United States Government Accountability Office

GAO

Report to the Congress

September 2009

RECOVERY ACT

Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed

GAO

Accountability * Integrity * Reliability

GAO-09-1016

September 2009

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GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-09-1016, a report to the Congress

Why GAO Did This Study

This report, the third in response to a mandate under the American Recovery and Reinvestment Act of 2009 (Recovery Act), addresses the following objectives: (1) selected states' and localities' uses of Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of Recovery Act funds. GAO's work for the report is focused on 16 states and certain localities in those jurisdictions as well as the District of Columbia (District)—representing about 65 percent of the U.S. population and two-thirds of the intergovernmental federal assistance available. Under the Recovery Act, GAO collected and analyzed documents and interviewed state and local officials. GAO also analyzed federal agency guidance and spoke with Office of Management and Budget (OMB) officials and with program officials at the federal agencies overseeing Recovery Act programs.

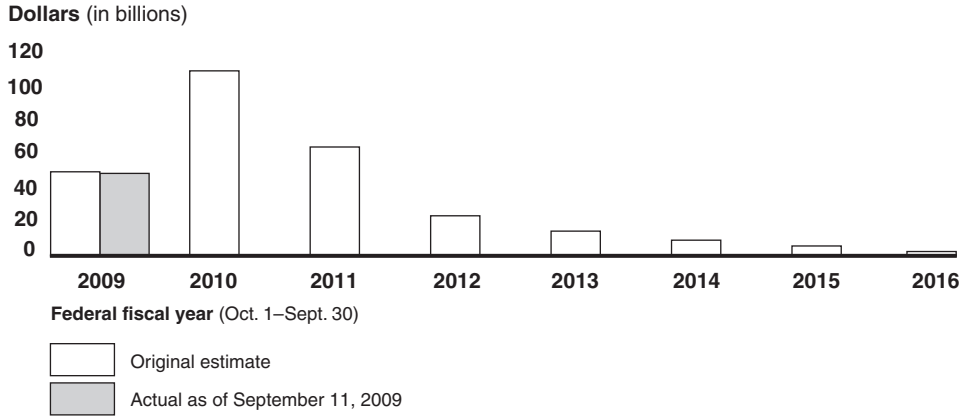
What GAO Recommends

GAO makes recommendations to federal agencies to address accountability and transparency issues. They are discussed on the next page and in the report. GAO also has recommendations to OMB (on pages 122 and 131-134) and a matter for congressional consideration (on page 123). The report draft was discussed with federal and state officials who generally agreed with its contents.

View GAO-09-1016 or key components. For state summaries, see GAO-09-1017SP. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What GAO Found

Across the United States, as of September 11, 2009, the Department of the Treasury had outlayed about $48 billion of the estimated $49 billion in Recovery Act funds projected for use in states and localities in federal fiscal year 2009, as shown in the figure. More than three quarters of the federal outlays has been provided through the increased Medicaid Federal Medical Assistance Percentage (FMAP) and the State Fiscal Stabilization Fund (SFSF) administered by the Department of Education.



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

Increased Medicaid FMAP Funding

All 16 states and the District have drawn down increased Medicaid FMAP grant awards of just over $20.3 billion for October 1, 2008, through September 15, 2009, which amounted to over 87 percent of funds available. All states and the District experienced Medicaid enrollment growth. States and the District reported they are planning to use the increased federal funds to cover their increased Medicaid caseload and to maintain current benefits and eligibility levels. Most states also reported that they would use freed-up funds to finance general state budget needs. The increased FMAP continues to help states finance their growing Medicaid programs, but state and District officials expressed concern about the longer term sustainability of their Medicaid programs after the increased FMAP funds are no longer available, beginning in January 2011.

Highway Infrastructure Investment and Transit Funding

A substantial portion of the approximately $35 billion the Recovery Act appropriated for highway infrastructure projects and public transit has been obligated nationwide and in the states and the District that are the focus of GAO's review. As of September 1, the Department of Transportation (DOT) had obligated approximately $11 billion for almost 3,800 highway infrastructure and other eligible projects in the 16 states and the District and had reimbursed these 17 jurisdictions about $604 million. Across the

nation, almost half of the obligations have been for pavement improvement projects because they did not require extensive environmental clearances, were quick to design, obligate and bid on, and could employ people quickly. For transit funds, GAO focused on the Transit Capital Assistance Program, which received $6.9 billion—or 82 percent—of the Recovery Act public transit funds. Recovery Act funds obligated under this program are primarily being used for upgrading transit facilities, improving bus fleets, and conducting preventive maintenance. Recipients of highway and transit Recovery Act funds, such as state departments of transportation and transit agencies, are subject to multiple reporting requirements. Although some guidance has been provided from OMB and DOT, state highway and transit officials expressed concerns and challenges about reporting requirements. GAO recommends that the Secretary of DOT continue to reach out to state transportation departments and transit agencies to identify common problems in accurately fulfilling reporting requirements and provide additional guidance, as appropriate.

State Fiscal Stabilization Fund

As of September 15, 2009, the District and 15 of the 16 states covered by our review had received approval from Education for their initial SFSF funding applications. Pennsylvania had submitted an application to Education, but it had not yet been approved. As of August 28, 2009, Education had made $21 billion in SFSF grants for education available to the 15 states and the District—of which over $7.7 billion had been drawn down. GAO has previously reported that school districts said they would use SFSF funds to maintain current levels of education funding, particularly for retaining teachers and staff and current education programs. They also told GAO that SFSF funds would help offset state budget cuts. Education has not completed monitoring plans for SFSF, and it is not clear that states have begun to put in place subrecipient monitoring systems that comply with Education's requirements. GAO recommends that Education take further action to ensure states understand and carry out their responsibility to monitor subrecipients of SFSF funds and consider providing training and technical assistance to states to help them develop state monitoring plans for SFSF.

Other Recovery Act Programs

GAO makes recommendations in this report on other Recovery Act programs, as well. While many program officials, employers, and participants believe the Workforce Investment Act summer youth program activities have been successful, measuring actual outcomes has proven challenging and may reveal little about what the program achieved. GAO recommends that the Secretary of Labor provide additional guidance on how to measure work readiness—Labor's indicator to gauge the effect of the summer youth activities. Also, to build on the important steps the Department of Housing and Urban Development (HUD) has already taken to monitor housing agencies' use of Recovery Act funds, GAO recommends that the Secretary of HUD expand criteria for selecting housing agencies for onsite reviews to include housing agencies with open Single Audit findings that may affect the use of and reporting on Recovery Act funds. In addition, the Recovery Act appropriated $5 billion over 3 years for the DOE Weatherization Assistance Program. However, most states have not begun to weatherize homes, partly because of concerns about prevailing wage rate requirements. Labor completed its determination of the wage rates on September 3, 2009.

Accountability

States have implemented various internal control programs; however, federal Single Audit guidance and reporting does not fully address Recovery Act risk. The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies. Moreover, current guidance does not achieve the level of accountability needed to effectively respond to risks. OMB is vetting a pilot program for early written communication of internal control deficiencies for Recovery Act programs that, if properly scoped to achieve sufficient coverage of Recovery Act programs, could address concerns about the timeliness of Single Audit reporting. Finally, state auditors need additional flexibility and funding to undertake the added Single Audit responsibilities under the Recovery Act.

Impact

States and localities as nonfederal recipients of Recovery Act funds are required to report quarterly on a number of measures, including the use of funds and estimates of the number of jobs created and retained. This unprecedented level of detailed information to be reported by a large number of recipients into a new centralized reporting system raises possible risk for the quality and reliability of these data. The first of these reports is due in October 2009.

GAO's Crosscutting Recommendations

GAO reports on progress in addressing its prior recommendations that OMB provide

- clearer accountability for recipient financial data,
- program-specific examples of recipient reports, outreach to nonfederal recipients, and further guidance on program performance measures; and
- timely notification of funding provided within a state to key state officials and a master schedule for anticipated new or revised federal agency guidance.

Contents

Letter 1

Background 3
States Continue Use of Recovery Act Funds While Preparing for First Required Report Cycle 7
A Growing Number of Housing Agencies Are Obligating and Beginning to Draw Down Recovery Act Formula Funds 80
DOE's Weatherization Assistance Program 101
Most States Have Not Begun to Weatherize Homes Partly Because of Their Concerns about Prevailing Wage Rate Requirements 102
Local Agencies Generally Have Responsibility for Procuring Weatherization Materials 108
DOE Has Issued Guidance to Mitigate Risk in the Weatherization Program, and Some States Have Established Additional Measures 108
States Are Beginning to Monitor Recovery Act Weatherization Impacts, and Most Plan to Meet Reporting Requirements 110
Crosscutting Recommendations 130

Appendix I **Objectives, Scope, and Methodology** 138

Appendix II **Comments from the Department of Labor** 144

Appendix III **Local Entities Visited by GAO in Selected States and the District of Columbia** 147

Appendix IV **GAO Contacts and Staff Acknowledgments** 153

Tables

Table 1: Original and Increased Quarterly FMAPs for Fiscal Year 2009 for 16 States and the District (Percentage Points) 8
Table 2: FMAP Grant Awards and Funds Drawn Down, for 16 States and the District, as of September 15, 2009 11
Table 3: Recovery Act Highway Apportionments and Obligations Nationwide and in Selected States as of September 1, 2009 18

Table 4: Recovery Act Highway Reimbursements Nationwide and in Selected States as of September 1, 2009 21
Table 5: Recovery Act Highway Apportionments and Obligations for Suballocated Areas Nationwide and in Selected States as of September 1, 2009 24
Table 6: Percentage of Recovery Act Transit Capital Assistance Program Funds Obligated Nationwide and Selected States and Urbanized Areas as Reported by FTA 32
Table 7: SFSF Education Stabilization Funds Made Available by the U.S. Department of Education and Funds Drawn Down by States 42
Table 8: State Drawdowns of Education Stabilization Funds Compared to Reported Expenditures by LEAs and IHEs in States We Reviewed That Could Provide the Information 44
Table 9: ESEA Title I, Part A Recovery Act Funds Made Available to and Drawn Down by States We Reviewed, and Funds Expended by LEAs in States That Could Provide the Information 46
Table 10: IDEA, Part B Recovery Act Funds Made Available to and Drawn Down by States We Reviewed, and Funds Expended by LEAs in States That Could Provide the Information 47
Table 11: Recovery Act-Funded WIA Youth Participation in Selected States, as of July 31, 2009 65
Table 12: Selected States' Drawdowns as of August 31, 2009 67
Table 13: Comparison of the Average Percentage of Funds Obligated and Drawn Down among Housing Agencies Grouped by Size of Recovery Act Grant, as of September 5, 2009 84
Table 14: DOE's Allocation of the Recovery Act's Weatherization Funds for 16 States and the District of Columbia, as of August 31, 2009 103
Table 15: Use of Recovery Act Weatherization Funds by 14 States, as of August 31, 2009 104
Table 16: Prevailing Wage Rates for Weatherization Work 105
Table 17: Selected states and the District implemented tracking mechanism to identify the state's prime recipients and subrecipients for reporting purposes, in accordance with OMB guidance Section 1512 114
Table 18: State Approaches to Recouping Recovery Act Administrative Costs 128
Table 19: Location of Highway Projects Visited by GAO 147

Table 20: Location of Transit Projects Visited by GAO 148
Table 21: Educational Institutions Visited by GAO (to Review Use of State Fiscal Stabilization Fund) 149
Table 22: School Districts Visited by GAO (Local School Districts: Title I-LEA, IDEA) 149
Table 23: Workforce Investment Act Youth Programs Visited by GAO 150
Table 24: Weatherization Programs Visited by GAO 151
Table 25: Localities Visited by GAO to Assess Other Recovery Act Programs and Issues 152

Figures

Figure 1: Estimated versus Actual Federal Outlays to States and Localities under the Recovery Act 4
Figure 2: Distribution of Federal Outlays to States and Localities by Function as of September 11, 2009 5
Figure 3: Percentage Increase in Medicaid Enrollment from October 2007 to August 2009, for 16 States and the District 10
Figure 4: National Recovery Act Highway Obligations by Project Improvement Type as of September 1, 2009 19
Figure 5: Nationwide Transit Capital Assistance Program Recovery Act Obligations by Project Type as of September 1, 2009 36
Figure 6: National Draw Down Rates for Recovery Act Funds for the WIA Youth Program, as of August 31, 2009 67
Figure 7: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down Nationwide, as of September 5, 2009 81
Figure 8: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down by 47 Public Housing Agencies Visited by GAO, as of September 5, 2009 82
Figure 9: Comparison of Troubled Housing Agencies and Nontroubled Housing Agencies' Obligation and Drawdown Rates 87
Figure 10: Comparison of Obligation and Drawdown Rates for Nontroubled Agencies with No Audit Findings, Troubled Agencies, and Nontroubled Agencies with Audit Findings 91

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GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

September 23, 2009

Report to the Congress

The Congressional Budget Office (CBO) has reported that various indicators suggest the recession is likely to end within the next few months; however, the budget outlook for the states continues to indicate signs of stress. The National Conference of State Legislatures reported that states are collectively facing $142.6 billion in budget gaps for fiscal year 2010 as they enacted their budgets. While the availability of increased Recovery Act funds will help, states will continue to be fiscally strained. In addition, states are building new or augmenting existing reporting systems to comply with the unprecedented and complex reporting requirements. The first reporting deadline for prime recipients is October 10, 2009.

The Recovery Act specifies several roles for GAO, including conducting bimonthly reviews of selected states' and localities' use of funds made available under the act. This report, the third in response to the act's mandate, addresses the following: (1) selected states' and localities' uses of Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they received. The report provides overall findings, makes recommendations, and discusses the status of actions in response to the recommendations we made in our earlier reports.

As reported in our April and July 2009 reviews, to address these objectives, we selected a core group of 16 states and the District that we will follow over the next few years. Individual summaries for this core group are compiled into an electronic supplement, GAO-09-1017SP, and are also accessible through GAO's Recovery Act page at www.gao.gov/recovery. Our reviews examine how Recovery Act funds are being used and whether they are achieving the stated purposes of the act. These purposes include

- to preserve and create jobs and promote economic recovery;
- to assist those most impacted by the recession;
- to provide investments needed to increase economic efficiency by spurring technological advances in science and health;

- to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and

- to stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The states selected for our bimonthly reviews contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental federal assistance funds available through the Recovery Act. We selected these states and the District on the basis of federal outlay projections, percentage of the U.S. population represented, unemployment rates and changes, and a mix of states' poverty levels, geographic coverage, and representation of both urban and rural areas. In addition, we visited a nonprobability sample of 168 local entities within the 16 states and the District.

Our work for this report focused on nine federal programs primarily because they have begun disbursing funds to states or have known or potential risks. These risks can include existing programs receiving significant amounts of Recovery Act funds or new programs. We collected documents from and conducted semistructured interviews with executive-level state and local officials and staff from state offices, including governors' offices, recovery leads, state auditors, and controllers. In addition, our work focused on federal, state, and local agencies administering the selected programs receiving Recovery Act funds. We analyzed guidance and interviewed officials from the federal Office of Management and Budget (OMB). We also analyzed other federal agency guidance on programs selected for this review and spoke with relevant program officials at the Centers for Medicare and Medicaid Services (CMS), the U.S. Departments of Commerce, Education, Energy, Housing and Urban Development, Justice, Labor, and Transportation.

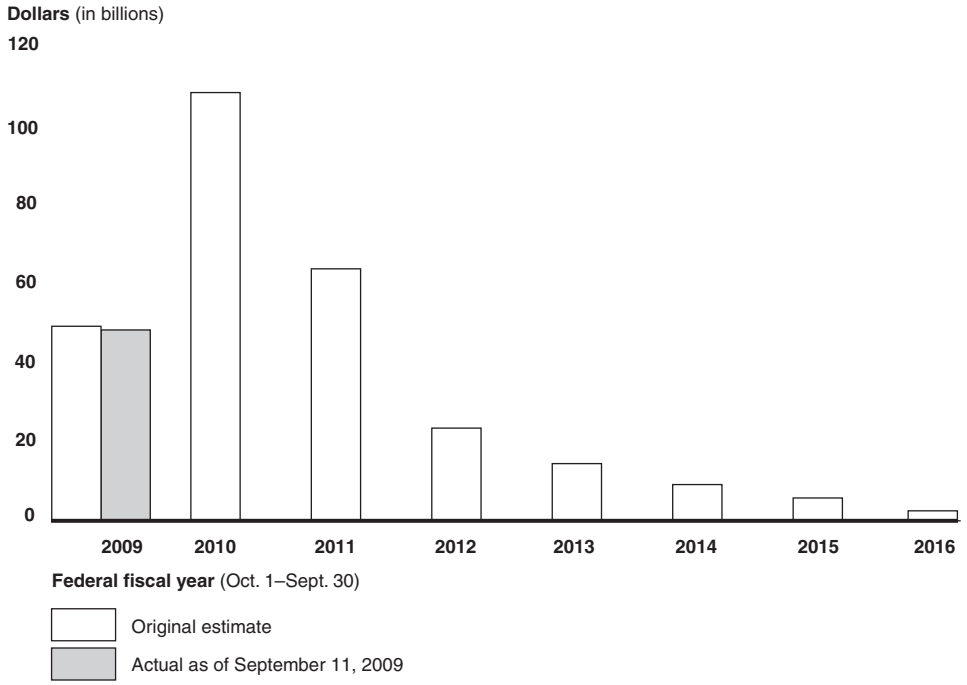
Where attributed to state officials, we did not review state legal materials for this report but relied on state officials and other state sources for description and interpretation of relevant state constitutions, statutes, legislative proposals, and other state legal materials. The information obtained from this review cannot be generalized to all states and localities receiving Recovery Act funding. A detailed description of our scope and methodology can be found in appendix I.

We conducted this performance audit from July 3, to September 18, 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Our analysis of initial estimates of Recovery Act spending provided by the Congressional Budget Office (CBO) suggested that about $49 billion would be outlayed to states and localities by the federal government in fiscal year 2009, which runs through September 30. As we reported in July, our analysis of actual federal outlays reported on www.recovery.gov suggests that Recovery Act spending is slightly ahead of the initial estimates. In fact, as of September 11, 2009, the federal Treasury has paid out approximately $48 billion to states and localities, which is about 98 percent of payments estimated for fiscal year 2009. Figure 1 shows the original estimate of federal outlays to states and localities under the Recovery Act compared with actual federal outlays as reported by federal agencies on www.recovery.gov.

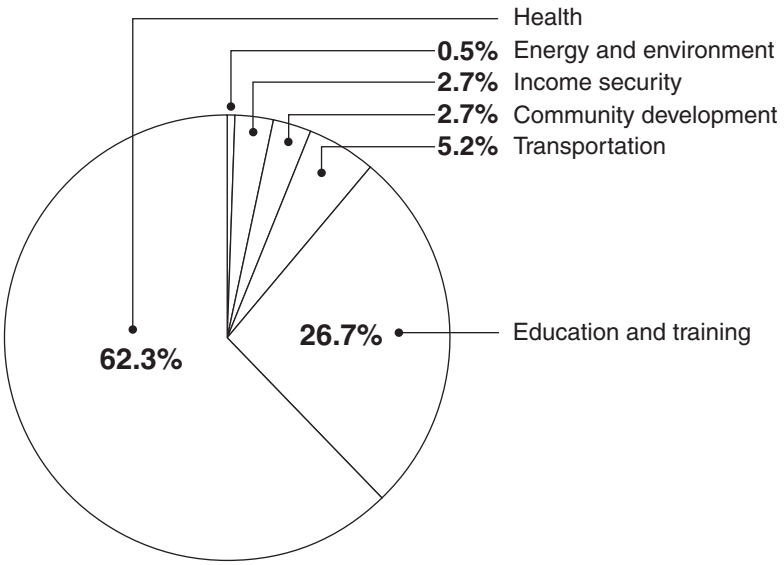
Figure 1: Estimated versus Actual Federal Outlays to States and Localities under the Recovery Act



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

As of September 11, 2009, 84 percent of the $48 billion in federal outlays has been provided through two programs: the increased Federal Medical Assistance Percentage (FMAP) grant awards and the State Fiscal Stabilization Fund administered by the Department of Education. Highway spending accounts for an additional 4 percent. The distribution of total federal outlays to states and localities is shown in figure 2.

Figure 2: Distribution of Federal Outlays to States and Localities by Function as of September 11, 2009



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

As recipients of Recovery Act funds and as partners with the federal government in achieving Recovery Act goals, states and local units of government are expected to invest Recovery Act funds with a high level of transparency and to be held accountable for results under the Recovery Act. Under the Recovery Act, direct recipients of the funds are expected to report quarterly on a number of measures, including the use of funds and an estimate of the number of jobs created or the number of jobs retained by projects and activities. These measures are part of the recipient reports required under Section 1512(c) of the Recovery Act and will be submitted by recipients starting in October 2009. The Office of Management and Budget (OMB) issued its implementing guidance for recipient reporting on June 22, 2009. These reporting requirements apply only to nonfederal recipients of funding, including all entities receiving Recovery Act funds directly from the federal government such as state and local governments, private companies, educational institutions, nonprofits, and other private organizations. However, the recipient reporting requirement only covers a defined subset of the Recovery Act's funding. OMB's guidance, consistent with the statutory language in the Recovery Act, states that these reporting requirements apply to recipients who receive funding through discretionary appropriations, not recipients receiving funds through

entitlement programs, such as Medicaid, or tax programs. Recipient reporting also does not apply to individuals.

Among other things, the guidance clarified that recipients of Recovery Act funds are required to report only on jobs directly created or retained by Recovery Act-funded projects, activities, and contracts. Recipients are not expected to report on the employment impact on materials suppliers ("indirect" jobs) or on the local community ("induced" jobs). The OMB guidance also provided additional instruction on calculating on a full-time-equivalent (FTE) basis the number of jobs created or retained by Recovery Act funding.

The Recovery Act assigns us a range of responsibilities to help promote accountability and transparency. In addition to our bimonthly reviews, we are required to comment on the jobs created and retained as reported by recipients of Recovery Act funding. Section 1512 of the act requires each nonfederal entity that has received Recovery Act funds to report quarterly on the use of the funds, including jobs created and retained by projects and activities. To implement this requirement, which will be effective October 10, 2009, OMB is developing a central collection system. This first report will cover cumulative activity since the Recovery Act's passage in February 2009.

Recipients have 10 days after the end of each calendar quarter to report. OMB has laid out a reporting and quality review process that allows recipients and delegated subrecipients to prepare and enter their information 1 to 10 days following the end of the quarter. During days 11 through 21, prime recipients will be able to review the data to ensure that complete and accurate reporting information is provided prior to a federal agency review and comment period beginning on the 22nd day. During days 22 to 29 following the end of the quarter, federal agencies will perform data quality reviews and will notify the recipients and delegated subrecipients of any data anomalies or questions. The original submitter must complete data corrections no later than the 29th day following the end of the quarter. Since this is a cumulative reporting process, additional corrections can take place on a quarterly basis. We are to comment on the jobs data no later than 45 days after recipients have reported. We expect to issue our report no later than November 24, 2009.

States Continue Use of Recovery Act Funds While Preparing for First Required Report Cycle

Increased FMAP Continues to Help States Finance Their Growing Medicaid Programs, but States Expressed Concern about the Longer-Term Sustainability of Their Medicaid 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 between October 1, 2008, and December 31, 2010.[1] On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act. Generally, for fiscal year 2009 through the first quarter of fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for (1) the maintenance of states' prior year FMAPs, (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs, and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates.

Under the Recovery Act, the FMAP rates in the 16 states and the District were increased an average of 9.01 percentage points for the first two quarters of fiscal year 2009, with increases ranging from 6.2 percentage points in Iowa to 12.24 percentage points in Florida. Further, qualifying increases in unemployment rates in the third and fourth quarters of fiscal year 2009 contributed to additional increases in FMAP rates in 14 states and the District. The FMAP rates for the 2 remaining states—California and Florida—have not changed since the second quarter of fiscal year

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

2009. By the end of fiscal year 2009, FMAP rates in the sample states and the District will have increased an average of 10.57 percentage points when compared to the original fiscal year 2009 FMAP rates.

Table 1: Original and Increased Quarterly FMAPs for Fiscal Year 2009 for 16 States and the District (Percentage Points)

State	Original fiscal year 2009 FMAP[a]	Increased fiscal year 2009 FMAP, first and second quarters[b]	Increased fiscal year 2009 FMAP, third quarter[c]	Increased fiscal year 2009 FMAP, fourth quarter[d]	Difference between original 2009 FMAP and increased first and second quarter FMAPs	Difference between original 2009 FMAP and increased fourth quarter FMAP[d]
Arizona	65.77	75.01	75.93	75.93	9.24	10.16
California	50.00	61.59	61.59	61.59	11.59	11.59
Colorado	50.00	58.78	61.59	61.59	8.78	11.59
District of Columbia	70.00	77.68	79.29	79.29	7.68	9.29
Florida	55.40	67.64	67.64	67.64	12.24	12.24
Georgia	64.49	73.44	74.42	74.42	8.95	9.93
Illinois	50.32	60.48	61.88	61.88	10.16	11.56
Iowa	62.62	68.82	68.82	70.71	6.20	8.09
Massachusetts	50.00	58.78	60.19	61.59	8.78	11.59
Michigan	60.27	69.58	70.68	70.68	9.31	10.41
Mississippi	75.84	83.62	84.24	84.24	7.78	8.40
New Jersey	50.00	58.78	61.59	61.59	8.78	11.59
New York	50.00	58.78	60.19	61.59	8.78	11.59
North Carolina	64.60	73.55	74.51	74.51	8.95	9.91
Ohio	62.14	70.25	72.34	72.34	8.11	10.20
Pennsylvania	54.52	63.05	64.32	65.59	8.53	11.07
Texas	59.44	68.76	68.76	69.85	9.32	10.41
Average FMAP increase					**9.01**	**10.57**

Source: GAO analysis of HHS data.

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

[b]The increased fiscal year 2009 FMAP rates for the first and second quarters were published in the Federal Register on April 21, 2009.

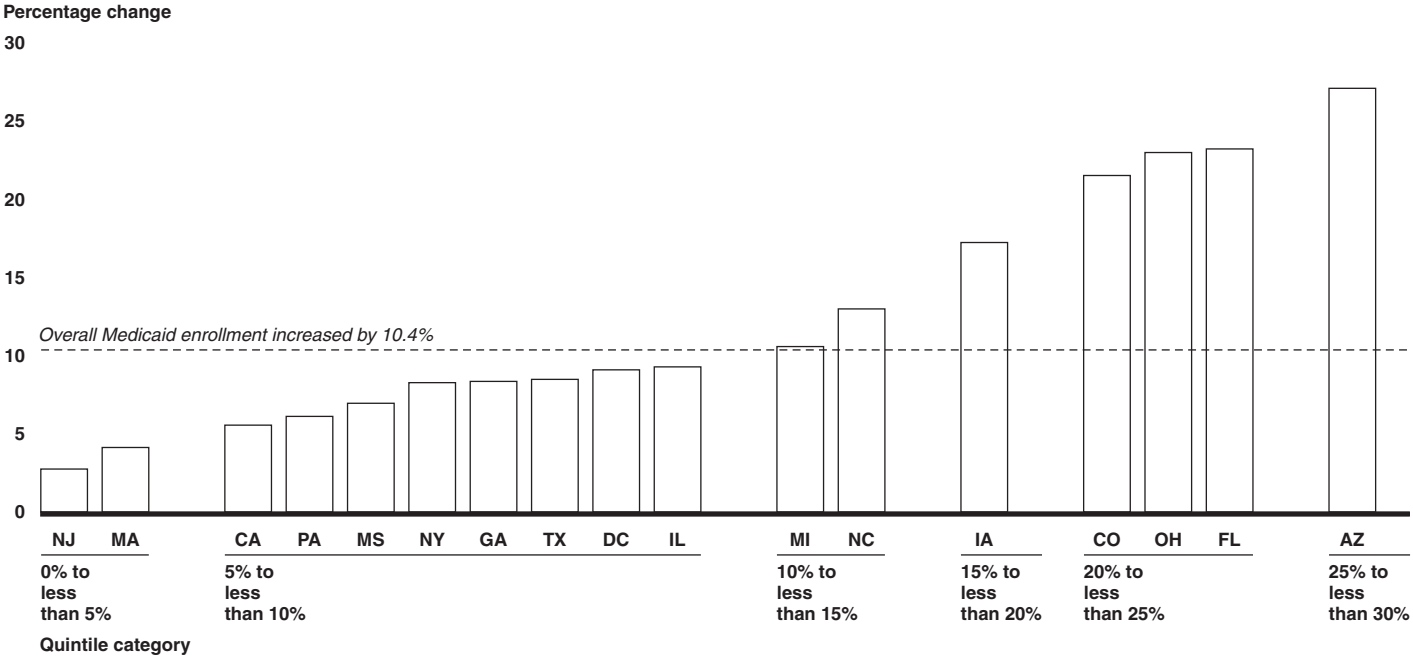
[c]The increased fiscal year 2009 FMAP rates for the third quarter were published in the Federal Register on August 4, 2009. In this notice, the Department of Health and Human Services (HHS) changed the methodology it uses to calculate the increased FMAP rates. Specifically, HHS calculates preliminary FMAP rates prior to the start of each quarter using Bureau of Labor Statistics preliminary unemployment estimates and adjusts these FMAP rates once the final unemployment numbers become available.

