assistance to housing agencies having trouble with the reporting requirements.

DOE Reported Improved Data Quality in the Third Round but Had Suggestions for Further Improvements

Overall, according to a senior DOE official in the department's Recovery Operations Group, recipient reporting went more smoothly during the third round of reporting. The DOE official attributed this in part to OMB's March 2010 guidance, which he thought helped to further improve data quality by calling attention to administrative and technical data quality issues. During this round of reporting, DOE's automated review process examined report fields including award type, award amount, jobs calculated, and project status. The DOE official stated that all of the over 3,700 DOE recipient reports submitted to Recovery.gov are reviewed. During this round of reporting, DOE also made enhancements to its quality assurance process and provided additional training on the process to about 400 field staff.

During the quarter ending March 31, 3,749 DOE recipients were required to report and 3,725 did so, which is a 99.4 percent reporting rate. Although DOE had an additional 1,000 recipients reporting this quarter, there were only 24 nonreporters compared to 40 nonreporters during the last quarter. The primary reason, cited by DOE agency reviewers for nonreporting was that recipients were experiencing technical problems with uploading data on FederalReporting.gov. Other examples included lateness or recipients deciding to decline awards. The official attributed the drop in nonreporters this reporting round to efforts by DOE's Recovery Act Clearing House to contact new recipients to make them aware of their reporting responsibilities.

Even though recipient reporting is going more smoothly than in previous quarters, the official reported that problems still persist due to human error, technological obstacles, and system inflexibility. For example, the agency review flag has been a source of frustration for DOE. The DOE official said that on April 21, 2010, all DOE recipient reports were erroneously marked by an unidentified individual on FederalReporting.gov as reviewed with no comments. This resulted in a systematic lock down of all DOE recipient reports, not only for this quarter but for the previous two quarters as well. According to the official, FederalReporting.gov was unable to reverse this action. As a result, the agency had to resort to a manual system to track which reports were reviewed with no changes and which needed corrections. Given the design of the review screen on FederalReporting.gov, the official stated that it would not be difficult for an individual to accidentally change the status of all reports while reviewing an individual report. He noted that the agency had raised this concern with the Board on two occasions before this error occurred. As an additional safeguard, DOE suggested that the Board add two columns to the continuous review data extract provided by FederalReporting.gov,

including the name of the person reporting and a date and time stamp for the agency review flag.

In spite of these issues, the DOE official maintained that Recovery.gov is an excellent model that would benefit from continued refinement in guidance from OMB on not only what needs to be reported but who should report. To further improve data quality in recipient reports, the DOE official also suggested that prepopulation of data elements, such as award amounts and award IDs on the FederalReporting.gov Web site would be beneficial.

Recovery Act Recipient Reporting Lessons Learned Can Help Build Greater Transparency in Federal Spending

The implementation of the Recovery Act's reporting and transparency requirements represents a step forward toward achieving the federal government's stated desire to enter into a new age of openness about federal spending. The April 6, 2010, OMB memorandum on federal spending transparency noted that it was building on the achievements and lessons learned from implementing the Recovery Act. The directive outlined OMB's plans to implement Federal Funding Accountability and Transparency Act of 2006 (FFATA) requirements for recipients of federal grants, contracts, cooperative agreements, and other financial assistance.²¹⁸

Signed into law on September 26, 2006, FFATA aimed to increase federal spending transparency through the creation of a publicly available and easily searchable online database of federal funding awards. This database was to reflect a variety of data elements related to awards from a federal agency to a nonfederal entity, the prime recipient, and eventually the subawards given by the prime recipient to subrecipients. While a pilot program to implement FFATA at the subrecipient level was undertaken in the fall of 2008, it left many questions unanswered. With the Recovery Act, OMB was able to use lessons learned from recipient reporting in the implementation of subaward reporting requirements for FFATA.

The OMB directive acknowledged that an important goal is to improve federal spending data quality and that more needs to be done to ensure the accuracy and completeness of federal spending data. USAspending.gov, the Web site created in response to FFATA, has been widely critiqued

²¹⁸Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006), as amended Pub. L. No. 110-252, § 6202(a) 122 Stat. 2323 (June 30, 2008) (codified at 31 U.S.C. § 6101 note).

because of quality problems with the federal agency reported data. OMB plans to improve the technology behind USAspending by October 1, 2010, when federal agencies will be required to report subawards for new grants, contracts, and task and delivery orders. The directive also establishes the USAspending.gov Control Board, consisting of the Federal Chief Information Officer, Federal Controller, and Administrator for Procurement Policy, which will coordinate policies and systems that support the collection and presentation of data on federal contracts, grants, loans, and other spending. As part of this effort, agencies are required to establish metrics for timeliness, completeness, and accuracy of federal spending information and publicly display them on dashboards to measure progress toward improving data quality. The dashboards, updated quarterly, are intended to provide the public with the ability to monitor agencies' progress. OMB has set a goal of 100 percent of awards data being reported on time, completely, and accurately (free of error) by the end of the fourth quarter fiscal year 2011.

The administration has stated that a cornerstone to open government is transparency, which includes full and easy access for the public to gather information on government spending and promotes accountability by allowing detailed tracking and analysis of the deployment of government resources. To provide information on how recipient reported data are being gathered and tracked, we met with representatives from a variety of research and public policy organizations to solicit feedback from data users about their use of recipient reported data and suggestions they had for improving the recipient reporting process and the data.²¹⁹ We did not assess the feasibility of their suggestions.

Representatives from all of the organizations we interviewed agreed with the importance of instilling a culture of federal spending transparency. One representative said, for example, that because information is posted on Recovery.gov, state officials know that if they do not follow the guidance, they will end up in the spotlight, which results in more incentive for the states to use the funds properly and to follow the rules. Representatives from a transparency organization commented that Recovery.gov signifies a paradigm shift by moving to subrecipient reporting, which they felt could help blaze a federal spending reporting

²¹⁹We interviewed representatives from the Association for University Business and Economic Research, Council of State Governors, Federal Funds Information for States, IBM Center for the Business of Government, the Metropolitan Policy Program of the Brookings Institution, National Association of Counties, OMB Watch, and ProPublica.

trail. Data users noted that it is a positive development to have quarterly data showing where federal funds are flowing, adding that the ability to download and manipulate the data is very important. Another representative characterized Recovery.gov as a good effort with an impressive amount of data.

While the consensus among the representatives was that the federal government has taken an important step toward creating a culture of openness in government spending, they expressed concerns about the quality of data reported on Recovery.gov. Many of their concerns revolved around the FTE calculation. One representative, for example, felt that the FTE measure adds to a sense of confusion about the amount of real employment activity stimulated by the Recovery Act because it represents only a subset of employment, while another pointed out that the emphasis on job creation or retention has overshadowed other impacts and goals of the Recovery Act. Additional examples of concerns regarding data quality included the capacity of recipients to report correctly, difficulty with determining the flow of awarded funding through state capitals or state agencies down to the local level, and the difficulty using the data across quarters because of the FTE calculations. Several also noted that agency reported data does not always match Recovery.gov.

While noting that the data quality of Recovery.gov has shown significant improvement since the first submission of recipient reports, the representatives had several suggestions for improving the quality of the recipient reporting data. Several said county level data would be more valuable than tracking by congressional district, since a large share of federal statistical data is available at the county level, which is a more stable area over decades for long-term comparison. Another suggestion included moving to biannual reporting rather than quarterly reporting, reasoning that less frequent reports with improved data would be more helpful than more frequent reports with questionable data quality. In addition, several representatives suggested that giving the states more time to compile and submit the data would enhance the quality of the recipient reported data.

Representatives we interviewed had varying opinions regarding the Recovery.gov Web site. For example, while some we interviewed liked the geographically displayed data, several representatives suggested that Recovery.gov has too much data displayed in a way that the general public cannot use. Conversely, researchers using the data remarked that the data were not complete or were not arrayed in a way that was particularly useful for their purposes, requiring researchers to draw from other

sources to supplement Recovery.gov. For example, one representative said that her organization combined Recovery.gov data with USAspending.gov data to get a more complete picture of Recovery Act funding. Transparency group representatives said that the public should have a full picture of every entity that has benefited from the Recovery Act. In their opinion, without complete multitier reporting, the public will not know the identity of a large number of Recovery Act recipients.

The April 6, 2010, OMB directive on federal spending transparency noted that a clear lesson from the federal government's experience with the Recovery.gov Web site is that, given the numerous stakeholders involved in the federal spending process and the complexity of underlying systems, all efforts to improve transparency must include thoughtful consideration of the costs and benefits of various implementation approaches. The directive concluded that this consideration should be guided by a long-range vision of how optimal transparency will be achieved.

Recommendations for Executive Action

To ensure that FTEs are properly accounted for over time, we recommend that the Secretary of the Department of Education clarify how LEAs and IHEs should report FTEs when additional Recovery Act funds are received in a school year and are reallocated to cover costs incurred in previous quarters, particularly when the definite term methodology is used.

To ensure that subrecipients do not underreport vendor FTEs directly paid with Recovery Act funds, we recommend that the Secretary of the Department of Education re-emphasize the responsibility of subrecipients to include hours worked by vendors in their quarterly FTE calculations to the maximum extent practicable.

To improve consistency in how FTEs generated using the definite term are calculated, we recommend that the Secretary of the Department of Education and the Director of OMB clarify whether IHE and LEA officials using this methodology should include the cost of benefits in their calculations.

To ensure housing agencies use the correct jobs calculation, we recommend that the Secretary of Housing and Urban Development clearly emphasize to housing agencies that they discontinue use of the outdated jobs calculator provided by HUD in the first round of recipient reporting.

To help clarify the recipient reporting responsibilities of housing agencies and to improve the consistency and completeness of jobs data reported by

housing agencies, we recommend that the Secretary of Housing and Urban Development issue guidance that explains when FTEs attributable to subcontractors should be reported by the prime recipient.

Agency Comments and Our Evaluation

We provided a draft of this section to Education, HUD, and OMB for review and comment. Education had technical comments, which we addressed. In a response from HUD's Director, Office of Capital Improvements, HUD generally concurred with our recommendation to clearly emphasize to housing agencies that they discontinue use of the outdated jobs calculator. While HUD officials believe that they provided ample notification to ensure the current jobs calculator was employed, we found that 2 of the 16 housing agencies we visited continued to use the outdated version of HUD's jobs-counting calculator. In response to our draft, HUD noted they plan to emphasize this instruction and will reconfirm the message in a separate e-mail message to grantees specific to using the correct job calculator before the next reporting cycle.

Regarding our recommendation to issue guidance explaining when FTEs attributable to subcontractors should be reported by the prime recipient, HUD provided additional details regarding OMB's and HUD's guidance and noted OMB requires federal agency guidance to be consistent with guidance released by OMB. Specifically, HUD officials said that OMB guidance demonstrates that the prime recipient is not responsible for reporting "subvendors" of vendors, and they noted that HUD's guidance explains that Public Housing Capital Fund prime recipients only have vendors. However, OMB's guidance states that jobs information should be collected to the maximum extent possible. We believe OMB's definition of vendor could be interpreted to apply to both contractors and subcontractors. In fact, we reported that some housing agencies included information on hours worked by subcontractors on Recovery Act funded projects in the FTE calculation, while at least one did not. Because prime recipients are interpreting the guidance in different ways, we continue to believe that further guidance from HUD is needed on whether and when subcontractors should be included in their FTE calculations in order to have consistent and complete jobs data.

OMB provided comments, which we incorporated as appropriate. OMB stated that they and the Board continue to work with program agencies to improve data quality and ensure that reports are properly identified and linked to prime recipients. OMB generally agreed with our recommendations related to Education programs and will consider providing guidance or address the issues in the frequently asked questions

posted to its Recovery Act guidance Web site. Regarding our recommendations to HUD, OMB said that it will review the FTE calculator issue and noted that there is a frequently asked question about the difference between recipients and vendors on its guidance Web site. We found, however, that housing authorities are not implementing this guidance consistently, which we believe calls for further clarification.

Oversight and Accountability Efforts Continue

OMB Made Progress in Implementing Several GAO Recommendations, but Further Efforts for Improving the Single Audit Process Are Needed

In response to several of our previous recommendations regarding earlier communication of audit deficiencies, OMB implemented a Single Audit Internal Control Project (project) in October 2009. As of May 14, 2010, the project was nearing its completion. The project has been a collaborative effort between volunteer states receiving Recovery Act funds, their auditors, and the federal government. One of the project's goals was to achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken more quickly. GAO assessed the results of the project and found that it met several of its objectives and that the project was helpful in identifying critical areas where further OMB actions are needed to improve the Single Audit process over Recovery Act funding. As of May 14, 2010, OMB had not yet completed its evaluation of the project or committed to a timeframe for communicating its next steps.

In addition, the project required that federal awarding agencies issue management decisions by April 30, 2010 to the cognizant agency for audit regarding the corrective action plans developed by auditee management. The Department of Health and Human Services (HHS) is the cognizant agency for audit for the 16 states participating in the project.²²⁰ By April 30,

²²⁰ Each award recipient expending more than \$50 million is assigned a cognizant agency for audit. Generally, the cognizant agency for audit is the federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB assigns this responsibility to another agency. Some of the responsibilities of the cognizant agency include performing quality control reviews, considering auditee requests for extensions, and coordinating a management decision for audit findings that affect federal programs of more than one agency.

2010, the HHS Office of Inspector General (OIG)—responsible for carrying out some of the cognizant duties for HHS—had received only three management decisions from two federal awarding agencies. By May 14, 2010, after follow-up with the agencies, the HHS OIG had received five additional management decisions from another agency. Thus, only three of the seven federal agencies had submitted some management decisions by May 14, 2010. The HHS OIG official responsible for receiving these management decisions stated that this amount represented a relatively small number of the management decisions that are due for the project. We also found that OMB’s Single Audit guidance needs to be more timely. OMB issued its 2009 guidance for Single Audits in May and August 2009, after the Single Audits for entities with a June 30, 2009, fiscal year-end were already under way. Moreover, we surveyed the state auditors who participated in the project and they said that OMB’s guidance for the project was issued too late, which caused inefficiencies and disruptions in the planning of audit procedures.

OMB has fully implemented four and partially implemented three of the recommendations that we made for improving the Single Audit process. We discuss the implemented recommendations elsewhere in this report. The partially implemented recommendations are for the Director of OMB to (1) explore various options to provide auditors with additional flexibility needed to select smaller programs that are considered high risk, (2) take additional efforts to provide more timely reporting on internal controls for Recovery Act programs for 2010 and beyond, and (3) evaluate options for providing relief relating to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act. In addition, we are making two new recommendations in this report. Specifically, we recommend that OMB issue its Single Audit guidance, such as its OMB Circular No. A-133 *Audits of States, Local Governments, and Non-Profit Organizations* Compliance Supplement, in a timely manner so that auditors can efficiently plan their audit work. We also recommend that OMB explore alternatives to help ensure that the federal awarding agencies provide their management decisions on the auditees’ corrective action plans in a timely manner.

To perform our audit work, we reviewed the project’s guidelines, official reports, and other documents, as well as interviewed state and federal officials. We also conducted a survey of the state auditors and state program and finance officials that participated in the project. We analyzed and summarized the responses to our survey. We conducted our surveys in March 2010 and interviewed several state auditors, the cognizant agency for audit (HHS), and officials from awarding federal agencies whose

programs were selected for audit under the project. We also participated in an OMB-led discussion of the project's participants to obtain their views on the project.

OMB's Single Audit Project Met Some of Its Original Objectives but Highlights Areas Needing Further Attention

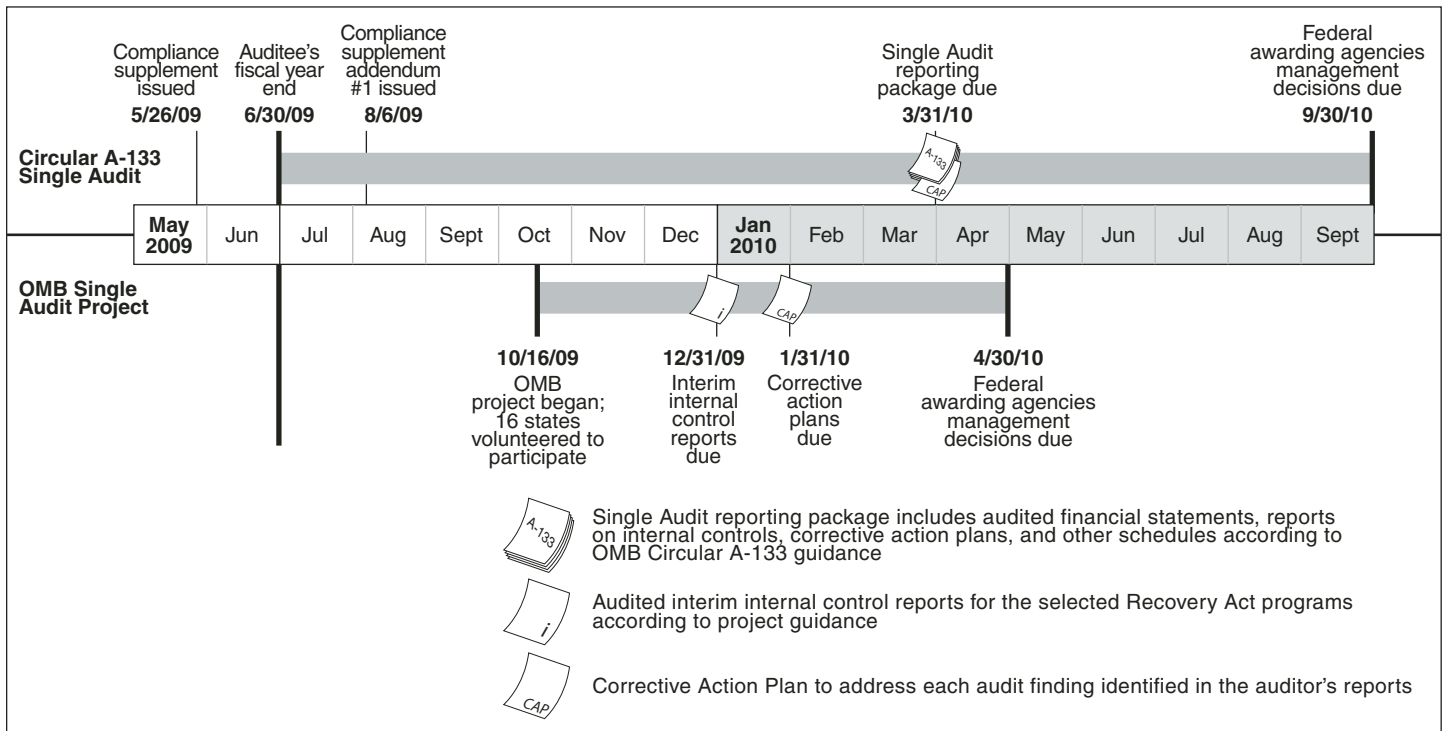
We assessed the results of the project and found that the project met its original objectives of (1) achieving more than 10 volunteer states participating in the project, (2) having the participating auditors issue interim internal control reports for the selected programs at least 3 months earlier, and (3) having auditee management issue corrective action plans to resolve audit deficiencies at least 2 months earlier than required by OMB Circular No. A-133. The project also increased the level of awareness by the auditors of some of the risks associated with Recovery Act funds and, in some cases, increased the communication and interaction between the auditors, program officials, and the cognizant agency for audit concerning audit deficiencies related to Recovery Act funds. For example, many of the auditors who responded to our survey stated that the project increased awareness of internal control deficiencies and focused attention on the need for federal agencies to be more involved in pursuing corrective actions to develop more timely corrective action plans for internal control deficiencies related to programs receiving Recovery Act funding. Thirteen of the 16 auditors for the states participating in the project stated that risk factors relating specifically to Recovery Act programs affected the planning of their audits.

The project exceeded OMB's objective of obtaining at least 10 states to volunteer as participants. The following 16 states elected to participate: Alaska, California, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia. 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. The characteristics of the participating states varied and included states with population and geographic diversity, as well as states that use auditors within state government, external auditors, or both to conduct Single Audits. OMB designed the project to be voluntary and OMB officials stated that, overall, they were satisfied with the population and geographic diversity among the states that volunteered. Although the project's coverage could be more comprehensive to provide greater assurance over Recovery Act funding, we believe that the results of the project could provide meaningful insight for making improvements to the Single Audit process.

The project also met its goal for 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. For the 16 states participating in the project, 15 states had June 30 fiscal year-ends, and one state had an August 31 fiscal year-end. All states that reported internal control findings provided the results within 6 months of their fiscal year end. Auditors for 2 states reported that while they performed interim procedures as required, they did not identify any significant deficiencies or material weaknesses and, therefore, did not issue written reports. Thirteen states' internal controls reports identified and reported over 70 internal control deficiencies, although some of the deficiencies were identified as repeat findings from prior year audit reports. Seven of the 16 auditors that participated in the project responded that early reporting of control weaknesses allowed program managers to begin formulating corrective action plans earlier.²²¹ Moreover, under the project's guidelines, all corrective action plans were completed 2 months earlier than the time frames under OMB Circular No. A-133. The project also met its goal for corrective action plans for audit deficiencies to be provided to the cognizant federal agency. Of the 14 states with internal control findings, 11 submitted their corrective action plans concurrently with the internal control reports and 3 submitted them separately but within the project's required time frame. Figure 34 compares OMB Circular No. A-133 Single Audits and OMB's Single Audit Internal Control Project timelines for June 30 fiscal year-ends.

²²¹ Eleven program managers we surveyed said that it was helpful to receive an interim audit report of internal control deficiencies, rather than after the completion of the Single Audit, usually 9 months after the fiscal year-end.

Figure 34: Comparison of OMB Circular A-133 Single Audits and OMB’s Single Audit Internal Control Project Timelines for June 30 Fiscal Year-Ends



Source: GAO.

The earlier reporting of audit deficiencies and the earlier implementation of actions to correct these deficiencies were beneficial in helping to mitigate risks associated with Recovery Act programs, according to several survey participants. Seven of the 16 participating auditors surveyed responded that early reporting of internal control deficiencies allowed program managers to begin formulating corrective action plans earlier. Moreover, about one-third of program managers (10), whose programs were selected for participation in the project, responded that it was helpful to receive an audit report of internal controls deficiencies earlier rather than after completion of the Single Audit, which is usually 9 months after the fiscal year-end.

The auditor’s internal control report for one state resulted in corrective actions being taken prior to December 31, 2009—3 months earlier than would be possible if the state agency had waited for the Single Audit report to be issued by March 31, 2010. The auditor reported as of November 30, 2009, that the lack of cash management procedures in place

for minimizing the time between receipt and disbursement of federal funds affected this state's Recovery Act funds for the State Fiscal Stabilization Fund (SFSF) Cluster. According to the internal control report, of the \$64.6 million in federal drawdowns recorded for fiscal year ending June 30, 2009, the state spent \$33.4 million within 8 to 14 business days after the drawdown. However, the remaining \$31.2 million was returned to the federal government 19 business days after the drawdown as it was not required to meet immediate cash needs. To ensure compliance with cash management procedures in the future, the state agency implemented nine corrective action procedures to address this condition.

The auditor for another state reported, as of December 1, 2009, that one of the state boards receiving Recovery Act funding had not previously received federal funds and, therefore, did not have detailed processes and policies for disbursing and managing federal funds. In its internal control report, the auditor stated that, based on its findings, the lack of grant management processes for this board posed a significant risk to the state government and could result in severe penalties for noncompliance with federal laws. The auditor also noted that during fiscal year 2010, this state board will be receiving more Recovery Act funds for an additional program. In its corrective action plan included with the auditor's report, state board management described the corrective actions it had already taken as of the date of the auditor's report and those additional steps it planned to take to correct the reported deficiencies.

The Project Highlighted Areas Where Improvements in the Single Audit Process Are Needed

OMB's project also highlighted areas where efforts are needed for improving the Single Audit process over Recovery Act funding. Our assessment of the project's results indicated that, as of April 30, 2010, most federal awarding agencies had not provided their management decisions on the states' corrective action plans as required under the project's guidelines. Generally, the project did not provide the intended audit relief to the auditors as indicated in its guidelines primarily because OMB started the project in mid-October 2009, when most audits were nearing their completion. Thus, most auditors had already completed the work for which the project's guidelines were intended to provide relief. Finally, 14 of the 16 auditors we surveyed responded that OMB needs to be more timely in providing guidance both for the project and overall for Single Audits of Recovery Act programs.

With regard to the federal awarding agencies management decisions, the project's guidelines called for the federal awarding agencies to (1) perform a risk assessment of the audit deficiencies to identify the ones with the

greatest risk to Recovery Act funding and (2) identify corrective actions taken or planned by the auditee by April 30, 2010. OMB guidance called for this information to be included in a management decision that the federal agency would issue to the auditee's management, auditor, and the cognizant agency for audit. Several of the state auditors and state program officials we surveyed indicated the need for more timely communication with the federal awarding agencies. The internal control reports for the project contained findings for a total of 24 Recovery Act programs awarded by seven federal agencies. The project's guidelines required that the federal agencies issue a management decision as promptly as possible and no later than 90 days after the date the corrective action plan is received by the cognizant agency for audit.

By April 30, 2010, the HHS OIG had received only three management decisions from two federal awarding agencies. By May 14, 2010, after follow-up with the agencies, the HHS OIG had received five additional management decisions from another agency. Only three of the seven federal agencies had submitted some management decisions by May 14, 2010 and thus, most management decisions were not received. The issuance of timely management decisions by federal agencies is important because in many cases it can affect the timeliness of the auditees' implementation of its corrective action plan relating to Recovery Act funds. According to the HHS OIG official, auditees sometimes wait until they receive a management decision before taking corrective action on audit deficiencies. On March 22, 2010, OMB issued memorandum M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*, which among other things, instructs federal agencies to take immediate action as appropriate to review and act on Single Audit findings. However, further efforts by OMB are needed to help ensure that federal agencies provide their management decisions on the corrective action plans in a timely manner.

The project's guidelines included incentives to provide the participating auditors with some relief in their workload as an incentive for participating in the project. The relief included that under the project's guidelines, auditors were not required to perform risk assessments of smaller federal programs and OMB modified the requirements under Circular No. A-133 to reduce the number of low-risk programs that must be included in some project participants' Single Audits. However, since OMB started the project in mid-October 2009 and the auditors were to complete their internal control work as of November 30, 2009, and report audit deficiencies by December 31, 2009, most of the auditors had already completed the risk assessments by the time the project had started. Thus,

these auditors did not experience audit relief as provided for by the project. The majority of the auditors we surveyed (11 of the 16) stated that they experienced no audit relief as provided for under the project.

The project also highlighted the need for OMB to issue its Single Audit guidance in a more timely manner. For example, 12 of the 14 state auditors responded that guidance for any future OMB projects would need to be more timely. In addition, more than half of the auditors that responded to our survey indicated that they had concerns with timeliness issues relating to the release of the 2009 Compliance Supplement. Several of these auditors stated that they needed the information as early as February, or at least by April, to effectively plan their work. OMB officials told us that they plan to issue the 2010 Compliance Supplement in late May 2010. In addition, OMB officials have stated that they planned to evaluate the results of the project and, based upon the results, take measures to improve the Single Audit process over Recovery Act funds. As of May 14, 2010, OMB had not yet completed its evaluation of the project or committed to a time frame for communicating its next steps.

Open and New Recommendations to Improve the Single Audit Process for Recovery Act Programs

OMB Has Partially Implemented Three of Our Prior Recommendations

OMB has fully implemented four recommendations, which we discuss elsewhere in this report. In addition, OMB has partially implemented three of the recommendations that we made for improving the Single Audit process. We are also making two new recommendations to OMB for improving the Single Audit process for Recovery Act funds.

Explore various options to provide auditors with additional flexibility needed to select programs that are considered high risk: We have been concerned that smaller Recovery Act programs might not be selected for audit under the Single Audit guidance, which relies heavily on the amount of federal expenditures in a fiscal year and whether findings were reported in previous years to determine whether detailed compliance testing is required for a given program. Under this approach, smaller programs with high risk would not likely receive adequate audit coverage. Since the Recovery Act was enacted in February 2009, it was anticipated that while some Recovery Act funds would be expended in fiscal year 2009, the majority of Recovery Act expenditures would occur in fiscal years 2010 and beyond. Therefore, we recommended that OMB provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller, higher-risk programs receive audit coverage in the area of internal controls and compliance.

To address this recommendation, OMB provided guidance in the 2009 OMB Circular No. A-133 Compliance Supplement that required auditors to consider all federal programs with expenditures of Recovery Act awards to be considered higher-risk programs when performing the standard risk-based tests for selection of programs to be audited. OMB also issued clarifying information on determining risk for programs with Recovery Act expenditures. However, because much of the funding for Recovery Act programs will be expended in 2010 and beyond, we remain concerned that some smaller programs with high risk would not likely receive adequate audit coverage due to the lower amount of federal funds expended. As a result, we continue to recommend that OMB explore various options to provide auditors with additional flexibility needed to select smaller programs that are considered high risk, even though the amount of federal expenditures may be less for those programs than other federal programs.

Additional efforts are needed to provide more timely reporting on internal controls for Recovery Act programs for 2010 and beyond:

In making this recommendation, we were concerned that significant expenditures of Recovery Act funds would be made before internal controls could be strengthened prior to the expenditure of the majority of Recovery Act funds. OMB encouraged earlier reporting by auditors of identified control deficiencies related to Recovery Act funding in its 2009 Compliance Supplement Addendum #1 but did not add requirements for auditors to take these actions. To encourage earlier reporting by auditors, OMB implemented its Single Audit Internal Control Project, which called for auditors to issue their internal control reports 3 months earlier than required under OMB Circular No. A-133. The project resulted in more timely identification and reporting of audit deficiencies for certain Recovery Act programs; however, the overall scope of the project was limited. As of May 14, 2010, OMB had not communicated how the project's results may affect future Single Audits of Recovery Act programs. Therefore, we continue to recommend that OMB take additional efforts to provide more timely reporting on internal control for Recovery Act programs for 2010 and beyond—years when considerable amounts of Recovery Act funds will be expended.

Evaluate options for providing relief related to audit requirements for low-risk programs: We previously reported in 2009 that the Single Audit process could be adjusted to provide some relief on current audit requirements for low-risk programs to offset the additional workload demands associated with Recovery Act funds. Toward that end, OMB implemented the Single Audit Internal Control Project, which offered a relief option to participating auditors. Specifically, participating auditors

were not required to perform risk assessments of smaller federal programs. Auditors conduct these risk assessments to identify which federal programs will be subject to internal control and compliance testing. OMB also modified the requirements under OMB Circular No. A-133 to reduce the number of low-risk programs to be included by the states participating in the project. However, because the participants started the project in October 2009, the relief was not experienced as intended, since most audits were nearing their completion. Moreover, most auditors stated that this option was not helpful because the project was started in October 2009, well after their audit work was under way. Therefore, we continue to recommend that OMB evaluate options for providing relief related to audit requirements for low-risk programs to balance new responsibilities associated with the Recovery Act.

New Recommendations to OMB

We recommend that the Director of OMB (1) issue Single Audit guidance in a timely manner so that auditors can efficiently plan their audit work, and (2) explore alternatives to help ensure that federal awarding agencies provide their management decisions on the corrective action plans in a timely manner.

Fraud, Waste, and Abuse Allegations GAO Has Received That Are Related to the Recovery Act

As of April 21, 2010, we have received 202 allegations of Recovery Act wrongdoing from the public. We have closed 137 of these cases because the allegations were nonspecific or lacked information about fraud, waste, or abuse. Another 34 were investigated further and closed by us or the appropriate agency inspector general (IG) when no violations were found. Of those allegations that are open and currently under investigation, 11 are being handled by us and 20 by an IG. We generally refer allegations to an IG when that office is already pursuing the same or a similar complaint. We periodically contact the IGs to determine the status of our referrals. We will continue to evaluate all Recovery Act allegations received through FraudNet and provide updates in future reports.

Recovery Accountability and Transparency Board Initiatives

The Recovery Accountability and Transparency Board (the Board) continues to take steps to identify and report on potential areas of risk to fraud, waste, and mismanagement of Recovery Act funds. The Board recently published two reports identifying concerns with the potential impact of Recovery Act workloads on the federal contracting and grants workforces and on recipient reporting data quality. In addition, the Board has a variety of ongoing and new initiatives for detecting potential instances of risk in Recovery Act contracting that have identified a number of potential instances that the Board has turned over to the appropriate

inspectors general for further review. The Board continues to organize coordinated reviews performed by its inspectors general working group aimed at further assessments of the management and oversight of Recovery Act spending. As many of the Board's initiatives and its recommendations are not yet fully implemented, we will continue to monitor the Board's progress and the effectiveness of its efforts.

Board Reports

In March 2010, the Board reported on the results of a survey that the inspectors general administered to their respective agencies in August 2009 to assess their overall workforce capacity for handling the management and oversight of contracts and grants being awarded with Recovery Act funds.²²² The 26 responding federal agencies reported that the workload from the Recovery Act has put a strain on a significant portion of their contract and grants workforces. Specifically, 47 percent of the 317 responding contracting groups reported that they have sufficient staff to accomplish the Recovery Act work but are experiencing impacts on their non-Recovery Act work, and 25 percent indicated that their staffing is not sufficient for the Recovery Act work. In addition, 56 percent of the 225 responding grants groups reported that they have sufficient staff to accomplish the Recovery Act work but are experiencing impacts on their non-Recovery Act work, and 28 percent indicated that their staffing is not sufficient for the Recovery Act work.

The federal agencies reported that the Recovery Act workload has resulted in non-Recovery Act work being delayed and an increase in staff hours needed to complete their work. Furthermore, they expect a significant impact on non-Recovery Act work, including decreases in postaward monitoring of awards. In response to its findings, the Board recommended that agencies continue to closely monitor their staffing of both Recovery Act and non-Recovery Act work to ensure that all contracts and grants are properly awarded and monitored. Currently, the Board does not have any additional work planned related to these workforce capacity issues.

In February 2010, the Board reported on the results of the second of three phases of its inspectors general working group's review of actions taken by agencies, the Office of Management and Budget, and the Board to

²²²Recovery Accountability and Transparency Board, *Review of Contracts and Grants Workforce Staffing and Qualifications in Agencies Overseeing Recovery Act Funds* (Washington, D.C., March 2010).

improve the quality of data that recipients of Recovery Act funds are providing for posting to the public Web site.²²³ The Board concluded that the actions taken to date and the high level of cooperation among the stakeholders should improve the quality of recipient reported data but that further actions are needed.

Board Initiatives

The Board continues to use a variety of initiatives to monitor Recovery Act spending in an effort to identify potential areas at risk to fraud, waste, and abuse. The Board's current oversight initiatives—both ongoing and new—and their initial results include the following:

- reviewing contracts awarded to small businesses to determine if the contractor still qualifies as a small business. If an issue is discovered related to an individual contract, the Board refers the matter to the agency or its inspector general for resolution. The method of resolving the issue depends on the situation; however, a Board representative noted that in one instance where the contractor no longer qualified as a small business, the agency rescinded the contract.
- maintaining a Fraud Hotline, which receives complaints of potential fraud, waste, and abuse from the public, and referring potential cases to the respective inspector general for further review. As of March 31, 2010, the Board had received 1,446 complaints and had referred 107 leads to various inspectors general.²²⁴ To date, 8 of these leads have resulted in opening an investigation.
- performing data analyses on publicly available information about Recovery Act recipients. The Board continues to modify its analytical efforts to provide insights on potential risk areas for the oversight community. Since the Board established its center for such analyses in October 2009, 16 leads were generated from these analyses, which were referred to the respective inspector general for review. To date, 2 of these leads have resulted in opening an investigation. In addition,

²²³ Recovery Accountability and Transparency Board, *Recovery Act Data Quality: Errors in Recipients' Reports Obscure Transparency* (Washington, D.C., February 2010).

²²⁴ According to the Board staff, the majority of the complaints received via the fraud hotline did not contain any actionable information; for example, some complaints contained a generalized comment on the Recovery Act rather than any specific allegation of wrongdoing. The Board refers those that are actionable to the appropriate inspector general when there is a specific allegation of wrongdoing or multiple factors indicate a possible area of risk.

the Board has assisted a number of federal agencies and states by performing data analyses on specific topics.

- reviewing data in the Federal Audit Clearinghouse related to findings reported in state Single Audits regarding businesses and states identified as having poor internal controls or receiving other than clean opinions on their financial statements. As a result of its review to date, the Board has issued three letters to federal entities alerting them to potential issues. Two of the letters were sent to the U.S. Departments of Justice and Energy regarding concerns with one entity's internal controls that warrants evaluation with respect to Recovery Act funds that it may be receiving. The third letter was sent to the Office of Management and Budget discussing concerns about oversight of states that have received qualified, adverse, or disclaimer opinions related to major federal programs.

Board Coordination and Monitoring of Inspectors General Initiatives

The Board continues to coordinate audits carried out by the inspectors general working group and monitor the independent efforts of the inspectors general related to the Recovery Act. The inspectors general working group currently has two audits under way related to assessing the accuracy of recipient reporting data. The first is the third review of the effectiveness of agencies' data quality review processes for recipient reporting. The majority of the work is completed, and the results of the review are expected to be issued in June 2010. The second is reviewing the accuracy of selected fields of recipient reporting data. The work is expected to be completed by the end of July 2010 and a report issued in September 2010.

The Board continues to review monthly reports submitted by the inspectors general on the number and status of Recovery Act-related audits and investigations each has initiated. As of March 31, 2010, the inspectors general reported they have 245 active investigations, 87 investigations closed without action, and 448 audits, inspections, evaluations, or reviews in process. The inspectors general also reported they have completed 510 work products on Recovery Act-related issues since the act was passed—362 of which are published on Recovery.gov and 148 are not publicly available since they contain proprietary or sensitive information.²²⁵ In addition, the inspectors general reported that

²²⁵ According to a Board official, 46 of the 362 inspectors general products published on Recovery.gov are interim reports published to raise important issues with agency management in an expedited manner.

they have conducted 1,724 training and outreach sessions related to Recovery Act issues. Recently, the Board asked the inspectors general to report to the Board on the number of complaints received directly by their offices. As of March 31, 2010, the inspectors general have received 1,029 complaints related to the Recovery Act.

Presidential Recovery Act Advisory Panel

The President of the United States appointed an Advisory Panel in March 2010 that is expected to recommend additional ways to detect and prevent fraud, waste, and abuse in Recovery Act programs. The backgrounds of the panel members include financial services, fraud expertise, public and private sector management, and statistics and data visualization. The Advisory Panel held its first planning meeting in April 2010. It plans to hold a second planning meeting in June 2010 and its first public meeting in August 2010.

Audit Activities Involving Recovery Act Funds Are Under Way at the State and Local Levels

There are a wide variety of entities across all of the states and the District of Columbia that are involved in oversight and audit of Recovery Act programs in addition to audit and oversight work conducted by us and the federal inspector general community. Many of our 16 selected states and the District established task forces or created new entities with oversight responsibility for Recovery Act funds. For instance, Arizona, California, Colorado, Georgia, Iowa, Massachusetts, Michigan, New Jersey, New York, North Carolina, Pennsylvania, and Texas created new offices, positions or task forces, in part, to ensure that their state complied with certain Recovery Act requirements, including reporting on Recovery Act expenditures. In addition, state agency internal auditors and state inspectors general have been actively involved in monitoring and oversight of Recovery Act funds in a number of states.

Audits of Recovery Act funds are generally conducted through the state Single Audit process. This is not surprising, since Recovery Act funds comprise a portion of federal funds going to these jurisdictions and the Single Audit is a long standing well established accountability mechanism for overseeing federal funds at the state and local levels. Given recent budgeting challenges, both state and local governments have reduced staffing levels, and audit organizations have not been spared from budget reductions. For instance, several state and local jurisdictions reported that resource constraints have limited their capacity to perform audits involving Recovery Act funds.

Recently completed 2009 Single Audits, which for many of our selected states ended on June 30, 2009, covered only a portion of Recovery Act program funds since a greater portion of Recovery Act funds will be expended during fiscal years 2010 and 2011.²²⁶ In addition, Single Audit results are typically published nine months after the end of the fiscal year, therefore, many of our selected states have only recently released or plan to release their Single Audit for the state fiscal year 2009. Finally, some states are just beginning work on Single Audits for state fiscal year 2010 which will include reviews of Recovery Act program funds.

Through either the Single Audit process or other practices, states and localities have completed or plan to complete audits of Recovery Act funds in areas such as cash management, internal controls, and civil rights compliance. In addition, these audits have spanned many programs including weatherization, education, transportation, and health care (as mentioned in previous sections of this report). In some cases, state and local auditors have pursued audits for programs funded by the Recovery Act that they deemed as at higher risk for mismanagement of funds. For example, the weatherization program was targeted in many state audits, because this program saw a large increase in federal funding through the Recovery Act. In previous years, the weatherization program had not been subject to the Single Audit process in many of our selected states since this program had not received funding levels over the threshold for Single Audit inclusion. Also, some states chose to target audits toward programs with a history of inadequate internal controls or mismanagement.

There are many examples of audit results from the audit community in our selected states and localities. For example:

- The California State Auditor reported that delays in meeting performance targets by California's Department of Community Services and Development (CSD) could jeopardize timely access to \$93 million in remaining Recovery Act weatherization funds. In its response to the report, CSD stated that it plans to meet DOE's performance milestones by redirecting funds from areas without service providers to providers with the capacity to weatherize more homes. CSD also outlined steps it is taking to provide weatherization

²²⁶Information from 11 of the Single Audit reports that have been issued for our selected states showed an average 25 percent increase (with a range of 7 to 43 percent) in federal expenditures between fiscal year 2008 and 2009, in part, due to Recovery Act funding.

services to unserved areas where it is either seeking a new service provider or withholding funds.

- The Colorado Office of the State Auditor reported significant deficiencies with the internal controls over the Colorado Child Care Assistance Program, including errors found on the form used to report fiscal year expenditures of federal awards. The report stated that errors occurred because the Colorado Department of Human Services (CDHS) does not have adequate written procedures and lacks supervisory review and adequate training for completing the expenditure reports. CDHS agreed with the recommendations in the report.
- The Georgia State Auditor reported on three significant deficiencies and one material weakness at the Georgia Department of Transportation. One of the significant deficiencies identified in their report was in the control category of cash management. The State Auditor noted that failure to have adequate cash management policies and procedures in place could result in noncompliance with federal regulations and may affect the proper recording of federal program revenues, causing misstatements within the financial statements. The Georgia Department of Transportation agreed with the findings and noted that it had implemented changes to address them.
- The Mississippi Office of the State Auditor reported that the Mississippi Department of Employment Security (MDES) did not record \$23,999,054 of Recovery Act funding for unemployment insurance on its accounting records even though these funds were expended, thereby understating both revenues and expenditures by this amount. In addition, the agency did not report these funds on the Schedule of Expenditures of Federal Awards.²²⁷ As a result of these audit findings, MDES recorded these funds on its accounting records and agreed to strengthen controls and improve supervisory review of these funds while moving financial management responsibilities for the Unemployment Insurance Trust Fund to the Office of the Comptroller.
- The Office of the State Auditor in New Jersey reported that processes for determining eligibility for the state's weatherization program were

²²⁷The Schedule of Expenditures of Federal Awards is prepared by the auditee showing the activity of all federal awards programs within the period covered by the auditee's financial statements.

inadequate because of the lack of supporting documentation for household income and size, as well as the lack of social security numbers maintained by the weatherization agencies. As a result, ineligible program applicants were determined to be eligible and could receive weatherization services. According to the State Auditor, the state agency responsible for administering this program has taken steps to implement the audit report recommendations. The recommendations included, among other things, requiring the inclusion of social security numbers for applicants and all household members to minimize the potential for fraud and program abuse, as well as strengthen controls and edit checks in the software system used by weatherization agencies.