[d]The increased FMAP rates listed for the fourth quarter were provided by CMS on September 16, 2009.

From October 2007 to August 2009, overall Medicaid enrollment in the 16 states and the District increased by 10.4 percent,[2] with nearly two-thirds of the increase attributable to the population group of children—a group that is sensitive to economic downturns. In addition, just over one quarter of the overall enrollment increase was attributable to the population group of adults who are nonaged, nonblind, or nondisabled. Each of the states and the District experienced an enrollment increase during this period, with the highest number of programs experiencing an increase of 5 percent to 10 percent. The percentage increase in enrollment, however, varied widely, ranging from just under 3 percent in New Jersey to about 27 percent in Arizona. (See figure 3.) Comparing growth rates within this time period, enrollment grew most rapidly in early 2009, generally from January to April 2009. All states experienced an enrollment increase during this period, and growth was especially pronounced in five states that reported increases between 4 percent and 5 percent. Overall enrollment growth in recent months—from May to August 2009—was less rapid, though variation existed among states. For example, while enrollment in Illinois and Pennsylvania remained relatively stable, changing less than 1 percent from May to August 2009, Arizona experienced over 7 percent growth in Medicaid enrollment during that time.

[2]The percentage increase is based on state reported enrollment data for October 2007 to August 2009. Five states—Colorado, Florida, Georgia, Massachusetts, and Mississippi—did not provide Medicaid enrollment data for August 2009. In addition, two of these states—Massachusetts and Georgia—did not provide enrollment data for July 2009. We estimated enrollment for these states for these months to determine the total change in enrollment for October 2007 to August 2009.

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



Source: GAO analysis of state data.

Note: The percentage increase is based on state reported Medicaid enrollment data for October 2007 to August 2009. Five states—Colorado, Florida, Georgia, Massachusetts, and Mississippi—did not provide estimated Medicaid enrollment data for August 2009. In addition, two of these states—Massachusetts and Georgia—did not provide enrollment data for July 2009.

With regard to the states' receipt of the increased FMAP, all 16 states and the District had drawn down increased FMAP grant awards totaling just over $20.3 billion for October 1, 2008, through September 15, 2009, which amounted to 87.37 percent of funds available. (See table 2.) In addition, except for the initial weeks that increased FMAP funds were available, the weekly rate at which the 16 states and the District have drawn down these funds has remained relatively constant. Nationally, the 50 states, the District, and several of the largest U.S. insular areas combined have drawn down nearly $30 billion as of September 15, 2009, which represents 87.83 percent of the increased FMAP grants awarded for all four quarters of federal fiscal year 2009.

Table 2: FMAP Grant Awards and Funds Drawn Down, for 16 States and the District, as of September 15, 2009

Dollars in thousands

State	FMAP grant awards[a]	Funds drawn	Percentage of funds drawn
Arizona	$796,917	$731,511	91.79
California	4,369,087	3,661,264	83.80
Colorado	347,181	248,562	71.59
District of Columbia	139,985	121,596	86.86
Florida	1,861,572	1,697,990	91.21
Georgia	706,961	659,852	93.34
Illinois	1,323,337	1,160,455	87.69
Iowa	197,601	162,266	82.12
Massachusetts	1,173,742	1,161,009	98.92
Michigan	1,007,280	933,982	92.72
Mississippi	312,932	277,914	88.81
New Jersey	858,931	798,119	92.92
New York	4,478,505	3,820,719	85.31
North Carolina	904,469	904,469	100.00
Ohio	1,228,943	1,062,898	86.49
Pennsylvania	1,569,221	1,058,644	67.46
Texas	1,985,036	1,862,379	93.82
Sample total	**$23,261,701**	**$20,323,630**	**87.37**
National total	**$34,141,536**	**$29,988,161**	**87.83**

Source: GAO analysis of HHS data as of September 15, 2009.

[a]The FMAP grant awards listed are for all four quarters of federal fiscal year 2009, through September 15, 2009.

While the increased FMAP available under the Recovery Act is for state expenditures for Medicaid services, the receipt of these funds may have reduced the funds that states would otherwise have to use for their Medicaid programs, and states have reported using funds that have become freed up as the result of increased FMAP for a variety of purposes. Most commonly, states reported using these funds in fiscal year 2009 to cover increased Medicaid caseloads, maintain Medicaid eligibility, benefits and services, and finance general state budget needs. In addition, more than half of the states reported using these funds to maintain payment rates for practitioners and institutional providers, and five states reported using these funds to meet prompt pay requirements. Three states and the District also reported using these funds to help finance their State

Children's Health Insurance Program (CHIP) or other local or state public health insurance programs. Although virtually all the states and the District reported using these funds for multiple purposes, two states—North Carolina and Ohio—reported using the freed-up funds exclusively to finance general state budget needs—a decrease from the five states that reported doing so in our July 2009 report. When asked about their planned uses of these funds in fiscal year 2010, the states and the District provided similar responses.

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

- States generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid programs on July 1, 2008.[3]
- States must comply with prompt payment requirements.[4]
- States cannot deposit or credit amounts attributable (either directly or indirectly) to certain elements of the increased FMAP into any reserve or rainy-day fund of the state.[5]
- States with political subdivisions—such as cities and counties—that contribute to the nonfederal share of Medicaid spending cannot require

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

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

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

the subdivisions to pay a greater percentage of the nonfederal share than would have been required on September 30, 2008.[6]

To comply with these requirements, 12 states reported making adjustments to their Medicaid programs, including rescinding prior program changes or canceling planned changes that conflicted with these requirements. For example, 10 states reported making changes to comply with the act's prompt payment requirement, including modifying payment cycles, reporting processes, or information systems. In addition, 9 states reported making changes to comply with the act's requirement that states may not implement more restrictive eligibility standards, methodologies, or procedures. Most commonly, these states rescinded or canceled programmatic changes that conflicted with this requirement. For example, Arizona had to rescind a programmatic adjustment, which had changed the frequency of Medicaid eligibility determinations for certain individuals from 12 to 6 months, and Ohio did not proceed with a proposal to reduce slots in a waiver program—CMS or the state determined that these changes constituted a more restrictive eligibility standard. In addition, three states—Arizona, Illinois, and New York—made adjustments to meet the requirement related to the contributions of political subdivisions to the nonfederal share. For example, according to New York officials, the local share of the nonfederal share of Medicaid expenditures is based on a statutory formula that provides for a percentage increase each year, subject to an existing cap. New York reported that it reduced the local contribution to the nonfederal share to ensure that the percentage of the local share will remain at the September 30, 2008, level over the course of the recession adjustment period. Regarding the Recovery Act requirement that prohibits states from depositing or crediting amounts attributable to increased FMAP into any reserve or rainy-day fund, none of the states reported making adjustments related to this requirement.

When asked about the difficulty of complying with these requirements, Medicaid officials from over half of the states reported that compliance had been "somewhat difficult" or "difficult," and most commonly cited the

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

act's prompt payment requirement as the most problematic.[7] In addition, several states cited the lack of timely agency guidance as a factor complicating their efforts to comply with Recovery Act requirements. To clarify the act's requirements related to prompt payment, CMS issued a State Medicaid Director's letter on July 30, 2009, that defined terms related to prompt payment and described the method states should use to calculate days during a quarter that they have met or not met the prompt payment requirement. CMS officials told us that, in developing the guidance, they sought comments from states and national organizations. In addition, CMS officials said that states will use existing electronic reporting processes to report on the extent to which they comply with this requirement and to adjust for prior period increased FMAP draw down amounts for days they were not in compliance.[8] In addition, CMS published another State Medicaid Director's letter on August 19, 2009, that, among other things, specified programmatic changes that could affect states' eligibility for the increased FMAP.[9]

When asked about whether the increased FMAP funds were sufficient to protect and maintain their Medicaid programs during the economic downturn, the 16 states and the District varied in their responses. Seven states and the District reported that the amount of increased FMAP funds they received in fiscal year 2009 was sufficient to maintain their Medicaid programs, including maintaining eligibility, services, and benefits. In contrast, two states—California and Massachusetts—reported that the amount of increased FMAP they received in fiscal year 2009 was not sufficient for this purpose. For example, Massachusetts reported that even with the increased FMAP, increased caseload and utilization had led the state to reduce its Medicaid expenditures by freezing many provider rates at prior year levels. The remaining seven states reported that the funds were only somewhat sufficient to maintain their Medicaid programs during fiscal year 2009. In looking forward, fewer states characterized the amount of increased FMAP they expect to receive in fiscal year 2010 as sufficient

[7]In contrast to Recovery Act requirements, most states and the District did not report difficulty meeting CMS's requirements that increased FMAP funds must be drawn down, tracked, and reported to CMS separately.

[8]Although states can apply to CMS for a waiver from the act's prompt payment requirement, Massachusetts is the only state in our sample that reported being in the process of applying for a waiver.

[9]As of September 4, 2009, these publications were available on the CMS Web site; see http://www.cms.hhs.gov/SMDL/SMD/list.asp?sortByDID=1a&submit=Go&filterType=none&filterByDID=-99&sortOrder=ascending&intNumPerPage=10.

to maintain their Medicaid programs compared to fiscal year 2009. Specifically, some states indicated that budget conditions in their state are projected to worsen in state fiscal year 2010 and that the increased FMAP would not be sufficient to close Medicaid budget shortfalls or avoid provider rate cuts or other expenditure containment measures.

As for the longer-term outlook for their Medicaid programs, the District and all but one of the sample states reported concerns about the sustainability of their Medicaid programs after the increased FMAP funds are no longer available, beginning in January 2011. When asked about the nature of their concerns, states generally reported doubt that their economies and revenues would fully recover before the increased FMAP funding ended and noted that Medicaid enrollment is continuing to increase. As a result, states were unsure that they could maintain eligibility levels, benefits and services, or provider rates without the increased FMAP. Specifically, several states referred to the loss of increased FMAP funds as a "cliff" over which the state would fall when funding was no longer available or similarly described their concern that the change in the state's share of funds would be substantial. For example, New Jersey estimated that it would need $550 million in order to replace the increased FMAP funds in fiscal year 2011. Most states and the District reported that they did not have definitive plans to address their concerns about sustaining their programs without the increased FMAP. Four states, however, reported considering various Medicaid program reductions, such as reductions in benefits and eligibility, once the increased FMAP funds are no longer available.

Over Half of All Highway and Transit Recovery Act Funding Has Been Obligated

A substantial portion of the approximately $35 billion the Recovery Act provided for highway infrastructure projects and public transportation has been obligated nationwide and in the 16 states and the District of Columbia (District) that are the focus of our review. For example, $18 billion of Recovery Act highway funds had been obligated for almost 7,000 projects nationwide, and $10.6 billion had been obligated for nearly 3,800 projects in each of the 16 states and the District, as of September 1, 2009.[10] In addition, as of September 1, 2009, $5.95 billion of the Recovery Act

[10]For the Federal Highway Program, the U.S. DOT has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

Transit Capital Assistance Program funds had been obligated nationwide.[11] The total distribution of project funds by improvement type among the 16 selected states and the District closely mirrors the national distribution, with pavement improvement projects accounting for almost half of the obligated funds. However, we found wide differences among selected states in how funds were used, federal reimbursement rates to states for payments made for completed work, and in the rate of obligation of highway funds required by the Recovery Act to be suballocated for metropolitan, regional, and local use.

For Recovery Act transit funds, we focused our review on the Transit Capital Assistance Program, which received approximately 82 percent of Recovery Act transit funds, and eight selected states and the District. Nationwide, Recovery Act funds obligated under this program are primarily being used for improving bus fleets, upgrading transit facilities, and conducting preventive maintenance. The Recovery Act required that 50 percent of Transit Capital Assistance Program funds be obligated by September 1, 2009, and the Federal Transit Administration (FTA) has concluded that all states and urbanized areas met this requirement. Even though the Department of Transportation (DOT) and OMB have issued guidance for recipient reporting of job creation and retention, state highway and transit officials expressed some concern and challenges with meeting the act's reporting requirements, including the calculation of direct jobs and full-time-employee equivalents from work hours.

States Continuing to Dedicate Most Recovery Act Highway Funds for Pavement Projects, but Differences among States' Approaches in Use of Funds Starting to Emerge

The Recovery Act provides funding to states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must follow existing program requirements, which include ensuring the project

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

meets all environmental requirements associated with the National Environmental Policy Act (NEPA), paying a prevailing wage in accordance with federal Davis-Bacon Act requirements, complying with goals to ensure disadvantaged businesses are not discriminated against in the awarding of construction contracts, and using American-made iron and steel in accordance with Buy America program requirements. While the maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent, under the Recovery Act, it is 100 percent.

In March 2009, $26.7 billion was apportioned to all 50 states and the District for highway infrastructure and other eligible projects. As of September 1, 2009, $18 billion of the funds had been obligated for almost 7,000 projects nationwide, and $10.6 billion had been obligated for nearly 3,800 projects in the 16 states and the District. (See table 3).

Table 3: Recovery Act Highway Apportionments and Obligations Nationwide and in Selected States as of September 1, 2009

Dollars in millions

		Obligations[a]	
State	**Apportionment**	**Obligated amount**	**Percentage of apportionment obligated**
Arizona	$522	$293	56
California	2,570	1,978	77
Colorado	404	290	72
District of Columbia	124	116	94
Florida	1,347	1,001	74
Georgia	932	546	59
Illinois	936	736	79
Iowa	358	319	89
Massachusetts	438	203	46
Michigan	847	575	68
Mississippi	355	289	82
New Jersey	652	473	73
New York	1,121	783	70
North Carolina	736	453	62
Ohio	936	429	46
Pennsylvania	1,026	875	85
Texas	2,250	1,195	53
Selected states total	**$15,551**	**$10,554**	**68**
U.S. total	**$26,660**	**$17,964**	**67**

Source: GAO analysis of FHWA data.

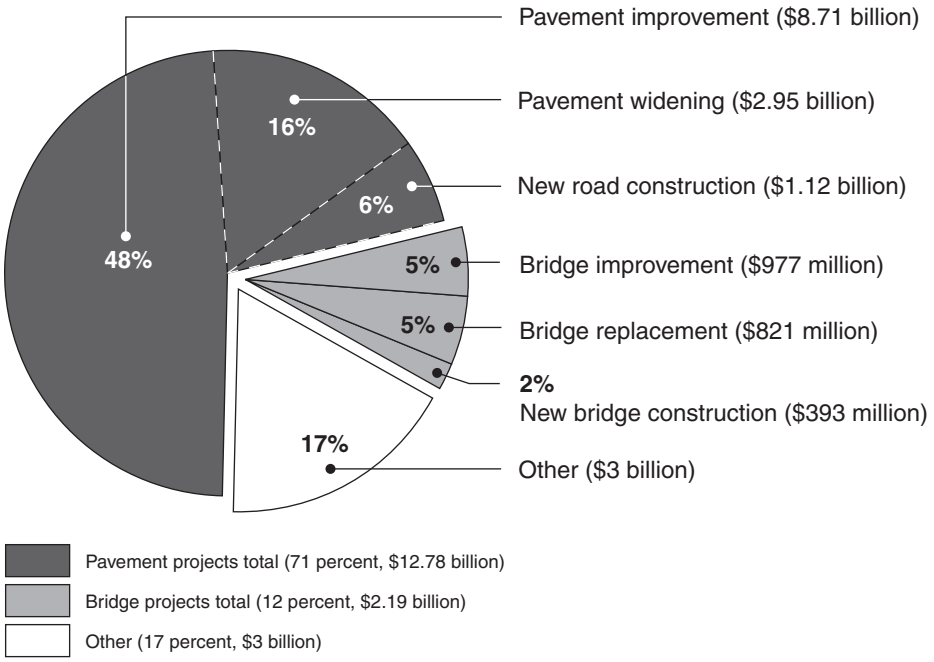
Notes: All states have met the Recovery Act requirement that 50 percent of apportioned funds be obligated within 120 days of apportionment (before June 30, 2009). However, this requirement applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to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

[a]This does not include obligations associated with $288 million of apportioned funds that were transferred from FHWA to FTA for transit projects in Arizona, California, Colorado, Florida, Georgia, Iowa, Massachusetts, New York, and North Carolina. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

Almost half of Recovery Act highway obligations have been for pavement improvements. Specifically, $8.7 billion of the $18 billion obligated

nationwide as of September 1, 2009, is being used for projects such as reconstructing or rehabilitating deteriorated roads, including $4.1 billion for road resurfacing projects. As we reported in July 2009, many state officials told us they selected a large percentage of resurfacing and other pavement improvement projects because those projects did not require extensive environmental clearances, were quick to design, could be quickly obligated and bid, could employ people quickly, and could be completed within 3 years. Figure 4 shows obligations by the types of road and bridge improvements being made.

Figure 4: National Recovery Act Highway Obligations by Project Improvement Type as of September 1, 2009



Source: GAO analysis of FHWA data.

Note: Totals may not add due to 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.

In addition to pavement improvement, other projects that have significant funds obligated include pavement widening, with $3 billion obligated, and bridge replacement and improvements, with $1.8 billion obligated. The total distribution of project funds by improvement type among the 16 states and the District closely mirrors the distribution nationally—however, wide differences in how funds were used exist among states. For

example, 40 percent of Florida's funds have been obligated for pavement widening projects (compared with 16 percent nationally) and 21 percent for construction of new roads and bridges (compared with 8 percent nationally), while 17 percent of funds have been obligated for pavement improvements (compared with 48 percent nationally). In Ohio, 37 percent of funds have been obligated for new road and bridge construction. In contrast, roughly 85 percent of funds in both Iowa and Massachusetts have been obligated for pavement improvements. While the states we visited for our July 2009 report had selected pavement improvement projects because they could be quickly implemented, during our recent interviews we found states are beginning to select projects entailing more complexity. For example, Massachusetts has begun selecting more complicated construction and reconstruction projects, including a new $36 million pedestrian bridge project.

As of September 1, 2009, $1.4 billion had been reimbursed nationwide by the Federal Highway Administration (FHWA), including $604 million reimbursed to the 16 states and the District.[12] These amounts represent 8 percent of the $18 billion obligated nationwide and 6 percent of the $10.6 billion obligated in the 16 states and the District. DOT officials told us that although funding has been obligated for almost 7,000 projects, it may be months before states request reimbursement from FHWA. In particular, FHWA told us that once funds are obligated for a project, it may take 2 or more months for a state to bid and award the work to a contractor and have work begin. Once the contract is awarded and contractors mobilize and begin work, states make payments to these contractors for completed work; states may request reimbursement from FHWA. FHWA, through the U.S. Treasury, is required to pay the state promptly after the state pays out of its own funds for project-related purposes. The funds reimbursed to the states as of September 1, 2009, increased over 500 percent in about 2 months. As we reported in July 2009, FHWA had reimbursed $233 million nationwide, including $96.4 million to the 16 states and the District as of June 25, 2009. FHWA officials told us the increased level of reimbursements was expected as the number of contracts awarded and projects currently under construction continue to increase. Table 4 shows the level of reimbursements nationwide and in the 16 states and the District.

[12]States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

Table 4: Recovery Act Highway Reimbursements Nationwide and in Selected States as of September 1, 2009

Dollars in millions

State	Reimbursement	Percentage of obligations reimbursed	Percentage of apportionment reimbursed
District of Columbia	<$1	<1	<1
Florida	<1	<1	<1
California	22	1	1
New Jersey	4	1	1
Georgia	10	2	1
Massachusetts	5	2	1
New York	23	3	2
Ohio	17	4	2
Texas	47	4	2
Arizona	18	6	3
Colorado	16	6	4
Pennsylvania	51	6	5
Michigan	41	7	5
Mississippi	21	7	6
North Carolina	38	8	5
Illinois	200	27	21
Iowa	91	28	25
Selected states total	**604**	**6**	**4**
U.S. total	**$1,437**	**8**	**5**

Source: GAO analysis of FHWA data.

Note: This does not include reimbursements associated with $288 million of apportioned funds that were transferred from FHWA to FTA for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

As table 4 shows, wide differences exist in reimbursements across states. Among the 16 states and the District, 2 states—Illinois and Iowa—accounted for nearly half of all reimbursements, while 8 states and the District had reimbursements totaling 5 percent or less of obligations, including 4 states with 1 percent or less. In Massachusetts, which had 2 percent of obligations reimbursed, inclement weather delayed the start of construction on some projects, limiting the extent to which contractors were incurring costs, according to a Massachusetts highway official. We will continue to monitor the rate of reimbursements among the states in our future reviews.

According to state officials, because an increasing number of contractors are looking for work, bids for Recovery Act contracts have come in under estimates. For example, the bids for the two highway contracts we reviewed in Gwinnett County, Georgia, were 30 percent to 35 percent lower than the county's original estimates. Similarly, the awarded bid on the Belleview Avenue project in Colorado, which we reviewed in our July 2009, report, was 30 percent below Colorado Department of Transportation's (CDOT) estimate, partially due to a downward trend in asphalt prices. These lower than anticipated bids are allowing states to redirect Recovery Act funds to other projects, including projects in economically distressed areas. This is consistent with a July 2009 letter from the Secretary of Transportation to the state governors encouraging them to use the "bid savings" for projects in distressed areas. Examples of bid savings from the 16 states and the District of Columbia include the following.

- According to the Arizona Department of Transportation (ADOT), the state had advertised 51 highway projects as of August 30, 2009. The lower than anticipated bids on these projects have resulted in bid savings of $60 million. ADOT is moving forward to use these savings on additional projects.

- CDOT officials reported that bids for 32 of the 41 awarded Recovery Act projects had come in lower than the engineers' estimates. As a result, Colorado had a total bid savings of over $39 million as of August 2009. CDOT plans to fund additional projects with bid savings, including projects in areas of the state that are economically distressed.

- According to Pennsylvania Department of Transportation data, as of August 31, 2009, of 245 bids received, the total costs came in 12 percent (or about $104 million) less than original state estimates.

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

- Ensure that 50 percent of apportioned Recovery Act funds are obligated within 120 days of apportionment (before June 30, 2009) and that the remaining apportioned funds are obligated within 1 year. The 50 percent rule applies only to funds apportioned to the state and not to the 30

percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use. The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames.[13]

- Give priority to projects that can be completed within 3 years and to projects located in economically distressed areas. These areas are defined by the Public Works and Economic Development Act of 1965, as amended.[14] According to the act, to qualify as economically distressed, an area must have (1) a per capita income that is 80 percent or less than the national average or (2) 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.[15] For areas that do not meet one of these two criteria, the Secretary of Commerce has the authority to determine that an area has experienced or is about to experience a "special need" arising from actual or threatened severe unemployment or economic adjustment problems.

- Certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009, through September 30, 2010.[16]

As we reported in July 2009, all states had met the first Recovery Act requirement that 50 percent of their apportioned funds were obligated within 120 days. As of September 1, 2009, 75 percent of funds covered by this requirement had been obligated. However, fewer funds have been obligated among those funds not covered by this requirement—those required by the Recovery Act to be suballocated for metropolitan,

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

[14]*Id.*

[15]42 U.S.C. § 3161(a). Eligibility must be supported using the most recent federal data available or, in the absence of recent federal data, by the most recent data available through the government of the state in which the area is located. Federal data that may be used include data reported by the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Census Bureau, the Bureau of Indian Affairs, or any other federal source determined by the Secretary of Commerce to be appropriate (42 U.S.C. § 3161((c)).

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

regional, and local use. As of September 1, 2009, 51 percent of those funds had been obligated nationwide. In addition, we found variations in the rate of obligations for the suballocated areas among the 16 states and the District of Columbia, ranging from 19 percent in New Jersey to 97 percent in Pennsylvania. (See table 5.)

Table 5: Recovery Act Highway Apportionments and Obligations for Suballocated Areas Nationwide and in Selected States as of September 1, 2009

Dollars in millions

State	Suballocated 30 percent portion of apportionment	Obligated amount in suballocated area	Percentage of suballocated apportionment obligated
Arizona	157	34	22
California	771	563	73
Colorado	121	72	60
District of Columbia	37	32	85
Florida	404	270	67
Georgia	279	126	45
Illinois	281	119	42
Iowa	107	91	85
Massachusetts	131	31	24
Michigan	254	109	43
Mississippi	106	51	48
New Jersey	196	37	19
New York	336	166	50
North Carolina	221	117	53
Ohio	281	130	46
Pennsylvania	308	300	97
Texas	675	197	29
Selected states total	**$4,665**	**$2,445**	**52**
U.S. total	**$7,998**	**$4,042**	**51**

Source: GAO analysis of FHWA data.

Officials in three states with the lowest levels of obligations in suballocated areas told us that the low obligation rates were primarily due to the initial shortage of "ready-to-go" projects eligible for federal

funding.[17] Officials from these states attributed the lack of ready-to-go projects to a variety of factors, including the following:

- Officials in Arizona and New Jersey cited the lack of familiarity with federal requirements for the federal-aid highway program as a major factor in the delay in identifying ready-to-go projects. In particular, Arizona Department of Transportation officials told us that suballocated funding is being used for projects that will be administered by local governments and that, in prior years, many of these types of projects were funded using state funds. As such, these local governments did not have to meet federal-aid eligibility and procedural requirements in prior years, and delays in identifying ready-to-go projects resulted when these governments had to both develop projects that are eligible for federal funding and to acclimate themselves with unfamiliar federal procedural requirements. Similarly, New Jersey officials cited unfamiliarity with these same federal requirements as a cause for delay in identifying ready-to-go projects in suballocated areas. For example, officials stated that local staff working on many of the projects needed time to navigate federal requirements such as the National Environmental Policy Act (NEPA), which involves the environmental review process. As noted earlier, states are required to maintain the level of state spending for highway projects during the period of the Recovery Act. According to FHWA officials, Arizona and New Jersey may use Recovery Act funds for activities that were previously state funded, provided that state funds are used for other transportation projects and that the state's overall level of effort is not decreased.

- Officials in Massachusetts said that increased staff workload from the additional projects resulting from both the Recovery Act and the state's new $3 billion program to reduce the growing backlog of structurally deficient bridges contributed to the state's low obligation percentage. Furthermore, based on the advice of FHWA's division office, Massachusetts focused on having funds obligated for the state portion of the apportioned funds before focusing on the suballocated funds to ensure that it met the 50 percent obligation requirement by June 30, 2009. Massachusetts met this requirement, with 59 percent of the state portion of the Recovery Act highway funds obligated as of June 25, 2009.

[17]We interviewed officials from departments of transportation and metropolitan planning organizations in Arizona, New Jersey, and Massachusetts—the three states with the lowest levels of obligations in suballocated areas.

Officials in each of the three states told us that they have taken action to increase obligations in suballocated areas and that they expect to meet 1-year March 2010 deadline for obligating all highway funds apportioned to the states; however, state and local officials in Arizona also said that meeting the deadline could pose significant challenges.

The second Recovery Act requirement is to give priority to projects that can be completed within 3 years and to projects located in economically distressed areas. As we reported in July 2009, while officials from almost all of the states we reviewed said that they considered project readiness, including the 3-year completion requirement, when making project selections, there was substantial variation in the extent to which states prioritized projects in economically distressed areas and how they identified these areas. Many states based their project selections on other factors and only later identified whether these projects were in economically distressed areas. We also reported that DOT and FHWA had not provided clear guidance—while the guidance emphasized the importance of giving priority to these areas, it did not define what giving priority meant and, thus, did not ensure that the act's priority provisions would be consistently applied. We also found instances of states developing their own eligibility requirements for economically distressed areas using data or criteria not specified in the Public Works and Economic Development Act. For example, one state identified these areas based in part on home foreclosure rates—data not specified in the Public Works Act. In each of the cases we identified, the states informed us that FHWA approved the state's use of alternative criteria. However, FHWA did not consult with or seek the approval of the Department of Commerce, and it was not clear under what authority FHWA approved these criteria. As a result we recommended that the Secretary of Transportation, in consultation with the Secretary of Commerce, develop (1) clear guidance on identifying and giving priority to economically distressed areas and (2) more consistent procedures for FHWA to use in reviewing and approving states' criteria for designating distressed areas.