- The Office of the New York State Comptroller (OSC) reported that local governments followed sound procurement procedures when awarding highway contracts with Recovery Act funds; however, OSC uncovered an issue with vendor responsibility on a contract being let by the New York State Department of Transportation (NYSDOT). In response, OSC did not approve this contract and now requires more documentation of vendor responsibility for all NYSDOT contracts over \$100,000.
- The Ohio Auditor of State found that the Ohio Department of Transportation (ODOT) did not have procedures in place to identify the amount of Recovery Act funding disbursed to local governments who are locally administering transportation projects. Without such procedures, adequate transparency into the use of Recovery Act funding at local levels may be impaired. In response to this audit finding, ODOT has enhanced the department's Web-based construction project management system to identify the portion of Recovery Act funds for each disbursement when applicable, among other things.
- The Pennsylvania Bureau of Audits completed an audit of a Recovery Act bridge project to determine if contractors were being paid prevailing federal minimum wage rates, if monthly job reports were submitted, and whether steel and iron products utilized on the project were produced in the United States. This completed audit showed no major findings.
- The Texas State Auditor's Office reviewed jobs and expenditure reporting in two Texas Education Agency (TEA) programs, ESEA Title I and IDEA and, although they found TEA had established an adequate process to ensure required information on expenditures and job

creation was collected and reported by LEAs, two LEAs incorrectly reported the number of jobs by 45 percent and 6 percent, respectively.

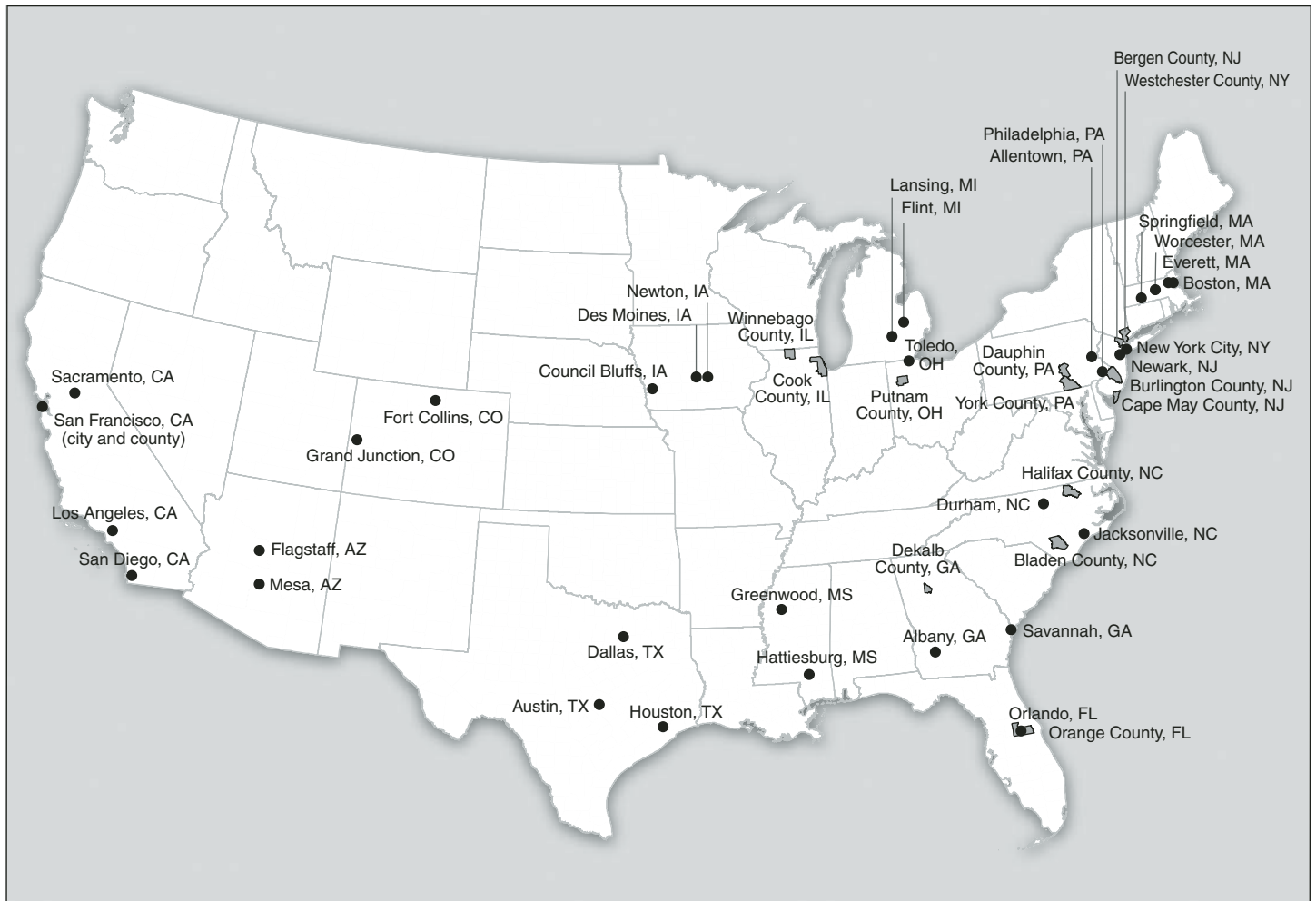
State and Local Governments' Use of Funds for Recovery Act Programs Reflects Current Fiscal Challenges

For this report, we continued our focus on the use of Recovery Act funds at the local government level while also updating our review of states' use of Recovery Act funds in current and future budget cycles. As shown in figure 35, we visited 45 local governments in our 16 selected states to collect information regarding their use of Recovery Act funds. Similar to the approach taken for our December 2009 report,²²⁸ we identified localities representing a range of types of governments (cities and counties), population sizes, and economic conditions (unemployment rates greater and less than the state's overall unemployment rate). We balanced these 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 45 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 Flagstaff, Arizona, to 27 percent in Flint, Michigan.²²⁹

²²⁸GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, GAO-10-231 (Washington, D.C.: Dec., 10, 2009).

²²⁹See appendix VI for a complete list of population and unemployment rates for the selected local governments.

Figure 35: Selected Local Governments Included in Our May 2010 Review



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

Local Governments Use Recovery Act Funds to Initiate Capital Projects, Retain Jobs, Maintain Services, and Fund Programs While Budget Challenges Persist

Local officials reported their governments' use of Recovery Act funds in a range of program areas such as public safety (COPS and JAG), Energy Efficiency and Conservation Block Grants (EECBG), housing (Homelessness Prevention and Rapid Re-Housing Program, or HPRP, and the Community Development Block Grant program), transportation and transit, workforce investment (WIA), human services (Community

Services Block Grant program), and education (SFSF).²³⁰ Some examples of these programs appear in table 18.

Table 18: Selected Examples of Local Governments' Use of Recovery Act Funds

Recovery Act grant	Local government receiving funds	Example of local use of funds
Communities Putting Prevention to Work (CPPW)	Cook County, IL	Cook County Department of Public Health was awarded a \$15.9 million CPPW grant for preventive services.
Smart Grid Investment Grant	Fort Collins, CO	The City of Fort Collins has been allocated \$18.1 million for use under the Smart Grid Investment Grant to integrate renewable energy sources into the electric grid. This project is estimated to reduce the City's operating costs by \$800,000 a year.
Edward Byrne Memorial Justice Assistance Grant (JAG)	Los Angeles, CA	Los Angeles received more than \$11 million in JAG Recovery Act funds to support gang reduction efforts and develop communications infrastructure aimed at increasing response capabilities of law enforcement and crisis personnel.
Staffing for Adequate Fire and Emergency Response Grants (SAFER)	Flint, MI	Flint, Michigan, received \$6.7 million to train 39 firefighters.
Transportation Investment Generating Economic Recovery (TIGER)	Dallas, TX	This \$23 million competitive TIGER grant from the U.S. Department of Transportation is to be used to start work on a project for a proposed streetcar line in downtown Dallas to improve connectivity between jobs and residents.

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

All local government officials reported that Recovery Act funds allowed their governments to maintain services, retain staff positions, or begin infrastructure and public works projects that otherwise would have been delayed or canceled. For example, Lansing, Michigan, reported using Recovery Act funds from the COPS grant to continue funding public safety positions that would have been eliminated without federal funding. Similarly, Toledo, Ohio, and Winnebago County, Illinois, reported using Recovery Act funds from the JAG program to fund the salaries and benefits of law enforcement officials and correctional officers, respectively. With regard to infrastructure and public works projects, Grand Junction, Colorado, is using Recovery Act funds from the EECBG program to help construct a compressed natural gas fueling station. In several cases, Recovery Act funds were used as one-time investments in capital improvement projects, thereby ensuring local governments did not create ongoing funding commitments that could be difficult to sustain

²³⁰See appendix V for descriptions of these Recovery Act programs.

once Recovery Act funds end. Officials in Council Bluffs, Iowa, said Recovery Act funds helped them accelerate progress on some capital projects already planned by the city.

In most cases, local government officials reported working in partnership with other local entities, such as nonprofit organizations, school entities, public housing authorities, transit authorities, and other local jurisdictions to administer Recovery Act funds. For example, officials in the Newark, New Jersey, Mayor's office said the city and its community partners have received almost \$360 million in Recovery Act funds. Specifically, Newark reported receiving \$62 million, and its community partners reported receiving \$297 million.²³¹ Officials in Allentown, Pennsylvania, reported that the city contracted with nonprofit organizations in a partnership to provide services under HPRP. Officials in the city of San Francisco reported that they helped community partners, such as the school district and housing authorities, apply for Recovery Act funds.

Local government officials reported that they have experienced revenue declines and budget gaps even after incorporating Recovery Act funds in their budgets. Overall, officials we met with from four local governments—Los Angeles, Sacramento, San Diego, and San Francisco—reported that Recovery Act funds have helped to preserve services, but they still need to address budget deficits for the remainder of fiscal year 2010 and the next fiscal year. In Des Moines, Iowa, city officials cited reductions in revenue from property taxes and other sources, as well as increases in costs for health insurance and other employee benefits, as examples of their current fiscal challenges. Halifax County, North Carolina, officials stated that their fiscal situation deteriorated as sales tax revenues declined more than expected. Toledo, Ohio, city officials said that their fiscal condition has declined as their budget deficit increased from \$20 million in October to almost \$50 million in January.

A few local governments reported declining fiscal conditions due to a decrease in state aid. In Worcester, Massachusetts, city officials noted a roughly 25 percent cut in state aid. Officials in Everett, Massachusetts, also said there have been significant decreases in revenues, including local aid from the state, but they have been diligent about collecting the local taxes

²³¹Newark budget officials defined community partners as nonprofits, educational institutions, and faith-based and other community organizations, as well as other governmental and quasi-governmental organizations.

they are due. Flint, Michigan, officials cited the decline in income tax revenue as well as the decrease in state revenue-sharing. New York City officials also anticipated cuts to state aid that may equal \$1.3 billion. Westchester County, New York, officials also reported cuts in state aid, as well as lower tax revenues.

Officials in several localities reported that they are prepared for the end of Recovery Act funding as a result of the nature of the funds as one-time investments or temporary or non-recurring services. DeKalb County, Georgia, officials used Recovery Act funds mostly for one-time capital projects. Consequently, the county's strategy for winding down their use will be to rely on prior capital funding sources. Newton, Iowa, city officials stated that because the Recovery Act funds had gone to one-time expenses for capital improvements they did not have a strategy to address budgetary shortfalls once it uses available Recovery Act funds. In Springfield, Massachusetts, city officials stated that some of their Recovery Act funding had gone to one-time purchases. Officials in a few localities said they would attempt to continue funding Recovery Act programs using local government funds or by pursuing other funds after the Recovery Act funding ends. Other local officials said they would reduce funding to the levels in place before the infusion of Recovery Act funds. A number of localities stated they would eliminate Recovery Act-funded projects or reduce staff for these programs after Recovery Act funds end.

States Close Budget Gaps by Using Recovery Act Funds to Provide Services, Continuing Budget Actions, and Assuming that Congress Enacts an Extension of the Increased Medicaid FMAP

Officials in a few of our selected states and the District reported that Recovery Act-funded programs helped them provide services while closing current and anticipated budget shortfalls for fiscal years 2010 and 2011 as they continue to experience revenue declines. A few states reported using Recovery Act funds for specific programs to address their current fiscal year budgets and several states reported addressing their current fiscal year budget gaps through corrective budget actions. These actions included tax and fee increases, spending reductions, layoffs, and use of reserve or rainy-day funds. For example, in Florida, the legislature addressed a projected \$6 billion gap for the fiscal year 2010 state budget by raising fees by \$1.1 billion, cutting spending by \$231.2 million and by using \$582 million in reserves, among other actions. In Arizona, Recovery Act funds for fiscal year 2010 totaled \$1.3 billion, reducing the state's shortfall to about \$2 billion. The Arizona legislature met in several special sessions and closed the shortfall in March 2010 by significantly reducing spending, acquiring additional debt, and "sweeping" surpluses from state funds. Some states, such as Florida, Iowa, Massachusetts, Mississippi, and Pennsylvania, also reported tapping into their reserve or rainy-day funds or reducing the amount expected to be drawn down in order to balance

their budgets. In contrast, the receipt of Recovery Act funds helped Colorado and the District avoid tapping into their reserve funds.

In addition to these budget actions, several states reported accelerating their use of Recovery Act funds to stabilize deteriorating budgets. For example, in Georgia, lower-than-expected revenue caused the state to use more Recovery Act funds in fiscal year 2010 than it had anticipated using. In Colorado, state officials reported accelerating the use of \$5.5 million in SFSF allocations to backfill an additional general fund reduction for higher education, leaving fewer funds available to fill the budget gap for fiscal year 2011. Similarly, officials from New York said the state had to accelerate the use of \$391 million in SFSF funds to address the midyear budget gap in fiscal year 2009-2010. In Massachusetts, state officials reported that the state had hoped to leave a sizable amount of its SFSF allocation available for 2011 but had to accelerate its use of these funds because of its deteriorating fiscal condition.

Some of our selected states (California, Colorado, Iowa, Illinois, Massachusetts, Michigan, Pennsylvania, New Jersey, and New York) and the District assumed Congress will enact an extension of the increased Medicaid FMAP in their proposed budgets. The impact on the states' budgets of this assumption ranged from approximately \$107 million to more than \$1 billion. These states' estimates of additional federal fiscal relief are based on their expectation that Congress will extend the temporary increase in the FMAP beyond the increase provided under the Recovery Act.²³²

States' approaches to preparing for the end of Recovery Act funding vary, depending on budget gaps and governments' balanced-budget requirements. Officials discussed a desire to avoid what they referred to as the "cliff effect" associated with the dates when Recovery Act funding ends for various federal programs. For example, in Michigan, the Governor has proposed a series of cost reductions and restructuring of the state's sales and use tax to fill an anticipated gap. Officials in Georgia are also preparing for the cessation of Recovery Act funds by continuing to reduce spending levels. The District has prepared for the end of Recovery Act funding and is required by law to prepare an annual balanced budget and

²³²See, for example, the Transitional Federal Medical Assistance Percentage Act, H.R. 4260, 111th Cong., and S. 2833, 111th Cong.; and American Workers, State, and Business Relief Act of 2010, H.R. 4213, 111th Cong.

multiyear financial plan. As a result, District officials have accounted for the future decrease in Recovery Act funds in planning budgets for fiscal years 2011 to 2014. In anticipation of continuing revenue shortfalls in Mississippi and the end of Recovery Act funding, the Governor has proposed a number of steps to reduce spending and restructure how the government operates as part of the fiscal year 2011 budget.

New and Open Recommendations; Matters for Congressional Consideration

For this report, GAO both updates the status of agencies' efforts to implement GAO's open 9 recommendations and makes 24 new recommendations to the Departments of Education, Transportation (DOT), Energy (DOE), Housing and Urban Development (HUD), Treasury, Labor, and Health and Human Services, and to the Environmental Protection Agency (EPA), and to the Office of Management and Budget (OMB).²³³ Agency responses to our new recommendations are included in the program sections of this report. Lastly, we update the status of our Matters for Congressional Consideration and add an additional Matter for Congressional Consideration.

Department of Transportation

New Recommendations

To better understand the impact of Recovery Act investments in transportation, we believe that the Secretary of Transportation should ensure that the results of these projects are assessed and a determination made about whether these investments produced long-term benefits. Specifically, in the near term, we recommend the Secretary direct FHWA and FTA to determine the types of data and performance measures they

²³³GAO, *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); *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); *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); *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: Dec. 10, 2009); and *Recovery Act: One Year Later, State's and Localities Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C. Mar. 3, 2010).

would need to assess the impact of the Recovery Act and the specific authority they may need to collect data and report on these measures.

To ensure that the public has accurate information regarding economically distressed areas, we also recommend that the Secretary of Transportation direct FHWA to issue guidance to the states advising them to update information in the Recovery Act Data System to reflect current DOT decisions concerning the special-need criteria. Projects in areas currently lacking documentation that it meets the criteria to be designated as economically distressed should be reported as a project in a noneconomically distressed area.

Open Recommendation

The Secretary of Transportation should gather timely information on the progress they are making in meeting the maintenance-of-effort requirement and to report preliminary information to Congress within 60 days of the certified period (September 30, 2010), (1) on whether states met required program expenditures as outlined in their maintenance-of-effort certifications, (2) the reasons that states did not meet these certified levels, if applicable, and (3) lessons learned from the process.

Agency Actions

DOT concurred in part with our March 2010 recommendation that it gather and report more timely information on the progress states are making in meeting the maintenance-of-effort requirements. Because more timely information could better inform policymakers' decisions on the usefulness and effectiveness of the maintenance-of-effort requirements and is important to assessing the impact of Recovery Act funding in achieving its intended effect of increasing overall spending, we are leaving this recommendation open and plan to continue to monitor DOT's actions.

Department of Housing and Urban Development

New Recommendation

To ensure housing agencies use the correct job calculation, we recommend that the Secretary of HUD clearly emphasize to housing agencies that they discontinue use of the outdated jobs calculator provided by HUD in the first round of recipient reporting.

New Recommendation

To help clarify the recipient reporting responsibilities of housing agencies and to improve the consistency and completeness of jobs data reported by housing agencies, we recommend that the Secretary of HUD issue

guidance that explains when FTEs attributable to subcontractors should be reported by the prime recipient.

Open Recommendation

To help HUD achieve Recovery Act objectives and address challenges with its continued administration of Recovery Act funds, we recommend that the Secretary of HUD develop a management plan to determine the adequate level of agency staff needed to administer both the Recovery Act funds and the existing Capital Fund program going forward, including identifying future resource needs and determining whether current resources could be better utilized to administer these funds.

Agency Actions

In response to our recommendation, HUD officials from the Office of Capital Improvements and the Office of Field Operations are jointly developing a management plan for implementing the Recovery Act that will include an estimation of their resource needs for both Recovery Act grants and the regular Capital Fund program. HUD officials have completed a strategic plan for implementing the Recovery Act, including resource needs, but are still working on the plan and resource needs estimates for implementing the regular Capital Fund program.

Department of Education

New Recommendation

To ensure that FTEs are properly accounted for over time, we recommend that the Secretary of the Department of Education clarify how LEAs and IHEs should report FTEs when additional Recovery Act funds are received in a school year and are reallocated to cover costs incurred in previous quarters, particularly when the definite term methodology is used.

New Recommendation

To ensure that subrecipients do not underreport vendor FTEs directly paid with Recovery Act funds, we recommend that the Secretary of the Department of Education re-emphasize the responsibility of subrecipients to include hours worked by vendors in their quarterly FTE calculations to the maximum extent practicable.

New Recommendation

To improve consistency in how FTEs generated using the definite term are calculated, we recommend that the Secretary of the Department of Education and the Director of OMB clarify whether IHE and LEA officials using this methodology should include the cost of benefits in their calculations.

Open Recommendation

To improve the consistency of FTE data collected and reported, we recommend that the Secretary of Education and the Director of the Office of Management and Budget provide clarifying guidance to recipients on how to best calculate FTEs for education employees during quarters when school is not in session.

Agency Actions

The department agrees that additional guidance on how to calculate FTEs for education employees would improve the quality and consistency of the data reported by states. The department is in the process of working with OMB to draft this guidance and expects to make it available to states in time for them to use in preparing their July 2010 reports about the number of jobs created or retained with Recovery Act funds.

Department of Labor

New Recommendations

To enhance Labor's ability to manage its Recovery Act and regular WIA formula grants and to build on its efforts to improve the accuracy and consistency of financial reporting, we recommend that the Secretary of Labor take the following actions:

- To determine the extent and nature of reporting inconsistencies across the states and better target technical assistance, conduct a one-time assessment of financial reports that examines whether each state's reported data on obligations meet Labor's requirements.
- To enhance state accountability and to facilitate their progress in making reporting improvements, routinely review states' reporting on obligations during regular state comprehensive reviews.

Open Recommendations

Our September 2009 bimonthly report identified a need for additional federal guidance in two areas—measuring the work readiness of youth and defining green jobs—and we made the following two recommendations to the Secretary of Labor:

- To enhance the usefulness of data on work readiness outcomes, provide additional guidance on how to measure work readiness of youth, with a goal of improving the comparability and rigor of the measure.
- To better support state and local efforts to provide youth with employment and training in green jobs, provide additional guidance

about the nature of these jobs and the strategies that could be used to prepare youth for careers in green industries.

Agency Actions

Labor agreed with both of our recommendations and has begun to take some actions to implement them. With regard to the work readiness measure for WIA Youth summer employment activities, Labor issued guidance on May 13, 2010, for the WIA Youth Program that builds on the experiences and lessons learned during implementation of Recovery Act-funded youth activities in 2009. Labor broadly identified some additional requirements for measuring work readiness of youth that it plans to address in future guidance. This includes having the employer observe and assess workplace performance and determine what worksite skills are necessary to be successful in the workplace.