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 economically distressed areas based on "special need." The criteria align closely with special need criteria used by the Department of Commerce's Economic Development Administration

(EDA) 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. According to EDA officials, while the agency traditionally approves special need designations on a case-by-case basis for its own grant program, it does not have the resources to do so for the purpose of Recovery Act highway funding.[18] Rather, the designation of economically distressed areas based on the special need criteria for Recovery Act highway funding will be "self-executing" by the states, meaning that the states will apply the criteria laid out in the guidance to identify these areas. In its guidance, FHWA directed the states to maintain information as to how they identified, vetted, examined, and selected projects located in economically distressed areas and to provide FHWA's division offices with documentation that demonstrates satisfaction of the special need criteria. We plan to continue to monitor FHWA's and the states' implementation of the economically distressed area requirement, including the states' application of the special need criteria, in our future reviews.

The third Recovery Act requirement is for states to certify that they will maintain the level of state effort for programs covered by the Recovery Act. Most states revised the initial certifications they submitted to DOT. As we reported in April 2009, many states initially submitted explanatory certifications—such as stating that the certification was based on the "best information available at the time"—or conditional certifications, meaning that the certification was subject to conditions or assumptions, future legislative action, future revenues, or other conditions. On April 22, 2009, the Secretary of Transportation sent a letter to each of the nation's governors and provided additional guidance, including that conditional and explanatory certifications were not permitted, and gave states the option of amending their certifications by May 22. Each of the 16 states and the District selected for our review resubmitted their certifications. According to DOT officials, the department has concluded that the form of each certification is consistent with the additional guidance.

While DOT has concluded that the form of the revised certifications is consistent with the additional guidance, it is continuing to review whether the amounts the states reported they planned to expend for covered programs are reasonable and if the methods of calculating these amounts

[18]FHWA's guidance specifies that special need determinations will be solely for Recovery Act highway funding and will not apply to EDA grant programs.

were consistent with DOT guidance. According to DOT officials, FHWA's division offices have completed an initial assessment of the states' certifications. FHWA did not provide these reports for our review as it was reviewing them and obtaining the necessary clarifications when we completed our review. FHWA officials noted that reviewing states' certifications is challenging because differences in state laws affect how states collect and distribute transportation funds, precluding a uniform approach to calculating effort across states. Further complicating this review is the fact that many states changed the amounts they plan to expend for covered programs from their first to their second submission. Our analysis shows that, among the 16 states and the District, the amounts increased an average of 6.4 percent and ranged among states from a 76 percent decrease to a 258 percent increase.

As we have reported, states face drastic fiscal challenges, and most states are estimating that their fiscal year 2009 and 2010 revenue collections will be well below estimates. In the face of these challenges, some states told us that meeting the maintenance-of-effort requirements over time poses significant challenges. FHWA told us it plans to complete its review in September 2009 and, based on this review, plans to issue additional guidance to the states on the methods for calculating level of effort amounts at that time. Once this occurs, FHWA said it plans to monitor states' compliance with their certifications but does not plan to require the states to take corrective action should the states' efforts fall short of the certified amounts. The only consequence of a state not being able to maintain the level of effort certified is that that state will be prohibited from benefiting from the redistribution of federal-aid highway obligations that will occur after August 1 for fiscal year 2011.[19] According to the DOT Deputy Assistant Secretary for Transportation Policy, the department recognizes the potential that many states will not be able to maintain the level of effort specified in their certifications given the continuing decline in their fiscal conditions. The Recovery Act does not provide any waivers or exemptions for the states—for changes in economic condition, for example—from the maintenance-of-effort provision.

[19]As part of the federal-aid highway program, FHWA assesses the ability of the each state to have its apportioned funds obligated by the end of the federal fiscal year (September 30) and adjusts the limitation on obligations for federal-aid highway and highway safety construction programs by reducing for some states the available authority to obligate funds and increasing the authority of other states.

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

The Recovery Act appropriated $8.4 billion to fund public transit throughout the country through three existing FTA grant programs, including the Transit Capital Assistance Program.[20] FTA reported that the majority of the public transit funds—$6.9 billion (82 percent)—was apportioned for the Transit Capital Assistance Program, with $6 billion designated for the urbanized area formula grant program and $766 million designated for the nonurbanized area formula grant program.[21] Under the urbanized area formula grant program, $5.4 billion in Recovery Act funds were apportioned to large and medium-size urbanized areas (areas with populations of at least 200,000) and $572 million for small urbanized areas (areas with populations between 50,000 and 199,999) across the country.[22] Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Up to 10 percent of apportioned Recovery Act funds may also be used for operating expenses.[23] Under the

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

[21]Urbanized areas are areas encompassing a population of not less than 50,000 people that have been defined and designated in the most recent decennial census as an "urbanized area" by the Secretary of Commerce. Nonurbanized areas are areas encompassing a population of fewer then 50,000 people.

[22]The urbanized area program is defined in 49 U.S.C. §5307. Funds for urbanized areas were to be apportioned as provided in 49 U.S.C. §§ 5336 and 5340. According to FTA, there are 152 large and medium sized urbanized areas and 349 small urbanized areas. In some cases, urbanized areas span multiple states. The nonurbanized area program is defined in 49 U.S.C. § 5311.

[23]The 2009 Supplemental Appropriations Act authorizes the use of up to 10 percent of each apportionment for operating expenses. Pub. L. No. 111-32, §1202, 123 Stat. 1859 (June 24, 2009). In contrast, under the existing program, operating assistance is generally not an eligible expense for transit agencies within urbanized areas with populations of 200,000 or more.

Recovery Act, the maximum federal fund share for projects under the Transit Capital Assistance Program is 100 percent.[24]

Working through the state and regional transportation planning process, designated recipients of the apportioned funds—typically public transit agencies and metropolitan planning organizations (MPO)—develop a list of transit projects that project sponsors (typically transit agencies) submit to FTA for Recovery Act funding.[25] FTA reviews the project sponsors' grant applications to ensure that projects meet eligibility requirements and then obligates Recovery Act funds by approving the grant application. Project sponsors must follow the requirements of the existing programs, which include ensuring the projects funded meet all regulations and guidance pertaining to the Americans with Disabilities Act (ADA), pay a prevailing wage in accordance with federal Davis-Bacon Act requirements, and comply with goals to ensure disadvantaged businesses are not discriminated against in the awarding of contracts.

In March 2009, $6.9 billion was apportioned to states and urbanized areas in all 50 states, the District of Columbia (District), and four territories for transit projects and eligible transit expenses under the Transit Capital Assistance Program. As of September 1, 2009, $5.95 billion of the funds had been obligated nationwide.

Similar to Recovery Act funds for highway infrastructure, funds appropriated through the Transit Capital Assistance Program must be used in accordance with Recovery Act requirements, including the following:

[24]The federal share under the existing formula grant program is generally 80 percent.

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

- Fifty percent of Recovery Act funds apportioned to urbanized areas or states were to be obligated within 180 days of apportionment (before Sept. 1, 2009) and the remaining apportioned funds are to be obligated within 1 year. The Secretary of Transportation is to withdraw and redistribute to other urbanized areas or states any amount that is not obligated within these time frames.[26]

- State governors must certify that the state will maintain the level of state spending for the types of transportation projects, including transit projects, funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009, through September 30, 2010.[27] This requirement applies only to state funding for transportation projects. The Department of Transportation will treat this maintenance-of-effort requirement through one consolidated certification from the governor, which must identify state funding for all transportation projects.

With regard to the first requirement, FTA reviewed the amount of funding obligated and concluded that the 50 percent requirement was met in all medium-size and large urbanized areas. FTA also determined that the 50 percent obligation requirement for nonurbanized areas had been met by each state. FTA did not, however, determine obligation rates for each of the 349 small urbanized areas—that is, for areas with populations of less then 200,000 but at least 50,000 people. Instead, it treated funding for small urbanized areas as apportioned to the governors of those states or territories within which the small urbanized areas were located. Using this statewide obligation rate, it determined that at least 50 percent of the total

[26]Recovery Act, div A, title XII, 123 Stat. 115, 209. The Recovery Act states that 180 days following the apportionment of transit capital assistance funds (i.e., on Sept. 1, 2009), the Secretary "shall withdraw from *each urbanized area or State* an amount equal to 50 percent of the funds apportioned to such urbanized areas or States less the amount of funding obligated" by that date. (Emphasis added.)

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

funding apportioned for small urbanized areas was obligated.[28] See table 6.

Table 6: Percentage of Recovery Act Transit Capital Assistance Program Funds Obligated Nationwide and Selected States and Urbanized Areas as Reported by FTA

Dollars in millions

			Obligation	
	State	Apportionment	Obligated amount	Percentage of apportionment obligated
Large urbanized (populations over 1 million)				
Los Angeles-Long Beach-Santa Ana	CA	$388.5	$385.1	99
Riverside-San Bernardino	CA	36.4	35.5	98
Sacramento	CA	30.1	29.6	98
San Diego	CA	80.8	80.8	100
San Francisco-Oakland	CA	173.7	120.3	69
San Jose	CA	55.2	55.2	100
Denver-Aurora	CO	66.6	66.6	100
Washington, D.C.	DC-MD-VA	214.6	213.0	99
Atlanta	GA	87.7	75.5	86
Chicago	IL-IN	327.6	325.6	99
Boston	MA-NH-RI	199.8	131.7	66
St. Louis	IL-MO	47.2	47.2	100
New York-Newark	NY-NJ-CT	1,181.7	999.2	85
Philadelphia	PA-NJ-DE-MD	188.5	157.5	84
Pittsburgh	PA	49.3	48.9	99
Providence	MA-RI	46.9	32.7	70

[28]FTA points to 49 U.S.C. § 5336(e) and (f) as justifying its approach. Section 5336(e) has long authorized states' chief executive officers (Governors) to expend small urbanized area funds for areas for which no designated recipient has been assigned. Among other things, section 5336(f) permits governors to transfer apportionments between small urbanized areas, or to other urbanized or nonurbanized areas, after consulting with responsible local officials and publicly owned operators of public transportation. FTA states that since the inception of the program it has treated each state's small urbanized areas apportionments as one cumulative apportionment to the Governor.

Dollars in millions				
			Obligation	
	State	Apportionment	Obligated amount	Percentage of apportionment obligated
Medium-size urbanized (populations between 200,000 and 999,999)				
Antioch	CA	8.6	5.8	68
Bakersfield	CA	8.1	8.1	100
Concord	CA	28.2	14.4	51
Fresno	CA	12.1	10.9	90
Indio-Cathedral City-Palm Springs	CA	4.7	4.7	100
Lancaster-Palmdale	CA	9.8	9.8	100
Mission Viejo	CA	13.4	13.4	100
Modesto	CA	5.6	5.6	99
Oxnard	CA	10.2	5.8	57
Santa Rosa	CA	6.2	6.2	100
Stockton	CA	10.0	10.0	100
Temecula-Murrieta	CA	4.1	4.1	100
Thousand Oaks	CA	4.0	2.0	51
Victorville-Hesperia-Apple Valley	CA	3.4	3.4	100
Colorado Springs	CO	8.8	4.6	52
Fort Collins	CO	3.4	3.4	100
Bridgeport-Stamford	CT-NY	35.3	33.9	96
Augusta-Richmond County	GA-SC	3.3	3.3	100
Columbus	GA-AL	3.0	3.0	100
Savannah	GA	4.5	4.0	90
Davenport	IA-IL	5.2	5.2	100
Peoria	IL	4.2	4.2	100
Rockford	IL	3.7	3.7	100
Round Lake Beach-McHenry-Grayslake	IL	5.5	5.4	98
Barnstable Town	MA	7.6	7.6	100
Springfield	MA-CT	17.9	17.9	100
Worcester	MA-CT	12.4	12.4	100
Atlantic City	NJ	14.4	7.2	50
Trenton	NJ	15.5	7.7	50
Albany	NY	14.7	14.7	100
Buffalo	NY	24.4	24.4	100
Poughkeepsie-Newburgh	NY	23.4	20.3	87

Dollars in millions

	State	Apportionment	Obligation	
			Obligated amount	Percentage of apportionment obligated
Rochester	NY	15.8	9.4	60
Syracuse	NY	10.3	10.3	100
Youngstown	OH-PA	4.7	4.7	100
Allentown-Bethlehem	PA-NJ	10.5	8.8	84
Harrisburg	PA	7.0	5.0	71
Lancaster	PA	9.8	9.8	100
Reading	PA	4.3	4.3	100
Scranton	PA	5.7	5.7	100
Chattanooga	TN-GA	4.7	4.7	100
Small urbanized (populations between 50,000 and 199,999)				
California		75.3	66.0	88
Colorado		11.4	11.4	100
Georgia		12.3	9.1	74
Illinois		13.2	10.4	79
Massachusetts		9.2	7.9	86
New Jersey		6.3	3.5	56
New York		13.7	12.6	93
Pennsylvania		17.6	12.9	73
Nonurbanized (populations under 50,000)				
California		34.0	34.0	100
Colorado		12.5	10.3	83
Georgia		25.6	20.8	81
Illinois		21.2	11.5	54
Massachusetts		5.2	3.7	70
New Jersey		4.8	4.8	100
New York		26.3	20.4	78
Pennsylvania		30.2	30.2	100
Selected urbanized and nonurbanized areas total		**$3,901.8**	**$3,423.7**	**88**
U.S. total		**$6,734**	**$5,950**	**88**

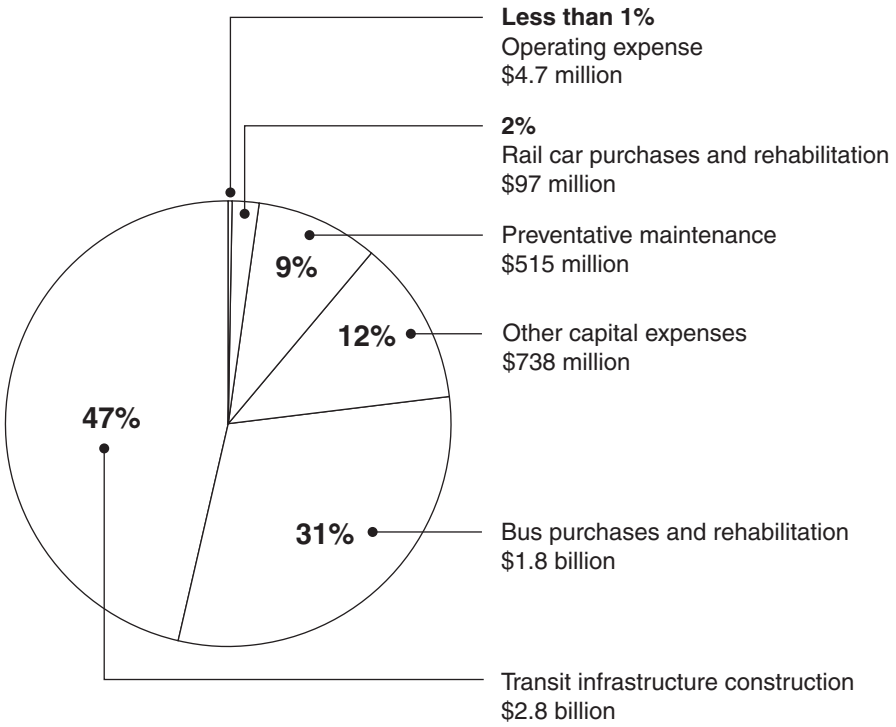
Source: GAO analysis of FTA data.

Notes: Some urbanized areas may cross two or more state borders.

U.S. total includes 50 states, the District, and U.S. territories.

Almost 87 percent of Recovery Act Transit Capital Assistance Program obligations are being used for upgrading transit facilities, improving bus fleets, and conducting preventive maintenance. Many transit agency officials told us they decided to use Recovery Act funding for these types of projects since they are high-priority projects that support their agencies' short- and long-term goals, can be started quickly, improve safety, or would otherwise not have been funded. Specifically, $2.8 billion, or 47 percent, of Recovery Act funds obligated nationally have been for transit infrastructure construction projects and related activities, which range from large-scale projects, such as upgrading power substations, to a series of smaller projects, such as installing improved audio systems for the hearing impaired. The Metropolitan Atlanta Rapid Transit Authority, for example, used Recovery Act funds to comprehensively upgrade and replace the fire protection system at its transit facilities. In New York, the Metropolitan Transportation Authority funded the installation of new locker and rest facilities for transit agency personnel and the rehabilitation of bus buildings. In addition, $1.8 billion, or 31 percent, is being used for improvements to local transit agencies' bus fleets, including purchasing new buses and renovating older buses. For example, with Recovery Act funds, the Pioneer Valley Transit Authority in Massachusetts is purchasing 29 new buses to replace its aging fleet, and the Los Angeles County Metropolitan Transportation Authority in California, according to agency officials, is ordering 140 compressed natural gas buses. Other transit agencies reported using Recovery Act funds for other types of bus fleet improvements, such as replacing fare boxes and installing bicycle racks on buses. Finally, $515 million, or 9 percent, has been obligated for preventive maintenance, which is considered a capital project by FTA, and $738 million for other capital expenses such as leases, training, and finance costs.

Figure 5: Nationwide Transit Capital Assistance Program Recovery Act Obligations by Project Type as of September 1, 2009



Source: GAO analysis of Federal Transit Administration data.

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

As previously noted, all states have submitted maintenance-of-effort certifications to DOT, certifying that the state will maintain the level of state spending that it planned to spend the day the Recovery Act was enacted for all transportation projects, including transit projects, funded by the Recovery Act. DOT has concluded that the form of each certification is consistent with the additional guidance. Unlike federal highway infrastructure programs, which are administered through a federal-state partnership, federal transit programs are generally administered through a federal-local partnership, although rural programs are administered at the state level. Therefore, in some states, officials believe that the maintenance-of-effort requirement can be more easily met for transit projects due to the fact that the state does not provide any transit funding, making the requirement irrelevant, or the state transit funding has decreased over the years. For example, in Colorado, officials

for the Regional Transit District stated that since their agency did not receive any transit funding from the state annually, officials believed that the maintenance-of-effort requirement did not apply. In addition, Illinois Department of Transportation officials stated that while the state attempts to provide funding for transit operating expenses for some rural areas, it has not been able to provide consistent funding for transit capital projects.

State Highway and Transit Officials Express Concerns and Confusion about Reporting Requirements

Recipients of highway and transit Recovery Act funds, such as state DOTs and transit agencies, are subject to multiple reporting requirements. First, under section 1201(c) of the Recovery Act, recipients of transportation funds must submit periodic reports on the amount of federal funds appropriated, allocated, obligated, and reimbursed; the number of projects put out to bid, awarded, or work has begun or completed; project status; and the number of direct and indirect jobs created or sustained, among other things.[29] DOT is required to collect and compile this information for Congress, and it issued its first report to Congress in May 2009. DOT is working to develop a model that will be used to estimate indirect jobs created and sustained rather than have individual recipients develop these estimates. DOT, through FTA, conducted a training session consisting of three webinars to provide information on the 1201(c) reporting requirements, such as who should submit these reports and what information is required. FTA is planning on conducting another three webinars and providing additional guidance before the end of September 2009. Second, under section 1512, recipients of Recovery Act funds, including but not limited to transportation funds, are to report quarterly on a number of measures, such as the use of funds and the number of jobs created or retained. OMB has issued implementing guidance for recipient reporting. For example, on June 22, 2009, OMB issued guidance to dispel some confusion related to reporting on jobs created and retained by providing, among other information, additional detail on how to calculate the relevant numbers.

Despite the OMB and DOT guidance, both highway and transit officials expressed concerns and challenges with meeting the recipient reporting

[29]The first periodic report was due no later than 90 days after the date of enactment of the act, with updated reports due no later than 180 days, 1 year, 2 years, and 3 years after enactment.

requirements. While both highway and transit officials raised concerns, transit officials tended to raise more specific concerns than their highway counterparts. This may reflect differing experiences collecting this type of information. FTA officials noted that recipients of transit grants have not had to collect similar information in the past. Conversely, while FHWA does not routinely require state DOTs to provide information on jobs created or sustained for highway projects, it has collected such information in the past. The specific concerns raised by transit officials include the following:

- **Calculation of direct jobs:** A number of agencies expressed confusion about calculating the number of direct jobs resulting from Recovery Act funding, especially with regard to using Recovery Act funds for purchasing equipment. For example, officials from the New York Department of Transportation and Greater Glens Fall Transit Agency, located in upstate New York, had questions concerning how to calculate direct jobs created from the purchase of buses made with Recovery Act funding versus how to count jobs created from Recovery Act-funded construction projects. Officials in Georgia noted that while FTA guidance on its reporting requirements indicated that transit providers did not need to report jobs associated with the vehicle replacements because they were indirect jobs, OMB's guidance did not indicate that jobs associated with vehicle replacements were indirect jobs. Transit agencies in Massachusetts reported similar concerns.

- **Contractors and subcontractors:** Another issue that caused confusion at a number of transit agencies we visited involved how transit agencies were required to report project contractors and subcontractors. During our review, we found that there were significant differences in how transit agencies were counting contractors. For example, in California, officials at the Orange County Transportation Authority stated that they only plan to include direct hours worked by contractors in their jobs estimates. By contrast, officials from California's San Joaquin Regional Transit District plan to include in their direct job estimates all hours of contractors working on Recovery Act-funded projects by basing job estimates on specific hours and pay data pulled from the internal payroll systems and certified payroll documents completed by contractors and subcontractors. There was also some confusion in how to count subcontractors. For example, some officials from transit agencies in Pennsylvania explained that language in the OMB guidance seemed to them to require that "subrecipients" submit the names and salaries of the five highest paid executives in their organization but was unclear whether this referred to Recovery Act project subrecipients or subcontractors. However, officials subsequently told us that they had resolved their questions.

- **Calculating the number of full–time-employee equivalents (FTE) from work hours:** Finally, one transit agency highlighted that they had concerns about the process for calculating the number of FTEs based on the number of hours worked on a project. In New York, Metropolitan Transit Authority officials said they will need to take the job title, figure out the "normal" hours worked in a year, and divide the number of these hours by four to figure out the hours worked in that reportable quarter.

Agency actions on identifying recipient reporting challenges and providing additional guidance: Recipients of highway and transit Recovery Act funds, such as state DOTs and transit agencies, are subject to multiple reporting requirements. Both DOT and OMB have issued implementation guidance for recipient reporting. For example, DOT, through FHWA and FTA, has provided training and guidance to recipients. Despite these efforts, highway and transit officials expressed concerns and challenges with meeting these reporting requirements. While both highway and transit officials raised concerns, transit officials tended to raise more specific concerns than their highway counterparts, which may reflect differing experiences collecting this type of information.

Recommendation: The Secretary of Transportation should continue the Department's outreach to state DOTs and transit agencies to identify common problems in accurately fulfilling reporting requirements and provide additional guidance, as appropriate.

Agency comments and our evaluation: We provided DOT with a draft of the transportation section of this report for its review and comment. With regard to our recommendation, DOT noted that it has conducted outreach, including providing training and guidance, to recipients and will continue to assess the need to provide additional information. We revised the draft report and recommendation to reflect DOT's ongoing and planned outreach efforts. DOT also provided technical comments on the draft report, which we incorporated as appropriate.

States Have Begun to Draw Down Recovery Act Funds for Education Programs

Our review of states' use of Recovery Act funds covers three programs administered by the U.S. Department of Education (Education)—State Fiscal Stabilization Fund (SFSF); Elementary and Secondary Education Act (ESEA) Title I, Part A; and the Individuals with Disabilities Education Act (IDEA), Parts B and C.

- **State Fiscal Stabilization Fund.** The State Fiscal Stabilization Fund (SFSF) included approximately $48.6 billion to award to governors by

formula and another $5 billion to award to states or school districts 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 be used to alleviate shortfalls in state support for education to school districts and public institutions of higher education (IHE). States must allocate 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds). For the initial award of SFSF formula grant funds, Education made available at least 67 percent of the total amount allocated to each state,[30] but states had to submit an application to Education to receive the funds. The application required each state to provide several assurances, including that the state will meet maintenance-of-effort requirements (or will be able to comply with waiver provisions) and that it will implement strategies to advance four core areas of education reform as described by Education: (1) increase teacher effectiveness and address inequities in the distribution of highly qualified teachers; (2) establish a pre-K-through-college data system to track student progress and foster improvement; (3) make progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including students with limited English proficiency and students with disabilities; and (4) provide targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring.[31] In addition, states were required to make assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. After maintaining state support for education at fiscal year 2006 levels, states must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to school districts or public IHEs. When distributing these funds to school districts, states must use their primary education funding formula, but they can determine how to allocate funds to public IHEs. In general, school districts maintain broad discretion in how they can use education

[30]Beginning on July 1, 2009, Education released the remaining 33 percent of government services funds to states with approved applications.

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

stabilization funds, but states have some ability to direct IHEs in how to use these funds.

- **ESEA Title I.** The Recovery Act provides $10 billion to help local educational agencies (LEA) educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act (ESEA) of 1965. The Recovery Act requires these additional funds to be distributed through states to LEAs using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with current statutory and regulatory requirements and must obligate 85 percent of the funds by September 30, 2010.[32] 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. Education made the first half of states' Recovery Act ESEA Title I, Part A funding available on April 1, 2009, and announced on September 4, 2009, that it had made the second half available.

- **IDEA.** The Recovery Act provided supplemental funding for programs authorized by Parts B and C of the Individuals with Disabilities Education Act (IDEA), the major federal statute that supports the provisions of early intervention and special education and related services for infants, toddlers, children, and youth with disabilities. Part B funds programs that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education and is divided into two separate grants—Part B grants to states (for school-age children) and Part B preschool grants (section 619). 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. Education made the first half of states' Recovery Act IDEA funding available to state agencies on April 1, 2009, and announced on September 4, 2009, that it had made the second half available.

[32]LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and must obligate all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

Most States Have Begun Drawing Down Recovery Act Funds for Education Programs, but Expenditures Sometimes Differ from Amounts Drawn Down by States

As of September 18, 2009, Pennsylvania was the only state covered by our review that had not received approval from Education for its initial SFSF application. For the other 15 states and the District of Columbia in our review, Education approved their initial applications and made available a total of about $16 billion in initial education stabilization funds. As of August 28, 2009, all but 4 of these had drawn down some of these funds. In total, about 36 percent of the funds initially made available had been drawn down by these states, as shown in table 7.[33]

Table 7: SFSF Education Stabilization Funds Made Available by the U.S. Department of Education and Funds Drawn Down by States

State	Total state allocation for education stabilization funds	Phase I education stabilization funds made available as of August 28, 2009	Funds drawn down by states as of August 28, 2009	Percentage of available funds drawn down
Arizona	$831,869,331	$557,352,452	$154,138,300	28
California	4,875,498,758	3,266,584,168	3,020,198,909	92
Colorado	621,878,397	416,658,526	154,811,775	37
District of Columbia	73,110,443	48,983,997	0	0
Florida	2,208,839,245	1,479,922,294	8,438,521	1
Georgia	1,260,799,096	844,735,394	238,773,562	28
Illinois	1,681,130,685	1,126,357,559	1,038,987,579	92
Iowa	386,373,745	258,870,409	57,230,002	22
Massachusetts	813,303,212	544,913,152	322,002,904	59
Michigan	1,302,368,993	872,587,225	573,635,420	66
Mississippi	392,067,945	262,685,523	0	0
New Jersey	1,088,335,775	729,184,969	0	0
New York	2,468,557,791	1,653,933,720	49,900,000	3
North Carolina	1,161,931,564	778,494,148	136,095,123	17
Ohio	1,463,709,963	980,685,675	61,096,405	6
Pennsylvania	0	0	0	—
Texas	3,250,272,133	2,177,682,329	0	0
Total	**$23,880,047,075**	**$15,999,631,540**	**$5,815,308,499**	**36**

Source: U.S. Department of Education.

[33]As of August 28, 2009, Education had made $21 billion in SFSF grants for education, including government services funds, available to the 15 states and the District of Columbia—of which over $7.7 billion had been drawn down.

Education did not approve Pennsylvania's initial SFSF application because the application did not include data for some public institutions of higher education in the calculations for the state's maintenance-of-effort for education funding and amounts needed to restore education funding to prior year levels. Education officials said they asked Pennsylvania to revise the application to include data for those institutions, but as of September 18, Pennsylvania had not submitted a revised application to Education.

Because states have been finalizing and revising their budgets since submitting their initial SFSF applications, some will need to amend their SFSF applications to reflect the new budget figures for state support for education. 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 maintenance-of-effort or to calculate the amounts needed to restore state support for education to prior year levels. For example, California has amended its SFSF application to change its calculations of state support for education. Mississippi submitted its initial SFSF application before passing its fiscal year 2010 budget and plans to amend it to include the enacted budget information. The District of Columbia plans to amend its application to increase the amount needed to restore the District's support for elementary and secondary education to the fiscal year 2008 funding level. Due to recent budget cuts to higher education for fiscal year 2010, Colorado amended its SFSF application to reduce the amount reported as state support for higher education and requested a waiver from the maintenance-of-effort requirements for SFSF for fiscal year 2010.

Of the 15 states and the District of Columbia covered by our review to which Education has made SFSF funds available, 12 states had drawn down education stabilization funds as of August 28, 2009. Of these 12 states, 9 were able to provide expenditure data from their LEAs for this report, as shown in table 8. Also, of the six states that had made education stabilization funds available to their IHEs and from which we attempted to collect education stabilization expenditure data for IHEs—Arizona, Colorado, Illinois, Iowa, North Carolina, and Ohio—five were able to report expenditures. When expenditures by LEAs and IHEs are substantially less than the amounts drawndown by the state, such as in Illinois, the state may be experiencing problems with its cash management. Illinois has distributed SFSF funds to LEAs in semi-monthly payments, but according to state officials, the state does not have the ability to identify specific cash needs from LEAs prior to distributing these funds. Table 8 shows the amounts of SFSF education stabilization funds

drawn down by states, the reported expenditures by LEAs in those states that could provide this information, and the reported expenditures by IHEs in the 5 states that provided the information.

Table 8: State Drawdowns of Education Stabilization Funds Compared to Reported Expenditures by LEAs and IHEs in States We Reviewed That Could Provide the Information

Dollars in millions

State	Funds drawn down as of August 28, 2009	Expenditures by LEAs	Expenditures by IHEs[a]
Arizona	154.1	0	154.1
California	3,020.2	-[b]	-
Colorado	154.8	0	154.8
District of Columbia	0	0	-
Florida	8.4	7.2	-
Georgia	238.8	157.9	-
Illinois	1,039.0	165.6	0
Iowa	57.2	-[b]	-[b]
Massachusetts	322.0	-[b]	-
Michigan	573.6	0	-
Mississippi	0	0	-
New Jersey	0	-[b]	-
New York	49.9	0	-
North Carolina	136.1	14.3	127.0
Ohio	61.1	54.6	56.3
Pennsylvania[c]	0	0	-
Texas	0	0	-

Sources: U.S. Department of Education and state educational agencies.

Notes: Expenditures shown in the table are as of the following dates: June 30, 2009—Georgia; August 31, 2009—Colorado (LEAs), Florida, New York, North Carolina (LEAs) and Texas; September 1, 2009-Michigan; September 2, 2009-Colorado (IHEs), Illinois (LEAs); September 4, 2009-Mississippi; September 11, 2009-District of Columbia; September 15, 2009-Ohio; September 16, 2009-Illinois (IHEs) and Arizona; September 18, 2009—North Carolina (IHEs).

[a]GAO attempted to collect expenditure data for IHEs from six states—Arizona, Colorado, Illinois, Iowa, North Carolina, and Ohio.

[b]State could not provide data on expenditures by LEA or IHEs for the time period covered by our report.

[c]Pennsylvania's application for SFSF funds is pending; therefore, Pennsylvania has not received SFSF funds from Education.

As of August 28, 2009, 11 of the states we reviewed had drawn down Title I, Part A Recovery Act funds, and reported LEA expenditures from the states were generally higher than the amounts drawn down. In total, these 11 states have drawn down 15 percent of the first half of Title I Recovery Act funds, which Education made available to the states on April 1, 2009.[34] For eight states, reported expenditure figures for LEAs were larger than the amounts drawn down. Massachusetts, as an example, reported that LEAs have spent over $2 million in Title I funding, but the state had only drawn down $1.5 million as of August 28, 2009. This is because in Massachusetts, according to state officials, the state draws down funds according to its agreement with the U.S. Department of Treasury, and it is not unusual for drawdowns to lag behind expenditures.

However, three states were unable to report LEA expenditure information for the period covered by this report, including California, which accounts for the vast majority of ESEA Title I, Part A Recovery Act funds drawn down to date. As we reported in July, according to Education officials, California officials informed the department that the drawdown of Title I Recovery Act funds was in lieu of the state's normally scheduled drawdown of school year 2008-2009 Title I funds. However, in California, we found that, as of August 7, 2009, 7 of the 10 California LEAs receiving the largest Title I allocations had not spent any Title I, Part A Recovery Act funds and, therefore, had cash balances. Further, California officials told us that they had conducted an informal survey of 180 LEAs in July 2009 to determine whether LEAs were maintaining regular ESEA Title I cash balances, and nearly all of the 64 LEAs responding reported unreimbursed expenses—having spent more regular ESEA Title I funds than they received. The officials told us they determined that these unreimbursed expenses would largely offset the ESEA Title I Recovery Act fund cash balances for the majority of these LEAs, and they believe that the calculation of interest due to the federal government on the Recovery Act balances would incorporate this offset. Therefore, they did not view the Title I Recovery Act balances as a problem. We discussed this issue with Education officials, but they have yet to make a final determination of whether such unreimbursed expenses can be offset against Title I Recovery Act balances for the purpose of calculating interest due to the federal government. Table 9 shows Title I, Part A Recovery Act drawdowns and expenditures.

[34]On September 4, 2009, Education announced that it had made the second half of Title I, Part A funds available to states.

Table 9: ESEA Title I, Part A Recovery Act Funds Made Available to and Drawn Down by States We Reviewed, and Funds Expended by LEAs in States That Could Provide the Information

Dollars in millions

State	Title I Recovery Act funds made available as of August 28, 2009	Funds drawn down as of August 28, 2009	Percentage of available funds drawn down	Expenditures by LEAs	Drawdowns minus expenditures (negative totals in parentheses)
Arizona	$97.5	$1.1	1.1	$3	$(1.9)
California	562.5	450.3	80.1	-a	-
Colorado	55.6	0.3	0.5	0.3	0
District of Columbia	18.8	0	0	0	0
Florida	245.3	18.1	7.4	18.6	(0.5)
Georgia	175.5	0.4	0.2	3.6	(3.2)
Illinois	210.1	0.4	0.2	0.4	0
Iowa	25.7	8.1	31.5	-a	-
Massachusetts	81.8	1.5	1.8	2.2	(0.7)
Michigan	195.0	0	0	0	0
Mississippi	66.4	0	0	0	0
New Jersey	91.5	0	0	-a	0
New York	453.6	0	0	0	0
North Carolina	128.7	6.2	4.8	9.6	(3.4)
Ohio	186.3	0.5	0.3	2.8	(2.3)
Pennsylvania	200.3	0	0	23.0	(23.0)
Texas	474.4	2.4	0.5	2.8	(0.4)
Total	**$3,269.0**	**$489.3**	**15.0**	**$66.3**	

Sources: U.S. Department of Education and state educational agencies.

Notes: Expenditures are as of the following dates: August 31, 2009-Florida, North Carolina, and Texas; September 1, 2009- Colorado, Michigan, New Jersey, and New York; September 2, 2009-Georgia and Illinois; September 3, 2009-Pennsylvania; September 4, 2009- Massachusetts; September 8, 2009-Mississippi; September 9, 2009-Arizona; September 11, 2009- District of Columbia; and September 15, 2009-Ohio.

[a]State could not provide data on expenditures by LEAs for the time period covered by our report.

As of August 28, 12 of the states we reviewed had drawn down IDEA, Part B Recovery Act funds, and reported expenditures from the states were generally higher than the amounts drawn down. In total, these 12 states have drawn down about 10 percent of the first half of IDEA, Part B Recovery Act funds, which Education made available to the states on April

1, 2009.[35] For eight states, reported expenditure figures for LEAs were larger than the amounts drawn down. Table 10 shows the total IDEA, Part B Recovery Act funds drawn down by states as of August 28, 2009, and expenditures by LEAs for states that were able to report that information.

Table 10: IDEA, Part B Recovery Act Funds Made Available to and Drawn Down by States We Reviewed, and Funds Expended by LEAs in States That Could Provide the Information

Dollars in millions

State	IDEA, Part B Recovery Act funds made available as of August 28, 2009	Funds drawn down as of August 28, 2009	Percentage of available funds drawn down	Expenditures by LEAs	Drawdowns minus expenditures (negative totals in parentheses)
Arizona	92.1	0.1	0.1	1.8	(1.7)
California	634.0	269.0	42.4	-a	-
Colorado	77.0	4.0	5.2	4.1	(0.1)
District of Columbia	8.4	0	0	0	0
Florida	323.5	39.4	12.2	42.7	(3.3)
Georgia	162.1	0.2	0.1	0.5	(0.3)
Illinois	262.4	1.5	0.6	1.2	0.3
Iowa	63.1	25.2	39.9	-a	-
Massachusetts	145.4	6.2	4.3	9.4b	(3.2)
Michigan	207.0	5.4	2.6	0	5.4
Mississippi	61.2	0	0	0	0
New Jersey	186.2	0	0	-a	-
New York	397.1	0	0	0	0
North Carolina	163.2	21.8	13.4	26.8	(5.0)
Ohio	225.5	0.7	0.3	4.0	(3.3)
Pennsylvania	220.8	0	0	0	0
Texas	485.0	2.2	0.5	3.6	(1.4)
Total	**3714.0**	**375.7**	**10.1**	**94.1**	

Sources: U.S. Department of Education and state educational agencies.

Notes: Expenditures are as of the following dates: August 31, 2009-Florida and Texas; September 1, 2009-Colorado, New Jersey, and New York; September 2, 2009-Georgia and Michigan; September 3, 2009-Illinois and Pennsylvania; September 4, 2009-Massachusetts; September 9, 2009-Arizona; September 11, 2009-District of Columbia; and September 15, 2009-Ohio.

[35]On September 4, 2009, Education announced that it had made the second half of IDEA Recovery Act funds available to states.

[a]State could not provide data on expenditures by LEAs for the time period covered by our report.

[b]Massachusetts expenditures do not include IDEA Part B Preschool Grants.

Education Continues to Issue Guidance, Has Increased Technical Assistance, and Has Modified Some Monitoring Procedures to Address Recovery Act Issues but Has Not Completed Monitoring Plans for SFSF Funds

Education Has Issued Additional Recovery Act Guidance and Proposed Guidance

Over the summer of 2009, Education issued and proposed guidance on a wide range of Recovery Act provisions and is in the process of finalizing the proposed guidance after reviewing public comments. The department issued proposed guidance on the application process for the remaining SFSF education stabilization funds as well as for the Race to the Top funds. The department has also issued proposed guidance on administrative costs and guidance on Title I waivers; allowable uses of Title I, Part A and IDEA, Parts B and C funds; the use of SFSF education stabilization funds to meet IDEA maintenance-of-effort requirements; and recipient reporting.

Remaining SFSF education stabilization funds. On July 29, 2009, Education issued proposed requirements, definitions, and approval criteria pertinent to application for the remaining SFSF education stabilization funds that Education will release to states in fiscal year 2010. To obtain the remaining funds, Education proposed that states will have to submit applications that include a number of specific information requirements, including indicators. Education would require states to provide data that would show the extent to which they are implementing educational reforms in each of the four core areas. For example, with respect to increasing teacher effectiveness and addressing inequities in the distribution of highly qualified teachers, states would be required to provide (1) a description of teacher performance evaluation systems used in the states' LEAs, (2) data on the distribution of performance ratings or levels in the LEAs, and (3) a statement about whether performance ratings or levels are available to the public by school for each LEA. Some of the indicators included in the proposal relate to data states already collect and report to Education, and for these indicators, states will not need to provide additional data but would have to confirm the data and make it publicly available. In addition to the information requirements, the proposal includes a requirement that each state submit a plan describing the state's ability to collect and make the data easily available to the public. The proposal was open for comments through August 28, 2009, and Education anticipates issuing final guidance in the fall of 2009 after it has reviewed the public comments.

Race to the Top funds. On July 29, 2009, Education issued proposed requirements and selection criteria for the competitive Race to the Top (RTT) grant program, and announced that $4.35 billion would be awarded to states.[36] According to Education, the program is designed to encourage and reward states that are creating conditions for educational reform, achieving significant improvement in student outcomes, and implementing ambitious plans related to the four core reform areas. Education plans to award RTT grants in two phases—phase 1 will be for states that are already prepared to apply, and phase 2 will be for states that need more time to plan their reform efforts. Under Education's proposal, to be eligible to apply for an RTT grant, a state must have an approved SFSF application and must not have any legal, statutory, or regulatory barriers to linking data on student achievement or student growth to teachers for the purpose of teacher and principal evaluations. Education also proposed that states describe in their applications how the additional RTT funds would be used to implement policies and practices related to the four educational reform areas. According to the proposal, states will be judged according to 19 selection criteria that fall into two categories:

(1) state reform conditions criteria—used to assess a state's past progress and its success in creating conditions for reform in specific areas related to the four educational reform areas; and

(2) reform plan criteria—used to assess a state's plans for future efforts in the four educational reform areas.

In addition, the proposal includes a competitive preference for state applications that address certain issues related to science, technology, engineering, and mathematics. The proposal was open for comments through August 28, 2009, and over 1,100 individuals and organizations submitted comments. Education anticipates issuing final guidance in the fall of 2009 or winter of 2010 prior to making RTT Phase 1 applications available.

[36]The Race to the Top grant program is also referred to as the State Incentive Grant Fund. Education has indicated that it will issue proposed requirements in the winter of 2009-2010 and award up to $650 million for a related program for LEAs—the Innovation Fund.

Administrative costs. The Secretary of Education recently proposed[37] to allow states to reserve more Title I, Part A and IDEA, Part B[38] funds for administrative costs incurred in meeting Recovery Act data collection requirements, including costs related to administering, monitoring, and reporting on the use of these funds.[39] In its announcement of the proposed change, the department noted that, while the Recovery Act imposed new requirements on states under Title I, Part A and IDEA, Part B, the statutory limits on the amount of funds states may reserve for administering these programs were set before the Recovery Act was passed. Based on the proposal, the 16 states and the District of Columbia covered by our review would be able to use between $14 million and $20 million in total to help defray the costs of administering Title I, Part A and IDEA, Parts B Recovery Act funds.[40] The 30-day comment period closed on September 16, 2009. Education officials expect the proposal will take effect by the end of calendar year 2009.

ESEA Title I waivers. In July, the department issued guidance on Title I, Part A waivers, including waivers related to Recovery Act funds. This guidance clarified and expanded the department's Recovery Act fact sheet and guidance issued in April 2009. In addition, although individual LEAs can still apply for waivers directly from the department, the July 2009 guidance encouraged states to apply for waivers on behalf of their LEAs,

[37]74 Fed. Reg. 41402 (August 17, 2009).

[38]According to officials, the proposal increases funds for IDEA, Part B, Grants to States (IDEA Section 611).

[39]The amount of Title 1, Part A funds that a state educational agency (SEA) may currently reserve for state administration is limited by section 1004(b) of the ESEA to no more than 1 percent of the amount the SEA would receive under Title I, part A, if $14 billion were appropriated for parts A, C, and D of Title I. Any SEA whose amount under section 1004(b) would be less than $400,000 is permitted to reserve up to $400,000. The total amount appropriated in fiscal year 2009 exceeds $14 billion, triggering this cap. The amount of IDEA, Part B grants to states that an SEA may currently reserve for state administration is limited by section 611(e)(1) of IDEA to not more than the maximum amount the SEA was eligible to reserve for fiscal year 2004 or $800,000 (adjusted annually for inflation), whichever is greater.

[40]Under the proposal, states that apply for Title I waivers on behalf of their LEAs would be eligible to receive a higher level of funding for administration than if they did not apply for such waivers.

which could in turn apply for waivers from the SEA.[41] For example, states could apply for the authority to grant LEAs' requests for waivers of the carryover limitation[42] more than once every 3 years or to exclude Recovery Act funds in calculating the amount of funds LEAs must reserve for various required activities. To receive the flexibility afforded by waivers, LEAs must provide assurances and information to the SEA as part of the application process. For example, Education's waiver guidance specifies that LEA applications must identify how the funds freed up by the waiver will be used and that LEAs must provide data to show that such activities are needed. In addition, LEA applications must make the case that the effectiveness of strategies proposed is evidence based. As of September 17, 2009, 13 of the states we reviewed and the District of Columbia have applied for at least one Title I, Part A waiver (Arizona, California, Colorado, the District of Columbia, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, and Pennsylvania). Of these, the Secretary had approved Title I Recovery Act related waiver applications from 9 states: Arizona, Colorado, Georgia, Illinois, Iowa, Massachusetts, North Carolina, Ohio, and Pennsylvania.

Allowable uses of Title I, Part A and IDEA, Parts B and C funds. On September 2, 2009, Education released guidance on allowable uses of Title I, Part A Recovery Act funds. In our July 2009 report, we noted that local officials we interviewed frequently mentioned wanting more guidance on this issue. The guidance provides answers to a number of specific usage questions and presents allowable uses that LEAs could consider to advance particular types of educational reform. Examples of specific usage issues addressed in the guidance include when it would be appropriate for LEAs to reserve Title I, Part A Recovery Act funds to meet district priorities rather than distributing funds directly to schools, what should happen to equipment purchased with these funds in the future if the school no longer operates a Title I program, and to what extent these funds can be used to hire or retain various types of staff. To help LEAs and schools plan how to use Title I funds, the guidance identifies educational

[41]Unlike LEAs applying directly to Education, LEAs that apply to implement an approved SEA waiver do not have to fulfill various requirements for notice and comment and reporting—the SEA assumes responsibility for these requirements.

[42]Without the waiver, an SEA could waive the carryover limitation for an LEA at most once every three years if (1) it determined that the LEA's request was reasonable and necessary or (2) a supplemental Title I, Part A appropriation became available.

strategies that could be used to help in (1) adopting rigorous standards and assessments, (2) establishing data systems and using data for improvement, (3) increasing teacher and school leader effectiveness and the equitable distribution of effective teachers and school leaders, (4) turning around the lowest achieving Title I Schools, and (5) improving results for students in Title I schools.

Education also released guidance on allowable uses of IDEA, Parts B and C Recovery Act funds. While the IDEA, Part B guidance recognizes that many LEAs may need to use a large portion of Recovery Act funds to support teacher salaries or other critical short-term needs, it also suggests how LEAs can also use these funds to support activities that increase the capacity of LEAs and schools to improve results for students with disabilities, including under certain circumstances using some IDEA, Part B funds to implement schoolwide activities that support students with and without disabilities. The IDEA, Part C guidance includes five questions[43] decision makers should consider in determining how to use Part C Recovery Act funds and provides examples of potential uses to improve outcomes for infants and toddlers with disabilities and their families.

Using SFSF funds to meet maintenance-of-effort requirements. Education released revised guidance on treating SFSF education stabilization and government services funds as nonfederal funds for purposes of meeting the IDEA, Part B maintenance-of-effort requirement on July 1, 2009. Once treated as nonfederal funds, these funds can (in certain circumstances) be used toward the IDEA, Part B state-level maintenance-of-effort requirement. This guidance indicates that, with prior approval from Education, a state may use SFSF education stabilization funds toward meeting the IDEA, Part B maintenance-of-effort requirement, if those funds are used to replace state support for special education provided through primary funding formulas. SFSF government services funds can also be used, with prior approval, toward the IDEA, Part B maintenance-of-effort requirement, as long as those funds are used for the education of children with disabilities. Similarly, an LEA may use SFSF funds toward the IDEA, Part B local-level maintenance-of-effort

[43]The questions are: (1) Will the proposed use of funds result in improved outcomes? (2) Will the proposed use of funds increase capacity? (3) Will the proposed use of funds accelerate systems change? (4) Will the proposed use of funds avoid the cliff and serve as a bridge to improve productivity? (5) Will the proposed use of funds foster continuous improvement?

requirement. To do so, the LEA must use the funds for the education of children with disabilities, and it cannot include SFSF funds that the state is using toward meeting the state-level maintenance-of-effort requirement. Officials from Education's Office of Elementary and Secondary Education said they were working on developing similar guidance for treating SFSF funds as nonfederal funds for purposes of meeting Title I, Part A maintenance-of-effort requirements.

Recipient reporting. Education, in September, 2009, released two sets of guidance on recipient reporting: *Clarifying Guidance on Section 1512 Quarterly Reporting* and *Clarifying Guidance on Reporting on Jobs Creation Estimates by Recipients*. The guidance on estimating jobs creation covers a range of issues, including specifics on how to convert hours worked into an estimate of a full-time-equivalent job and the requirements for collecting information from vendors on jobs created. Also, the guidance specifies that prime recipients, to the maximum extent practicable, should collect information from all subrecipients and vendors in order to generate the most comprehensive and complete job impact numbers possible. However, in limited circumstances and with prior approval from Education and OMB, a prime recipient can use an approved statistical methodology to generate estimates of job impact, thereby collecting data from a smaller subset of subrecipients or vendors. The guidance states that a statistical methodology should only be used in those cases in which a comprehensive collection of jobs data from all subrecipients and vendors is overly costly or burdensome.

Prior to the issuance of its guidance, the department had provided a variety of other assistance to prime recipients and subrecipients on recipient reporting. For example, Education conducted webinars for state and LEA officials to help them understand different technical requirements related to the Recovery Act. To assist its recipients in meeting Recovery Act reporting requirements, Education developed tip sheets on how to complete the data elements in the quarterly reports for education programs. For example, on August 28, 2009, the Office of Special Education Programs (OSEP) released a Reporting Tip Sheet for its programs, which includes reporting information for IDEA Part B Grants to States, Preschool Grants and Part C Early Intervention programs. The tip sheet provides guidance for each data element on which recipients and subrecipients are to report. OSEP officials said that they conducted a conference call for state staff responsible for Part B and Part C Recovery Act recipient reporting to walk through the tip sheet and respond to questions.

Education Is Providing Intensive Technical Assistance to Six States Identified as "High Risk" to Help Them Implement Good Practices in Using Recovery Act Funds

To target technical assistance resources to the states where such help could have the greatest impact, the department used a risk-based approach to identify "high risk" states and territories to receive intensive technical assistance. Five of the six states or territories identified as high risk are part of our review: California, the District of Columbia, Illinois, Michigan, and Texas.[44] Department officials weighed a number of factors when assessing risk, such as the number of monitoring or audit findings in the state and the level of turnover in education leadership within the state. The department's process for identifying these six states included Title I and IDEA program risk analyses.

Education officials from several offices that share an interest in providing coordinated assistance are working together to contribute both programmatic and financial expertise to these high-risk states. For example, Education officials have been scheduling monthly calls with each of these states to help them identify and implement good practices in managing and using Recovery Act funds, according to an Education official. These "open forum" calls help state officials get their questions answered directly by experts in the department and help department officials respond to state-specific concerns and challenges in implementing the Recovery Act. In the future, this intensive technical assistance could include on-site visits to these six high risk states and to their LEAs, for example, to help state officials implement school improvement requirements, according to an Education official.

Education Has Updated ESEA Title I and IDEA Monitoring Plans to Cover Recovery Act Funds and Is Monitoring State Drawdowns of Federal Funds

ESEA Title I monitoring and technical assistance. To respond to the substantial increase in federal funding it oversees as a result of the Recovery Act, the office responsible for overseeing Title I has adapted how it monitors states and provides technical assistance. One of the most significant changes has been moving to a risk-based approach to determine which states to visit for on-site reviews. Specifically, the office

[44]The sixth state/territory, Puerto Rico, is not covered by GAO's review.

used a risk-based assessment to identify the 18 states that will receive monitoring visits during the 2009- 2010 monitoring cycle. States were selected using such factors as the number of previous monitoring findings, state coordinator turnover, and size of the Title I allocation. All six of the states identified as high risk department-wide will receive on-site monitoring during the fiscal year 2010 monitoring cycle, as will an additional 12 states that are considered high risk from a Title I perspective.[45]

Title I officials have also responded to the Recovery Act by changing the monitoring cycle from 3 years to 2 years to coincide with the availability of Recovery Act funds and adding a substantial number of questions related to the Recovery Act to the standardized questions they ask state and LEA officials during monitoring visits. In monitoring the use of Recovery Act funds, Education is also monitoring the rate at which Recovery Act funds are drawn down and spent, how Recovery Act funds are being used, and how reporting requirements are being met.

Title I Education officials are also planning to use the results of their risk assessment to target technical assistance efforts. Specifically, in addition to working with other Education offices to provide coordinated intensive technical assistance to the six high risk states, Title I officials plan to provide customized assistance to Title I Directors in the 12 states they identified as also being high risk from a Title I perspective, six of which are in our review: Colorado, Florida, Massachusetts, New Jersey, New York, and North Carolina. This assistance may include scheduling calls to answer specific questions or to help address outstanding compliance issues, according to an Education official. In addition, Education officials may plan technical assistance meetings for these 12 states in school year 2009-2010 on topics such as uses of Title I, Part A Recovery Act funds and upcoming 2009-2010 monitoring, according to an Education official. The goals of these meetings would be to improve these states' readiness for their 2009-2010 monitoring visit and to increase the capacity of states to support Title I schools and LEAs.

IDEA monitoring and data collection efforts. Regarding IDEA, Education will pursue its regular targeted monitoring visits and technical

[45]The 12 states are Arkansas, Colorado, Delaware, Florida, Idaho, Louisiana, Massachusetts, Missouri, New Jersey, New York, North Carolina, and Oklahoma.

assistance in 16 states or territories,[46] and, in response to the Recovery Act, Education's Office of Special Education Programs (OSEP) will also perform a desk review of all states over the next 6 to 8 months. According to Education officials, the department uses annual performance report information and focused monitoring priorities to determine in which states it will conduct monitoring visits.[47] In the course of its monitoring visits, the department verifies the effectiveness of state systems for general supervision, data collection and fiscal management, as well as reviews state progress toward the goals from its state performance plan. This year, the department will also focus on various elements from the Recovery Act, including reporting requirements. According to OSEP officials, certain requirements that have always been in place under IDEA have heightened importance given the larger appropriations under the Recovery Act, including requirements for IDEA funds used for construction or equipment costing more than $5,000—expenditures that might be more common than in past years given the larger appropriations under the Recovery Act. In conducting site visits, Education reviews state records, makes visits to selected LEAs for on-site examination of student records, and assesses state special education systems. Following these visits, Education issues a report on findings and, when noncompliance is found, requires states to demonstrate correction of the non-compliance. OSEP officials said the content of the desk review is still in development, but that it would focus as much on technical assistance for states as it would on reviewing states. Also, OSEP plans to provide guidance to SEAs regarding their Recovery Act monitoring efforts and the reporting of accurate data for recipient reporting under the Recovery Act. OSEP officials said the office will also choose states for targeted technical assistance based on the results of their upcoming Recovery Act desk reviews.

Education also plans to collect more information than it has in the past from states regarding whether LEAs are exercising flexibility in spending their IDEA allocations, in an attempt to better understand how LEAs are adjusting their use of funds with the increased funds they have received.

[46]The 16 states and territories are Arizona, Alaska, Bureau of Indian Education, Delaware, District of Columbia, Federated States of Micronesia, Louisiana, Minnesota, Missouri, Montana, New Hampshire, Ohio, Vermont, Virginia, Washington, and Wisconsin.

[47]OSEP's focused monitoring priorities, which helped determine which states to visit for 2009-2010 are: timely provision of early intervention services; Part C to Part B transition; and placement in the least restrictive environment.

Specifically, Education is planning to collect information on the number of LEAs that are taking advantage of the flexibility to decrease their local IDEA, Part B expenditures by up to 50 percent of the amount of the increase in their overall IDEA, Part B allocation.[48] These "freed up" funds must be spent on activities allowable under the ESEA. This is of potential concern in future years because LEAs are required to maintain their previous year's level of local spending on special education and related services to continue to receive IDEA funds, and by reallocating local funds out of IDEA programs, they will lower the level of local spending the LEA must maintain in subsequent years. Education is also collecting information on the number of school districts that are setting aside funds for Coordinated Early Intervening Services (CEIS).[49] Education officials expect to have this information collected in 2011. As part of its monitoring and desk reviews, OSEP will review whether states are ensuring that only eligible LEAs are taking advantage of the maintenance-of-effort flexibility and that states are collecting information on LEAs that are setting aside funds for CEIS.