Regarding our recommendation on the green jobs, Labor told us that the Bureau of Labor Statistics published a Federal Register Notice on March 16, 2010, for comment on a proposed definition for measuring green jobs, which includes an approach for identifying environmental industries and counting associated jobs. Labor officials hope this will inform state and local workforce development efforts to identify and target green jobs and their training needs. While Labor also plans to leverage the results of Recovery Act-funded competitive grants for green job training to provide insights on delivering services to youth, and others, along green career pathways, Labor officials told us that the grants have not been in place long enough to shed light on effective strategies.

Department of Energy

New Recommendations

Given the concerns we have raised about whether program requirements are being met, we recommend that DOE, in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that

- establishes best practices for how income eligibility should be determined and documented and issues specific guidance that does not allow the self-certification of income by applicants to be the sole method of documenting income eligibility.

-
- clarifies the specific methodology for calculating the average cost per home weatherized to ensure that the maximum average cost limit is applied as intended.
 - accelerates current DOE efforts to develop national standards for weatherization training, certification, and accreditation, which is currently expected to take 2 years to complete.
 - develops a best practice guide for key internal controls that should be present at the local weatherization agency level to ensure compliance with key program requirements.
 - sets time frames for development and implementation of state monitoring programs.
 - revisits the various methodologies used in determining the weatherization work that should be performed based on the consideration of cost-effectiveness and develops standard methodologies that ensure that priority is given to the most cost-effective weatherization work. To validate any methodologies created, this effort should include the development of standards for accurately measuring the long-term energy savings resulting from weatherization work conducted.
 - considers and addresses how the weatherization program guidance is impacted by the introduction of increased amounts of multifamily units.

In addition, given that state and local agencies have felt pressure to meet a large increase in production targets while effectively meeting program requirements and have experienced some confusion over production targets, funding obligations, and associated consequences for not meeting production and funding goals, we recommend that DOE clarify its production targets, funding deadlines, and associated consequences while providing a balanced emphasis on the importance of meeting program requirements.

Environmental Protection Agency

New Recommendation

We recommend that the EPA Administrator work with the states to implement specific oversight procedures to monitor and ensure

subrecipients' compliance with the provisions of the Recovery Act-funded Clean Water and Drinking Water SRF program.

Department of Health and Human Services: Office of Head Start

New Recommendation To provide grantees with appropriate guidelines on their use of Head Start and Early Head Start grant funds, and enable OHS to monitor the use of these funds, the Director of OHS should direct regional office staff to stop allocating all grant funds to the "other" budget category, and immediately revise all FAAs in which all funds were allocated to the "other" category.

New Recommendation To facilitate understanding of whether regional decisions regarding waivers of the program's matching requirement are consistent with Recovery Act grantees' needs across regions, the Director of OHS should regularly review waivers of the nonfederal matching requirement and associated justifications.

New Recommendation To oversee the extent to which grantees are meeting the program goal of providing services to children and families and to better track the initiation of services under the Recovery Act, the Director of OHS should collect data on the extent to which children and pregnant women actually receive services from Head Start and Early Head Start grantees.

Department of Treasury

New Recommendation In order to increase the likelihood that HFAs will comply with Treasury's requirements for recapturing funds, the Secretary of the Treasury should define what it considers appropriate actions by HFAs to recapture funds in order to avoid liability when they are unable to collect funds from project owners that do not comply.

Executive Office of the President: Office of Management and Budget

New Recommendations We recommend that the Director of OMB (1) issue Single Audit guidance in a timely manner so that auditors can efficiently plan their audit work, and (2) explore alternatives to help ensure that federal awarding agencies

Open Recommendations

provide their management decisions on the corrective action plans in a timely manner.

To leverage Single Audits as an effective oversight tool for Recovery Act programs, in our prior bimonthly reports, we recommended that the Director of OMB should

- (1) 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;
- (2) take additional efforts to provide more timely reporting on internal controls for Recovery Act programs for 2010 and beyond; and
- (3) evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.

Agency Actions

OMB has taken several steps in response to our recommendations. Its efforts, however, are ongoing, and further actions are needed to fully implement our recommendations to help mitigate risks related to Recovery Act funds. We include a summary of OMB's efforts to implement these recommendations.

To focus auditor risk assessments on Recovery Act-funded programs and to provide guidance on internal control reviews for Recovery Act programs, OMB worked within the framework defined by existing mechanisms—Circular No. A-133 and the Circular No. A-133 Compliance Supplement (Compliance Supplement).²³⁴ In this context, OMB has made limited adjustments to its Single Audit guidance. OMB issued the Compliance Supplement in May 2009, which focused risk assessments on Recovery Act-funded programs. In August 2009, OMB issued the Circular No. A-133 Compliance Supplement Addendum I, which provided additional guidance for auditors and modified the Compliance Supplement to, among other things, focus on new Recovery Act programs and new program clusters.

²³⁴The Compliance Supplement is issued annually to guide auditors on what program requirements should be tested for programs audited as part of the Single Audit.

In October 2009, OMB began a Single Audit Internal Control Project (project), which is nearing its completion as of May 14, 2010. 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 OMB Circular No. A-133. OMB plans to analyze the results to identify the need for potential modifications to improve OMB guidance related to Single Audits.

Although OMB noted the increased responsibilities falling on those responsible for performing Single Audits, it has yet to issue proposals or plans to address this issue. States that volunteered to participate in the project were eligible for some relief in their workloads because OMB modified the requirements under Circular No. A-133 to reduce the number of low-risk programs for inclusion in the Single Audits.

Open Recommendation

To provide more direct focus on Recovery Act programs through the Single Audit with regard to smaller programs with higher risk, OMB provided guidance in the 2009 OMB Circular No. A-133 Compliance Supplement that required auditors to consider all federal programs with expenditures of Recovery Act awards to be considered higher risk programs when performing the standard risk-based tests for selection of programs to be audited. OMB also issued clarifying information on determining risk for programs with Recovery Act expenditures. However, since most of the funding for Recovery Act programs will be expended in 2010 and beyond, we remain concerned that some smaller programs with higher risk would not likely receive adequate audit coverage. One approach for OMB to consider in helping to ensure that smaller programs with higher risk have audit coverage is to explore various options to provide auditors with the flexibility needed to select programs that are considered high risk, even though the federal expenditures for a smaller program may be less than the expenditure threshold provided under the Single Audit Act.

With regard to developing requirements for reporting on internal controls during 2009 before significant Recovery Act expenditures occur, as well as for ongoing reporting, in October 2009, OMB implemented the Single Audit Internal Control Project. The project's objective was to help address the issue of more timely identification and reporting of audit deficiencies. One of the project's goals was to encourage auditors to identify and communicate audit deficiencies in internal control over compliance for selected major Recovery Act programs 3 months sooner than the 9-month time frame required under OMB Circular No. A-133 so that corrective

actions can be taken more timely. The project resulted in the earlier communication of audit deficiencies to auditee management, the development of corrective action plans earlier for the 14 states reporting audit deficiencies, and several management decisions from federal awarding agencies that reviewed the auditees' plans for corrective action. The project is nearing its completion as of May 14, 2010. However, OMB has not yet put into place measures to achieve earlier communication of internal control deficiencies for 2010 and beyond—years where considerable amounts of Recovery Act funds will be expended. We recommend that OMB take additional efforts to provide more timely reporting on internal controls for Recovery Act programs for 2010 and beyond.

OMB designed its Single Audit Internal Control Project to grant some relief to the auditors for the states that volunteered to encourage participation in the project. Specifically, participating auditors were not required to perform risk assessments of smaller federal programs. OMB had also modified the requirements under Circular No. A-133 to reduce the number of low-risk programs that must be included in some project participants' Single Audits. Although the project which begin in October 2009, was designed to provide the auditors some relief in their workload, many auditors had already completed their risk assessment for audits with fiscal years ending June 30, 2009 and, as a result did not experience the audit relief intended by the project.

Matters for Congressional Consideration

Matter

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.

GAO continues to believe that Congress should consider changes related to the Single Audit process.

Matter

To the extent that additional 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.

GAO continues to believe that Congress should consider changes related to the Single Audit process.

Matter

To provide housing finance agencies (HFA) with greater tools for enforcing program compliance, in the event the Section 1602 Program is extended for another year, Congress may want to consider directing Treasury to permit HFAs the flexibility to disburse Section 1602 Program funds as interest-bearing loans that allow for repayment.

We are sending copies of this report to the Office of Management and Budget; the Departments of Health and Human Services (Centers for Medicare and Medicaid Services, Office of Head Start), Education, Energy, Housing and Urban Development, Justice, Labor, and Transportation; and the Environmental Protection Agency. In addition, we are sending sections of the report to officials in the 16 states and the District and the 45 local governments 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 VII.



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
Republican 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 for this sixth 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) state activities to evaluate the impact of the Recovery Act funds they have received to date. We selected programs for review primarily because they have begun disbursing funds to states or because they have known or potential risks. The risks can include existing programs receiving significant amounts of Recovery Act funds or new programs. In some cases, we have also collected data from all states, and from a broader array of localities, to augment the in-depth reviews.

Our teams visited the 16 selected states, the District, and a nonprobability sample of entities (e.g., state and local governments, local education agencies, public housing authorities) during the period March 2010 through May 2010.² As with 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 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 VI details

¹GAO, *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).

²States 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.

the states and localities visited by GAO. Criteria used to select localities within our selected states follows below.

The act requires that nonfederal recipients of Recovery Act-funded grants, contracts, or loans submit quarterly reports on each project or activity including information concerning the amount and use of funds and jobs created or retained.³ The first of these recipient reports covered cumulative activity since the Recovery Act's passage through the quarter ending September 30, 2009. The Recovery Act requires us to comment on the estimates of jobs created or retained after the recipients have reported. We issued our initial report related to recipient reporting, including recommendations for recipient report improvements, on November 19, 2009.⁴ In the current report we provide updated information concerning recipient reporting in accordance with our mandate for quarterly reporting.⁵

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: Medicaid Federal Medical Assistance Percentage (FMAP) grant awards; the State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA); Parts B and C of the Individuals with Disabilities Education Act, as amended (IDEA); the Federal-Aid Highway Surface Transportation Program; the Transit Capital Assistance Program; Edward Byrne Memorial Justice Assistance Grants (JAG); Community Oriented Policing Services (COPS) Hiring Recovery Program (CHRP); the Public Housing Capital Fund; the Weatherization Assistance Program; Workforce Investment Act of 1998 (WIA) Dislocated Worker Program; Clean and Drinking Water State Revolving Fund (SRF); Tax Credit

³Recovery Act, div. A, §1512, 123 Stat. 287-288. We will refer to the quarterly reports required by section 1512 as recipient reports.

⁴GAO, *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).

⁵The Recovery Act requires recipients of funding under the act to report quarterly on the use of these funds, including jobs created or retained with Recovery Act funding. The first recipient reports filed in October 2009 cover activity from February 2009 through September 30, 2009. The second quarterly recipient reports were filed in January 2010 and cover activity through December 31, 2009. The third quarterly recipient reports were filed in April 2010 and cover activity through March 31, 2010.

Assistance Program (TCAP); and, Head Start and Early Head Start. 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 and 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. 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 pre-tested the survey with Medicaid officials in several states and also conducted consistent follow up with all sample states. 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.

SFSF, ESEA Title I, and IDEA

To learn about state educational agencies' (SEA) monitoring of local educational agencies' (LEA) uses of Recovery Act funds under ESEA Title I, IDEA, and the State Fiscal Stabilization Fund's (SFSF) education stabilization fund, we met with SEA officials responsible for monitoring and reviewed relevant SEA documents such as monitoring plans. We conducted this work in Arizona, California, Colorado, the District of Columbia, Iowa, Massachusetts, New York, North Carolina, and Ohio. We also visited two LEAs in North Carolina and reviewed supporting documentation for a nongeneralizable sample of disbursements made with Recovery Act funds to determine if the Recovery Act funds were used appropriately.

To learn about challenges states are facing in funding the education reform assurances required by the Recovery Act we met with SEA officials in Arizona, Colorado, Iowa, Massachusetts, North Carolina, and Pennsylvania. To learn about the challenges states are facing in fulfilling the requirements necessary for SFSF maintenance-of-effort requirements and School Improvement Grants, we met with SEA officials in Arizona, Iowa, Massachusetts, and North Carolina.

To learn about states' monitoring plans and uses for SFSF government services funds, we met with state officials in the governor's office or other state office with primary responsibility for implementing and monitoring government services funds in each of the 16 states and Washington, D.C. that are covered in our review. We also reviewed relevant documents such as applications, monitoring plans, and gleaned some information from Recovery.gov on specific state uses of government services funds.

We also interviewed officials at the U.S. Department of Education (Education) and reviewed relevant federal laws, regulations, 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.

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 funding data and maintenance-of-effort reporting data for each of the 16 states and the District in our review. We also interviewed and obtained information from state DOT officials in Arizona, California, Colorado, Georgia, Illinois, Massachusetts, New York, New Jersey, Ohio, and Pennsylvania regarding the status and progress of their projects, performance measurement efforts, and maintenance-of-effort certifications.

Transit Capital Assistance Program

For public transit investment, we reviewed status reports and guidance to the states and transit agencies and discussed these with the U.S. DOT and Federal Transit Administration (FTA) officials as part of our review of the Transit Capital Assistance Program and Fixed Guideway Infrastructure Investment program. We obtained funding data and maintenance-of-effort reporting data for each of our urbanized and nonurbanized areas. We also interviewed state and transit agency officials in Massachusetts, North Carolina, and Pennsylvania regarding the status and progress of their grants, performance measurement efforts, maintenance-of-effort certifications, and their use of Recovery Act funds to pay for operating expenses.

Edward Byrne Memorial Justice Assistance Grants (JAG)

For the Edward Byrne Memorial JAG Program, we reviewed relevant regulations and guidance for Recovery Act implementation and met with Department of Justice officials who administer the program at the federal level to discuss Recovery Act monitoring and reporting. In addition, for this report, we collected information, including the amount of funds obligated in seven broad program areas from seven selected states on their JAG Recovery Act program activities. We conducted semistructured interviews of officials in selected states' agencies that administer the pass through portion of the program and with local law enforcement and municipal officials who represented the recipients of the local JAG grants. During these interviews, we discussed states' use of Recovery Act JAG funds, the impacts these funds have had on job creation and preservation, accountability processes and measures, and reporting requirements under the Recovery Act.⁶

Community Oriented Policing Services (COPS)

For the COPS Hiring Recovery Program (CHRP), we reviewed relevant regulations and federal guidance and interviewed Department of Justice officials who administer the program at the federal level to discuss the application and awards process. In addition, we collected information on the impacts these funds have had on jobs from selected localities and the District of Columbia by conducting semi-structured interviews with officials in selected localities that received grant funding under the CHRP program. This information included data about each locality's use of funds, retention plans, and federal reporting requirements under the Recovery Act.⁷

Workforce Investment Act of 1998 Dislocated Worker Program

We reviewed the Recovery Act-funded WIA Dislocated Worker Program by conducting a nationwide Web-based survey of state workforce agencies, as well as in-depth site visits in 5 states (California, Florida, Massachusetts, Michigan, and North Carolina) to obtain detailed information beyond the scope of the survey. These states were chosen based on factors such as the unemployment rate, geographic region, and the amount of Recovery Act funds allocated. During these site visits, we interviewed state and local workforce development officials for a total of

⁶The JAG states we visited are Arizona, California, Illinois, Massachusetts, New York, Ohio, and Pennsylvania.

⁷The COPS CHRP states we visited are Arizona, California, District of Columbia, Massachusetts, New Jersey, Ohio, and Pennsylvania.

five state-level agencies and 10 local workforce investment boards (WIB). In addition, we collected data from six other WIBs. We also reviewed Labor's guidance to states and local areas on Recovery Act funds, and completed an analysis of national drawdown data provided by Labor.

The nationwide Web-based survey was administered to state workforce agencies in the 50 states and the District of Columbia. Survey topics included expenditures, services and training offered to dislocated workers, and monitoring and oversight. The survey was conducted using a self-administered electronic questionnaire posted on the Web. We collected the survey data between March 2010 and April 2010. We received completed surveys from 50 states and the District of Columbia, for a 100-percent response rate. Because this was not a sample survey, there are no sampling errors. However, the practical difficulties of conducting any survey may introduce nonsampling errors, such as variations in how respondents interpret questions and their willingness to offer accurate responses. To minimize nonsampling errors, we pretested draft survey instruments with state workforce officials in Massachusetts, Wyoming, Wisconsin, and Idaho to determine whether the survey questions and terms were clear and unbiased, and whether respondents were able to provide the information we sought. Because respondents entered their responses directly into our database of responses from the Web-based surveys, possibility of data entry errors was greatly reduced.

We also performed computer analyses to identify inconsistencies in responses and other indications of error, and a second independent analyst verified that the computer programs used to analyze the data were written correctly. The scope of this work did not include contacting workforce officials from each state to verify survey responses.

Clean and Drinking Water State Revolving Fund

For the Clean Water and Drinking Water SRF programs, we reviewed relevant regulations and federal guidance and interviewed Environmental Protection Agency (EPA) officials that administer the programs in headquarters and four of the 10 EPA Regions.⁸ We reviewed the Recovery Act-specific documentation for the Clean and Drinking Water SRF

⁸The EPA Regional Offices we interviewed are: Region 3 (Philadelphia), Region 6 (Dallas), Region 8 (Denver), and Region 9 (San Francisco).

programs in 14 of our selected states.⁹ In these states, we conducted semistructured interviews with state officials that administer the SRF programs and with 44 local subrecipients who received Recovery Act funds. The interviews with state and local officials covered how the states used the funds, implemented Recovery Act requirements, and ensured accountability of the funds. We selected local subrecipients based on criteria that allowed us to review at least one subrecipient that had not received SRF funds in the past and one subrecipient undertaking a qualified green project, wherever possible.

We obtained data from EPA from its Clean Water State Revolving Fund Benefits Reporting system and its Drinking Water SRF Projects Benefits Reporting system for each of the 14 states, including the amounts and types of financial assistance that each SRF program provided using Recovery Act funds, the type of Clean Water SRF projects these funds helped support, and the contract completion and construction start dates for these projects. From state SRF officials, we also obtained information on the type of Drinking Water SRF projects that Recovery Act funds helped support, which subrecipients of Recovery Act funds were first-time recipients of the SRF program that awarded them Recovery Act funds, and which projects serve disadvantaged communities. Using the EPA data and project lists confirmed by state officials, we determined the amount of Recovery Act funds that states used to fund categories of clean water projects and the number of projects in each of these categories. In addition, we used data supplied by EPA and state officials to categorize drinking water projects. To assess the reliability of EPA data, we interviewed EPA officials on how these data are collected and reported. For selected data fields, we also asked state SRF officials to review the EPA data and provide corrected data where applicable. Based on these steps, we determined that the data provided by EPA were sufficiently reliable for the purposes of our engagement.

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 nine of our selected

⁹The states we visited and collected information from are Arizona, California, Colorado, Florida, Georgia, Iowa, Massachusetts, Mississippi, North Carolina, New Jersey, New York, Ohio, Pennsylvania, and Texas.

states and the District of Columbia on their weatherization programs.¹⁰ We conducted semi-structured 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 requirements, accountability measures, and impacts of the Recovery Act on the Weatherization program. We interviewed officials at a total of 31 local service providers in the District of Columbia and the nine states, and reviewed local agencies' client case files for homes weatherized with Recovery Act funds. We also conducted site visits in each of the 9 states and the District of Columbia to interview local providers of weatherization and to observe weatherization activities. 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.

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 that received public housing capital funds. To monitor progress on how housing agencies are using these funds, we visited 37 housing agencies in nine states.¹¹ For each state, we selected two housing agencies that had obligated less than 50 percent of their formula grant funds and two housing agencies that had obligated more than 50 percent of their formula grant funds as of January 30, 2010.¹² At the selected agencies, we interviewed housing agency officials and conducted site visits of Recovery Act projects. We also interviewed HUD officials to understand their procedures for monitoring public housing agency obligations and uses of Recovery Act funds and to understand HUD's capacity to administer Recovery Act funds. We also interviewed HUD officials to understand their procedures for validating data that housing agencies reported to FederalReporting.gov.

¹⁰The nine states we collected information from are: Florida, Georgia, Illinois, Iowa, Mississippi, New York, North Carolina, Pennsylvania, and Texas.

¹¹The states we visited are Arizona, Florida, Georgia, Illinois, Massachusetts, Michigan, New Jersey, Ohio, and Texas.

¹²In one state we visited a total of five housing agencies.

Tax Credit Assistance Program (TCAP)

To further assess state implementation of TCAP and Section 1602 program, we asked managers of state housing finance agencies in all 50 states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands to complete a web survey. Our questionnaire asked about the status of program delivery, program design, safeguards and controls, expected results, and challenges to implementation. We designed and tested the self-administered questionnaire in consultation with experts, representatives of housing finance stakeholders, and state agency managers. Survey data collection took place in November and early December of 2009. We received usable responses from all 54 agencies.

While all state agencies returned questionnaires, and thus our data is not subject to sampling or overall questionnaire nonresponse error, the practical difficulties of conducting any survey may introduce other errors in our findings. We took steps to minimize errors of measurement, question-specific nonresponse, and data processing. In addition to the questionnaire development activities listed above, and pretesting the questionnaire with four state agency officials before the survey, GAO analysts also recontacted selected respondents to follow up on answers that were missing or that required clarification. In addition, GAO analysts resolved respondent difficulties in answering our questions during the survey. Before the survey, we also contacted each agency to determine whether our originally identified respondent was the most appropriate and knowledgeable person to answer our questions, and made changes to our contact list as necessary. Finally, analysis programs and other data analyses were independently verified.