Monitoring of state drawdowns and cash management. Education is monitoring states' drawdowns of Recovery Act funds and has identified

[48]Generally, in any fiscal year in which an LEA's IDEA, Part B allocation exceeds the amount the LEA received in the previous year, the LEA may reduce its local spending on disabled students by up to 50 percent of the amount of the increase, as long as the LEA (1) uses those freed-up funds for activities that could be supported under the Elementary and Secondary Education Act of 1965, (2) meets the requirements under the Act, and (3) can provide each child a free and appropriate public education.

[49]CEIS are services provided to students in kindergarten through grade 12 (with a particular emphasis on students in kindergarten through grade 3) who are not currently identified as needing special education or related services but who need additional academic and behavioral supports to succeed in a general education environment. IDEA regulations permit LEAs to set aside up to 15 percent of the amount the LEA receives under IDEA Part B to develop and implement CEIS, minus any amount by which the LEA reduces its local maintenance-of-effort, using the flexibility described in the previous footnote. IDEA regulations require an LEA to reserve 15 percent of IDEA Part B funds available for comprehensive CEIS if there is significant disproportionality based on race or ethnicity with respect to the identification of children with disabilities; the identification of children in specific disability categories; the placement of children with disabilities in particular educational settings; or the incidence, duration, and type of disciplinary actions, including suspensions and expulsions.

issues with cash management in some states. To help ensure that states are complying with federal cash management requirements, including that states only draw down federal funds to meet the timing needs of a particular program, Education monitors states' drawdowns of Recovery Act funds.[50] Whenever a state requests a large drawdown of funds, Education officials told us they contact the state before approving the release of the funds to learn why it is drawing down the funds and whether it can document that it has an immediate need for the funds. The department's monitoring of cash management drew officials' attention to a substantial drawdown request of SFSF funds in Arizona that Education ultimately denied. Arizona planned to use the funds to backfill a $250 million reduction in general fund appropriations for LEAs in fiscal year 2009. However, when Arizona tried to draw down the SFSF funds for this purpose, Education denied the drawdown. According to Education officials, Arizona's plans for the funds would have violated Recovery Act requirements because Arizona had not required LEAs to submit applications for the funds and LEAs would not have been aware that the funds they had used in fiscal year 2009 were Recovery Act funds, and, therefore, LEAs would not have been able to properly account for the funds in accordance with Recovery Act requirements.

The substantial increase in federal education funds going to states due to the Recovery Act has increased the importance of cash management issues in some states, including Illinois and California. Specifically, Illinois has distributed SFSF funds to LEAs in semi-monthly payments, but according to state officials, the state does not have the ability to identify specific cash needs from LEAs prior to distributing these funds. However, disbursements of federal funds by states to LEAs when they are not prepared to spend them may result in state or LEA interest liability and reflect an inefficient use of federal cash. To track this issue, Illinois is

[50]The Cash Management Improvement Act of 1990, as amended, requires the Secretary of the Treasury, along with the states, to establish equitable funds transfer procedures so that federal financial assistance is paid to states in a timely manner and funds are not withdrawn from Treasury earlier than they are needed by the states for grant program purposes. The act requires that states pay interest to the federal government if they draw down funds in advance of need and requires the federal government to pay interest to states if federal program agencies do not make program payments in a timely manner. The Department of the Treasury promulgates regulations to implement these requirements. 31 C.F.R. pt. 205. However, cash management by subgrantees, such as LEAs, is subject to Department of Education grant administration regulations, which may require subgrantees to remit to the U.S. government interest earned on excess balances. See 34 C.F.R. §§ 74.22, 80.21.

completing reports designed to identify excess cash balances maintained by LEAs, and according to state officials, LEAs are considered to be maintaining excess cash balances when they do not expend the funds they receive within the established time frame. Cash management by Illinois and its LEAs is an issue we intend to continue addressing in future reports. California drew down 80 percent of its available Title I, Part A Recovery Act funds in May 2009 and immediately distributed them to LEAs. According to Education officials, California Department of Education officials said that the drawdown was in lieu of its normally scheduled drawdown of school year 2008-2009 Title I funds, and therefore the schools would be ready to use the funds quickly. However, in August, we contacted the 10 LEAs in California that had received the largest amounts of Title I, Part A Recovery Act funds and found that 7 had not spent any of these funds and that all 10 reported large cash balances—ranging from $4.5 million to about $135 million. The California Department of Education is taking action to improve its overall cash management, including a pilot program to monitor LEA cash balances. Education is providing these states, and others, with targeted technical assistance on cash management, and Education's Office of Inspector General (OIG) is focusing on cash management practices in its work.[51]

Education Is Developing Plans to Monitor Recipients of SFSF Funds, and Some States Face Challenges Establishing Monitoring Procedures for SFSF Funds

Because SFSF is a new program established under the Recovery Act, Education has yet to finalize monitoring plans and processes. Education officials said they are developing an approach to monitor SFSF funds, which they anticipate will be completed around the time the department releases the final SFSF guidance in the fall of 2009. In the interim, Education officials said they are taking several steps to monitor information they are receiving from states as well as to provide technical assistance to states. For example, according to Education officials, prior to approving SFSF awards, Education screened each state's application to ensure the state complied with statutory requirements to receive the funds. Now that almost all of the states have been approved for funding, Education officials reported that they have provided written guidance and

[51]The OIG reported in March 2009 that the California Department of Education needed to strengthen controls to ensure that LEAs correctly calculate and promptly remit interest earned on federal cash advances (ED-OIG/A09H0020, March 2009). The OIG plans to issue a report on Illinois's cash management later this fall.

conducted webinars to improve states' and LEAs' awareness of the appropriate uses of SFSF funds and related reporting requirements. Further, Education officials said they are monitoring fund drawdowns and following up with states on any press reports about questionable uses of SFSF funds. Education officials also plan to review information reported by states on SFSF funds in their required quarterly Recovery Act reports.

Regarding requirements for states to monitor subrecipients' use of SFSF funds, Education initially made states aware of this requirement by enumerating administrative requirements in the SFSF application and requiring governors to provide assurances that they will comply with the requirements. To re-emphasize this requirement, Education recently sent an e-mail to states to remind them of their responsibility to thoroughly and effectively monitor subrecipients under SFSF to ensure compliance with applicable federal requirements. The e-mail specified that to comply with these requirements, each state must have a comprehensive monitoring plan for SFSF supported activities and that the monitoring plan should address areas such as the following:

- a monitoring schedule,
- monitoring policies and procedures,
- data collection instruments (e.g., interview guides and review checklists),
- monitoring reports and feedback to subrecipients, and
- processes to verify that required corrective actions are implemented.

However, it is not clear that states have focused on this requirement and begun to put in place subrecipient monitoring systems that comply with Education's requirements. For example, before Education sent the e-mail regarding SFSF monitoring, education officials in North Carolina said they had not developed specific monitoring plans for SFSF funds and they planned to rely on existing procedures for monitoring LEAs' uses of Title I, Part A and IDEA, Parts B and C funds. After receiving the e-mail, state officials told us they are now developing monitoring plans specifically for SFSF funds.

Furthermore, some states face challenges in developing monitoring plans for SFSF funds because of their existing problems in monitoring subrecipients of other education funds. In particular, Education's OIG has identified subrecipient monitoring of education funds as an area of

concern, and state auditors have cited problems with subrecipient monitoring. In its reports on education program fiscal issues,[52] the OIG stated that inadequate monitoring by the SEA was one of the most common internal control weaknesses. As an example of state subrecipient challenges, New Jersey's 2008 Single Audit found material weaknesses in the SEA's auditing of IDEA, Part B, including no evidence of state monitoring of LEAs' use of federal funds.[53] Further, Arizona's 2008 Single Audit found that the SEA did not comply with the subrecipient monitoring requirements of ESEA Title I and IDEA because it did not obtain Single Audit reports within 9 months of the subrecipients' fiscal year-end, did not retain documents to support that the SEA tried to ensure audit requirements were met, and it did not issue management decisions within 6 months after receipt of subrecipient Single Audit reports.

Additionally, states may face a number of other challenges in establishing subrecipient monitoring programs for SFSF funds. Because the SFSF program is new, state officials will need to develop new procedures and reallocate or hire new staff and train them to conduct monitoring. Also, SFSF funds may be administered by governors' offices rather than through state agencies with more experience directly monitoring programs. Another potential challenge to developing an effective monitoring program is that the Recovery Act does not designate SFSF funds that may be set aside specifically for administration, which would include monitoring responsibilities. While states could choose to use SFSF government services funds for this purpose, doing so would leave the states with less funds to use for public safety, education, and other purposes. Finally, some states could be challenged in setting up an effective monitoring program due to budget shortfalls that could limit their ability to maintain

[52]U.S. Department of Education Office of Inspector General, *Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs*, ED-OIG/X05J0005 (Washington, D.C.: July 21, 2009).

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

adequate staff to handle the increased monitoring workload, for SFSF funds as well as other Recovery Act funds.

Recommendation to the Secretary of Education

We recommend 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 Comments

We provided Education a draft of this report section for review and comment. The department did not provide formal written comments, but it did provide technical comments, which we incorporated in this section when appropriate.

States Used Recovery Act WIA Youth Funds to Create Summer Youth Employment and Training Opportunities

The Recovery Act provides an additional $1.2 billion in funds for Workforce Investment Act (WIA) Youth Program activities, including summer employment. Administered by the Department of Labor (Labor), the WIA Youth Program is designed to provide low-income in-school and out-of-school youth 14 to 21 years old, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. Funds for the program are distributed to states based on a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving as much as 15 percent for statewide activities. The local areas, through their local workforce investment boards, have the flexibility to decide how they will use the funds to provide required services.

While the Recovery Act does not require all funds to be used for summer employment, in the conference report accompanying the bill that became the Recovery Act,[54] the conferees stated they were particularly interested in states using these funds to create summer employment opportunities for youth. While the WIA Youth Program requires a summer employment component to be included in its year-round program, Labor has issued guidance indicating that local areas have the flexibility to implement stand-alone summer youth employment activities with Recovery Act

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

funds.[55] Local areas may design summer employment opportunities to include any set of allowable WIA youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work experience component.

A key goal of a summer employment program, according to Labor's guidance, is to provide participants with the opportunity to (1) experience the rigors, demands, rewards, and sanctions associated with holding a job; (2) learn work readiness skills on the job; and (3) acquire measurable communication, interpersonal, decision-making, and learning skills. Labor has encouraged states and local areas to develop work experiences that introduce youth to opportunities in "green" educational and career pathways. Work experience may be provided at public sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines, as well as federal and state wage laws.[56] Labor's guidance requires that each state and local area conduct regular oversight and monitoring of the program to determine compliance with programmatic, accountability, and transparency provisions of the Recovery Act and Labor's guidance. Each state's plan must discuss specific provisions for conducting its monitoring and oversight requirements.

The Recovery Act made several changes to the WIA Youth Program when youth are served using these funds. It extended eligibility through age 24 for youth receiving services funded by the act, and it made changes to the performance measures, requiring that only the measurement of work readiness gains will be required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. Labor's guidance allows states and local areas to determine the methodology for measuring work readiness gains within certain parameters. States are required to report to Labor monthly on the number of youth participating and on the services provided, including the work readiness attainment rate and the summer employment completion rate. States must also meet quarterly performance and financial reporting requirements.

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

[56]Current federal wage law specifies a minimum wage of $7.25 per hour. Where federal and state laws have different minimum wage rates, the higher rate applies.

For this report, we focused on Recovery Act-funded WIA summer youth employment activities in 10 of our 16 states.[57] We did not review the District of Columbia because officials told us they were not using Recovery Act funds for their summer youth employment program. The 10 states in our review represent nearly 60 percent of the $1.2 billion in Recovery Act WIA youth funds allotted by Labor. We supplemented our work in the 10 states by analyzing national data on the characteristics of youth participating in Recovery Act-funded WIA youth activities and the extent to which funds have been drawn down.

States Were Generally Successful in Serving Increased Numbers of Youth in Summer Activities

As we noted in our July 2009 bimonthly report, the 10 states we reviewed generally planned to use Recovery Act funds to increase the number of youth served through summer activities. The July report also indicated that the limited time frame that states and local areas had to implement a stand-alone summer program presented challenges to officials. Once the Recovery Act was passed, officials had only about 4 months to get their new summer youth employment activities up and running—a process that officials told us would normally begin many months earlier. Moreover, local areas often lacked recent experience in operating such a stand-alone program. Prior to receiving the Recovery Act funds, many states and local areas had greatly reduced their summer youth employment programs and no longer offered a stand-alone summer program—or they had found funding sources other than WIA, such as state, local, or foundation funds, to cover it. Local areas without recent experience had to build the program from the ground up. These areas had to quickly confront many basic decisions—how to structure the program, how to recruit work sites and participants, whether to use contracted providers (and for what functions), or whether to administer the program in house. Some other areas, however, had maintained well-developed summer youth employment programs. These areas already had some of these basic structures in place but still found it daunting to quickly expand their existing programs.

Most States That Set Targets for Number of Youth to Be Served Have Met or Exceeded Them

In July 2009, we reported that states expected large increases in the number of youth they served. These increases have generally materialized.

[57]We reviewed WIA youth activities in California, Florida, Georgia, Illinois, Massachusetts, Michigan, New York, Ohio, Pennsylvania, and Texas.

Eight of the 10 states in our current review set targets, totaling more than 120,000, for the number of youth they expected to serve this summer, according to our survey.[58] Five of the states—Georgia, Massachusetts, New York, Pennsylvania, and Texas—reported they had met or exceeded their targets by mid-August. Three other states—Florida, Illinois, and Michigan—said they had not yet met their targets but expected to. For example, Florida set a target to serve 16,000 youths this summer, but officials could not report that they had met it due to late reporting by some local areas.

Nationwide, as of July 31, 2009, almost 300,000 youths were participating in Recovery Act-funded WIA youth activities; more than three-fourths were placed in summer employment, according to Labor's data. In our 10 states, over 150,000 youths were served, with just under three-fourths placed in summer employment as of July 31, 2009. Youth 14 to 18 years old comprised the largest category of participants, ranging from 63 percent in Florida to 80 percent in Massachusetts. From 4 percent to 10 percent of participants were age 22 to 24, the new age category authorized under the Recovery Act. The proportion of out-of-school youth, a special focus of the WIA Youth Program, ranged from 24 percent to 45 percent in our 10 states. Nationwide, about 36 percent of the youth served with Recovery Act funds were out of school, compared with just over 42 percent in the most recent data for the regular WIA Youth Program (see table 11).

Table 11: Recovery Act-Funded WIA Youth Participation in Selected States, as of July 31, 2009

State	Number served	Percentage placed in summer employment	Percentage out of school	Percentage 22-24 years old	Percentage 14-18 years old
California	33,789	42	38	7	69
Florida	11,902	64	45	10	63
Georgia	9,873	100	24	5	77
Illinois	15,078	62	43	10	66
Massachusetts	5,640	93	43	4	80
Michigan	13,705	89	35	9	66
New York	21,375	89	27	7	71

[58]California and Ohio reported that they did not set targets for the number of youth they expected to serve in summer activities.

State	Number served	Percentage placed in summer employment	Percentage out of school	Percentage 22-24 years old	Percentage 14-18 years old
Ohio	12,530	69	28	8	72
Pennsylvania	5,102	96	34	7	69
Texas	21,602	91	25	7	74
Total for 10 states	**150,596**	**73**	**34**	**8**	**70**
Nationwide	**297,169**	**76**	**36**	**7**	**71**

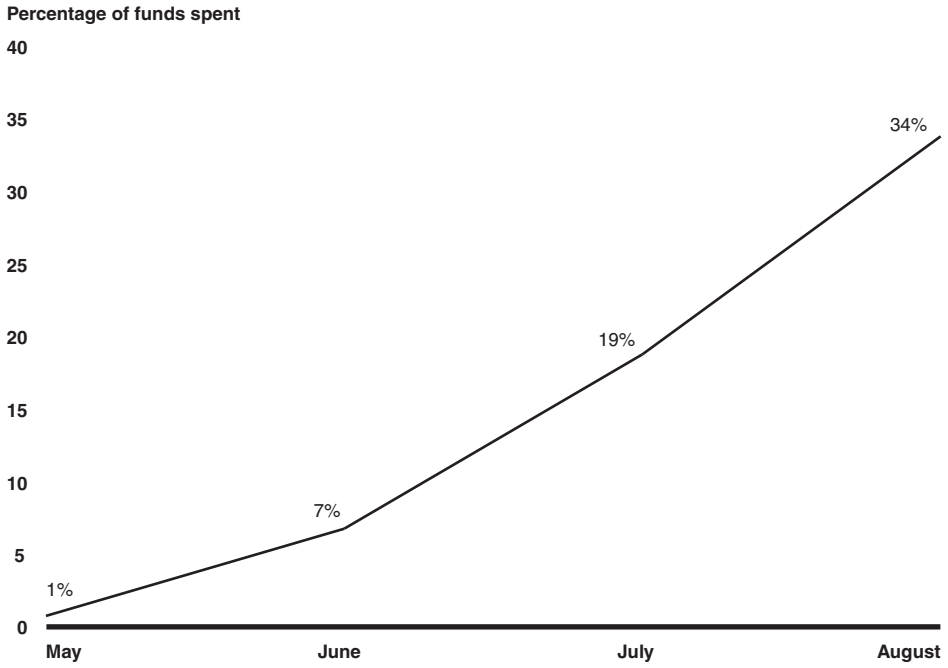
Source: Department of Labor data based on information reported by the states.

States' Draw Down Rates Have Been Increasing

As of August 31, 2009, about 34 percent of Recovery Act WIA youth funds ($397 million) had been drawn down nationwide, according to Department of Labor data—an increase of 28 percentage points from the 6 percent we reported in July.[59] Across our 10 states, drawdowns have been steadily increasing since June. (See fig. 6.)

[59]Drawdowns represent cash transactions: funds drawn down by states and localities to pay their bills. These are cash drawdowns from the Department of Health and Human Services' Payment Management System. Under the procedures for using these funds, funds are to be drawn down no more than 3 days in advance of paying bills.

Figure 6: National Draw Down Rates for Recovery Act Funds for the WIA Youth Program, as of August 31, 2009



Source: GAO analysis of Department of Labor data.

Among the 10 states, the percentage drawn down ranged from 20 percent for California to 51 percent for Georgia and Texas (see table 12).

Table 12: Selected States' Drawdowns as of August 31, 2009

Dollars in millions

State	Allotment	Amount drawn down	Percentage drawn down
California	$186.6	$38.0	20
Florida	42.9	21.2	50
Georgia	31.4	16.0	51
Illinois	62.2	23.5	38
Massachusetts	24.8	8.3	33
Michigan	73.9	20.2	27
New York	71.5	17.0	24
Ohio	56.2	15.8	28
Pennsylvania	40.6	9.4	23

Dollars in millions			
State	**Allotment**	**Amount drawn down**	**Percentage drawn down**
Texas	82.0	41.6	51
Nationwide	**$1,167.2**	**$397.1**	**34**

Source: GAO analysis of Department of Labor data.

Local Areas Used Their Flexibility to Offer a Variety of Summer Youth Employment Activities

Local areas we visited provided WIA youth participants with a range of summer work activities in the public, private, and nonprofit sectors. Some local areas offered academic and occupational skills training.

Type of Work Experience

Across the public, private, and nonprofit work sites, the specific work activities that youth were assigned ranged from clerical work and custodial work to animal care, customer service, and serving as camp counselors or legislative aides.

Public sector work sites included local government offices; public parks, recreation centers, and camps; public schools and community colleges; public libraries; and animal shelters.

- In **Weatherford, Texas,** for example**,** a youth who wanted to become a veterinarian was able to gain firsthand experience when she was assigned to work at a city animal shelter. Her responsibilities included working with veterinarians, taking care of animals, cleaning kennels, and completing intake paperwork.

Private-sector work sites included hospitals and retail stores.

- In **Dayton, Ohio,** for example**,** a local university student and aspiring entrepreneur was placed in a small retail store to shadow a small business owner and learn the various skills needed to operate the store, including customer service, stock duties, product placement, and data entry.

Nonprofit work sites included museums and community action agencies.

- In **Chicago,** for example**,** the Museum of Science and Industry enrolled youth as peer educators who facilitated children's science activities at various sites across the city, such as at libraries and schools.

Role of Academic and Occupational Skills Training

Some youth also received academic and occupational skills training as part of their summer activities. Academic training linked summer employment and academic learning for out-of-school youth and in-school youth. For example:

- **Philadelphia:** All youth participants in Philadelphia were required to complete an academic project that would be evaluated by certified teachers and eligible for academic credit.
- **Oneida County, New York:** Out-of-school youth were allowed to enroll in a General Education Diploma training course for 3 hours a day outside of their work hours and get paid for 2 of the 3 hours.

Occupational training provided youth with exposure to various career fields. For example:

- **Hillsborough County, Florida:** Youth ages 17 to 19 participated in a 4-week Employment and Leadership Exploration program. The instruction covered business ethics and business simulation models. The youth worked in teams and applied the skills learned to create a simulated online magazine of their choice. Participants also completed a skills assessment and participated in one on-site visit to an employer.
- **Atlanta, Georgia:** About 100 youth participated in a summer learning program where they attended classes and workshops to study drama, video production, and other visual arts. These youth worked with industry professionals in these areas and were expected to complete a project related to their area of study. For example, the youth in the drama program were responsible for developing and producing a play that was held at the end of the summer program. They also attended occupational workshops and participated in basic life and career skills training.
- **Columbus, Ohio:** Over 200 youth ages 14 to 17 participated in an information technology program aimed at developing computer skills, exploring career pathways, and accessing college and financial aid information.

Local Areas Used Different Methods to Distribute Youth Payroll

The local areas we visited used different approaches to pay their youth—direct deposit, prepaid debit cards, or paper checks. For example, in both Columbus and Dayton, Ohio, youth received their pay through direct deposit into a bank account established for the youth at the beginning of

the program. Some youth in Broward County, Florida, also received their pay by way of direct deposit or prepaid debit card. Some local areas, however, distributed paper checks.

The paycheck distribution process in one local area did not go smoothly—Detroit youth encountered multiple challenges in getting their paychecks. We observed payroll distribution on three occasions. Initially, the payroll distribution site had long lines, and the process for obtaining the checks was unclear. According to the summer work activities contractor, many youth did not know where to go to get their paychecks or with whom to speak to resolve issues. In subsequent observations, we saw that some problems persisted. For example, we observed youth waiting in lines for up to 4 hours while standing in the rain to receive their paychecks. Local area officials confirmed that wait times were, on average, 3 to 4 hours. Further, on several occasions, local police were called to assist with crowd control. At the time of our site visit, officials told us they were working to correct these problems.

Local Areas Continued to Face Challenges in Implementing Their Recovery Act-Funded WIA Summer Youth Employment Activities

Local area officials continued to report challenges in some areas as they implemented their summer youth activities. In July, we reported that state and local areas faced challenges in three areas: tight time frames, a lack of staff capacity to meet the expanded needs, and difficulty in determining and documenting youth eligibility. In our current review, we continued to find challenges in determining and documenting youth eligibility. In addition, we found that some local areas faced initial challenges in recruiting sufficient numbers of youths.

Determining and Documenting Youth Eligibility

As the summer activities got under way, officials still found it challenging to determine youth applicants' eligibility.[60] In seven states, officials mentioned that it was challenging for youth and their parents to provide the proper eligibility documentation in a timely manner. These local officials often said that youth had to come back to the office multiple

[60]To be eligible for services under the WIA Youth Program, an individual must be between the ages of 14 and 21 (24 for services funded by the Recovery Act), be a low-income individual, and have at least one of the following listed barriers: Be (1) deficient in basic literacy skills; (2) a school dropout; (3) homeless, a runaway, or a foster child; (4) pregnant or parenting; (5) an offender; or (6) an individual (including a youth with a disability) who requires additional assistance to complete an educational program, or to secure and hold employment.

times to provide the documentation needed to be eligible to participate.[61] Officials also mentioned that it was especially challenging to determine the eligibility of older youth (18 to 24 years old). Based on their experiences, officials in one local area said that older youth who are not employed or in school often do not have documentation to prove their eligibility for the program, such as a birth certificate or Social Security card, or proof of household income or citizenship. Two states reported they had identified issues with verifying eligibility during their monitoring efforts and in each case took corrective action. Illinois officials found some local areas were not always correctly verifying participants' eligibility, and in California, officials found missing documentation in some participants' case files. Labor is aware of the issues related to eligibility and is conducting an ongoing evaluation of the WIA youth program that includes a focus on the eligibility determination process. Labor contracted with Mathematica Policy Research Inc. to perform this evaluation. The evaluation included site visits to 20 local areas between mid-July and early August 2009. An interim report is due in January 2010 and a final report in 2011.

Recruiting Youth

Across the local areas we visited, some officials reported that they initially found it challenging to recruit sufficient numbers of eligible older youth. Local area officials addressed this challenge in several ways. Many local areas used various forms of advertisement—radio, television, and flyers—to inform youth about the summer programs. Some local areas also used a rolling admissions process, so that youth could have more time to apply for the program. A few local areas raised the hourly wage they offered to youth, which attracted many additional applicants. For example, when Broward County, Florida, officials increased the wage from $7.21 to $9 per hour, they received more than 3,000 applications. But the county was forced to reduce the number of participants from 900 to 724 to compensate for the increased wages. Officials in Columbus, Ohio, also reported a similar experience when they increased their wages. Moreover, wages in a local area in Georgia were set up to $14 an hour in some cases

[61]All 10 states reported having statewide requirements for documenting eligibility for the WIA Youth Program. Acceptable forms of eligibility documentation vary depending on the data element. Examples include public assistance identification cards to support total household income, birth certificates for proof of citizenship, and applicant statements to document those items, which, in some cases, are not verifiable or which may cause undue hardship for individuals to obtain, such as residency for homeless individuals not residing in a shelter or income for individuals who claim little to no income.

to bring them on par with unsubsidized employees at the work site who had the same job description.

Limited Guidance from Labor Contributed to Mixed Local Efforts in Developing Green Work Experiences

Although Labor encouraged states to develop work experiences in green jobs and provided some guidance, officials in several states told us they were not always clear what constituted a green job or how to incorporate it into the summer program. Labor provided some discussion of green jobs in its March 18, 2009, guidance to states on Recovery Act funds. The guidance highlights areas within the energy efficiency and renewable energy industries that will receive large Recovery Act investments, such as energy-efficient home retrofitting and biofuel development, and also provides examples of occupations that could be impacted by green technologies, including power plant operators, roofers, and construction managers. Labor officials told us that their reporting requirements for Recovery Act funds do not require states to provide information on green jobs.

Officials in several of the states we reviewed told us that the lack of clarity in the definition of a green job made it difficult to incorporate green jobs into the summer activities. Some local areas decided not to include green jobs in their summer program at all, while others took steps to define and identify green jobs. However, their definitions varied. For example, local area definitions of green jobs included the following:

- jobs that improved the health of the planet,
- jobs that help with conservation, recycling, or preserving our environment, and
- jobs that build awareness and understanding of the natural environment and encourage careers in environmental sciences and industry.

The methods for defining green jobs also varied. For example, some local areas identified the jobs by allowing employers to self-report whether their jobs were green. Georgia provided its local areas with guidance on how to define green jobs, including summarizing Labor's guidance and listing examples of green jobs. In Michigan, officials in Detroit told us they had developed a task force to define and identify green jobs and planned to place 600 youth in green jobs. In Lansing, Michigan, officials reported they had difficulty identifying significant numbers of green jobs suitable for youths, although they created some green jobs for youths in the Lansing

Board of Water and Light and the School of Agriculture at Michigan State University.

We also found a wide variation in youths' experiences in jobs that were classified as green. In some cases, youth were working toward green educational or career pathways. For example:

- In **Harrisburg, Pennsylvania**, a work site included tours of recycling facilities, discussed how to make homes more energy efficient, and exposed youth to "green" careers, such as electricity consumption auditors.
- Participants at a **Philadelphia** work site tested the permeability of soil samples that were provided to them from the site of a major oil spill in Alaska.
- In **Georgia**, one workforce board worked with a local technical college to develop a 4-week water management camp for youth. This camp combined work experience and classroom activities in bioscience and environmental science to help youth develop marketable skills applicable to the water quality management industry.
- In **Savannah, Georgia**, a nonprofit organization developed a computer recycling program for at-risk youth to learn how to refurbish computers that would have ended up in land fills.