Head Start and Early Head Start

We took a number of steps to address our objectives, which were to determine (1) how the Office of Head Start (OHS) has used Recovery Act funds to expand the Head Start and Early Head Start programs and (2) what OHS has done to assist and monitor expansion grantees. To understand how OHS has used Recovery Act funds to expand Head Start and Early Head Start programs, we met with agency officials and national grantee associations; attended OHS's orientation for new Early Head Start grantees; attended grantee conferences—including the 2010 National Migrant and Seasonal Head Start Conference and the 2010 Native American Child and Family Conference; reviewed relevant laws and regulatory documentation; analyzed award and expenditure data; and conducted seven focus groups with expansion grantees. Focus group participants represented a variety of programs, including existing Head Start and Early Head Start grantees that received funds to expand their programs, existing Head Start programs that received funds to create a

new Early Head Start program, and grantees entirely new to the Head Start and Early Head Start programs. For most focus groups, we recruited participants from those attending Head Start-related conferences. To recruit new grantees, we obtained a list of grantees from OHS that had not previously received a Head Start or Early Head Start grant. The focus groups discussed challenges faced in implementing their expansion grants and the adequacy of support from OHS, among other things. Sixty-one individuals participated in the focus groups. Despite the representation across types of grantees and operating regions, information from focus groups is not representative of all expansion grantees under the Recovery Act. We also analyzed several databases used by the Office of Head Start to understand grantees' characteristics and the features of the grant awards. We analyzed six years of Program Information Report (PIR) data on enrollment and staffing levels, as well as all End of Month (EOM) enrollment data for Recovery Act grantees and all other grantees' EOM data since October 2008. Both the PIR and EOM data collection instruments are administered through the Head Start Enterprise System, a user-restricted Web-based database. PIR is a more comprehensive, annual survey administered to all Head Start and Early Head Start grantees. Grantees submit EOM data each month, which include reported enrollment and an explanation for enrollment that falls below a grantee's funded enrollment. We assessed data reliability for all computer-processed data we used, including reviewing documentation of processes supporting the databases, conducting logic tests for key variables, and assessing data for out-of-range values. We did not validate the enrollment reports by comparison to actual enrollment records or review OHS's procedures for doing so, but assessed the process used to report enrollment and determined that internal inconsistencies in the functioning of edit checks were limited to a small number of grantees or instances and that the processes used to handle the data were not likely to introduce significant error. For example, OHS indicated that the reporting system should not permit a grantee reporting that its program is not operational to also report some enrollment. However, we found that in a small number of instances, the system did allow grantees to report both that they were not operational and also to report some enrollment. Although we have some concerns about quality controls for the monthly enrollment data and the format for data reporting, we determined that data used for our report are sufficiently reliable for our purposes of reporting the most recent total reported enrollment.

To assess what OHS has done to assist and monitor grantees, we interviewed agency officials, reviewed OHS documentation, analyzed its awards database, and discussed issues with grantees in focus groups. We

also met with officials from the Department of Health and Human Services Office of the Inspector General to better understand their role in the expansion grant-making process and in monitoring grantees.

Recipient Reporting

The recipient reporting section of this report responds to the Recovery Act's mandate that we comment on the estimates of jobs created or retained by direct recipients of Recovery Act funds. For our review of the third submission of recipient reports, covering the period from January 1, 2010 through March 31, 2010, we built on findings from our first and second reviews of the reports, covering the period from February 2009 through December 31, 2009. We performed edit checks and basic analyses on the third submission of recipient report data that became publicly available at Recovery.gov on April 30, 2010. We reviewed OMB's guidance on recipient reporting to determine the extent of changes and clarifications for the third submission of recipient reports. In addition, we interviewed federal agency officials from the Departments of Education, Energy, and Housing and Urban Development, who have responsibility for ensuring a reasonable degree of quality across their program's recipient reports. We also interviewed federal data users and transparency organizations to solicit feedback about their use of recipient reported data. We included eight organizations in our sample: the Association for University Business and Economic Research, the Council of State Governments, Federal Funds Information for the States, IBM Center for the Business of Government, the Metropolitan Policy Program of the Brookings Institution, the National Association of Counties, OMB Watch, and ProPublica.

From the third submission of recipient reports, we reviewed reports for education and public housing programs to assess methodologies for calculating full-time equivalents (FTE) funded by the Recovery Act. Our teams in the 16 states and the District of Columbia interviewed recipients responsible for these reports during late March and throughout April 2010. Each team made a nonstatistical selection of approximately 6 recipient reports from our program areas to review, usually including at least one public housing authority (PHA), one institution of higher learning (IHE), one local educational authority (LEA) and the state educational authority (SEA). State teams coordinated with the SEA in their state to select an LEA and an IHE that received among the 5 highest SFSF allocations in the state. For LEAs, further preference was given to selecting a district that also reported FTEs for ESEA Title I and IDEA in addition to SFSF. Five states also included a state-level IHE authority in their reviews. State teams interviewed recipients and subrecipients to ascertain the

methodology they used to calculate FTEs. We reviewed supporting documentation to reconcile reported expenditures with quarterly FTE reports, and assessed the validity of those processes in complying with all OMB guidance. In addition, state teams also interviewed government officials from 13 states and the District of Columbia to discuss issues that arose in the third reporting period statewide, specifically related to data quality and the impact of the continuous corrections period. We asked these officials about ongoing state plans for managing, tracking, and reporting on Recovery Act funding and activities. We solicited feedback from state officials regarding the costs and benefits of recipient reporting, how states are using data generated from the recipient reporting effort, and ways the recipient reporting process could be improved.

Single Audit Pilot Program

To perform our audit work, we reviewed the project's guidelines, official reports, and other documents, as well as interviewed state and federal officials. We also conducted a survey of the state auditors and state program and finance officials that participated in the project. We analyzed and summarized the responses to our survey. We conducted our surveys in March 2010 and interviewed several state auditors, the cognizant agency for audit, and officials from awarding federal agencies whose programs were selected for audit under the project. We also participated in an OMB-led discussion of the project's participants to obtain their views on the project.

Recovery Accountability and Transparency Board Initiatives

To determine the status and results of oversight activities of the Recovery Accountability and Transparency Board (the Board), we met with representatives of the Board to discuss the initiatives they have taken to coordinate and monitor the efforts of the inspectors' general oversight activities as well as the Board's initiatives to prevent and detect fraud, waste, and abuse of Recovery funds. We reviewed available documentation related to the Board's efforts.

State and Local Accountability

To assess actions taken by the state and local audit community to monitor the use of Recovery Act funds, we have interviewed selected state and local auditors and state inspectors general about their ongoing and planned audit activities. We have also reviewed state and local audit reports. We have also spoken to some of the Recovery Act oversight entities created in many of the selected states. In addition, in an effort to update the audit community concerning our Recovery Act work and participate in information sharing about Recovery Act issues, we are

working with state and local auditors and their associations to facilitate routine telephone conference calls to discuss Recovery Act issues with a broad community of interested parties. The conference call participants include the Association of Government Accountants; the Association of Local Government Auditors; the National Association of State Auditors, Comptrollers, and Treasurers; OMB; the Board; federal inspectors general; the National Governors Association; and the National Association of State Budget Officers. In an effort to ensure information sharing about allegations of fraud, we are also working with state and local auditors to develop plans for routine sharing of information.

State and Local Budget

We continued our review of the use of Recovery Act funds for the 16 states, the District and selected localities. 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), variations in population sizes, and economic conditions such as total operating budget and unemployment rates both above and below 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 teams visited a total of 45 local government entities that ranged in population from approximately 15,042 in Newton, Iowa, to 8,363,710 million in New York City. Unemployment rates in our selected localities ranged from 5.8 percent in Flagstaff, Arizona, to 27 percent in Flint, Michigan.¹³ Due to the small number of jurisdictions visited and judgmental nature of their 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, and finance officials at the selected local governments. The topics covered in our meetings included what Recovery Act funds the locality received, how the locality used the funds, and the locality's exit strategy to prepare for the

¹³See appendix VI, for a complete list of population and unemployment rates for the selected local governments.

end of Recovery Act funding. In the course of our discussions with officials we explored the extent to which Recovery Act funds have stabilized the state and local budgets in the selected states. We also reviewed reports and analyses regarding the fiscal conditions of local governments.

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

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 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. 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 March 4, 2010, to May 26, 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Implemented and Closed Recommendations

The following are 22 GAO recommendations that Departments of Transportation (DOT), Housing and Urban Development (HUD), Education, and the Office of Management and Budget (OMB) have implemented since we began conducting bimonthly reviews in April 2009.¹ We have also closed two recommendations.

Department of Transportation

Implemented Recommendation Recipients of highway and transit Recovery Act funds, such as state departments of transportation and transit agencies, are subject to multiple reporting requirements. Both the DOT and OMB have issued implementation guidance for recipient reporting. Despite these efforts, state and local highway and transit officials expressed concerns and challenges with meeting the Recovery Act reporting requirements. We recommended in our September 2009 report that the Secretary of Transportation should continue the department's outreach to state departments of transportation and transit agencies to identify common problems in accurately fulfilling reporting requirements and provide additional guidance, as appropriate.

Agency Actions

In September 2009, 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. For example, in February 2010, FTA continued three training Webinars to provide technical assistance in

¹GAO, *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); *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); *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); *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: Dec. 10, 2009); and *Recovery Act: One Year Later, State's and Localities Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C. Mar. 3, 2010).

complying with reporting requirements under section 1201(c) of the Recovery Act. In addition, on February 1, 2010, FTA issued guidance to transit agencies instructing them to use the same methodology for calculating jobs retained through vehicles purchased under section 1201 as they had been for the recipient reporting. This reversed previous guidance that had instructed transit agencies to use a different methodology for vehicle purchases under sections 1201 and recipient reporting.

Implemented Recommendation

DOT and the Federal Highway Administration (FHWA) have yet to provide clear guidance regarding how states are to implement the Recovery Act requirement that economically distressed areas (EDA) are to receive priority in the selection of highway projects for funding. We found substantial variation both in how states identified EDAs and how they prioritized project selection for these areas. To ensure states meet Congress's direction to give areas with the greatest need priority in project selection, we recommended in our July 2009 report that the Secretary of Transportation develop clear guidance on identifying and giving priority to EDAs that are in accordance with the requirements of the Recovery Act and the Public Works and Economic Development Act of 1965, as amended, and more consistent procedures for the FHWA to use in reviewing and approving states' criteria.

Agency Actions

In August 2009, in response to our recommendation, FHWA, in consultation with the Department of Commerce, developed guidance that addresses our recommendation. In particular, FHWA's August 2009 guidance defines "priority," directing states to give priority to projects that are located in an economically distressed area and can be completed within the 3-year time frame over other projects. In addition, FHWA's guidance sets out criteria that states may use to identify EDAs based on "special need." 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.

Department of Housing
and Urban Development

Implemented Recommendation We recommended in March 2010 that the Secretary of HUD instruct housing agencies to discontinue use of the jobs calculator provided by HUD in the first round of recipient reporting for subsequent rounds of reporting to ensure the correct job calculation is used.

Agency Actions

In a March 26, 2010, e-mail to housing agencies, HUD included instructions to discontinue use of the jobs calculator originally posted on the HUD Recovery Act Web site in October 2009. HUD reiterated these instructions in a subsequent email it sent to housing agencies on March 31, 2010.

Implemented Recommendation To enhance HUD's ability to prevent, detect, and correct noncompliance with the use of Recovery Act funds, we recommended in September 2009 that the Secretary of 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 and reporting on Recovery Act funds.

Agency Actions

In October 2009, HUD expanded its criteria for 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 planned to complete these on-site reviews by February 15, 2010.

Department of Education

Implemented Recommendation We recommended in September 2009 that the Secretary of 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 and consider providing training and technical assistance to states to help them develop and implement state monitoring plans for SFSF.

Agency Actions

In February 2010, Education instructed states to submit to Education for review their plans and protocols for monitoring subrecipients of SFSF funds. Education also issued its plans and protocols for monitoring state implementation of the SFSF program. The plan includes on-site visits to about half the states and desk reviews of the other states to be conducted over the next year.

Implemented Recommendation

We recommended in November 2009 that the Secretary of Education take further action to enhance transparency by requiring states to include an explanation of changes to maintenance-of-effort levels in their SFSF application resubmissions.²

Agency Actions

Education notified states that, if states made changes to their maintenance-of-effort data in their SFSF applications, they must provide a brief explanation of the reason the data changed.

Executive Office of the
President: Office of
Management and Budget

Implemented Recommendation

We were concerned that since the scope of Single Audit workloads due to Recovery Act programs being subject to Single Audits will increase, consideration should be given to determining what funds can be used to support Single Audit efforts related to Recovery Act programs, including whether legislative changes are needed to specifically direct resources to cover incremental audit costs related to Recovery Act programs. We recommended that the Director of OMB develop mechanisms to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs.

²For more details on the maintenance-of-effort requirements, see GAO, *Recovery Act: Planned Efforts and Challenges in Evaluating Compliance with Maintenance of Effort and Similar Provisions*, [GAO-10-247](#) (Washington, D.C.: Nov. 30, 2009).

Agency Actions

OMB addressed our recommendation by issuing guidance³ to executive departments and agencies to help states with various approaches to recover administrative costs associated with the wide range of activities to comply with the Recovery Act. Administrative costs include, but are not limited to, oversight and audit costs and the costs of performing additional Single Audits. OMB issued the guidance to clarify actions (within the existing legal framework for identifying allowable reimbursable costs) that states could take to recover administrative costs more timely. In addition to our recommendation to OMB, as we previously noted in our bimonthly reports, it is our view that, 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.

Implemented Recommendation

We reported in July 2009 that OMB was encouraging communication of weaknesses to management early in the audit process, but did not add requirements for auditors to take these steps. This step did not address our concern that internal controls over Recovery Act programs should be reviewed before significant funding is expended. Under the current single audit framework and reporting timelines, the auditor evaluation of internal control and related reporting will occur too late—after significant levels of federal expenditures have already occurred. As a result of our recommendation, OMB implemented a Single Audit Internal Control Project under which a limited number of voluntarily participating auditors performing the Single Audits for states would communicate in writing internal control deficiencies noted in the single audit within 6 months of the 2009 fiscal year-end, rather than the nine months required by the Single Audit Act. We recommended that the Director of OMB take steps to achieve sufficient participation and coverage in OMB's Single Audit Internal Control Project that provides for early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

³OMB, *Payments to State Grantees for Administrative Costs of Recovery Act Activities*, M-09-18 (Washington, D.C., May 11, 2009), and OMB, *Payments to State Grantees for their Administrative Costs for Recovery Act Funding – Alternative Allocation Methodologies*, M-10-03 (Washington, D.C., Oct. 13, 2009).

Agency Actions

OMB implemented its Single Audit Internal Control Project in October 2009. The project called for a minimum of 10 participants. OMB solicited the 50 states, the District of Columbia, Puerto Rico, and Guam, from which 16 states volunteered to participate.⁴ The volunteer states were diverse in geographic characteristics and population and included states that use auditors within state government as well as external auditors to conduct Single Audits. In addition, the volunteer states included California and Texas, which are among the top three states with the highest levels of Recovery Act obligations from the federal government. Each state selected at least two Recovery Act programs from a list of 11 high-risk Recovery Act programs for internal control testing. OMB designed the project to be voluntary and OMB officials stated that, overall, they were satisfied with the population and geographic diversity among the states that volunteered. Although the project's coverage could be more comprehensive to provide greater assurance over Recovery Act funding, the results of the project could provide meaningful insight for making improvements to the Single Audit process.

Implemented Recommendation

The Single Audit Act requires that recipients submit their financial reporting packages, including the Single Audit report, to the federal government no later than 9 months after the end of the period being audited. As a result, an audited entity may not receive feedback needed to correct an identified internal control or compliance weakness until the latter part of the subsequent fiscal year. The timing problem is exacerbated by the extensions to the 9-month deadline that are routinely granted by the awarding agencies, consistent with OMB guidance. We made two recommendations in this area. Firstly, we recommended that the Director of OMB formally advise federal cognizant agencies to adopt a policy of no longer approving extensions of the due dates of Single Audit reporting package submissions beyond the 9-month deadline. Secondly, we also recommended that the Director of OMB widely communicate this revised policy to the state audit community and others who have responsibility for conducting Single Audits and submitting the Single Audit reporting package.

⁴The following 16 states elected to participate: Alaska, California, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

Agency Actions

On March 22, 2010, OMB addressed these two recommendations by issuing memorandum M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*. This guidance directed federal agencies to not grant any requests made to extend the Single Audit reporting deadlines for fiscal years 2009 to 2011. OMB further stated that to meet the criteria for a low risk auditee in the current year, the auditee must have submitted the prior 2 years' audit reports by the required due dates. OMB communicated this revised policy through the OMB website, the American Institute of Certified Public Accountants, and the National Association of State Auditors, Comptrollers and Treasurers.

Implemented Recommendation

OMB should work with the Recovery Accountability and Transparency Board (the Board) and federal agencies, building on lessons learned, to establish a formal and feasible framework for review of recipient changes during the continual update period and consider providing more time for agencies to review and provide feedback to recipients before posting updated reports on Recovery.gov.

Agency Actions

In our March 2010 report, we recommended that OMB work with the Board and federal agencies to establish a formal and feasible framework for review of recipient changes during the new continuous review period and consider providing more time for federal agencies to review and provide feedback to recipients before posting updated reports on Recovery.gov. On March 22, 2010, OMB issued updated guidance which highlighted the steps federal agencies must take to review data quality of recipient reports during the continuous review period. The guidance specified that federal agencies must, at a minimum, conduct a final review of the data upon the close of the continuous corrections period. In addition, now the Recovery Board reflects corrected data on Recovery.gov approximately every two weeks, allowing federal agencies time to review and provide feedback in the interim period.

Implemented Recommendation

States have been concerned about the burden imposed by new requirements, increased accounting and management workloads, and strains on information systems and staff capacity at a time when they are under severe budgetary stress. We recommended in April 2009 that the Director of OMB clarify what Recovery Act funds can be used to support state efforts to ensure accountability and oversight, especially in light of enhanced oversight and coordination requirements.

Agency Actions

On May 11, 2009, OMB released M-09-18, Payments to State Grantees for Administrative Costs of Recovery Act Activities, clarifying how state grantees could recover administrative costs of Recovery Act activities.

Implemented Recommendation

States and localities are expected to report quarterly on a number of measures, including the use of funds and an estimate of the number of jobs created and the number of jobs retained as required by section 1512 of the Recovery Act. We recommended in our July 2009 report that to increase consistency in recipient reporting of jobs created and retained, the Director of OMB should work with federal agencies to have them provide program-specific examples of the application of OMB's guidance on recipient reporting of jobs created and retained.

Agency Actions

OMB has issued clarifications and frequently asked questions (FAQ) on Recovery Act reporting requirements. During the first reporting period, OMB also deployed regional federal employees to serve as liaisons to state and local recipients in large population centers and established a call center for entities that did not have an on-site federal liaison. In addition, federal agencies issued additional guidance that builds on the OMB June 22 recipient reporting guidance for their specific programs. This guidance is in the form of FAQ, tip sheets, and more traditional guidance that builds on what was provided on June 22, 2009. Federal agencies have also taken steps to provide additional education and training opportunities for state and local program officials on recipient reporting, including web-based seminars.

Implemented Recommendation

To foster timely and efficient communications, we recommended in April 2009 that the Director of OMB should continue to develop and implement an approach that provides easily accessible, real-time notification to (1) prime recipients in states and localities when funds are made available for their use, and (2) states—where the state is not the primary recipient of funds but has a statewide interest in this information.

Agency Actions

In response to our recommendation, OMB has made important progress in notifying recipients when Recovery Act funds are available, communicating the status of these funds at the federal level through agency Weekly Financial Activity reports, and disseminating Recovery Act

guidance broadly while actively seeking public and stakeholder input. OMB has taken the additional step of requiring federal agencies to notify Recovery Act coordinators in states, the District of Columbia, commonwealths, and territories within 48 hours of an award to a grantee or contractor in their jurisdiction.

Implemented Recommendation

Responsibility for reporting on jobs created and retained falls to nonfederal recipients of Recovery Act funds. As such, states and localities have a critical role in determining the degree to which Recovery Act goals are achieved. Given questions raised by many state and local officials about how best to determine both direct and indirect jobs created and retained under the Recovery Act, we recommended in April 2009 that the Director of OMB continue OMB's efforts to identify appropriate methodologies that can be used to: (1) assess jobs created and retained from projects funded by the Recovery Act; (2) determine the impact of Recovery Act spending when job creation is indirect; and (3) identify those types of programs, projects, or activities that in the past have demonstrated substantial job creation or are considered likely to do so in the future. We also recommended that the Director of OMB consider whether the approaches taken to estimate jobs created and retained in these cases can be replicated or adapted to other programs.

Agency Actions

On June 22, 2009, OMB issued additional implementation guidance on recipient reporting of jobs created and retained, (OMB memoranda, M-09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009). This guidance is responsive to much of what we recommended. The June 2009 guidance provided detailed instructions on how to calculate and report jobs as full-time equivalents (FTE). It also describes in detail the data model and reporting system to be used for the required recipient reporting on jobs. It clarifies that the prime recipient and not the subrecipient is responsible for reporting information on jobs created or retained. Federal agencies have issued guidance that expanded on the OMB June 22 governmentwide recipient reporting guidance and provided education and training opportunities for state and local program officials. Agency-specific guidance includes FAQs and tip sheets. Additionally, agencies are expected to provide examples of recipient reports for their programs, which is also consistent with what we recommended. In addition to the federal agency efforts, OMB has issued FAQs on Recovery Act reporting requirements. The June 22 guidance and subsequent actions by OMB are responsive to much of what we said in our recommendation.

Implemented Recommendation We have noted in prior reports 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 in September 2009 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.

Agency Actions

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 2009 OMB guidance provides the additional clarification needed for states and localities to proceed with their plans to recoup administrative costs.

Implemented Recommendation To improve the consistency of FTE data collected and reported, we recommended in November 2009 that OMB clarify the definition and standardize the period of measurement for the FTE data element in the recipient reports.

Agency Actions

After the first round of reporting by states on their use of Recovery Act funds in October 2009, OMB updated the recipient reporting guidance on December 18, 2009. According to the agency, this guidance aligns with GAO's recommendation by requiring recipients to report job estimates on a quarterly rather than a cumulative basis. As a result, recipients will no longer be required to sum various data on hours worked across multiple quarters of data when calculating job estimates. The December guidance incorporated lessons learned from the first round of recipient reporting and also addressed recommendations we made in our November 2009

report on recipient reporting.⁵ According to OMB, the December guidance is intended to help federal agencies improve the quality of data reported under Section 1512 and simplifies compliance by revising the definitions and calculations needed to define and estimate the number of jobs saved.

Implemented Recommendation To improve the consistency of FTE data collected and reported, we also recommended in November 2009 that OMB consider being more explicit that “jobs created or retained” are to be reported as hours worked and paid for with Recovery Act funds.

Agency Actions

In response to our recommendation, OMB issued guidance on December 18, 2009, that no longer requires recipients make a subjective judgment of whether jobs were created or retained as a result of the Recovery Act. Instead, recipients will more easily and objectively report on jobs funded with Recovery Act dollars.

Implemented Recommendation To improve the consistency of FTE data collected and reported, we also recommended in our November 2009 report that OMB continue working with federal agencies to provide or improve program-specific guidance to assist recipients, especially as it applies to the full-time equivalent calculation for individual programs.

Agency Actions

In response to our recommendation, OMB issued guidance on December 18, 2009, that required federal agencies to submit their guidance documents to OMB for review and clearance to ensure consistency between federal agency guidance and the guidance released by OMB.

Implemented Recommendation To improve the consistency of FTE data collected and reported, we recommended in November 2009 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 initial round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

⁵GAO, *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).

Agency Actions

In response to our recommendation, on December 18, 2009, OMB issued updated guidance on data quality, nonreporting recipients, and reporting of job estimates. The agency stated that the updated guidance incorporates lessons learned from the first reporting period and further addresses GAO's recommendations. The guidance also provides federal agencies with a standard methodology for effectively implementing reviews of the quality of data submitted by recipients.

Implemented Recommendation

In our July 2009 report we recommended that to strengthen the effort to track the use of funds, the Director of OMB should (1) clarify what constitutes appropriate quality control and reconciliation by prime recipients, especially for subrecipient data, and (2) specify who should best provide formal certification and approval of the data reported.

Agency Actions

Although OMB clarified that the prime recipient is responsible for www.federalreporting.gov data in its June 22 guidance, no statement of assurance or certification will be required of prime recipients on the quality of subrecipient data. Moreover, federal agencies are expected to perform data quality checks, but they are not required to certify or approve data for publication. We continue to believe that there needs to be clearer accountability for the data submitted and during the subsequent federal review process. OMB agreed with the recommendation in concept but questioned the cost/benefit of data certification given the tight reporting time frames for recipients and federal agency reviewers. OMB staff stated that grant recipients are already expected to comply with data requirements appropriate to the terms and conditions of a grant. Furthermore, OMB will be monitoring the results of the quarterly recipient reports for data quality issues and would want to determine whether these issues are persistent problems before concluding that certification is needed.

Through issuance of additional guidance and clarification we are now satisfied OMB has implemented this recommendation.

Implemented Recommendation

In consultation with the Recovery Accountability and Transparency Board and States, the Director of OMB should evaluate current information and data collection requirements to determine whether sufficient, reliable and timely information is being collected before adding further data collection requirements. As part of this evaluation, OMB should consider the cost

and burden of additional reporting on states and localities against expected benefits.

Agency Actions

OMB has taken steps to ensure data quality through issuance of additional guidance. OMB has also worked with the states to minimize the extent possible the new reporting burdens under the Recovery Act.

Closed Recommendation

We recommended in our April report 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.

Agency Actions

Closed because no longer applicable.

Closed Recommendation

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

Agency Actions

In addition to the federal agency efforts, OMB has issued FAQs on Recovery Act reporting requirements. The June 22 guidance and subsequent actions by OMB are responsive to much of what we said in our April 2009 report. OMB deployed regional federal employees to serve as liaisons to state and local recipients in large population centers. The objective was to provide on-site assistance and, as necessary, direct questions to appropriate federal officials in Washington, D.C. OMB established a call center for entities that do not have an on-site federal liaison. These actions by OMB, together with an overall increase in state and local program officials' knowledge of reporting requirements, have made this recommendation inapplicable.

Appendix III: Comments from the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Assistant Secretary
for Legislation

Washington, D.C. 20201

MAY 19 2010

Cornelia M. Ashby
Director, Education, Workforce, and Income Security Issues
U.S. Government Accountability Office
441 G Street N.W.
Washington, DC 20548

Dear Ms. Ashby:

Enclosed are comments on the U.S. Government Accountability Office's (GAO) draft report entitled, "RECOVERY ACT: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability" (GAO 10-604).

The Department appreciates the opportunity to review this report before its publication.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrea Palm", written over a horizontal line.

Andrea Palm
Acting Assistant Secretary for Legislation

Enclosure

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: STATES' AND LOCALITIES' USES OF FUNDS AND ACTIONS NEEDED TO ADDRESS IMPLEMENTATION CHALLENGES AND BOLSTER ACCOUNTABILITY" (GAO-10-604)

The Department appreciates the opportunity to comment on the Government Accountability Office (GAO) draft report. ACF is interested in continually improving management processes and oversight. We are providing the following comments on GAO's three recommendations throughout the report regarding the sufficiency of ACF's management information and the ability of ACF to effectively oversee this important expansion work.

GAO Recommendations

To provide grantees with appropriate guidelines on their use of Head Start and Early Head Start grant funds, and enable OHS to monitor the use of these funds, the Director of OHS should direct regional office staff to stop allocating all grant funds to the "other" budget category, and immediately revise all FAAs in which all funds were allocated to the "other" category.

To facilitate understanding of whether regional decisions regarding waivers of the program's matching requirement are consistent with Recovery Act grantees' needs across regions, the Director of OHS should track and review waivers of the nonfederal matching requirement and associated justifications.

To oversee the extent to which grantees are meeting the program goal of providing services to children and families and to better track the initiation of services under the Recovery Act, the Director of OHS should collect data on the extent to which children and pregnant women actually receive services from Head Start and Early Head Start grantees.

HHS Comments

Financial Assistance Awards Issued With Funds in the "Other" Budget Category

Funds awarded in the "other" category initially allowed ACF to reduce further delays in funding so grantees could move forward on implementing the projects while details of budget lines were finalized. Budgets received through the announcement process were adequate to make competitive funding decisions but grantees were often awarded fewer "slots" than they requested. Program and fiscal staff worked diligently with grantees to arrive at final line item figures supported by adequate documentation.

An initial review is performed by OHS to determine the appropriate level of funding and review the program's financial resources and the relationship between project costs and the achievement of project objectives. A Financial Assistance Application Approval/Negotiation Sheet is prepared and submitted to the Office of Grants

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: STATES' AND LOCALITIES' USES OF FUNDS AND ACTIONS NEEDED TO ADDRESS IMPLEMENTATION CHALLENGES AND BOLSTER ACCOUNTABILITY" (GAO-10-604)

Management (OGM) for final negotiation. OGM performs a cost analysis to determine that computations are correct and to assure that costs identified are necessary, reasonable and allowable in accordance with the Cost Principles. OGM also reviews the budget for consistency of charges between direct and indirect costs, and whether there has been proper application of an indirect cost rate. Grantees were instructed to submit revised SF-424, 424A and budget justifications in the amount of the approved level of funding within 30 days of receipt of the award. Revised information was needed for both federal and non-federal budgets for some awards. Some applications required additional documentation related to facilities.

The issuance of awards in the "Other" category occurred primarily in one or two regions. OGM continues to issue revised FAAs placing grant funds in appropriate budget categories and should complete this task over the next 15 to 20 days. Systems will be implemented to provide continuity across regions to assure this situation does not occur in the future.

On page 20, first full sentence, GAO states that even if budgets are revised so funds are allocated to specific budget categories and not the "other" category, "...the short duration of the Recovery Act grants limits the amount of time in which errors, omissions, and misuse can be identified and remedied." To address this, in addition to revising the remaining FAAs that place grant funds in the "other" category, ACF also has a number of other important processes and check-and-balances that are in place to assist in the management and oversight of these funds and to detect errors, omissions, and misuses of funds. Specific examples include:

- Grantee expenditures are monitored in multiple ways. OGM staff access Program Payment Management System (PMS) reports (from the HHS Program Support Center) that indicate the amount of the American Recovery and Reinvestment Act (ARRA) Federal funds drawn down by the grantee for the previous month. PMS sends automatic alerts to ACF's OGM if grantees draw down an unusually large amount of funds relative to what has been obligated. Some grantees have been placed on a cost reimbursement plan, limiting the ability for the grantee to draw funds prior to actual expenditures.
- Grantees are required to file detailed Financial Status Reports (Standard Forms 269 and 272) semi-annually and after the close of the fiscal year. Grantees are also required to complete an annual audit and to submit management information and findings to ACF within 30 days of completion.
- Grantees report ARRA expenditures each quarter and a calculation is applied to the expenditures based on the award date and amount to determine unusually large or small expenditures and/or jobs. This information is provided to the regional offices for follow up and further analysis. ACF's compliance rate with ARRA reporting was 99.9 percent this quarter for nearly 2,400 individual grant

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: STATES' AND LOCALITIES' USES OF FUNDS AND ACTIONS NEEDED TO ADDRESS IMPLEMENTATION CHALLENGES AND BOLSTER ACCOUNTABILITY" (GAO-10-604)

awards. Less than eight percent of grantees' April ARRA reports were identified as having an error during the Office of Head Start's review of initial agency submissions. At the end of the reporting period, less than 1.5 percent of reports contained any errors. ACF is actively leveraging the continuous correction period to address the outstanding errors.

Waiver of Matching Requirement

Page 17, paragraph two, GAO notes that, "Without a way to track waivers of the nonfederal matching requirement, OHS cannot readily determine how pervasive grantees' total dependence on federal funds may be to take timely action to address any grantees' regional areas in which community support for Head Start and Early Head Start programs is lacking."

While delegation of authority to grant ARRA waivers was formally provided to the regional offices, ACF has a method in place to centrally track waivers of the non-Federal matching requirement in the Head Start Enterprise Reporting System. ACF also inquires about the grantee's ability to reach their non-Federal share as part of Federal site visits and during risk management calls, and reviews progress on financial reports to assure concerns are addressed in a timely way.

GAO raised concern over consistency among regions in waiving the matching requirement, and specifically that two regions have awarded no waivers. ACF Central Office is tracking them and both regions are using the flexibility to grant waivers later in the project period. Grantees may submit waiver requests after the awards and prior to the end of the fiscal year, so waiver intent is not complete early in the budget year. We support regional offices exercising this discretion based on the unique needs of the grantees and the circumstances grantees confront throughout the project.

Tracking Services to Children and Families

ACF is confident that reported enrollment is a valid measure of the number of pregnant women and children receiving services and we have procedures in place to verify the reported enrollment when we conduct on-site monitoring.

Actual enrollment is defined as "all children who were included in the funded enrollment and who have been enrolled in your program and have attended at least one class or, for programs with home-based options, received at least one home visit. Include all pregnant women who have been enrolled in your program and received Early Head Start (EHS) services."

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: STATES' AND LOCALITIES' USES OF FUNDS AND ACTIONS NEEDED TO ADDRESS IMPLEMENTATION CHALLENGES AND BOLSTER ACCOUNTABILITY" (GAO-10-604)

Since September 2008, HHS has required programs to report their enrollment on a monthly basis. Central and regional offices conduct monthly reviews of reported ARRA enrollment. Enrollment is discussed on risk management calls, and during site visits regional staff is asked to visit each operational program option. Enrollment records are validated during formal on-site monitoring reviews.

ACF agrees with the GAO and with the Secretary's Advisory Committee on Designation Renewal (page 19, paragraph one) that attendance is important both for individual children and as a means of looking at program quality, which is why we routinely verify attendance during on-site monitoring and discuss during risk management meetings. We do note that the recommendation from the Secretary's Advisory Committee on Designation Renewal was only that attendance be considered in designation renewal. It was not related to monthly enrollment reporting. The Committee understood that attendance data was collected through on-site monitoring.

Additional Comments

In addition to commenting on GAO's specific recommendations, ACF offers the following clarifications to provide further context for its implementation of the ARRA expansion.

Delays in Funding

ACF experienced delays in funding, and consequently in draw downs, for additional reasons than GAO has cited. HHS justifiably conducted rigorous approval processes for spending plans and expansion announcements which contributed to delays in publicly posting the announcements.

ACF projected significant interest in EHS expansion and expected to receive 1,000 applications. Interest exceeded ACF's expectations and we received 1,200 applications. An additional two weeks of grant panel reviews were added to provide adequate time to evaluate these applications.

As GAO noted, the Office of Inspector General (OIG) conducted 83 audits on applicants that had not previously received a Head Start (HS) or EHS grant. While critical to ACF's funding decision, these audits lasted several weeks when including time for OIG staff to be on-site, time for the agency to respond, and the development of the conclusion and final recommendation. In 17 percent of the cases, ACF decided not to fund as a result of these audits. On a number of occasions, the next grantee in ranking order also required an OIG audit, beginning the process anew.

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: STATES' AND LOCALITIES' USES OF FUNDS AND ACTIONS NEEDED TO ADDRESS IMPLEMENTATION CHALLENGES AND BOLSTER ACCOUNTABILITY" (GAO-10-604)

Additionally, final approvals from State governors varied; the final gubernatorial approvals were received in April 2010. In many cases, when applicants were not funded as a result of significant OIG findings, the next applicant in rank order also required a governor's letter, which again started anew the 45 day time frame in which a governor has to respond.

Clarification on Figure 1: Budget Categories

ACF would like to clarify comments GAO included on page 6 in the first full paragraph. GAO described funds allocated to "staffing" as being used to "...enable programs to hire additional staff to help reverse a drop in the number of Head Start and Early Head Start staff nationwide..." which is a mischaracterization of the purpose of expansion funds. These funds were used to enable programs to serve an increased number of pregnant women, children and families and only staff to support these new services will be supported with these funds.

Conclusion

In conclusion, ACF disagrees with GAO's conclusion on page 19 that ACF's "...lack of available data regarding decisions and activities of its regional offices and grantees limits its ability to consistently oversee this rapid expansion and program performance." Since the GAO report entitled "Head Start: A More Comprehensive Risk Management Strategy and Data Improvement Could Further Strengthen Program Oversight" (GAO-08-221), <http://www.gao.gov/new.items/d08221.pdf>, issued February 2008, ACF has made significant improvements on the implementation of a sound information management system that is transforming access to data and information. ACF has done much to rise to the challenge of effectively implementing and managing this historically large expansion and we will continue to improve upon our data systems and program oversight to ensure that all HS and EHS programs provide high quality programs with sound management.

Appendix IV: Comments from the Department of Labor

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



MAY 18 2010

Mr. J. Christopher Mihm
Managing Director for Strategic Issues
U.S. Government Accountability Office
441 G Street N.W.
Washington, D.C. 20548

Dear Mr. Mihm:

On behalf of the U.S. Department of Labor (Department), I want to thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) May 2010, bi-monthly draft report on the American Recovery and Reinvestment Act of 2009 (Recovery Act), specifically the section pertaining to Workforce Investment Act (WIA) Dislocated Worker program.

The Department is committed to doing its part in ensuring America's economic recovery. A key element of that recovery is putting hard-working Americans back to work in good, family-supporting jobs that enable them to enter into or remain in the middle class. It has been more than a year since the passage of the Recovery Act, a catalytic investment in building our nation's workforce capacity and laying the necessary infrastructure to continue to provide high quality training well beyond the availability of stimulus funds. The additional Recovery Act resources appropriated to the Department for the purpose of assisting workers and their families during these challenging economic times, has reenergized America's public workforce system by providing a record number of individuals with career counseling, work-related services, and training.

The report provides useful data on states' and localities' efforts to extend workforce development services, most importantly training, to more One-Stop Career Center customers made available by additional Recovery Act funds. Specifically, the GAO report recommends the Department bolster its efforts to improve the accuracy and consistency of financial reporting of Recovery Act funded and regular WIA formula grants:

- To determine the extent and nature of reporting inconsistencies across the states and better target technical assistance, conduct a one-time assessment of financial reports that examines whether each state's reported data on obligations meet the Department's requirements.
- To enhance state accountability and to facilitate their progress in making reporting improvements, routinely review states' reporting on obligations during regular state comprehensive reviews.

The Department concurs with GAO's above-referenced recommendations. Some states and local workforce areas continue to confront issues with accurately applying certain financial terms, such as "obligations," for Federal accounting and reporting purposes. The lack of consistency

across states and local areas in understanding both the definition and application of such terms, along with variations in accounting methods among the grantee community, makes it difficult for the Department to draw on reliable conclusions from the reported financial data.

Grantees frequently report obligations as the projected need for longer-term individual training accounts, training plans, and encumbrances or other “commitments,” even though such planned activities do not meet the Federal definition of an “obligation” *See* 29 CFR 97.3 (2009). Inconsistency also arises from differences in state and local accounting systems and practices, which can influence how the term “obligation” is interpreted locally. The practical rationale prompting this behavior is the need to guarantee services to customers by setting aside funds for the planned duration due to the uncertainty about future year funding allocations. Some states, however, have developed systems that provide resources for longer-term training without tying up funds in informal commitments. Therefore, we acknowledge that additional monitoring of each state’s reported obligations may be necessary, coupled with increased efforts at information sharing and technical assistance for grantees.

The Department has taken a number of steps to address this ongoing management challenge:

- On June 24, 2009, the Employment and Training Administration (ETA) issued Training and Employment Notice (TEN) 49-08 to inform the workforce community of the availability of online financial management training tutorials.
- ETA has provided extensive training to the grantee community on reporting requirements and accrual accounting; and offered technical assistance webinars, workshops at annual regional grantee forums, and provided internal training for ETA’s Federal Project Officers.
- ETA issued TEN 39-09 on April 12, 2010 to inform the grantee community of the availability of additional financial management training tutorials on the Workforce³One Web site.
- ETA has formed an internal workgroup to further enhance our efforts to address this issue. Through our cooperative agreement with the intergovernmental organization collaborative, ETA obtained input from state and local leaders in this process.
- ETA also is planning to issue a Training and Employment Guidance Letter to ensure all grantees and subgrantees are aware of the correct definitions of key terms (obligations, expenditures, etc.).

In addressing the GAO finding related to Florida’s financial quarterly reports to the Department, ETA is monitoring Florida’s progress on correcting their reporting deficiencies and providing additional technical assistance as needed. ETA will continue to provide technical assistance to ensure that they are in compliance.

With regards to reporting participant data on dislocated workers served with Recovery Act funds, the Department has available aggregate monthly counts of participants who were served with Recovery Act and regular WIA formula funds combined. As noted in the report, we are currently testing the statistical model that would allow us to estimate the number of participants receiving Recovery Act-funded services.

**Appendix IV: Comments from the Department
of Labor**

This report is a timely reminder that there is more work to be done. The Department is fully committed to ensuring the accountability and transparency of Recovery Act funds.

Enclosed are ETA's technical comments on the draft report. If you would like additional information, please do not hesitate to call me at (202) 693-2700.

Sincerely,



Jane Oates
Assistant Secretary

Enclosure

Appendix V: Program Descriptions

Following are descriptions of selected Recovery Act grant programs. The table below provides a list of the federal agency or office administering selected grant programs.

Table 19: 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	• State Broadband Data and Development Program
Department of Education	Office of Elementary and Secondary Education	• Elementary and Secondary Education Act of 1965, as amended Title I, Part A grants • State Fiscal Stabilization Fund • Race to the Top Fund
	Office of Special Education and Rehabilitative Services	• Individuals with Disabilities Education Act Part B and C grants
Department of Energy	Office of Electricity Delivery and Energy Reliability	• Renewable and Distributed Systems Integration • Smart Grid Investment Grant Program
	Office of Energy Efficiency and Renewable Energy	• Clean Cities Program • Energy Efficiency and Conservation Block Grants • State Energy Program • 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 Disease Control and Prevention	• Communities Putting Prevention to Work
	The Centers for Medicare and Medicaid Services	• Medicaid Federal Medical Assistance Percentage
	Health Resources and Services Administration	• Capital Improvement Program • Increased Demand for Services
	Office of the National Coordinator for Health Information Technology	• Health Information Technology Extension Program • State Health Information Exchange Cooperative Agreement Program

Appendix V: Program Descriptions

Federal agency	Agency office	Grant program or programs administered
Department of Homeland Security	Federal Emergency Management Agency	<ul style="list-style-type: none"> • Emergency Food and Shelter Program • Port Security Grant Program • Recovery Act Assistance to Firefighters Fire Station Construction Grants • Staffing for Adequate Fire and Emergency Response
Department of Housing and Urban Development	Office of Community Planning and Development	<ul style="list-style-type: none"> • Community Development Block Grants • Homelessness Prevention and Rapid Re-Housing Program • Neighborhood Stabilization Program 2
	Office of Public and Indian Housing	<ul style="list-style-type: none"> • Public Housing Capital Fund
Department of Justice	Office of Community Oriented Policing Services	<ul style="list-style-type: none"> • Community Oriented Policing Services Hiring Recovery Program
	Office of Justice Programs	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Services*Training*Officers*Prosecutors Violence Against Women Formula Grants
Department of Labor	Employment and Training Administration	<ul style="list-style-type: none"> • Senior Community Service Employment Program • Workforce Investment Act of 1998 Title I-B Grants
Department of Transportation	Federal Aviation Administration	<ul style="list-style-type: none"> • Airport Improvement Program
	Federal Highway Administration	<ul style="list-style-type: none"> • Federal-Aid Highway Surface Transportation Program • Transportation Enhancement Program
	Federal Railroad Administration	<ul style="list-style-type: none"> • High-Speed Intercity Passenger Rail Program
	Federal Transit Administration	<ul style="list-style-type: none"> • Fixed Guideway Infrastructure Investment Program • Transit Capital Assistance Program • Transit Investments for Greenhouse Gas and Energy Reduction Grant Program
	Office of the Secretary	<ul style="list-style-type: none"> • Transportation Investment Generating Economic Recovery Discretionary Grants Employment
Environmental Protection Agency	Office of Air and Radiation	<ul style="list-style-type: none"> • Diesel Emission Reduction Act Grants
	Office of Solid Waste and Emergency Response	<ul style="list-style-type: none"> • Brownfields Program
	Office of Water	<ul style="list-style-type: none"> • Clean Water State Revolving Fund • Drinking Water State Revolving Fund
National Endowment for the Arts		<ul style="list-style-type: none"> • National Endowment for the Arts Recovery Act grants

Source: GAO.