However, in other cases, it is unclear whether youth working in jobs the local area classified as green were actually working toward "green" educational or career pathways. For example:

- In **Columbus, Ohio**, two youth were assigned to an automotive research facility whose projects include researching and designing alternative fuel vehicles. Although they were exposed to green technology, their actual tasks involved clearing brush and painting a fence.
- In **Georgia**, an organic food company was considered a green employer, however, at least one of the youth was performing clerical duties.
- In **Burke County, Georgia**, some youth were working at the forestry commission performing clerical and office work.

Labor officials told us they are aware of the difficulties and confusion that some states and local areas have experienced with respect to providing youth with green work experiences. Labor officials said they expect that

their Recovery Act Competitive Grants for Green Jobs Training Initiative will generate substantial information on best practices for training workers for green jobs. Through this initiative, Labor plans to award green training funds for projects that prepare workers for careers in energy efficiency and renewable energy sectors as described in the Green Jobs Act of 2007. Labor officials added that Labor's ongoing evaluation of the WIA Youth Program should shed further light on state and local areas' experiences in developing green jobs for youth.

States' Monitoring Efforts Built on Existing Structures but Required Additional Resources

The 10 states we reviewed generally reported that they are relying on existing WIA monitoring structures to oversee the use of Recovery Act funds for WIA summer youth activities. State-level monitoring of WIA summer youth programs varied by state, but nearly all state monitoring included financial auditing, site visits, and file reviews, and some also included interviews with work site supervisors and/or program participants. A number of states targeted their monitoring efforts using risk-based approaches. For example, California reported using assessments to focus monitoring on work sites considered high risk, based on factors such as geographic location, type of work being conducted, and the age of the participants. Some states, such as Georgia, have taken a multistage approach to monitoring, with the first stage involving preprogram assessment and a second stage involving program review and financial auditing.

To conduct their monitoring efforts, states and local areas have often found it necessary to add staff in order to meet the steep demands of monitoring the expanded summer youth activities. For example, officials in Oneida County, New York, reported that they temporarily hired 4 employees to manage their summer youth monitoring efforts. In some cases, efforts to bring on new staff fell short. In Detroit, Michigan, for example, where all summer youth employment activities were contracted to an outside organization, city and contractor officials reported that they initially planned to hire 50 work site monitors, but as of September 9, 2009, had 21 work site monitors on staff. Similarly, Michigan state officials' plan to hire additional staff had not yet materialized at the time of our visit because they had been unable to obtain permission to do so. As of mid-August, Michigan had not conducted any oversight reviews of the WIA summer youth employment activities.

Labor Has Taken a Wide Range of Actions to Support Implementation of Summer Employment Activities for Youth

Labor has provided support for state and local efforts through actions such as issuing guidance, monitoring implementation, providing technical assistance, and conducting a program evaluation. For example, Labor announced its initial plans for implementing Recovery Act programs on March 4, 2009, about 2 weeks after the act was passed. From March to May 2009, Labor announced states' allotments, as well as issued comprehensive implementation guidance and guidance on performance reporting. Its guidance on recipient reporting was issued in August 2009.

In the spring of 2009, as states were planning their summer youth employment activities, Labor administered a checklist to gauge each state's readiness for implementing these activities and to help officials target technical assistance. The checklist covered a broad range of topics, including the states' plans for training staff and for monitoring summer youth employment 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 summer youth activities.

Starting at the end of June, Labor's regional offices began conducting local site visits in each of their states to monitor and gather information on WIA Youth Program experiences. Labor has also hired a contractor to provide technical assistance to states and local areas. According to Labor officials, the contractor will be holding technical assistance conferences in late fall 2009 to discuss serving older out-of-school youth and green jobs in preparation for implementing services with the remaining Recovery Act funds. Further, as mentioned, Labor has contracted with Mathematica to conduct an evaluation of the WIA Youth Program to better understand the issues and challenges.

Broad Flexibility for States and Localities to Measure Gains in Work Readiness of Youth May Limit Usefulness of Data

While many program officials, employers, and participants we spoke with believe the summer youth activities have been successful, measuring actual outcomes has proven challenging and may reveal little about what the summer activities achieved. The Recovery Act requires that only the work readiness measure be used to assess the effects of the summer-only youth employment activities. This measure is defined as the percentage of participants in summer employment who attain a work readiness skill goal. Under Labor's guidelines, states and local areas are permitted to determine the specific assessment tools and the methodology they use to determine improvements in work readiness, but it must be measured at the beginning and completion of the summer experience. In implementing the requirements of the Recovery Act, Labor officials told us they had little time to develop a standardized approach. Moreover, because some local

areas already had work readiness assessments in place, Labor officials were concerned that requiring a new approach would place additional stress on a workforce system already stretched thin.

In our review of the 10 states, we found that the methodologies used to measure work readiness varied widely, calling into question the comparability and the usefulness of the indicator when rolled up at the national level. Of the 10 states, only Illinois established a single approach to be used statewide in measuring work readiness gains. The approaches used in the other 9 states varied from local area to local area and sometimes from contractor to contractor. For example, in Philadelphia, all work sites administered the same work readiness assessment tool—one that focuses on skills such as oral and written communication, leadership, and teamwork. But in Pennsylvania's South Central workforce area, the decision about how to conduct the pre- and post-assessment was left to the individual contractors. In Columbus, Ohio, officials were using a comprehensive work readiness assessment tool that included questions in such dimensions as collaboration in the workplace, problem solving, and characteristics of good leadership. In addition, youth were required to do an extensive self-evaluation in these and other dimensions. Dayton, Ohio, youth, on the other hand, were given a 20-question true-false survey that included questions such as "I understand the importance of demonstrating a positive attitude in the workplace." The North Central Texas Workforce Board was using a variety of methods to identify work readiness, but did not use pre- and post-tests at all. Youth must work the hours agreed upon during program registration, obtain a positive evaluation from their supervisor, and complete a work readiness workshop that addresses effective communication and other employability skills.

Labor officials told us that they are aware of the range of work readiness tools being used and the issues with measuring work readiness and that they view this as an area that could be improved. As part of Mathematica's evaluation of the summer youth activities, Labor has asked researchers to focus on gathering lessons learned related to measuring work readiness.

Other Efforts May Shed Additional Light on Program Outcomes and Characteristics

Seven of our 10 states reported they plan to track long-term outcomes, such as job placement and employment retention, for at least some of the youth they served this summer, largely through the tracking systems they use for the WIA year-round program. For example, Pennsylvania plans to study the outcomes and employment activities of the older youth (22 to 24 years old). Officials also plan to review placements offered to all participants in the summer program to determine whether certain placements—for example, private sector versus public sector work sites—

provided better employment activities than others. Pennsylvania officials also said they plan to develop and use an evaluation tool to help officials identify best practices in their summer youth employment activities. These best practices will be highlighted at an annual forum of Pennsylvania's local workforce officials and stakeholders.

Beyond these evaluation efforts, states must meet additional reporting requirements under the Recovery Act that may help policymakers at all levels gauge the impact of the summer employment activities.

- Recipients of Recovery Act funding are required to submit detailed information on the use of the funds every quarter, beginning with the quarter ending September 30, 2009, including information on jobs created and retained. According to Labor's August 14, 2009, guidance, Recovery Act-funded employment and training programs are not intended to have a significant job creation component. The guidance specified that recipients should only report job creation/retention numbers for those individuals who are hired or retained to execute program activities, and whose salaries are paid with Recovery Act funds. However, on September 21, 2009, Labor issued additional guidance that clarified the reporting requirements associated with the summer youth employment activities. Labor stated that, consistent with OMB guidance, summer youth employment activities and employment activities occurring outside the summer months funded with the Recovery Act WIA Youth funds are to be included in the job creation estimates.[62]

- To gauge the progress states and local areas are making in implementing Recovery Act-funded activities, Labor has instituted new monthly reporting requirements and is posting information from these reports on its Web site. In the new report, states must provide aggregate counts of all Recovery Act youth participants, including the characteristics of participants, the number of participants in summer employment, services received, attainment of a work readiness skill, and completion of summer youth employment.

[62]The job creation estimates are to include all paid work opportunities funded with the Recovery Act WIA Youth funds and are not to include academic opportunities, according to Labor's guidance.

Agency-Specific Guidance on Green Jobs and Training Outcomes for Youth Employment

State and local officials charged with implementing the WIA summer youth employment activities reported difficulties in responding to the Recovery Act's focus on green industries without a clear standard for what constitutes a green job. Despite a significant increase in funding under the Recovery Act, flexibilities given to states and local areas in how they measure work readiness—the sole indicator to gauge the effect of the summer work activities—provide little understanding of what the program actually achieved. U.S. Department of Labor officials acknowledge that these are areas for improvement and cite their competitive grants for green job training and ongoing evaluation of the summer youth employment activities as important steps.

Recommendations

We recommend that the Secretary of Labor take the following two actions:

- 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.
- 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.

Agency Comments

We provided Labor a draft of this report section for review. The department provided written comments, which are reprinted in appendix II. Labor agreed with our recommendations to provide additional guidance in two areas: defining green jobs and measuring work readiness. With regard to green jobs, Labor indicated that it recognizes the need to provide assistance to states and local areas to help them prepare youth for careers in green industries, and it highlighted several steps it is taking to better understand and define green jobs. First, it noted that its Bureau of Labor Statistics is developing a definition for green sectors and green jobs that officials hope will inform state and local workforce development efforts to identify and target green jobs and their training needs. Labor also noted that it is planning to hold technical assistance forums in late 2009 that will focus on ways to prepare youth for careers in green industries, and it cited its plans to leverage the results of the Recovery Act-funded competitive grants for green job training to provide insights on delivering services to youth, and others, along green career pathways.

Regarding our recommendation on the work readiness measure for WIA youth summer employment activities, Labor acknowledged that the lack of

comparability in the way work readiness gains were measured has led to a less meaningful outcome measure at the state and national level. Labor indicated that it is currently assessing the methodologies used this summer to measure work readiness and plans to further refine the work readiness indicator and determine a more effective way to measure it. In the event that a significant number of local areas have Recovery Act funds available for summer employment in 2010, or if Labor receives funds for future summer employment activities where the work readiness measure is used to gauge effectiveness, Labor indicated that it will issue further guidance that provides for reporting of more consistent and meaningful data.

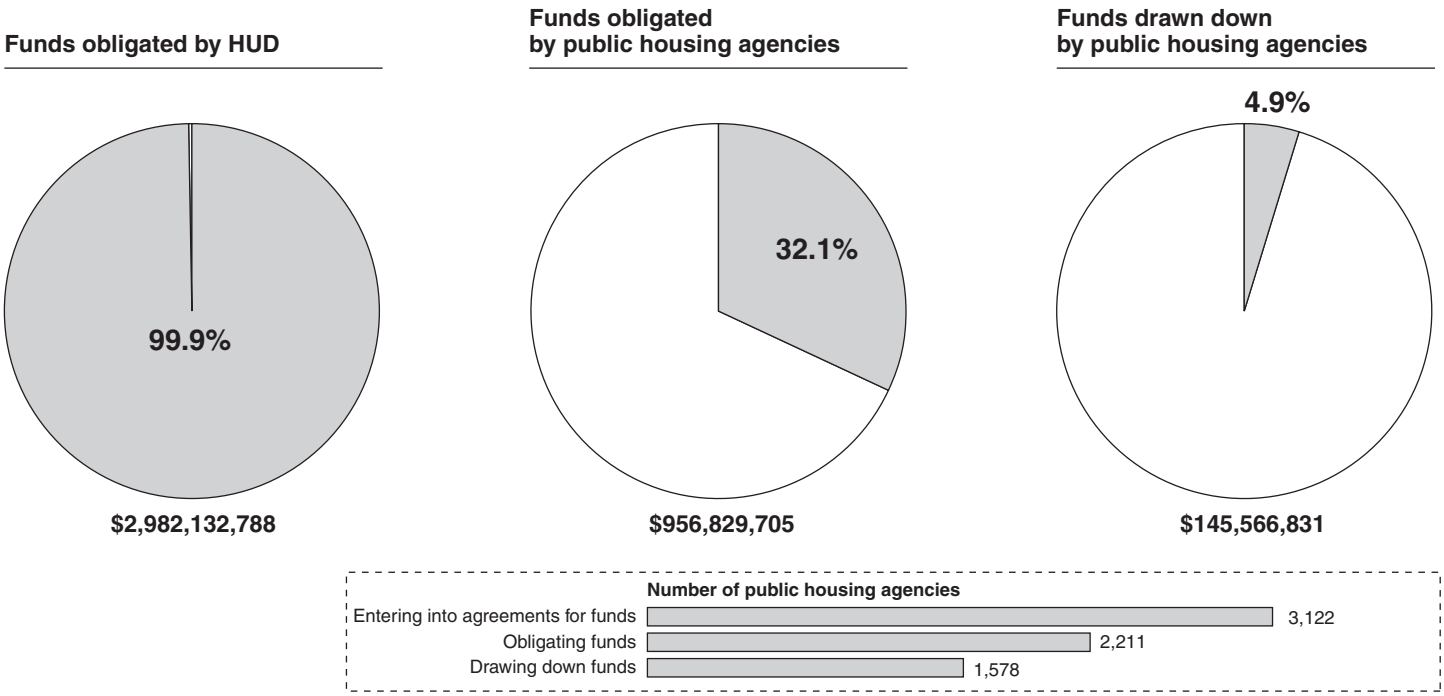
In addition, Labor commented that it considers the work readiness measure meaningful at the local level and suggested that we qualify our findings to acknowledge this point. In our view, the work readiness measure may be meaningful at the local level to the extent that a local area uses appropriate and consistent measures across worksites. However, it is unclear the extent to which this is occurring. Our work identified instances in which a local area was using measures that varied by contractor or was not using required pre- and post-tests at all. Thus, we did not revise our findings. Labor also provided technical comments, which we incorporated as appropriate.

A Growing Number of Housing Agencies Are Obligating and Beginning to Draw Down Recovery Act Formula Funds

The Recovery Act requires the U.S. Department of Housing and Urban Development (HUD) to allocate $3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. As we noted in our July report, HUD allocated Capital Fund formula dollars to public housing agencies shortly after passage of the Recovery Act and, after entering into agreements with more than 3,100 public housing agencies, obligated these funds to public housing agencies on March 18, 2009.[63] As of September 5, 2009, 2,211 public housing agencies (71 percent of the housing agencies that entered into agreements with HUD for Recovery Act funds) had reported to HUD that they had obligated a total of $957 million, or about 32 percent of the total Capital Fund formula funds HUD allocated to them. According to HUD officials, housing agencies report obligations when they have entered into binding commitments to undertake specific projects. A majority of housing agencies that had obligated funds—1,578 of 2,211 housing agencies—had also drawn down funds in order to pay for project expenses already incurred. In total, public housing agencies had drawn down almost $146 million, or just less than 5 percent of the total HUD allocated to them. Funds drawn down increased by $114 million from the level reported as of June 20, 2009.

[63]HUD allocated Capital Fund formula dollars from the Recovery Act to 3,134 public housing agencies, but as of September 5, 2009, 12 housing agencies chose not to accept Recovery Act funding, no longer had eligible public housing projects that could utilize the funds, or had not yet entered into an agreement with HUD for the funds. As a result, these funds were not obligated by HUD. HUD officials subsequently stated that one additional housing agency had rejected funds totaling $151,174.

Figure 7: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down Nationwide, as of September 5, 2009



Source: GAO analysis of HUD data.

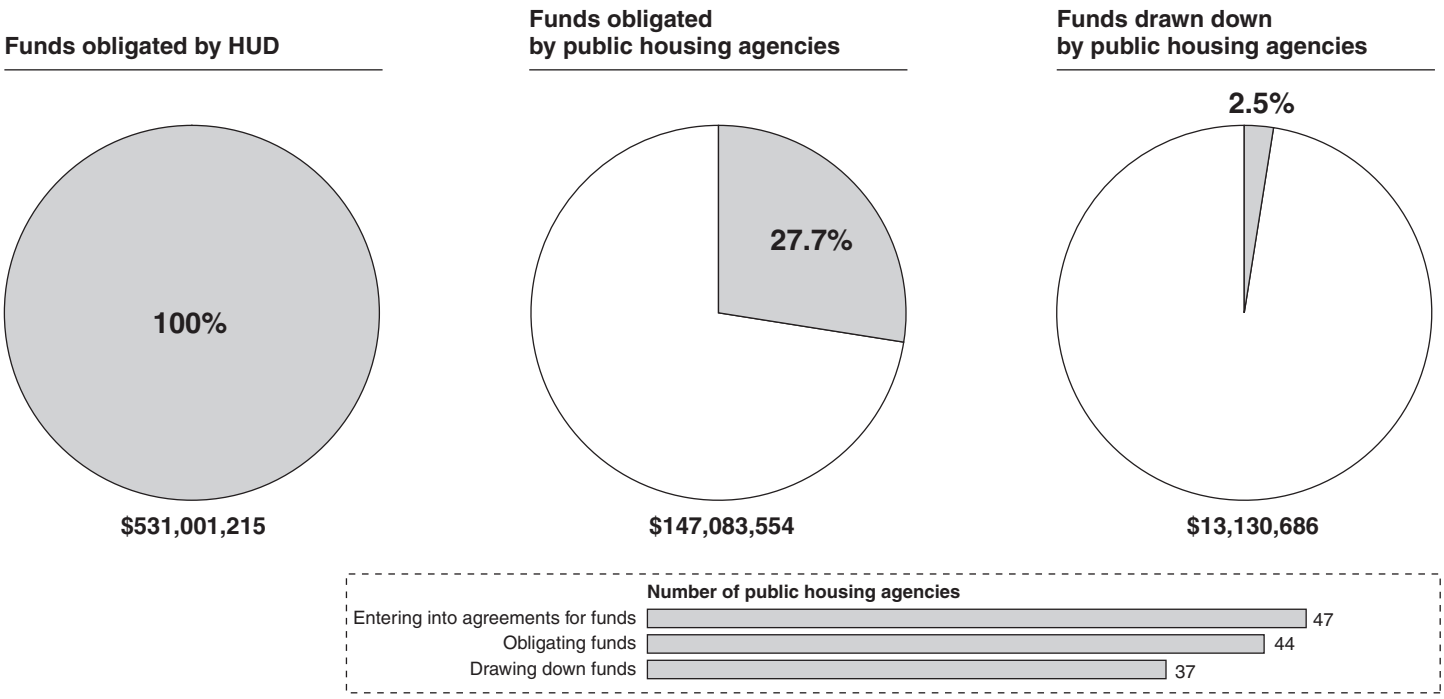
Note: The 3,122 housing agencies to which HUD obligated funds includes one housing agency that HUD officials subsequently stated had rejected funds totaling $151,174.

The number of housing agencies that had reported any obligations grew by 728 since our July 2009 report. The new obligations by housing agencies that had not previously reported obligations totaled about $178 million. In addition, 710 housing agencies that had previously reported obligations increased the amount they had obligated since our July 2009 report by $322 million. Of note, 744 housing agencies had obligated 100 percent of their funds as of September 5, 2009, placing them well ahead of the Recovery Act's 12-month deadline for public housing agencies to obligate all of their grant funds. The remaining 2,378 housing agencies—including 911 housing agencies that had obligated no funds as of September 5, 2009—have until March 17, 2010, to obligate 100 percent of their funds. HUD will recapture any funds not obligated at that time.

Of the 47 housing agencies we selected for in-depth review throughout our Recovery Act work, 44 had obligated funds totaling $147 million, or about 28 percent of the total Capital Fund formula funds HUD had allocated to them. Obligations increased by about $81 million from the level we

reported in July and included obligations by 14 housing agencies that had not previously reported any obligations. A majority of housing agencies that had obligated funds—37 of 44 housing agencies—had also drawn down funds. In total, these housing agencies had drawn down $13.1 million, or about 2.5 percent of the total allocated to them by HUD—an increase of about $10.5 million from the level we reported in July 2009.

Figure 8: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down by 47 Public Housing Agencies Visited by GAO, as of September 5, 2009



Source: GAO analysis of HUD data.

HUD officials stated that obligations were being reported at a somewhat slower pace than what they had expected. They cited the "Buy American" provision of the Recovery Act[64] —specifically, the time it took to get clear

[64]Section 1605(a) of Title XVI of the Recovery Act (Pub. L. 111-5) states, "None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States."

guidance on how that provision applied to housing agencies—as one factor that may have slowed housing agencies down in obligating Recovery Act funds. According to HUD guidance issued August 21, 2009, unless the size of the Recovery Act grant or the size of a contract funded by the grant is less than $100,000, projects funded with Recovery Act grant funds are subject to this provision, provided no other exceptions are granted. In some cases, HUD officials had heard from public housing agencies that this provision had forced housing agencies to find new vendors and contractors. In other cases, public housing agencies were taking more time to make sure they were in compliance with this and other procurement requirements, given the extra level of scrutiny being given to Recovery Act projects.[65] As we reported previously, public housing agencies we visited had a mixed assessment of the impact of this provision on their ability to obligate funds quickly.

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

Several factors could explain differences in rates of obligating and drawing down funds among housing agencies, including the size of the grant received, the types of projects being undertaken, or additional monitoring by HUD. We found that housing agencies that received Recovery Act formula grants of less than $100,000 had obligated and drawn down funds at a faster rate than housing agencies that received grants of more than $500,000.[66] We analyzed the rates at which housing agencies had obligated and drawn down funds, grouping housing agencies by the size of the Recovery Act formula grant they had received and calculating the average percentage of funds obligated and drawn down for each group. For housing agencies with smaller grants—that is, less than $100,000—the average percentage of Recovery Act funds obligated was

[65]The Secretary of Housing and Urban Development exercised authority granted by the Recovery Act to direct that requirements relating to the procurement of goods and services arising under state and local laws and regulations shall not apply to amounts made available for Capital Fund formula grants. Additional guidance from HUD stated that public housing agencies must follow procurement requirements found in 24 CFR Part 85 and shall amend their procurement policies to remove any requirements that are contrary to these regulations.

[66]We selected these amounts as thresholds for comparing groups of housing agencies because they were more and less than the median grant amount ($192,198). Under 24 CFR Part 85, the "simplified acquisition threshold" is $100,000. We compared various thresholds greater than the median and determined that $500,000—which is the minimum amount of federal funds expended by nonfederal entities to be subject to Single Audits—was an appropriate threshold, in part because the number of housing agencies with grants of more than $500,000 is similar to the number of housing agencies with grants of less than $100,000.

about 48 percent, while for housing agencies with larger grants—that is, more than $500,000—the average percentage of Recovery Act funds obligated was 35 percent (see table 13). Similarly, the average percentage of Recovery Act funds drawn down was 24 percent for housing agencies with smaller grants, compared with 7 percent for housing agencies with larger grants.

Table 13: Comparison of the Average Percentage of Funds Obligated and Drawn Down among Housing Agencies Grouped by Size of Recovery Act Grant, as of September 5, 2009

	Amount of Recovery Act Grant			
	Less than $100,000	$100,000 to $500,000	More than $500,000	Total
Number of housing agencies	924	1398	800	**3,122**
Portion of total Recovery Act formula grant funds	2%	11%	87%	**100%**
Average percentage of funds obligated	47.9%	43.4%	35.1%	**42.6%**
Average percentage of funds drawn down	24.5%	15.3%	7.1%	**15.9%**

Source: GAO analysis of HUD data.

One reason housing agencies that received smaller grants may be obligating and drawing down funds at a faster rate is that they more often operate under simplified and less formal procurement guidelines, known as small purchase procedures, for contracts under the simplified acquisition threshold of $100,000 established by federal regulations. These conditions allow them to enter into contracts with fewer procurement restrictions relative to the restrictions facing housing agencies receiving larger grants, which may be more likely to enter into contracts of more than $100,000 given the resources they have available to them. HUD officials concurred that the difference in the rates of obligating and drawing down funds may be related to these procurement regulations. In the future, agencies receiving smaller grants also may benefit from an exception to the "Buy American" provision of the Recovery Act. That is, HUD guidance specifies that where the size of the Capital Fund formula grant is less than $100,000, the "Buy American" requirement does not apply.

As we reported in July 2009, many of the projects already under way at the housing agencies we visited are small and narrowly focused. Based on our review of housing agency plans and our prior interviews with selected public housing agency officials, we also found that housing agencies that received smaller grants are using Recovery Act funds on a limited number of these types of projects—some that simply involve exchanging old equipment or appliances for new—rather than undertaking complex

architectural, engineering, or redesign work on building structures. HUD officials also told us that housing agencies that received smaller grants tend to have fewer people involved in making decisions about projects in order to begin projects and tend to focus on smaller projects. For example, Evansdale Municipal Housing Authority in Iowa planned to use its $77,364 grant on five projects: installing new ceiling lights, replacing carpet and vinyl flooring in several units, reroofing storage sheds and eight duplexes, and replacing hot water heaters. As of September 5, 2009, Evansdale Municipal Housing Authority had obligated 100 percent of its grant funds and drawn down about 60 percent. Similarly, Holyoke Housing Authority in Colorado planned to use its $59,934 grant on four projects: replacing an underground sprinkler system, patio fences, patio doors, and a sewer line camera. As of September 5, 2009, Holyoke Housing Authority had obligated and drawn down 54 percent of its Recovery Act grant funds.

In contrast, the plans of and interviews with selected housing agencies that received larger Recovery Act grants indicate that they are using Recovery Act funds on either a larger number of projects (of various sizes or scopes) or on projects with a broader scope, some of which may involve architectural, engineering, or redesign work on building structures that may be more complex than other projects. HUD officials told us that HUD field office staff automatically review any housing agency's plan that includes funds for development activities—such as constructing new buildings—in order to make sure the plans are sound. This process requires the housing agency to obtain additional approvals. As a result, it can take additional time and may contribute to housing agencies obligating funds at a slower rate. In addition, unless a contract is less than $100,000 or an exception is granted, these projects are subject to the "Buy American" requirement noted previously. As we reported in July, these larger projects generally had not yet begun or were only just beginning, and as a result, very little funding had been obligated or drawn down. For example, the Philadelphia Housing Authority planned to use its $90.6 million grant on six broad projects, including rehabilitating 300 units at scattered sites for $29.5 million, performing mechanical and elevator upgrades at 31 sites for $21 million, and reconfiguring a midrise building from 71 units to at least 53 units for $14.6 million. As of September 5, 2009, the Philadelphia Housing Authority had obligated 32 percent of its Recovery Act grant funds but had drawn down about 2 percent of its funds. Similarly, the Buffalo Municipal Housing Authority planned to use its $14.5 million grant on 42 projects at various sites. As of September 5, 2009, the Buffalo Municipal Housing Authority had obligated about 1 percent of its funds and had drawn down less than 1 percent of its Recovery Act grant funds. Some large housing agencies that received large

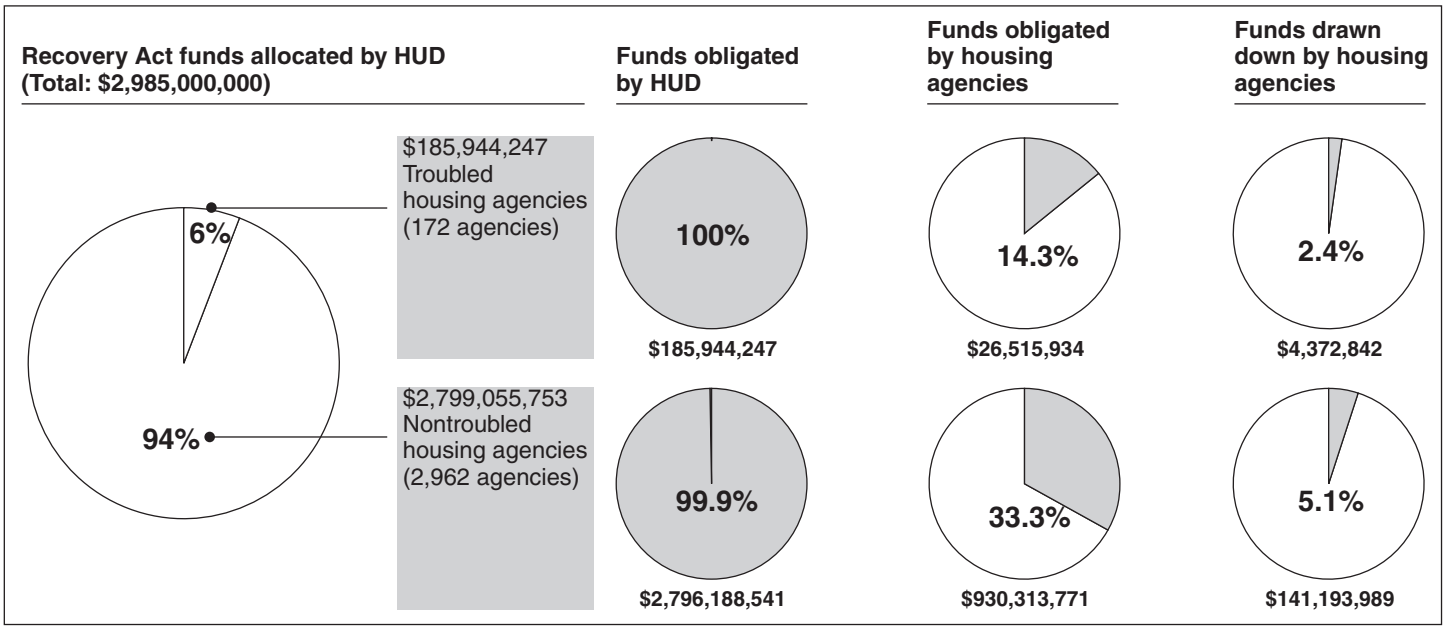
Recovery Act grants did not undertake a large number of projects or projects with a broader scope. For example, the City of Des Moines Municipal Housing Authority added its $1,455,108 Recovery Act grant to other funds to complete a single project. As of September 5, 2009, it had obligated 100 percent of its Recovery Act funds, although it had not yet drawn down any funds.