Clean and Drinking Water State Revolving Funds

The Recovery Act appropriated \$4 billion for the Clean Water SRF programs and \$2 billion for the Drinking Water SRF programs. These amounts are a significant increase compared to federal funds awarded as annual appropriations to the SRF programs in recent years. From fiscal years 2000 through 2009, annual appropriations averaged about \$1.1 billion for the Clean Water SRF program and about \$833 million for the Drinking Water SRF program. The Environmental Protection Agency (EPA) distributed the Recovery Act funds to the 50 states, the District of Columbia, and Puerto Rico to make loans and grants to subrecipients—local governments and other entities awarded Recovery Act funds—for eligible wastewater and drinking water infrastructure projects and “nonpoint source” pollution projects intended to protect or improve water quality by, for example, controlling runoff from city streets and agricultural areas.¹ The Clean Water and Drinking Water SRF programs, established in 1987 and 1996 respectively, provide states and local communities independent and permanent sources of subsidized financial assistance, such as low or no-interest loans, for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations and protect public health.

In addition to providing increased funds, the Recovery Act included specific requirements for states beyond those that are part of base Clean Water and Drinking Water SRF programs. For example, states were required to have all Recovery Act funds awarded to projects under contract within 1-year of enactment—which was February 17, 2010²—and EPA was directed to reallocate any funds not under contract by that date.³

¹EPA allocated Recovery Act clean water SRF capitalization grants to states based on a statutory formula. The agency allocated Recovery Act drinking water SRF capitalization grants to states based on the 2003 Drinking Water Infrastructure Needs Survey. EPA allocates clean water and drinking water SRF funds to the District of Columbia and U.S. territories as direct grants for the same purposes.

²In this report we use the word “project” to mean an assistance agreement, i.e. a loan or grant agreement made by the state SRF program to a subrecipient for the purpose of a Recovery Act project.

³The Recovery Act requires states to have all funds awarded to projects “under contract or construction” by the 1-year deadline. EPA interprets this as requiring states to have all projects under contract in an amount equal to the full value of the Recovery Act assistance agreement by the deadline, regardless of whether construction has begun, according to a September 2009 memorandum. Thus, in this report, we use “under contract” when referring to this requirement. Further, according to EPA’s March 2, 2009 memorandum, the agency will deobligate any Recovery Act SRF funds that a state does not have awarded to projects under contract by the one year deadline and reallocate them to other states.

Further, states were required to use at least 50 percent of Recovery Act funds to provide assistance in the form of principal forgiveness, negative interest loans, or grants.⁴ States were also required to use at least 20 percent of funds as a “green reserve” to provide assistance for green infrastructure projects, water or energy efficiency improvements, or other environmentally innovative activities.

Education

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 local educational agencies (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). The SFSF funds are being provided to states in two phases. Phase 1 funds – at least 67 percent of education stabilization funds and all government services funds – were provided to each state after Education approved the state’s Phase 1 application for funds. Phase 2 funds are being awarded to states as Education approves each state’s Phase 2 application. The Phase 1 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); will meet requirements for accountability, transparency, reporting, and compliance with certain federal laws and regulations; and that it will implement strategies to

⁴Under the base Drinking Water SRF, Congress has authorized states to use an amount equal to up to 30 percent of their capitalization grant to provide additional subsidies to communities that meet state-defined criteria for being “disadvantaged.” There is no such statutory authorization for the Clean Water SRF program.

advance four core areas of education reform.⁵ The Phase 2 application requires each state to explain the information the state makes available to the public related to the four core areas of education reform or provide plans for making information related to the education reforms publicly available no later than September 30, 2011. 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 maintain 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, as amended (ESEA).⁶ These additional funds are 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, 2010.⁷ 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. The Recovery Act also appropriated \$3 billion for ESEA Title I School Improvement Grants (SIG), which provides funds to states for use in ESEA Title I

⁵The four core areas of education reform, as described by Education, are: (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.

⁶For 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.

⁷LEAs 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.

schools identified for improvement⁸ in order to substantially raise the achievement of their students.⁹ These funds are awarded by formula to states, which will then make competitive grants to LEAs. State applications for the \$3 billion in Recovery Act SIG funding as well as an additional \$546 million in regular fiscal year 2009 SIG funding were due to the Department of Education on February 28, 2010. SIG regulatory requirements effective in February 2010,¹⁰ prioritize the use of SIG funds in each state's persistently lowest-achieving Title I schools.¹¹

To receive funds, states must identify their persistently lowest-achieving schools, and an LEA that wishes to receive SIG funds must submit an application to its SEA identifying which schools it commits to serve and how it will use school improvement funds to implement one of four school intervention models: (1) turnaround model, which includes replacing the principal and rehiring no more than 50 percent of the school's staff; (2) restart model, in which an LEA converts the school or closes and reopens it as a charter school or under an education management organization; (3) school closure, in which an LEA closes the school and enrolls the students who attended the school in other, higher-achieving schools in the LEA; or (4) the transformation model, which addresses four specific areas intended to improve schools.

IDEA, Part B

The Recovery Act provided supplemental funding for programs authorized by Part 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 funds programs that ensure preschool and school-aged children with disabilities access to a free and appropriate public education and is divided into two separate grants—Part B grants to states (for

⁸Under ESEA, schools in improvement have failed to meet adequate yearly progress for at least two consecutive years.

⁹School Improvement Grants are authorized under Section 1003(g) of ESEA.

¹⁰Final requirements for SIG were published in Dec. 2009 (74 Fed. Reg. 65618 (Dec. 10, 2009)), and were amended by interim final requirements published in Jan. 2010 (75 Fed. Reg. 3375 (Jan. 21, 2010)).

¹¹To identify the persistently lowest-achieving schools in the state, a state educational agency must take into account both performance of all students in a school on the state's assessments in reading/language arts and mathematics combined; and the lack of progress by all students on those assessments over a number of years.

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.

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.¹² The program is governed by a National Board composed of a representative from FEMA and six statutorily designated national nonprofit organizations.¹³ 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.

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 and 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.

¹²Pub. L. No. 100-77, 101 Stat. 482 (July 22, 1987).

¹³Under the Act, the members of the EFSP National Board are to be the Director of the Federal Emergency Management Agency, (Chair), and 6 members appointed by the Director from individuals nominated by the following organizations: 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 known as United Way Worldwide).

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 were given a 1-year deadline (March 2, 2010) to ensure that all apportioned Recovery Act funds—including suballocated funds—were obligated.¹⁴ The Secretary of Transportation was to withdraw and redistribute to eligible states any amount that was not obligated by that time.¹⁵ Additionally, the governor of each state was required to certify that the state would 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, the governor of each state was required to identify the amount of funds the state planned to expend from state sources from February 17, 2009, through September 30, 2010.¹⁶

On March 2, 2009, the Federal Highway Administration apportioned \$799.8 million in Recovery Act funds to states for its Transportation Enhancement program. States may use program funds for qualifying surface transportation activities, such as constructing or rehabilitating off-road shared use paths for bicycles and pedestrians; conducting landscaping and other beautification projects along highways, streets, and waterfronts; and rehabilitating and operating historic transportation

¹⁴For 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.

¹⁵Recovery Act, div. A, title XII, 123 Stat. 206.

¹⁶Recovery Act, div. A, title XII, § 1201(a).

facilities, such as historic railroad depots.¹⁷ The Recovery Act requires that 3 percent of Highway Infrastructure Investment funds provided to states must be used for Transportation Enhancement activities. Additionally, states may decide to use additional Recovery Act Transportation Enhancement funds, beyond the 3 percent requirement, for qualifying activities such as those mentioned above. States determine the share of federal funds used for qualifying Transportation Enhancement projects up to 100 percent of the projects' costs.

Public Transportation 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 Program¹⁸ 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.¹⁹ 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

¹⁷The full list of qualifying Transportation Enhancement activities is defined in 23 U.S.C. § 101(a)(35).

¹⁸Fixed 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.

¹⁹Generally, 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.

(MPO)—develop a list of transit projects that project sponsors (typically transit agencies) submit to FTA for approval.²⁰

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 were given a 1-year deadline (March 5, 2010) to ensure that all apportioned Recovery Act funds were obligated.²¹ The Secretary of Transportation was to withdraw and redistribute to each state or urbanized area any amount that was not obligated within these time frames.²² Additionally, the governor of each state was required to certify that the state would 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, the governor of each state was required to identify the amount of funds the state planned to expend from state sources from February 17, 2009, through September 30, 2010.²³

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.

²⁰Metropolitan 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.

²¹For 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.

²²Recovery Act, div. A, title XII, 123 Stat. 210.

²³Recovery Act, div. A, title XII, § 1201(a).

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 determined by the Federal Medical Assistance Percentage (FMAP). The Recovery Act's temporary increase in FMAP funding will provide states with approximately \$87 billion in assistance.

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 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 of Columbia, and five territories and two Indian tribes, to be spent by March 31, 2012. 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 33 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 of Columbia that are in our review and has provided at least half of the funds to those areas.

Workforce Investment Act of 1998 Title I-B Grants

The Workforce Investment Act of 1998 (WIA) Youth, Adult, and Dislocated Worker Programs, administered 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 Youth, Adult, and Dislocated Worker employment and training activities under Title I-B of WIA. These funds are allotted to states, which in turn allocate funds to local entities pursuant to formulas set out in WIA. 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 been laid off or notified that they will be laid off.²⁴

Recovery Act funds can be used for all activities allowed under WIA, including core services, such as job search and placement assistance; intensive services, such as skill assessment and career counseling; and training services, including occupational skills training, on-the-job training, registered apprenticeship, and customized training. For the youth program, Labor encouraged states and local areas to use as much of these funds as possible to expand summer youth employment opportunities. In addition, Labor advised states that training for adults and dislocated workers should be a significant focus for Recovery Act funds, and encouraged states to establish policies to make supportive services and needs-related payments available for individuals who need these services

²⁴In general, a dislocated worker is an individual who has been terminated or laid off, or who has received a notice of termination or layoff, from employment; was self employed but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters; or is a displaced homemaker who is no longer supported by another family member. In addition, the Recovery Act provides that youth up to age 24 may be served with Recovery Act funds.

to participate in job training. To facilitate increased training for high-demand occupations, the Recovery Act expanded the methods for providing training under WIA and allowed local workforce boards to directly enter into contracts with institutions of higher education and other training providers, if the local board determines that it would facilitate the training of multiple individuals and the contract does not limit customer choice.

State and Local Budget

The following grant programs were mentioned in the state and local budget section of our Recovery Act reports.²⁵

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.

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.

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

²⁵GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: Dec. 10, 2009).

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 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.

Communities Putting Prevention to Work

The Recovery Act provides \$650 million to carry out evidence-based clinical and community-based prevention and wellness strategies authorized by the Public Health Service Act that deliver specific, measurable health outcomes that address chronic disease rates. In response to the Act, the Department of Health and Human Services launched the Communities Putting Prevention to work initiative on September 17, 2009. The goals of the initiative, which is to be administered by the Centers for Disease Control and Prevention, are to increase levels

of physical activity, improve nutrition, decrease obesity rates, and decrease smoking prevalence, teen smoking initiation, and exposure to second-hand smoke through an emphasis on policy and environmental change at both the state and local levels. Of the \$650 million appropriated for this initiative, approximately \$450 million will support community approaches to chronic disease prevention and control; \$120 million will support the efforts of States and Territories to promote wellness, prevent chronic disease, and increase tobacco cessation; \$32.5 million is allocated for state chronic disease self-management programs; and \$40 million is allocated to establish a National Prevention Media Initiative and a National Organizations Initiative to encourage the development of prevention and wellness messages and advertisements.

**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.

**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, 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.

**Community Oriented
Policing Services (COPS)
Hiring Recovery Program**

The Recovery Act provided \$1 billion through the Department of Justice's (DOJ) Community Oriented Policing Service's (COPS) Hiring Recovery Program (CHRP) for competitive grant funding to law enforcement agencies to create and preserve jobs and to increase community policing capacity and crime-prevention efforts. CHRP grants provide 100 percent funding for three years to cover approved entry-level salaries and benefits for newly-hired, full-time sworn officers, including those who were hired to fill positions previously unfunded, as well as rehired officers who had been laid off. CHRP funds can also be used in the same manner to retain officers who were scheduled to be laid off as a result of local budget cuts.

There is no local funding match requirement for CHRP. When the grant term expires after three years, grantees must retain all sworn officer positions awarded under the CHRP grant for at least one additional year.

The DOJ COPS office selected local law enforcement agencies to receive funding based on fiscal health factors – such as changes in budgets for law enforcement, poverty, unemployment and foreclosure rates – and reported crime and planned community policing activities. DOJ awards 50 percent of CHRP funds to local law enforcement agencies with populations greater than 150,000 and awards the remaining 50 percent to local law enforcement agencies with populations of less than 150,000. Awards were capped at no more than 5 percent of the applicant agency’s actual sworn force strength (up to a maximum of 50 officers) and a minimum of \$5 million was allocated to each state or eligible territory.

**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.

**Edward Byrne Memorial
Justice Assistance Grant
Program**

The Recovery Act provided \$2 billion through the Department of Justice’s (DOJ) Edward Byrne Memorial Justice Assistance Grant (JAG) Program for grants to state and local governments for law enforcement and criminal justice activities. JAG funds can be used to support a range of activities in seven broad program areas: (1) law enforcement; (2) prosecution and courts; (3) crime prevention and education; (4) corrections; (5) drug treatment and enforcement; (6) program planning, evaluation, and technology improvement; and (7) crime victim and witness programs. Within these areas, JAG funds can be used for state and local initiatives, training, personnel, equipment, supplies, contractual support, research, and information systems for criminal justice.

Although each state is guaranteed a minimum allocation of JAG funding, states and localities therein must apply to DOJ's Bureau of Justice Assistance (BJA) to receive their grant awards. BJA applies a statutory formula based on population and violent crime statistics to determine annual funding levels. After applying the formula, BJA distributes each state's allocation in two ways:

- BJA awards 60 percent directly to the state, and the state must in turn allocate a formula-based share of these funds – considered a “variable pass-through,” to its local governments; and
- BJA awards the remaining 40 percent directly to eligible units of local government within the state.

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.

Health Information Technology Extension Program

The Department of Health and Human Services' Health Information Technology Extension Program, administered by the Office of the National Coordinator for Health Information Technology, allocated \$643 million to establish 60 Health Information Technology Regional Extension Centers (RECs) and \$50 million to establish a national Health Information Technology Research Center (HITRC). The first cycle of awards, announced February 12, 2010, provided \$375 million to create 32 RECs, while the second cycle of awards, announced April 6, 2010, provided \$267 million to establish 28 RECs. RECs offer technical assistance, guidance, and information on best practices for the use of Electronic Health Records (EHRs) to health care providers. The HITRC supports RECs efforts by collecting information on best practices from a wide variety of sources across the country and by acting as a virtual community for RECS to collaborate with one another and with relevant stakeholders to identify and share best practices for the use of EHRs. The goal of the RECs and HITRC is to enable nationwide health information exchange through the adoption and meaningful use of secure EHRs.

**High-Speed Intercity
Passenger Rail Program**

The High-Speed Intercity Passenger Rail Program (HSIPR) is administered by the Federal Railroad Administration, within the Department of Transportation. The purpose of the HSIPR Program is to build an efficient, high-speed passenger rail network connecting major population centers 100 to 600 miles apart. In the near-term, the program will aid in economic recovery efforts and lay the foundation for this high-speed passenger rail network through targeted investments in existing intercity passenger rail infrastructure, equipment and intermodal connections. In addition to the \$8 billion provided in the Recovery Act, the HSIPR Program also included approximately \$92 million in FY 2009 and remaining FY 2008 funds appropriated under the existing State Grant Program (formally titled, Capital Assistance to States – Intercity Passenger Rail Service). The FY 2010 DOT Appropriation included \$2.5 billion for high speed rail and intercity passenger rail projects.

**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 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 re-housing 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.²⁶

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.

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 redevelopment of abandoned and foreclosed homes and residential properties in order that such properties may be returned to productive use or made available for redevelopment purposes. The \$2 billion in NSP2 funds appropriated in the Recovery Act are competitively awarded to states, local governments, and nonprofit organizations.²⁷ NSP is considered to be a component of the Community Development Block Grant (CDBG) program and basic CDBG requirements govern NSP.

²⁶The 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 Services grants.

²⁷NSP, 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.

Port Security Grant
Program

The Port Security Grant Program provides grant funding to port areas for the protection of critical port infrastructure from terrorism. The Recovery Act provides \$150 million in stimulus funding for the Port Security Grant Program (PSGP) administered by the Federal Emergency Management (FEMA), an agency of Homeland Security. PSGP funds are primarily intended to assist ports in enhancing maritime domain awareness, enhancing risk management capabilities to prevent, detect, respond to and recover from attacks involving improvised explosive devices, weapons of mass destruction and other non-conventional weapons as well as training and exercises and Transportation Worker Identification Credential implementation. Ports compete for funds and priority is given to cost-effective projects that can be executed expeditiously and have a significant and near-term impact on risk mitigation.

Race to the Top Fund

The Recovery Act includes up to \$5 billion for the Race to the Top Fund, administered by the Office of Elementary and Secondary Education (OESE) within the Department of Education. According to Education, awards in Race to the Top will go to states that are leading the way with ambitious yet achievable plans for implementing coherent, compelling, and comprehensive educational reform. Through Race to the Top Education asks states to advance reforms in four specific areas: adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy; building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction; recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed most; and turning around our lowest achieving schools.

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**

The Child Support Enforcement (CSE) Program (title IV-D of the Social Security Act) is a joint federal-state program administered by the Administration for Children and Families (ACF), within the Department of Health and Human Services. The program provides federal matching funds to states to carry out their child support enforcement programs, which enhance the well-being of children by, among other things, establishing paternity, establishing child support orders, and collecting child support. Furthermore, ACF makes additional incentive payments to states based in part on their child support enforcement programs meeting certain performance goals. States must reinvest their incentive fund payments into the CSE program or an activity to improve the CSE program; however, incentive funds reinvested in the CSE program are not eligible for federal matching funds. Funds for the federal matching payments and incentive payments 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 state funds eligible for the federal match. This change is effective October 1, 2008, through September 30, 2010.

**Renewable and Distributed
Systems Integration**

The Renewable and Distributed Systems Integration (RDSI) program, administered by the Office of Electricity Delivery and Energy Reliability within the Department of Energy, focuses on integrating renewable and distributed energy technologies into the electric distribution and transmission system. In April 2008, DOE announced plans to invest up to \$50 million over five years (fiscal years 2008-2012) in nine projects aimed at demonstrating the use of RDSI technologies to reduce peak load electricity demand by at least 15 percent at distribution feeders—the power lines delivering electricity to consumers. The program goal is to reduce peak load electricity demand by 20 percent at distribution feeders by 2015.

**Senior Community Service
Employment Program**

The Senior Community Service Employment Program (SCSEP), administered by the Employment and Training Administration within the Department of Labor, is a community service and work based training program which serves low-income persons who are 55 years or older and have poor employment prospects by placing them in part-time community service positions and by assisting them to transition to unsubsidized employment. 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.

Smart Grid Investment
Grant Program

Under the Recovery Act, states will receive \$3.4 billion to deploy and integrate advanced digital technology to modernize the electric delivery network through the Smart Grid Investment Grant Program, administered by the Office of Electricity Delivery and Energy Reliability within the Department of Energy. The program funds a broad range of projects aimed at applying smart grid technologies to existing electric system equipment, consumer products and appliances, meters, electric distribution and transmission systems, and homes, offices, and industrial facilities.

Staffing for Adequate Fire
and Emergency Response

The Staffing for Adequate Fire and Emergency Response grants program, administered by the Federal Emergency Management Agency within the Department of Homeland Security, was created to provide funding directly to volunteer, combination, and career fire departments²⁸ to help them increase staffing and enhance their emergency deployment capabilities. The goal of SAFER is to ensure departments have an adequate number of trained, frontline active firefighters capable of safely responding to and protecting their communities from fire and fire-related hazards. SAFER provides 2-year grants to fire departments to pay the salaries of newly hired firefighters or to rehire recently laid-off firefighters. Fire departments using SAFER funding to hire new fire fighters commit to retaining the SAFER-funded firefighters for one full year after the 2-year grant has been expended. The retention commitment does not extend to previously laid-off firefighters who have been rehired. In addition, volunteer and combination firefighter departments are eligible to apply for

²⁸Per FEMA's definition, a "volunteer fire department is composed entirely of members who do not receive compensation other than a length of service retirement program (LSOP) and insurance. A career department is one in which all members are compensated for their services. A combination department has at least one volunteer, with the balance being career members, or one career member with the balance being volunteers. Also, if a volunteer fire department provides stipends to their members or provides pay-on-call for their members, the department is considered to be combination."

SAFER funding to pay for activities related to the recruitment and retention of volunteer firefighters.²⁹

State Broadband Data and Development Program

The Recovery Act appropriated \$7.2 billion to extend access to broadband throughout the United States. Of the \$7.2 billion, \$4.7 billion was appropriated to the Department of Commerce's (DOC) National Telecommunications and Information Administration (NTIA) and \$2.5 billion to the Department of Agriculture's (USDA) Rural Utilities Service (RUS). Of the \$4.7 billion, up to \$350 million was available pursuant to the Broadband Data Improvement Act (DBIA) and for the purpose of developing and maintaining a nationwide map featuring the availability of broadband service. DBIA directs the Secretary of Commerce to establish the State Broadband Data and Development Grant Program and to award grants to eligible entities to develop and implement statewide initiatives to identify and track the adoption and availability of broadband services within each State. To accomplish the joint purposes of the Recovery Act and BIDA, NTIA has developed the State Broadband Data and Development 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.