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

As we reported in July 2009, HUD has identified 172 housing agencies that it has designated as troubled under its Public Housing Assessment System (PHAS[67]). Of these 172 troubled housing agencies, 106 (61.6 percent) were considered by HUD to be low-risk troubled, 53 (30.8 percent) were considered medium-risk troubled, and the remaining 13 (7.6 percent) were considered high-risk troubled. As of September 5, 2009, these troubled housing agencies accounted for 6 percent of all Recovery Act funds provided by HUD, and they continue to obligate and draw down Recovery Act funds at a slower rate than nontroubled housing agencies (see fig. 9).

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

Figure 9: Comparison of Troubled Housing Agencies and Nontroubled Housing Agencies' Obligation and Drawdown Rates



Source: GAO analysis of HUD data.

Note: As of September 5, 2009, 12 of the 2,962 nontroubled housing agencies had not entered into agreements with HUD for Recovery Act funds, and therefore HUD did not obligate funds to them. HUD officials subsequently stated that one additional housing agency had rejected funds totaling $151,174.

One reason for these slower obligation and draw down rates is the additional monitoring that HUD is implementing for housing agencies that are designated as troubled performers under PHAS. For example, according to HUD officials, all 172 troubled public housing agencies—regardless of risk category—have been placed on a "zero threshold" status, which means HUD has not allowed them to draw down Recovery Act funds without HUD field office approval.[68] HUD officials stated to us that the ability to place housing agencies on "zero threshold" has always been available and had been used for housing agencies that have had problems obligating and expending their Capital Fund grants appropriately prior to the Recovery Act. However, HUD has implemented more extensive

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

monitoring for all troubled housing agencies, including requiring that HUD field office staff review all award documents (i.e., solicitations, contracts, or board resolutions, where applicable) prior to actual obligation of Recovery Act funds.

In addition to reviewing supporting documentation prior to approval of all obligations and drawdowns, HUD's strategy for monitoring troubled housing agencies has included conducting on-site and remote reviews of troubled housing agencies. Specifically, HUD officials stated to us that they have completed on-site and remote reviews of all 13 of the high-risk troubled housing agencies and have completed remote reviews for all of the medium- and low-risk troubled housing agencies. HUD officials stated that they are in the process of completing on-site reviews for the medium-risk troubled housing agencies and the low-risk troubled housing agencies by September 30, 2009 and December 31, 2009 respectively. On-site reviews are conducted on the premises of housing agencies by teams comprised of staff from the Office of Field Operations, both at headquarters and field offices. While on site at housing agency premises, these teams are to conduct various activities including following up on outstanding items from the remote review. In addition, on-site reviews are to assess whether the housing agency is appropriately and effectively administering their Recovery Act Capital Fund grant. On-site reviews are also to include identification of any new open audit findings since the prior review, as well as follow up on annual statement revisions and environmental reviews.

Remote reviews of troubled housing agencies are not conducted on housing agency premises. According to HUD officials, these reviews focus on grant initiation activities, the annual statement, environmental compliance, procurement, and Recovery Act grant performance. Also during on-site reviews, HUD staff are to consider open audit findings related to Capital Fund grants. In reviewing procurement activities, HUD staff are to determine if troubled housing agency procurement procedures ensure compliance with the Recovery Act's "Buy American" provisions. HUD officials stated they are reviewing the results of on-site and remote reviews for consistency before presenting final reports but that field office teams inform housing agencies of any identified deficiencies as a result of the reviews.

HUD Is Developing a Strategy for Monitoring Nontroubled Housing Agencies

Building on its efforts to more closely monitor the use of Recovery Act funds by troubled housing agencies, HUD is developing a strategy for monitoring nontroubled housing agencies which HUD stated will be effective by October 1, 2009. HUD officials stated that under its draft strategy, they have identified 2,950 nontroubled housing agencies and have separated them into two groups for the purposes of monitoring and oversight: high risk and low risk.[69] The high-risk group is composed of the 332 housing agencies that have been identified as the highest risk based in part on the amount of their Recovery Act funding. The low-risk group consists of the remaining 2,618 nontroubled housing agencies. HUD's draft strategy calls for remote reviews to be completed by January 15, 2010, on all nontroubled housing agencies in both the high- and low-risk groups. In addition, HUD's draft strategy calls for on-site reviews for a sample of nontroubled housing agencies from each of the two risk groups, with the objective of reaching those at greatest risk and ensuring coverage of grantees constituting the greatest amount of formula grant dollars. Under the draft strategy, HUD plans to use Office of Field Operations (OFO) headquarters and field office staff to conduct the reviews. HUD plans to have the remote reviews focus on four main components: grant initiation, environmental compliance, procurement, and grant administration. On-site reviews of a sample of housing agencies will focus on the same four components of the remote reviews and will also include a review of the contract administration of the procurements related to the use of Recovery Act funds. While HUD has not finalized its procedures of on-site and remote reviews of nontroubled housing agencies officials stated that they expect the procedures to be very similar to those for troubled housing agency's remote and on-site reviews.

HUD's draft strategy calls for on-site reviews for a sample of the high-risk nontroubled housing agencies to be completed by February 15, 2010. HUD plans to identify this sample as follows:

- housing agencies that represent the top 100 housing agencies in the high-risk group based on the amount of Recovery Act funding received,

[69]The total number of nontroubled housing agencies to be monitored by HUD excludes 12 housing agencies that chose not to accept Recovery Act funding, no longer had eligible public housing projects that could utilize the funds, or had not yet entered into an agreement with HUD for the funds as of September 5, 2009. HUD officials subsequently stated that one additional housing agency had rejected funds, which would bring the total number of nontroubled housing agencies to be monitored to 2,949, of which 2,617 would be low risk.

- housing agencies that have more than 500 public housing units and are within a 50-mile radius of the field office, and
- housing agencies identified by the field office as having one or more risk factors that warrant an on-site review.

For the remaining 2,618 housing agencies in the low-risk group, HUD's draft strategy calls for on-site reviews for a sample to be completed by February 15, 2010. HUD plans to identify this sample of housing agencies for on-site reviews as follows:

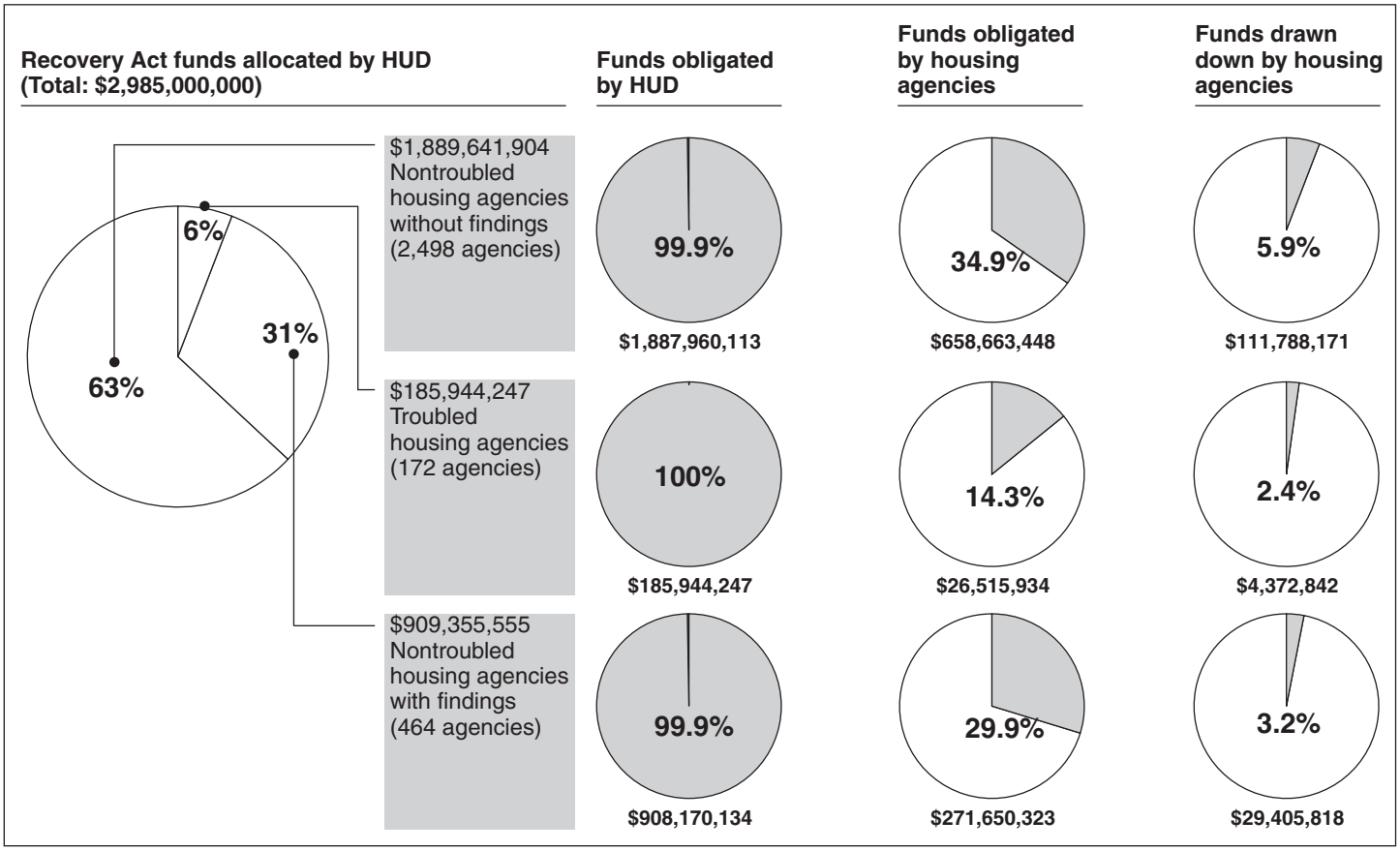
- housing agencies that have more than 500 public housing units and are within a 50-mile radius of the field office, and
- housing agencies identified by the field office as having one or more risk factors that warrant an on-site review.

HUD officials stated that one of the risk factors, among others, that field offices may consider in selecting additional nontroubled housing agencies for on-site reviews (in both the high- and low-risk categories) is the status of open Single Audit findings that are related to the Capital Fund program. However, HUD stated that the strategy will not require that field offices target and expedite on-site reviews of housing agencies that have open findings that could affect their use of Recovery Act funds. Open audit findings may indicate housing agencies that have greater risk of misusing Recovery Act funds. Single Audits provide federal agencies with information on the use of federal funds, internal control deficiencies, and compliance with federal program requirements. HUD began tracking the status of Single Audit findings through a centralized system in 2007 and has tracked whether findings have been appropriately addressed and closed by the housing agency in this system since that time.[70] HUD's centralized system does not contain information on the status of audit findings reported prior to 2007. While HUD is working with housing agencies to ensure that appropriate action is taken to resolve and correct findings of deficiency that these audits have identified, many housing agencies that have received Recovery Act funds have open findings that appear unresolved in HUD's tracking system.

[70]HUD's Monitoring and Planning System (MAPS) is used to track resolution of audit findings.

Housing agencies with recent Single Audit findings have received more than $900 million in Recovery Act funds. Specifically, 31 percent of all Recovery Act Capital Fund grants awarded to housing agencies have been provided to 464 nontroubled housing agencies that had at least one audit finding reported in 2007, 2008, or both. These housing agencies are obligating and drawing down Recovery Act funds at a faster rate than troubled housing agencies but at a slightly slower rate than nontroubled housing agencies that have not had Single Audit findings (see fig. 10).

Figure 10: Comparison of Obligation and Drawdown Rates for Nontroubled Agencies with No Audit Findings, Troubled Agencies, and Nontroubled Agencies with Audit Findings



Source: GAO analysis of HUD data.

An open finding may not necessarily affect the use of Recovery Act funds. HUD officials stated to us that its centralized system for tracking audit findings does not contain information that would allow it to definitively determine if an open finding could directly or indirectly affect Recovery

Act funding. For example, HUD's centralized system for tracking findings does not contain budget codes that would identify the specific HUD funds, such as public housing Capital Funds, that the housing agency auditors determined were affected by the finding. Of the 464 nontroubled housing agencies that have had recent findings, we identified 155 that have unresolved deficiency findings identified by recent Single Audits, according to information from HUD's tracking system. These deficiencies were either material weaknesses or significant deficiencies.[71] A material weakness means there is a deficiency or combination of deficiencies in the housing agency's internal control such that there is a reasonable possibility that the housing agency will not prevent, detect, and correct material noncompliance. A significant deficiency is less severe than a material weakness, but it is required to be reported in housing agency Single Audits reporting package. According to HUD officials, after reviewing the status of these findings, HUD Office of Field Operations staff were able to identify 94 housing agencies where audit findings should have been shown as closed in HUD's tracking system, and an additional 13 housing agencies that had audit findings not related to the Capital Fund, leaving 48 housing agencies with open audit findings relevant to administration of the Capital Fund program. HUD's analysis of findings was limited to those housing agencies with findings reported in its tracking system and thus did not include findings that may have been reported prior to 2007. It is important that HUD continue to monitor housing agencies with open audit findings that may have a direct or indirect effect on the housing agencies' use and reporting on the use of Recovery Act funds. We recommended that HUD systematically evaluate the results of audits to identify and understand problems of inappropriate use and mismanagement of public housing funds, identify emerging issues, and evaluate overall monitoring and oversight processes.[72] Identifying and targeting housing agencies with open audit findings related to Recovery Act funds for enhanced monitoring, such as on-site reviews, could achieve this objective. Further, HUD's strategic goals for its public housing program call for the department to resolve issues identified by audits and improve its management of internal controls to, among other things, eliminate fraud, waste, and abuse.

[71]Sixteen of these housing agencies had both a material weakness and a significant deficiency. These were only counted once in the material weakness category.

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

HUD officials stated that they estimate their strategy as currently proposed would allow for on-site reviews at housing agencies that have received at least $2 billion, or two-thirds of the noncompetitive Capital Fund grants provided to housing agencies under the Recovery Act and that its goal was to conduct on-site reviews at those housing agencies with the greatest risk which it has identified as those with the largest amounts of Recovery Act dollars. According to HUD, 18 of the 48 housing agencies with outstanding findings have received over $44 million dollars in Recovery Act funds and are already among the agencies targeted to receive on-site reviews, which were selected based on factors such as the size of their Recovery Act grant and the number of housing units they manage. The remaining 30 housing agencies with open findings received almost $11 million of the total Recovery Act funds; however HUD has not currently targeted these housing agencies for on-site reviews. HUD has taken important steps in developing its strategy for monitoring nontroubled housing agencies, including developing a risk-based approach, and reviewing open audit findings to determine whether they may affect the housing agencies' reporting on and use of Recovery Act funds. Expanding its criteria for selecting housing agencies for on-site reviews to include those with open audit findings related to the housing agencies administration of their Capital Fund Grant increases the potential for HUD to detect misuse of funds. This is particularly important for Recovery Act funds because of the accelerated obligation and draw down rates instituted by the Act.

Recommendation: To enhance HUD's ability to prevent, detect, and correct noncompliance with the use of Recovery Act funds, we recommend that the Secretary of the Department of Housing and Urban Development 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.

HUD Has Begun to Review Applications for Capital Fund Recovery Competition Grants

HUD is 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 retrofit investments. In a Notice of Funding Availability (NOFA) published May 7, 2009, and revised June 3, 2009, HUD outlined four categories of funding for which public housing agencies could apply:

- creation of energy-efficient communities ($600 million);

- gap financing for projects that are stalled due to financing issues ($200 million);
- public housing transformation ($100 million); and
- improvements addressing the needs of the elderly or persons with disabilities ($95 million).

For the energy-efficient communities category, public housing agencies self-scored their applications—which were due July 21, 2009—according to criteria outlined in the NOFA.[73] The last three categories were threshold based, meaning applications that met all of the threshold requirements will be funded in order of receipt.[74] If funds were available after all applications meeting the thresholds had been funded, HUD could remove thresholds after August 1, 2009, in order to fund additional applications in the order of receipt until all funds have been awarded. Applications in these three categories were accepted until August 18, 2009. If funds remain in a category after all eligible applications have been funded, HUD also has the authority to transfer funds to another category. As of September 9, 2009, HUD officials told us they have not transferred funds between categories.

[73]Applications in this category are to be ranked against criteria that increase energy efficiency and the energy performance of public housing properties, thus reducing energy usage, generating cost savings, and reducing greenhouse-gas emissions.

[74]NOFA requirements establish multiple rounds of funding that lift funding limits and threshold requirements one by one over time if there are insufficient successful applications to consume the funding available under each level. See HUD's Fiscal Year (FY) 2009 Notice of Funding Availability (NOFA) for the Capital Fund Recovery Competition Grants; Revised to Incorporate Changes, Corrections, and Clarifications, Docket No. FR-5311-N-02 (June 3, 2009).

Large Response to Capital Fund Recovery Competition Has Slowed HUD's Review Process

HUD has begun reviewing applications for all four funding categories of the Capital Fund Recovery Competition (CFRC) program, which has $995 million available to award. HUD officials told us that as of August 18, 2009, HUD received and is reviewing 1,759 applications.[75] HUD staff review applications in all four funding categories to check that required documents, such as signed antilobbying certifications, project narratives, proposed budgets, and expected timelines, are included in the package. For applications in the energy-efficient communities category only, HUD reviewers allow applicants to correct incomplete applications within five days and resubmit until the deadline. Following the initial check, all applications undergo a three-step process: (1) a reviewer evaluates the project narrative, proposed budget, and timeline; (2) a verifier performs a check for compliance with the NOFA and other regulations; and (3) a designated approver makes an award or ineligibility decision. Applications in the energy-efficient communities category are subject to an additional review process. For these applications, public housing agencies self-certify that their applications meet specific criteria, attest to their accuracy, and develop a detailed narrative about project costs and budgeting prior to submitting their applications. HUD gives points to each application based on the certifications made by public housing agencies and ranks them in descending order by score to determine award funding.

Officials told us that although there have been approximately 40 to 50 staff reviewing applications part time or full time, the review process has been slower than expected. According to officials, this is due to the number of applications with lengthy narratives needing review. Further, HUD officials stated that their staff are reviewing CFRC applications while carrying out their ongoing responsibilities related to managing the public housing capital fund program. Nevertheless, the officials said there are many applications in process. According to program guidance published on HUD's Recovery Act Web site, program officials had set August 31, 2009, as a milestone for awarding all CFRC grants. However, because of the large number of applications received by July 6, 2009, HUD officials determined they needed additional time to complete their reviews; in turn,

[75]HUD accepted applications in the creating energy-efficient communities category from June 22, 2009, until July 21, 2009. HUD accepted applications for the other three categories from June 22, 2009, until August 18, 2009. Before July 6, 2009, HUD staff reviewed applications in the gap financing, transforming public housing, and improvement for the elderly and persons with disabilities categories regardless of the order in which they were received. Applications received after July 6, 2009, were assigned a number in order of receipt and were reviewed based on the assigned order.

they decided to award the grants on a category-by-category basis. As of September 3, 2009, HUD had awarded $96 million in the transforming public housing category to 15 public housing agencies. These awards are meant to help redevelop blighted public housing that is distressing the surrounding community. Per the requirements of the Recovery Act, HUD must obligate all CFRC grant funds to public housing agencies by September 30, 2009. According to HUD officials, they anticipate meeting the deadline.

HUD is developing a strategy for monitoring the grants after they are awarded. HUD officials said that developing the strategy would be a joint effort between the interested offices in HUD headquarters. Officials told us there are some challenges to monitoring the competitive grants, relative to monitoring formula fund grants. These include needing more time to assess the use of grant funds because projects must meet specific criteria as outlined in the NOFA and searching for and hiring employees with special skills and expertise, such as in energy usage, to work on monitoring. HUD officials told us that two new headquarters employees dedicated to implementing the Recovery Act have already begun work, and that the Department is in the process of hiring three more of these employees. According a HUD official, criminal and civil penalties for misrepresentation in the applications are likely to deter public housing agencies from such action.

HUD and Industry Stakeholders Report That Public Housing Agencies Have Encountered Few Challenges during the Application Process

HUD officials told us they are generally satisfied with the CFRC process and that the review process is progressing with relatively few problems, though administering the program solely from HUD headquarters has been a challenge. The officials noted that they received positive feedback from public housing agencies on their handling of the competition, especially on the prepopulated spreadsheets developed for use during the application process. Some of the public housing industry officials we spoke with heard of few challenges or problems from their members regarding the competitive grant application process, though they note that public housing agencies have been reluctant to publicize or share the content of their CFRC applications while the competition is ongoing. However, other public housing industry officials also said they were concerned about the Capital Fund competition on behalf of smaller public housing agencies. HUD officials said some agencies reported problems submitting applications for CFRC grants because of technology challenges, such as access to the Internet only through dial-up service, or misunderstanding the NOFA. For agencies having problems applying, HUD officials dealt directly with agencies' questions in order to ensure agencies could submit

their applications on time. The officials noted, however, that public housing agencies that waited until the last minute to submit their applications faced challenges meeting the submission deadline. Representatives from one of the public housing industry groups told us that their members have been largely satisfied with the level of guidance and support provided by HUD during the CFRC application process.

HUD Guidance on Two Recipient Reporting Solutions Is Forthcoming

HUD is using two ways to satisfy reporting requirements for public housing agencies under the Recovery Act: (1) FederalReporting.gov created and managed by OMB and the Recovery Accountability and Transparency Board (RATB) for all Recovery Act recipients to report on the nature of projects undertaken with Recovery Act funds and on jobs created and retained[76] and (2) the Recovery Act Management and Reporting System (RAMPS) system HUD developed for Recovery Act reporting purposes, including public housing agencies' compliance information for the National Environmental Policy Act (NEPA), as required by the Recovery Act.[77] HUD officials told us they have been meeting biweekly with OMB staff, and officials from various federal agencies, to express views on a reasonable level of reporting burden for grantees. HUD officials noted that while public housing agencies have had to comply with NEPA since it was enacted in 1970, reporting on environmental assessments is a new requirement for public housing agencies. They stated they intend to expand measures in RAMPS to accommodate future information requests.

HUD also plans to use RAMPS to perform data quality checks on recipient reports. According to officials, the department is designing a data-quality strategy using RAMPS to pull data from OMB's FederalReporting.gov after they are published. As of September 9, 2009, HUD officials reported that staff is finalizing the data quality strategy.

[76]Pub. L. 111-5, §Sec. 1512, 123 Stat. 115, 287 (Feb. 17, 2009).

[77]Section 1609 of the Recovery Act requires that adequate resources must be devoted to ensuring that applicable environmental reviews under the National Environmental Policy Act are completed on an expeditious basis and that the shortest existing applicable process under the National Environmental Policy Act shall be utilized. The National Environmental Policy Act protects public health, safety and environmental quality: by ensuring transparency, accountability and public involvement in federal actions and in the use of public funds.

HUD Recently Issued Recipient Reporting Guidance for Public Housing Agencies, Though Officials Are Concerned There Is Insufficient Time to Become Familiar with OMB's Reporting Solution

HUD issued guidance to public housing agencies on recipient reporting on September 9, 2009. The guidance, in the form of a letter from the HUD Secretary and addressed to public housing agencies that have received grants under the Recovery Act, provided guidance and instructions on both of their reporting obligations: to OMB for jobs and funding-related activities and to HUD for reporting on NEPA compliance. The letter directed the public housing agencies to the FederalReporting.gov Web site for reporting on jobs and activities under the Recovery Act, and it informed public housing agencies that they will use HUD's RAMPS system for reporting data on NEPA. Lastly, the letter directed public housing agencies to register at FederalReporting.gov as soon as possible, but also said that registration for RAMPS, which is a separate from FederalReporting.gov registration and is a requirement to use the RAMPS system,was not yet available. HUD is working with grantees to identify those who need to be registered in RAMPS. The letter also provided Web site addresses where public housing agencies could find more information about both reporting requirements and an e-mail address they could use to send e-mails with questions about recipient reporting.

HUD has published several FAQs on recipient reporting but noted that until OMB's reporting system was fully developed and operational, they could not finalize program-level reporting guidance for public housing agencies. OMB has issued various guidance materials for recipient reporting, including a data dictionary explaining each data element required in the reports, a registration guide providing information on registering in the system, and two memorandums detailing recipient reporting requirements—the most recent issued on June 22, 2009. HUD officials said that the June recipient reporting guidance was not posted to HUD's Web site until September 3, 2009. Officials from a housing industry group told us their members were not aware of the OMB guidance on recipient reports until GAO inquired about it. Because the system will not be available for data submission until October 1, 2009, and recipient reports are due by October 10, 2009, both HUD officials and industry stakeholders voiced concern that grantees will not have enough time to become familiar with OMB's reporting system. HUD officials reported that OMB's Web seminars had been available online since mid-summer.

Though Primarily Relying on OMB Support for Recipient Reporting, HUD Is Taking Additional Steps to Ensure Public Housing Agencies Meet Reporting Requirements

Though HUD plans to provide Recovery Act-specific assistance and training to public housing agencies on recipient reporting, they will reinforce to public housing agencies that they must submit reports through OMB's reporting solution and that all technical questions on recipient reporting must be directed to OMB. The officials also noted that OMB will be the primary agency responsible for issuing all guidance related to recipient reporting requirements and the use of the FederalReporting.gov solution. The officials stated that HUD's role will be to reinforce and assist public housing agencies in complying with OMB's guidance while addressing the HUD-specific reporting requirements related to environmental assessment reports. However, to assist public housing agencies with OMB reporting, HUD officials told us they are working to develop templates with prepopulated "dummy" data to provide public housing agencies with an example of a correct and data-compliant recipient report. Leaders of housing industry groups told us they plan to work with member public housing agencies to educate them about the OMB guidance and troubleshoot problems prior to the October 10, 2009, deadline for recipient reporting.

HUD plans to take other steps to ensure public housing agencies meet the environmental review reporting requirements under the Recovery Act, including assembling a compliance planning team to troubleshoot problems, continuing to issue guidance for using RAMPS, and developing a HUD-wide call center for program-level information and technical questions on environmental assessment reporting requirements (and program-level questions only for the OMB-required jobs and activities reports). HUD headquarters officials have been meeting with field office officials to develop guidance that will allow field offices to instruct public housing agencies on how to comply with environmental assessment requirements. They also plan to conduct Web-based seminars to walk public housing agencies through the environment assessment reporting requirements.

Housing Industry Stakeholders Are Concerned about the Capacity of Recipient Reporting Systems but Think Public Housing Agencies Will Be Able to Measure Job Creation Easily

Some industry stakeholders were concerned that HUD's information technology systems may not have the capacity to handle the new environmental assessment reporting requirements because of problems public housing agencies have experienced with HUD systems in the past. HUD officials said that although Recovery Act reporting is a major deviation from HUD's regular programmatic reporting, RAMPS is ready to receive increased levels of reports by the first reporting deadline of October 10, 2009. The system's data entry forms and fields are currently able to accept environmental assessment reports; however, HUD officials said they continue to modify the appearance of the reporting module and plan to add functionality through a series of technological updates over the next several months.