State Energy Program

Under the Recovery Act, states will receive \$3.1 billion for energy projects through the State Energy Program (SEP), administered by the Office of Energy Efficiency and Renewable Energy within the Department of Energy (DOE). States should prioritize the grants toward funding energy efficiency and renewable energy programs, including expanding existing energy efficiency programs, renewable energy projects and joint activities between States. The State Energy Program's (SEP) 20 percent cost match is not required for grants made with Recovery Act funds. DOE estimates that SEP funding will have an annual costs savings of \$256 million.

²⁹Volunteer fire departments are eligible to apply for both Hiring and Recruitment and retention grants. Combination fire departments are eligible to apply for both Hiring and Rehiring of firefighters and recruitment and retention of volunteer firefighters SAFER grants. Career fire departments are only eligible to apply for SAFER hiring/rehiring of firefighters grants.

State Health Information
Exchange Cooperative
Agreement Program

Under the Department of Health and Human Services' State Health Information Exchange (HIE) Cooperative Agreement Program, \$564 million has been allocated to support states' efforts to develop the capacity among health care providers and hospitals in their jurisdiction to exchange health information across health care systems through the meaningful use of Electronic Health Records (EHR). The meaningful use of EHRs aims to improve the quality and efficiency of patient care. In order to ensure secure and effective use of HIE technology within and across state borders, grant recipients are expected to use their authority and resources to implement HIE privacy and security requirements, coordinate with Medicaid and state public health programs in using HIE technology, and enable interoperability through the creation of state-level directories and technical services and the removal of barriers. The state HIE program uses a cooperative agreement, or partnership between the grant recipient and the federal government, to administer the awards (when the Federal government has a substantial stake in the outcomes or operation of the program). The state HIE cooperative agreements are 4-year agreements and recipients will be required to match grant awards beginning in the second year of the award, 2011.

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, in part, is to help raise the level of nutrition and alleviate the hunger of low-income households. 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.

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 states for their maintenance

**Appendix V: Program
Descriptions**

payments using the states' respective Federal Medical Assistance Percentage (FMAP) rates.³⁰ The Recovery Act temporarily increased the FMAP rate effective October 1, 2008 through December 31, 2010, resulting in an estimated additional \$806 million that will be provided to states for the foster care and adoption assistance programs.

**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.

**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.

³⁰See the FMAP description in this appendix.

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

Table 20: Education Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Arizona	Mesa	Mesa Unified School District #4
California	Long Beach	Long Beach Unified School District
	Oakland	University of California
	San Diego	San Diego Unified School District
Colorado	Denver	Denver County School District 1
	Denver	University of Colorado System
District of Columbia	Washington	District of Columbia Public Schools
	Washington	Center City Public Charter School
	Washington	Friendship Public Charter School
Florida	Miami	Miami-Dade County Public Schools
	Tampa	University of South Florida
Georgia	Atlanta	Georgia Institute of Technology
	DeKalb	DeKalb County School System
Illinois	Alton	Alton Community Unit School District 11
	Chicago	Chicago Public Schools
	Chicago	Northeastern Illinois University
	Elgin	School District U-46, Elgin
	Grayslake	Prairie Crossing Charter School
	Kankakee	Kankakee School District 111
	Riverdale	Dolton-Riverdale School District 148
	North Chicago	North Chicago Community Unit School District 187
	Peoria	Peoria Public Schools District 150
	Rockford	Rockford Public Schools District 205
	Schaumburg	Schaumburg School District 54
	Waukegan	Waukegan Public School District 60
	Wilmette	Wilmette Public Schools District 39
Iowa	Ames	Iowa State University
	Des Moines	Des Moines Independent Community School District
	Johnston	Heartland Area Education Agency
Massachusetts	Springfield	Springfield Public Schools
	Springfield	Springfield Technical Community College
Michigan	Detroit	Detroit Public Schools
	East Lansing	Michigan State University
Mississippi	Brandon	Rankin County Schools
	Mississippi State	Mississippi State University

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States and the District of Columbia	City/county	Entity
New Jersey	Mahwah	Ramapo College of New Jersey
	Newark	Newark Public Schools
New York	Selden	Suffolk County Community College
	Yonkers	Yonkers City School District
North Carolina	Chapel Hill	UNC-NC University System
	New Bern	Craven County Schools
	Newland	Newland – Avery County Schools
	Raleigh	Wake County Schools
	Warrenton	Warren County Schools
Ohio	Winston-Salem	Winston-Salem/Forsyth County Schools
	Columbus	The Ohio State University
Pennsylvania	Toledo	Toledo Public Schools
	Kutztown	Kutztown University of Pennsylvania
	Reading	Reading School District
Texas	York	School District of the City of York
	Austin	Austin Independent School District
	Austin	Texas Higher Education Coordinating Board
	Austin	The University of Texas at Austin
	Round Rock	Round Rock Independent School District

Source: GAO.

Note: Total education entities visited by GAO is 54.

Table 21: Transit Entities Visited by GAO

States and the District of Columbia	City/county	Entity
California	Los Angeles	Los Angeles County Metropolitan Transportation Authority
	Orange	Orange County Transportation Authority
Georgia	Albany	Albany Transit System
	Savannah	Chatham Area Transit Authority
Massachusetts	Boston	Massachusetts Bay Transportation Authority
	Taunton	Greater Attleboro Taunton Regional Transit Authority
North Carolina	Boone	AppalCART

Source: GAO.

Note: Total transit entities visited by GAO is 7.

**Appendix VI: Entities Visited by
GAO in Selected States and the
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Table 22: Edward Byrne Memorial Justice Assistance Grants Entities Visited by GAO

Stats and the District of Columbia	City/county	Entity
Arizona	Flagstaff	Flagstaff Police Department
	Mesa	Mesa Police Department
	Phoenix	Arizona Criminal Justice Commission
California	Los Angeles	Los Angeles Mayor's Office
	Los Angeles	Los Angeles Police Department
	Sacramento	California Emergency Management Agency
	San Diego	San Diego Police Department
	San Francisco	San Francisco Adult Probation Department
	San Francisco	San Francisco Police Department
	San Francisco	San Francisco Department of Children, Youth & Their Families
	San Francisco	San Francisco Department of Public Health
	San Francisco	San Francisco District Attorney's Office
	San Francisco	San Francisco Office of the Controller
	San Francisco	San Francisco Office of the Mayor
	San Francisco	San Francisco Sheriff's Department
	San Francisco	San Francisco Superior Court
Illinois	Chicago	Cook County Sheriff's Office
	Chicago	Illinois Criminal Justice Information Authority
	Rockford	Rockford Police Department
	Rockford	Winnebago County Sheriff's Office
	Springfield	Illinois State Police Department
Massachusetts	Everett	Everett Police Department
	Worcester	Worcester Police Department
New York	Albany	New York State Division of Criminal Justice Services
	New York	New York City Office of the Criminal Justice Coordinator
	Utica	Utica Police Department
Ohio	Columbus	Columbus Division of Police
	Columbus	Franklin County Office of Homeland Security and Justice Programs
	Columbus	Ohio Office of Criminal Justice Services
	Youngstown	Youngstown Police Department
Pennsylvania	Allentown	Allentown Police Department
	Bethlehem	Bethlehem Police Department
	Harrisburg	Harrisburg Bureau of Police

**Appendix VI: Entities Visited by
GAO in Selected States and the
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Stats and the District of Columbia	City/county	Entity
	Harrisburg	Dauphin County Criminal Justice Department
	Philadelphia	Philadelphia Police Department
	Philadelphia	Philadelphia Courts - First Judicial District of Pennsylvania
	York	York City Police Department
	York	York County Planning Commission

Source: GAO.

Note: Total Edward Byrne Memorial Justice Assistance Grant entities visited by GAO is 38.

Table 23: Community Oriented Policing Services Hiring Recovery Program Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Arizona	Flagstaff	Flagstaff Police Department
	Mesa	Mesa Police Department
California	Los Angeles	Los Angeles Police Department
	San Francisco	San Francisco Police Department
District of Columbia	Washington	Metropolitan Police Department
Ohio	Columbus	Columbus Division of Police
	Youngstown	Youngstown Police Department
Massachusetts	Boston	Boston Police Department
	Everett	Everett Police Department
New Jersey	East Orange	East Orange Police Department
	Trenton	Trenton Police Department
Pennsylvania	Harrisburg	Harrisburg Bureau of Police
	Philadelphia	Philadelphia Police Department

Source: GAO.

Note: Total Community Oriented Policing Services entities visited by GAO is 13.

**Appendix VI: Entities Visited by
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Table 24: Workforce Investment Act of 1998 Summer Youth Program Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Michigan	Detroit	City Connect Detroit
	Detroit	Detroit Workforce Development Department

Source: GAO.

Note: Total Workforce Investment Act of 1998 Summer Youth Program entities visited by GAO is 2.

Table 25: Workforce Investment Act of 1998 Dislocated Worker Entities Visited by GAO

States and the District of Columbia	City/county	Entity
California	Los Angeles	Los Angeles Community Development Department
	San Diego	San Diego Workforce Partnership, Inc.
Florida	Bartow	Region 17: Polk County Workforce Development Board, Inc.
	Daytona Beach	Region 11: Workforce Development Board Center for Business Excellence
	Lake City	Region 7: Florida Crown Workforce Board, Inc.
	Madison	Region 6: North Florida Workforce Development Board
	Miami	Region 23: South Florida Workforce Board
	Orange Park	Region 8: First Coast Workforce Development, Inc.
	Orlando	Region 12: Workforce Central Florida
	Port St. Lucie	Region 20: Workforce Solutions
Massachusetts	Boston	Boston Private Industry Council
	Fall River	Bristol Workforce Investment Board
Michigan	Detroit	Detroit Workforce Development Department
	Grand Rapids	Area Community Services Employment Training Council
North Carolina	Charlotte	Charlotte-Mecklenburg Workforce Development Board
	Lumberton	Lumber River Workforce Development Board

Source: GAO.

Note: Total Workforce Investment Act Dislocated Worker entities visited by GAO is 16.

**Appendix VI: Entities Visited by
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Table 26: Clean and Drinking Water Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Arizona	Buckeye	Town of Buckeye Water Resources Department
	Eloy	City of Eloy
	Flagstaff	City of Flagstaff
	Mesa	City of Mesa WaterResources Department
	Payson	Town of Payson
California	Fresno	City of Fresno, Department of Public Utilities
	Marin County	Tomales Bay Watershed Council Foundation
	Monterey County	Monterey County Department of Public Works
	Sacramento	City of Sacramento Department of Utilities
Colorado	Georgetown	Town of Georgetown
	Manitou Springs	City of Manitou Springs
	Pagosa Springs	Pagosa Area Water and Sanitation District
Florida	North Miami Beach	City of North Miami Beach
	Stuart	City of Stuart
Georgia	Marietta	Cobb County Water System
	Tennille	City of Tennille
Iowa	Garwin	City of Garwin
	Newton	City of Newton
	Spencer	Town of Spencer
Mississippi	Decatur	City of Decatur
	Hernando	DeSoto County Regional Utility Authority
	Natchez	Natchez Water Works
New Jersey	Bayonne	Bayonne Municipal Utilities Authority
	Beach Haven	Borough of Beach Haven
	Long Branch	Long Branch Sewerage Authority
	Newark	Newark City
	Princeton	Stony Brook Regional Sewerage Authority
New York	New York	New York City Department of Environmental Protection, Paerdegat Basin Combined Sewer Overflow Facility
	Poestenkill	Town of Poestenkill
	Westchester County	Mamaroneck Wastewater Treatment Plant
North Carolina	Charlotte	City of Charlotte
	Raleigh	City of Raleigh
	Perquimans	Town of Perquimans

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States and the District of Columbia	City/county	Entity
Ohio	Chagrin Falls	Geauga County McFarland Wastewater Treatment Plant
	Cleveland	Cleveland Division of Water
	Columbus	Columbus Department of Public Utilities
	Cuyahoga Heights	Northeast Ohio Regional Sewer District-Southerly Wastewater Treatment Plant
	Jackson	Jackson County Water Company
	Parma	City of Parma
Pennsylvania	Harrisburg	Chesapeake Bay Foundation
	Hazleton	Hazleton City Authority Water Department
	Mount Carmel	Mount Carmel Municipal Authority
Texas	Austin	Austin Water Utility
	Laredo	City of Laredo Utilities Department

Source: GAO.

Note: Total Clean and Drinking Water entities visited by GAO is 44.

Table 27: Weatherization Entities Visited by GAO

States and the District of Columbia	City/county	Entity
District of Columbia	Washington	African Heritage Dancers and Drummers
	Washington	District Department of the Environment
	Washington	Prosperity Media Enterprise
	Washington	United Planning Organization
Florida	Indiantown	Indiantown Non-Profit Housing, Inc.
	Live Oak	Suwannee River Economic Council, Inc.
	St. Petersburg	Pinellas County Urban League
Georgia	Albany	City of Albany
	Gainesville	Ninth District Opportunity, Inc.
	Savannah	Economic Opportunity Authority for Savannah-Chatham County Area, Inc.
Iowa	Council Bluffs	West Central Community Action
	Des Moines	Polk County Public Works Department, Developmental Services Division
	Harlan	West Central Community Action
	Marshalltown	Mid-Iowa Community Action, Inc.
Illinois	Elgin	Community Contacts, Inc.
	Joliet	Will County Center for Community Concerns
	Waukegan	Community Action Partnership of Lake County

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GAO in Selected States and the
District of Columbia**

States and the District of Columbia	City/county	Entity
Mississippi	Columbia	Pearl River Valley Opportunity, Inc.
	D'Lo	South Central Community Action Agency
	Jackson	Mississippi Department of Human Services Division of Community Services
	Jackson	Mississippi Department of Human Services Division of Program Integrity
	McComb	Southwest Mississippi Opportunity, Inc.
	Meridian	Multi-County Community Service Agency
New York	Centereach	Community Development Corporation of Long Island Inc.
	Long Island City	Community Environmental Center Inc.
	Syracuse	People's Equal Action and Community Effort, Inc.
North Carolina	Boone	WAMY Community Action Inc.
	Laurinburg	Four County Community Services, Inc.
	Raleigh	North Carolina Department of Commerce - Weatherization Assistance Program
	Williamston	Martin County Community Action
Pennsylvania	Harrisburg	Pennsylvania Housing Finance Agency
	Lancaster	Thaddeus Stevens College of Technology
	Philadelphia	Energy Coordinating Agency
	Pittsburgh	ACTION-Housing, Inc.
	Pittsburgh	Community College of Allegheny County
	Williamsport	Pennsylvania College of Technology: Weatherization Training Center
	York	York County Planning Commission
Texas	Austin	Texas Department of Housing and Community Affairs
	Houston	City of Houston
	Houston	Sheltering Arms Senior Services
	San Antonio	Alamo Area Council of Governments
	Sherman	Texoma Council of Governments

Source: GAO.

Note: Total Weatherization entities visited by GAO is 42.

**Appendix VI: Entities Visited by
GAO in Selected States and the
District of Columbia**

Table 28: Housing Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Arizona	Casa Grande	Pinal County Housing Department
	Flagstaff	Housing Authority of the City of Flagstaff
	Nogales	Nogales Housing Authority
	Phoenix	City of Phoenix Neighborhood Services Department
	Phoenix	Housing Authority of Maricopa County
	South Tucson	South Tucson Housing Authority
	Tucson	City of Tucson Department of Housing and Community Development
California	San Francisco	San Francisco Housing Authority
Colorado	Denver	Housing Authority of the City and County of Denver
District of Columbia	Washington	District of Columbia Housing Authority
Florida	Hialeah	The Hialeah Housing Authority
	Lakeland	The Housing Authority of the City of Lakeland
	Orlando	The Housing Authority of the City of Orlando
	Pasco County	Pasco County Housing Authority
	Sarasota	Sarasota Housing Authority
Georgia	Atlanta	Housing Authority of the City of Atlanta
	Macon	Housing Authority of the City of Macon
	McDonough	Housing Authority of the City of McDonough
	Villa Rica	Housing Authority of the City of Villa Rica
Illinois	Centralia	Marion County Housing Authority
	Chicago	Chicago Housing Authority
	Chicago	Housing Authority of the County of Cook
	Ottawa	Housing Authority for LaSalle County
Iowa	Des Moines	Des Moines Municipal Housing Authority
Massachusetts	Boston	Boston Housing Authority
	Cambridge	Cambridge Housing Authority
	Clinton	Clinton Housing Authority
	Lowell	Lowell Housing Authority
	Revere	Revere Housing Authority
	Taunton	Taunton Housing Authority
Michigan	Detroit	Detroit Housing Commission
	Lansing	Lansing Housing Commission
	Mount Clemens	Mount Clemens Housing Commission
	Port Huron	Port Huron Housing Commission

**Appendix VI: Entities Visited by
GAO in Selected States and the
District of Columbia**

States and the District of Columbia	City/county	Entity
Mississippi	Corinth	Corinth Housing Authority
New Jersey	Elizabeth	Housing Authority of the City of Elizabeth
	Englewood	Housing Authority of Bergen County
	Newark	Newark Housing Authority
	Rahway	The Housing Authority of the City of Rahway
	Trenton	Trenton Housing Authority
Ohio	Chillicothe	Chillicothe Metropolitan Housing Authority
	Columbus	Columbus Metropolitan Housing Authority
	Dayton	Dayton Metropolitan Housing Authority
	London	London Metropolitan Housing Authority
	Warren	Trumbull Metropolitan Housing Authority
Pennsylvania	Harrisburg	Harrisburg Housing Authority
Texas	El Paso	Housing Authority of the City of El Paso
	Ferris	Ferris Housing Authority
	McKinney	McKinney Housing Authority
	San Antonio	San Antonio Housing Authority

Source: GAO.

Note: Total housing entities visited by GAO is 50.

Table 29: Tax Credit Assistance Program Entities Visited by GAO

States and the District of Columbia	City/county	Entity
Colorado	Denver	Colorado Housing and Finance Authority
	Denver	Denver Gardens
	Denver	Yale Station
Florida	Tallahassee	Florida Housing Finance Corporation
Georgia	Atlanta	Georgia Housing and Finance Authority
	Albany	The Landing at South Lake, Albany
	Atlanta	Baptist Towers Apartments
	Dublin	Riverview Heights
	Dublin	Waterford Estates
	Sandersville	Camellia Lane L.P.
	Savannah	Sustainable Fellwood
Illinois	Chicago	Illinois Housing Development Authority

**Appendix VI: Entities Visited by
GAO in Selected States and the
District of Columbia**

States and the District of Columbia	City/county	Entity
Iowa	Des Moines	Iowa Finance Authority
	Des Moines	Southview Senior Apartments
	Des Moines	Homes of Oakridge
	Des Moines	MLK Brickstone Development LP
Michigan	Lansing	Michigan State Housing Development Authority
Mississippi	Jackson	Mississippi Home Corporation
	Jackson	The Rose of Jackson
	Pascagoula	Bayside Village
	Gulfport	Crown Hill I Apartments
Ohio	Columbus	Ohio Housing Finance Agency
	Dayton	East End Twin Towers Crossing
Pennsylvania	Allentown	Greystone Apartments
	Harrisburg	Pennsylvania Housing Finance Agency
	Stewartstown	Hopewell Courtyard

Source: GAO.

Note: Total Tax Credit Assistance Program entities visited by GAO is 26.

Table 30: Local Governments Visited by GAO (Government Type, Population, and Unemployment)

States	Local government	Type of local government	Population	Unemployment Rate
Arizona	Flagstaff	City	60,222	5.8
	Mesa	City	463,552	8.0
California	San Diego	City	1,279,329	11.0
	San Francisco	City	808,976	10.3
	Los Angeles	City	3,833,995	13.5
	Sacramento	City	463,794	13.1
Colorado	Fort Collins	City	136,509	8.2
	Grand Junction	City	49,688	10.3
Florida	Orlando	City	230,519	11.5
	Orange County	Urban	1,086,480	12.0
Georgia	Albany	City	75,831	12.5
	Dekalb County	Suburban	747,274	10.4
	Savannah	City	132,410	9.8
Illinois	Cook County	Urban	5,287,037	11.3
	Winnebago County	Urban	299,702	17.5

**Appendix VI: Entities Visited by
GAO in Selected States and the
District of Columbia**

States	Local government	Type of local government	Population	Unemployment Rate
Iowa	Council Bluffs	City	59,536	6.2
	Des Moines	City	197,052	8.4
	Newton	City	15,042	9.6
Massachusetts	Boston	City	609,023	8.1
	Everett	City	37,353	9.9
	Springfield	City	150,640	13.7
	Worcester	City	175,011	10.4
Michigan	Flint	City	112,900	27.0
	Lansing	City	113,968	16.3
Mississippi	Greenwood	City	16,084	15.1
	Hattiesburg	City	51,993	10.5
New Jersey	Bergen County	Urban	895,250	8.5
	Burlington County	Suburban	446,108	9.6
	Cape May County	Rural	96,091	16.3
	Newark	City	278,980	15.5
New York	New York	City	8,363,710	9.9
	Westchester County	Suburban	955,962	7.2
North Carolina	Bladen County	Rural	32,343	12.2
	City of Durham	Urban	223,284	7.4
	Halifax County	Rural	54,582	13.2
	City of Jacksonville	Rural	76,233	8.5
Ohio	Putnam County	Rural	34,377	11.7
	Toledo	City	293,201	13.3
Pennsylvania	Allentown	City	107,250	13.2
	Philadelphia	City	1,447,395	11.3
	Dauphin County	Urban	258,934	8.7
	York County	Urban	428,937	9.6
Texas	Austin	City	757,688	6.5
	Dallas	City	1,279,910	8.8
	Houston	City	2,242,193	8.0

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

Notes: City population data are from the latest available estimate, July 1, 2008. County population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

Total number of local governments visited by GAO is 45.

Appendix VII: GAO Contacts and Staff Acknowledgments

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