Some of the housing industry officials viewed collecting data to count jobs created and retained as relatively straightforward for public housing agencies because they already submit reports in compliance with Department of Labor regulations that include hourly rates of pay and number of hours worked.[78] To meet the OMB requirements, public housing agencies can collect timesheets from contractors to record and measure the number of hours workers spend on a project in terms of full-time equivalents, thus providing a reasonable starting point to estimate the number of jobs created and retained. However, the official from one group also told us that calculating job creation and retention from data they already collect could be a challenge because public housing agencies are not familiar with using the formulas OMB provided to perform such calculations.[79] HUD published specific guidance for public housing agencies on how to report on jobs created and retained on September 3, 2009; however, according to HUD officials, OMB changed the formula for full-time equivalents and requested modifications to the document after HUD posted it to their Recovery Act Web site. HUD staff plan to finalize and republish the document.

[78]Department of Labor regulations applies to any contract which is subject to Federal wage standards and which is for the construction, prosecution, completion, or repair of public buildings, public works or buildings or works financed by loans or grants from the United States. 29 C.F.R. § 3.1 et seq.

[79]OMB uses a simple calculation to convert part-time or temporary jobs into "full-time equivalent" jobs to avoid overstating the number of other than full-time, permanent jobs. To perform the calculation, a recipient divides the total number of hours worked that are funded by the Recovery Act by the number of hours in a full-time schedule for a quarter.

Agency Comments:

We provided HUD with excerpts from a draft of this report and received written comments from the HUD Office of Capital Improvements and Office of Field Operations, both of which are within HUD's Office of Public and Indian Housing. HUD generally agreed with our findings and provided technical corrections, which we incorporated as appropriate. In regards to our recommendation, HUD noted its recent actions to identify housing agencies with open findings related to the administration of the Capital Fund Program and HUD's plans to conduct remote reviews of all public housing agencies receiving Recovery Act funds as well as on-site reviews targeting housing agencies that collectively have received more than $2 billion dollars in Recovery Act funds. We have accordingly modified our report to describe recent efforts, and HUD's plans to conduct on-site reviews at some, but not all housing agencies with relevant open audit findings. In addition we modified our recommendation to specify that HUD expand its criteria for selecting housing agencies for on-site reviews to include agencies with open audit findings.

DOE's Weatherization Assistance Program

The Recovery Act appropriated $5 billion over a 3-year period for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) administers through each of the states, the District of Columbia, and seven territories and Indian tribes. The program 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, or air conditioning equipment. Over the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. By reducing the energy bills of low-income families, the program allows these households to spend their money on other needs, according to DOE. The Recovery Act appropriation represents a significant increase for a program that has received about $225 million per year in recent years.

As of September 14, 2009, DOE had approved all but two of the weatherization plans of the states, the District of Columbia, the territories, and Indian tribes—including all 16 states and the District of Columbia in our review. DOE has provided to the states $2.3 billion of the $5 billion in weatherization funding under the Recovery Act. Use of the Recovery Act weatherization funds is subject to Section 1606 of the act, which requires all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wage, including

fringe benefits, as determined under the Davis-Bacon Act.[80] Because the Davis-Bacon Act had not previously applied to weatherization, the Department of Labor (Labor) had not established a prevailing wage rate for weatherization work. In July 2009, DOE and Labor issued a joint memorandum to Weatherization Assistance Program grantees authorizing them to begin weatherizing homes using Recovery Act funds, provided they pay construction workers at least Labor's wage rates for residential construction, or an appropriate alternative category, and compensate workers for any differences if Labor establishes a higher local prevailing wage rate for weatherization activities. Labor then surveyed five types of "interested parties" about local labor rates for weatherization work in each of the states.[81] The department completed determining county-by-county prevailing wage rates in each of the 50 states and the District of Columbia by September 3, 2009.

Most States Have Not Begun to Weatherize Homes Partly Because of Their Concerns about Prevailing Wage Rate Requirements

DOE has provided all 16 states and the District of Columbia in our review with half of their weatherization formula funds under the Recovery Act. (See table 14.) As of June 30, 2009, DOE had provided each with the initial 10 percent of its allocation and had provided 9 states and the District of Columbia with the next 40 percent of their funds based on the department's approval of their weatherization plans.[82] Since that time, DOE has finished approving the weatherization plans of all of the states in our review. DOE has provided the 16 states and the District of Columbia with the second portion of their weatherization funds, giving them access to more than $1.4 billion, or 50 percent of their total allocation. DOE plans to release the final 50 percent of funding to each state based on the department's progress reviews examining each state's performance in spending the first half of its funds and the state's compliance with the Recovery Act's reporting and other requirements.

[80]The Weatherization Assistance Program funded through annual appropriations is not subject to the Davis-Bacon Act.

[81]The five types of "interested parties" are state weatherization agencies, local community action agencies, unions, contractors, and congressional offices.

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

Table 14: DOE's Allocation of the Recovery Act's Weatherization Funds for 16 States and the District of Columbia, as of August 31, 2009

State	Total allocation	Initial allocation	Date received (2009)	Second allocation	Date received (2009)	Allocation provided to date
Arizona	$57,023,278[a]	$5,702,328	April 10	$22,809,311	June 8	$28,511,639
California	185,811,061	18,581,106	April 10	74,324,424	June 18	92,905,530
Colorado	79,531,213	7,953,121	April 1	31,812,485	August 13	39,765,606
District of Columbia	8,089,022	808,902	March 30	3,235,609	June 18	4,044,511
Florida	175,984,474	17,598,447	April 10	70,393,790	June 18	87,992,237
Georgia	124,756,312	12,475,631	April 20	49,902,524	June 26	62,378,155
Illinois	242,526,619	24,252,662	April 1	97,010,647	June 26	121,263,309
Iowa	80,834,411	8,083,441	March 27	32,333,764	July 6	40,417,205
Massachusetts	122,077,457	12,207,746	April 3	48,830,983	July 6	61,038,729
Michigan	243,398,975	24,339,898	March 27	97,359,590	July 6	121,699,488
Mississippi	49,421,193	4,942,119	April 3	19,768,477	June 8	24,710,596
New Jersey	118,821,296	11,882,130	April 7	47,528,518	July 10	59,410,648
New York	394,686,513	39,468,651	April 13	157,874,605	June 26	197,343,256
North Carolina	131,954,536	13,195,454	April 1	52,781,814	June 18	65,977,268
Ohio	266,781,409	26,678,141	March 27	106,712,564	June 18	133,390,705
Pennsylvania	252,793,062	25,279,306	March 27	101,117,225	August 25	126,396,531
Texas	326,975,732	32,697,573	April 10	130,790,293	July 10	163,487,866

Source: GAO analysis of DOE information.

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

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

While DOE has provided each of the states in our review with half of their total allocations, 8 of the 14 states for which we collected information had not started weatherizing homes using Recovery Act funds as of August 31, 2009.[83] (See table 15.) However, many of the 14 states had used Recovery Act funds for startup activities such as hiring and training staff, procuring equipment and vehicles, and performing energy audits of eligible homes. Other states told us that they would begin weatherizing homes shortly. For example, Florida officials expected to award final contracts to local agencies to weatherize homes by early September 2009, while Iowa

[83]We did not collect weatherization information from Illinois, Massachusetts, and the District of Columbia.

officials had informed local agencies that they could start issuing contracts and begin weatherization activities. Three states—New York, North Carolina, and Pennsylvania—reported not having used any Recovery Act funds for the Weatherization Assistance Program as of August 31, 2009, though they indicated they were using funds from DOE's annual appropriations for weatherization activities in anticipation of using Recovery Act funds. Six states reported having weatherized homes with Recovery Act funds. For example, local agencies in Ohio had weatherized more than 900 homes by the end of July 2009, and local agencies in Colorado reported using Recovery Act funds for basic weatherization activities, such as installing insulation and energy-efficient appliances.

Table 15: Use of Recovery Act Weatherization Funds by 14 States, as of August 31, 2009

State	Funds used for start-up activities?	Funds used for weatherizing homes?
Arizona	Yes	Yes
California	Yes	No
Colorado	Yes	Yes
Florida	Yes	No
Georgia	Yes	Yes
Iowa	Yes	No
Michigan	Yes	Yes
Mississippi	Yes	Yes
New Jersey	Yes	No
New York	No[a]	No
North Carolina	No[a]	No
Ohio	Yes	Yes
Pennsylvania	No[a]	No
Texas	Yes	No

Source: GAO analysis of state information.

[a]The state did not use Recovery Act funds to support its weatherization activities. Instead, the state used funds from DOE's annual weatherization appropriation.

As shown in table 16, many of the states we reviewed reported that Davis-Bacon Act requirements—which have been applied to DOE's Weatherization Assistance Program for the first time under the Recovery Act—are a reason they have not yet started weatherizing homes. Specifically, state weatherization officials expressed concerns about wage

rates and administrative requirements under the Recovery Act's Davis-Bacon provision.

Table 16: Prevailing Wage Rates for Weatherization Work

State	Date wage rate available	Weatherization of homes delayed until wage rate available?	Areas of Davis-Bacon Act concerns identified by state and local officials
Arizona	August 30, 2009	Yes[a]	Administrative requirements[b]
California	September 3, 2009	Yes	Wage rates and administrative requirements[b]
Colorado	September 1, 2009	No	Wage rates
District of Columbia	August 24, 2009[c]	n/a[d]	n/a[d]
Florida	September 2, 2009	No	Administrative requirements[b]
Georgia	August 29, 2009	No	Wage rates and administrative requirements[b]
Illinois	September 3, 2009	n/a[d]	n/a[d]
Iowa	August 19, 2009	Yes	Wage rates and administrative requirements[b]
Massachusetts	August 17, 2009	n/a[d]	n/a[d]
Michigan	August 12, 2009	Yes	Wage rates[e]
Mississippi	August 24, 2009	No	None cited
New Jersey	August 17, 2009	Yes	Wage rates
New York	September 3, 2009	Yes	Wage rates and administrative requirements[b]
North Carolina	August 27, 2009	No	None cited
Ohio	September 3, 2009	No	Administrative requirements[b]
Pennsylvania	September 3, 2009	No	Administrative requirements[b]
Texas	September 2, 2009	Yes	Wage rates and administrative requirements[b]

Source: GAO analysis of information from the Department of Labor and the states.

[a]All but one locality (city of Phoenix) decided to wait for the wage determination before beginning weatherization activities.

[b]Administrative requirements include paying workers on a weekly basis and submitting weekly certified payroll records.

[c]Labor's General Wage Determination will be used for the District of Columbia because Labor received insufficient information on constructed weatherization projects to enable the issuance of a wage determination.

[d]We did not collect weatherization information from the District of Columbia, Illinois, or Massachusetts.

[e]Michigan officials said their initial concerns about the prevailing wage rates have dissipated now that the actual wage rates are known.

Regarding wage rates, officials in about half of the states we reviewed decided to wait to begin weatherizing homes until Labor had determined county-by-county prevailing wage rates for their state. These officials explained that they wanted to avoid having to pay back wages to

weatherization workers who started working before the prevailing wage rates were known.

Arizona officials said all but one of its local service providers decided to wait to weatherize homes until the prevailing wage rates were determined because they were concerned about the time required to reconcile differences in wage rates. Similarly, Iowa officials told us paying back wages would be especially burdensome to smaller contractors. Michigan officials explained that their initial concerns about the prevailing wage rates have been diminished now that Labor has determined wage rates. However, officials in Colorado, which had proceeded with weatherizing homes, told us that their concerns have increased because Labor's county-by-county wage rates are higher than the rates the local administering agencies had previously paid weatherization workers. As a result, Colorado may adjust one of its weatherization performance measures, and one county decided to conduct all Recovery Act weatherization work with county employees rather than awarding contracts.[84] California officials were also concerned about the prevailing wage rates, and they wrote DOE to inquire about the possibility of requesting an exemption from the Davis-Bacon Act requirements for weatherization workers hired through the state's federal, state, and local workforce development partnerships aimed at creating training and employment opportunities for youth and dislocated workers. California officials told us that the Davis-Bacon Act could weaken or eliminate workforce development as a significant component of its weatherization program, stating that paying prevailing wages to the inexperienced, entry-level workers typically hired through these programs would not be appropriate.[85] While officials in about half of the states reviewed were concerned about prevailing wage rates prior to Labor's determination, officials in North Carolina and Mississippi were not concerned because they expected that the prevailing wages rates would be similar to the existing wages being paid to weatherization workers; thus, they were not worried about possibly paying back wages.

[84]Davis-Bacon Act prevailing wage requirements do not apply to local government employees. 29 C.F.R. § 5.2(h); *see also* Department of Labor Advisory Letter to Department of Energy, dated June 1, 2009.

[85]According to Labor officials and guidance provided on its Web site, individuals who meet Labor's definition of apprentices and trainees may be paid a percentage of the journeyman rate on the wage determination. To do so, however, these individuals must be participating in a program that has been registered with Labor or with a State Apprenticeship Agency recognized by Labor.

Regarding administrative requirements, officials in several states also cited concerns about ensuring weatherization activities funded with Recovery Act funds comply with Davis-Bacon requirements. Specifically, several officials cited concerns about the requirement that contractors and subcontractors pay covered workers weekly and submit weekly certified payroll records to the contracting agency. Florida officials expressed concerns about the increased documentation and administrative tasks required for weekly certified payroll. In Georgia, service providers also expressed concern about the requirements for a weekly payroll and were confused as to which employees would fall under the act's guidelines. New York officials said one strategy that local agencies might use is to subcontract all weatherization work funded by the Recovery Act in order to limit the impact of Davis-Bacon to just those subcontracts. New York officials explained that these weekly payroll requirements are new to the organizations administering weatherization services and represent a new cost to the program.

To facilitate better understanding of Davis-Bacon requirements, DOE and Labor have recently hosted conferences that contain sessions pertaining to the Davis-Bacon Act requirements. DOE sponsored the 2009 National Weatherization Conference that included sessions on the Davis-Bacon Act and officials from North Carolina said this conference provided them needed information.[86] Additionally, Labor has hosted four Prevailing Wage Conferences and, according to its Web site, Labor will host three additional Prevailing Wage Conferences in September to address topics such as the administration and enforcement of the Davis-Bacon Act and the labor standards provisions of the Recovery Act. Additional guidance has been provided via memos to the states. For example, Labor's May 29, 2009, memorandum on the applicability of Davis-Bacon labor standards to federal and federally assisted construction work funded in whole or in part under the provision of the Recovery Act states that the department's long-standing view is that a project consists of all construction necessary to complete the building or work regardless of the number of contracts involved so long as all contracts awarded are closely related on purpose, time, and place. The memorandum also states in a footnote that the $2,000 threshold for Davis-Bacon and related act coverage pertains to the amount of the prime construction contract, not to the amount of individual subcontracts. Cognizant Labor officials told us that, for the Weatherization

[86]The 2009 National Weatherization Training Conference was held July 20-23, 2009.

Assistance Program, the prime contract would be the one that a state signed with each of its community action agencies.

Local Agencies Generally Have Responsibility for Procuring Weatherization Materials

Nearly all of the states we reviewed have left responsibility for the procurement of weatherization materials with local agencies rather than centralizing procurement at the state level. For example, Colorado officials approve local agencies' procurement processes, but the local agencies acquire weatherization materials on their own using a competitive bid process. In Mississippi, local agencies develop their own list of suppliers and purchase materials that meet DOE standards for weatherization, while in North Carolina local agencies are responsible for developing their own fair market price list for materials. An exception is Pennsylvania, where local agencies will be required to purchase materials and equipment through the state's cooperative purchasing program, which has established contracts with qualified suppliers.

DOE Has Issued Guidance to Mitigate Risk in the Weatherization Program, and Some States Have Established Additional Measures

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.[87] Specifically, DOE 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 units and each service provider inspect all of the completed units or units in the process of being weatherized. If an inspection reveals reporting inconsistencies, quality control issues, or other problems, the state agency is required to increase the number of units monitored and frequency of inspection. DOE is implementing an enhanced monitoring plan that would allow DOE's weatherization project officers to track each state's performance. As part of this enhanced monitoring, DOE has submitted a deviation request to OMB to require the states to submit monthly, rather than quarterly, reports. As a result of the significant increase in program funding, many of

[87]See, for example, DOE, "Weatherization Program Notice 09-1B," (Mar. 12, 2009).

the states are reporting a need to increase staff to implement internal controls. DOE provides state agencies with the discretion to develop and implement these internal controls in accordance with each state's weatherization plan.

State officials can also determine the effectiveness of a recipient's internal controls through assessments conducted as part of the Single Audit Act.[88] These audits review the performance and management of nonfederal entities receiving $500,000 or more in federal awards. Some state weatherization programs, however, have been considered too small to be monitored during the state's Single Audit. Only 1 of the 14 states we reviewed had an unresolved Single Audit issue with its state weatherization program. State officials told us that the corrective action plan for addressing the Single Audit findings is waiting for federal approval.

Some state weatherization agencies have conducted risk assessments to monitor the use of funds and identify service providers that may need additional help implementing the weatherization program. In Georgia, for example, state officials conducted a risk assessment of all service providers and assigned a risk level to each provider. Risk mitigation activities in other states include annual reviews of independent auditors' reports, increased frequency of on-site monitoring of service providers and weatherized homes, fraud detection training, the requirement of monthly reports from service providers, and the use or proposed use of a Web-based reporting database. Some states, however, believe that current controls are sufficient, but they will need to hire additional staff to accommodate the increase in Recovery Act funding.

[88]The Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507), requires that each state, local government, or nonprofit organization that expends $500,000 or more a year in federal awards must have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in OMB Circular No. A-133, *Audits of States, Local Governments and Non-profit Organizations* (June 27, 2003). If an entity expends federal awards under only one federal program, the entity may elect to have an audit of that program.

States Are Beginning to Monitor Recovery Act Weatherization Impacts, and Most Plan to Meet Reporting Requirements

In guidance supplied to the states, DOE stated that, as a minimum, states now have to report oversight visits, training, and equipment purchases that exceed $5,000. In addition, state officials must report on the number of housing units weatherized and the resulting impacts to energy savings and jobs created and retained at both the state and local agency level. While state officials have estimated the number of housing units that they expect to weatherize using Recovery Act funds, only a few of the states have begun collecting data about actual impacts. This is primarily because most states are just beginning to use the Recovery Act funds to weatherize homes or because they are waiting for further guidance about how to calculate impacts. Some states plan to use performance measures developed by DOE, while others have developed their own measures. Florida officials, for example, plan to measure energy savings by tracking kilowatts used before and after weatherization, primarily with information from utility companies.

OMB issued guidance in June 2009 describing how prime recipients and subrecipients of Recovery Act funds are to report on their use of those funds.[89] For example, beginning with the quarter ending September 30, 2009, Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. In August 2009, OMB updated its June guidance identifying the data elements for states to report. As a result, every state must, by October 10, 2009, submit to OMB detailed information about their use of Recovery Act funds.[90] Although weatherization officials in most states that we reviewed believe they would be able to meet this deadline, a few were less certain. For example, Colorado officials said that unresolved issues such as uploading consolidated data to OMB and completing the development and testing of the elements that will be used to collect data from grant recipients may affect the completeness and timeliness of the state's report. Michigan officials stated that certain agency data for fiscal year 2009 would not be finalized until October 24 or 25, 2009. To assist local subrecipients in understanding reporting requirements, some state

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

[90]Recipients must report the total amount of funds received and, of that, the amount spent on projects and activities; a list of those projects and activities funded by name to include description, completion status, and estimates on jobs created or retained; and detail on subawards and other payments. See OMB memorandum M-09-21, p. 8.

agencies have issued guidance, but most are waiting for further DOE guidance.

In Response to Significant Risks with the Initial Section 1512 Reporting Process, OMB and the States Are Taking Various Actions

Section 1512 recipient reporting[91] and related OMB guidance, as discussed earlier in this report, requires recipients to report the total amount of Recovery Act funds received, the projects and activities being funded, the completion status of the projects being funded, and the impact on job creation and retention. Section 1512 of the act requires reports on the use of Recovery Act funds by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending Sept. 30, 2009). The first recipient reports are due to be reported to www.federalreporting.gov on October 10, 2009.

This recipient reporting is intended to provide the public with an unprecedented level of transparency into how federal dollars are being spent and help drive accountability for the timely, prudent, and effective spending of recovery dollars. However, significant risks exist that will likely negatively impact the completeness, accuracy, and reliability of the information reported in the initial round of Section 1512 reporting. First, the reporting requirements are new, and many recipients who will be required to report information have never been required to report such information in the past. Recipients' systems and processes have not previously been set up to provide reliable and accurate data for the currently required reporting, and recipients may not have sufficient personnel with the skills needed to provide assurance over the quality of the recipient reporting. The large number of recipients also adds to this risk, as it is difficult for states and the federal government to monitor data quality coming from the recipients. Data quality issues impact the usefulness and reliability of the summarized information at the state and federal levels. Significant risks also exist because two new systems have been implemented at the federal level for collecting, summarizing, and reporting the information.

In our July 2009 report, we noted that challenges exist in tracking the Recovery Act funds in the selected states we reviewed,[92] which could also impact the recipient reporting processes for those states. The states have also expressed concerns about the ability of other entities to track and

[91]Pub. L. No. 111-5, Sec. 1512 (c), 123 Stat. 115, 287 (Feb 17, 2009).

[92]GAO-09-829.

report on Recovery Act funds. These entities generally have not had experience in reporting to the federal government on an ongoing basis, and numerous Single Audits have raised concerns about subrecipient reporting. In our April 2009 report, we noted that significant concerns exist regarding subrecipient monitoring, as it is an area where limited experience and known vulnerabilities exist.[93] The extent to which these entities have the capacity to accurately report is unknown. Inherent risks also exist with the implementation of new reporting systems at the federal level. The large number of recipients and subrecipients related to Recovery Act reporting presents a huge challenge to OMB and the RATB in the design and activation of the reporting function.

In an effort to address information risks, OMB's June 22nd guidance includes a requirement for data quality reviews. The data quality guidance is intended to emphasize the avoidance of two key data problems—material omissions[94] and significant reporting errors.[95] Material omissions and significant reporting errors are risks that the financial information is incomplete and inaccurate. Reliable financial information should be accurate and complete, so that decision makers such as Congress and federal agencies can make informed decisions.

OMB, federal agencies, state agencies, and others have taken various actions in preparation for the October reporting. OMB has issued guidance in February 2009, April 2009, June 2009, and September 2009; presented at conferences; and provided training through webinars.[96] The OMB June 22 memorandum stated that "it is anticipated that federal agencies will, as appropriate, issue clarifying guidance to funding recipients." As noted elsewhere in our report, relevant federal agencies have issued or are planning on issuing guidance. The selected states and the District have

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

[94]OMB defines material omissions as instances where required data are not reported or reported information is not otherwise responsive to the data requests, resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity.

[95]OMB defines significant reporting errors as those instances where required data are not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.

[96]http://www.whitehouse.gov/Recovery/WebinarTrainingMaterials/.

issued their own guidance and requirements to state offices, localities, and other recipients in order to prepare for the initial recipient reporting. For example, the New Jersey Governor's Chief of Staff issued a memorandum on July 10, 2009, requiring departments to submit comprehensive outlines of their strategy to comply with Section 1512 reporting.[97]

In order to prepare for recipient reporting, states and their program offices are taking various actions to implement procedures and internal controls for recipient reporting. For example, Colorado has assigned a staff member to focus on Recovery Act reporting requirements to ensure reporting occurs as required by OMB. Also, the New Jersey Recovery Accountability Task Force issued written guidance to both state agencies and local government units concerning Recovery Act issues, such as reporting requirements, project selection criteria, effective contract and grant management. In addition, in New Jersey, the Recovery Accountability Task Force and the State Inspector General have been meeting with departments since May to discuss internal control policies. Similar meetings are beginning with municipalities and cities in New Jersey. The New Jersey Housing and Mortgage Finance Agency has provided seminars to multifamily property owners, developers, and managers, in addition to shifting staff resources. Some states have conducted dry runs as part of their preparation for the first reporting in order to identify areas where additional internal controls and procedures may be necessary. For instance, Florida has performed an initial recipient reporting pilot by having three agencies provide the data to populate the state database. Florida also plans dry runs and submission of test data to OMB once OMB has the capability of receiving the data.

The states and District of Columbia have taken different approaches—centralized and decentralized—for Section 1512 recipient reporting. The 11 states and the District with centralized approaches generally are planning on having the prime recipients provide the reporting information to a state office. For example, Ohio's recipients are providing their information through a reporting hub to Ohio's Office of Budget and Management. Ohio's Office of Budget and Management will then report the information to FederalReporting.gov. Five states are using a decentralized approach and are generally planning on having the prime recipients, such

[97]The memorandum specifically requested plans identifying likely subrecipients and vendors, the proposed process for entering data into FederalReporting.gov, and comparing current data collected with the data required under Section 1512 of the act.

as state departments, report their information directly to FederalReporting.gov. Table 17 indicates our classification of the reporting approaches the selected states and District are planning on using.

Table 17: Selected states and the District implemented tracking mechanism to identify the state's prime recipients and subrecipients for reporting purposes, in accordance with OMB guidance Section 1512

Centralized	Decentralized
• Arizona	• Georgia
• California	• Mississippi
• Colorado	• New Jersey
• District of Columbia	• New York
• Florida	• Texas
• Illinois	
• Iowa	
• Massachusetts	
• Michigan	
• North Carolina	
• Ohio	
• Pennsylvania	

Source: GAO analysis of interviews of cognizant officials.

The Director of Michigan's Economic Recovery Office said she believes the state will be able to report centrally, but state agencies could report directly through the FederalReporting.gov website if needed. Some states are planning on using their existing accounting systems with some modifications for their reporting. For instance, Colorado is developing a centralized reporting process that primarily uses its existing accounting and contract management systems with certain enhancements, as well as manually generated spreadsheets. Other states, such as Florida, are developing or have developed a new reporting system.

The risk associated with recipient reporting is also reflected in concerns some state representatives have expressed. To address these concerns and clarify the information it has provided, OMB has taken numerous steps. In addition to memorandums, webinars, and conferences, OMB has held several teleconferences with numerous stakeholders at the state and local levels, including recovery czars, budget, information technology, financial, and audit officials. OMB also plans to send federal officials to all states and some other locations to provide a resource during the initial reporting period. At the time of our report, some of the recovery czars and other

officials noted that confusion remains regarding the guidance. Generally, OMB has been working with states to resolve issues as it becomes aware of them. For example, in August 2009 an Iowa official said that they wanted to confirm that they could use a single D-U-N-S number to report Section 1512 information centrally. OMB made some changes to better accommodate centralized reporting in response. However, even though OMB's outreach and coordination with the states has been much greater than has occurred in the past, the unprecedented reliance upon recipient reporting calls for such intensive efforts.

Although OMB has moved quickly, concerns have arisen as the reporting deadline looms, reflecting the uncertainty inherent in this new and more transparent way of working together across levels of government. The transparency and expectation for accountability raises the stakes, as issues will be visible to the public, the media, and Congress, and the possibility of misunderstandings related to the data reported are of concern to all involved. Some state representatives noted that conflicting responses have been provided to questions about recipient reporting. For example, New Jersey noted that OMB's June 22nd guidance clarifies that states will not be counting indirect jobs. However, during the webinars, there was discussion from OMB staff that this may not, in fact, be the case. Duplicate reporting is another risk, according to Florida, because some federal agencies informed their state counterpart agencies that they should report information directly to the federal agency, in addition to, or instead of, the federal site for data collection.

Concluding Observations

Section 1512 recipient reporting is intended to provide the public with an unprecedented level of transparency into how federal dollars are being spent and help drive accountability for the timely, prudent, and effective spending of recovery dollars. However, significant risks are inherent in the upcoming, initial round of reporting that will likely negatively impact the completeness, accuracy, and reliability of the information reported. Although OMB and the states are actively taking steps to mitigate these risks, the first round of recipient reporting will likely present many examples where improvements will be needed. We believe that the Section 1512 process will, by necessity, evolve with future improvements needed after the first round of reporting as OMB and RATB continue to take steps to ensure data quality and the efficiency of Section 1512 reporting process in subsequent quarters.

OMB Has Taken Some Steps Related to Single Audits' Focus and Reporting on the Recovery Act, but Additional Actions Are Needed

As we reported in both our April and July 2009 reports, effective internal controls over the use of Recovery Act funds are critical to help allow effective and efficient use of resources, compliance with laws and regulations, and in achieving accountability over Recovery Act programs. In its guidance, OMB has stated that Single Audit reports[98] will serve as an important accountability mechanism for Recovery Act programs. A Single Audit report includes the auditor's schedule of findings and questioned costs, internal control and compliance deficiencies, and the auditee's corrective action plans and a summary of prior audit findings that includes planned and completed corrective actions. The Single Audit Act requires that a nonfederal entity subject to the act transmit its reporting package to a federal clearinghouse designated by OMB no later than 9 months after the end of the period audited.

As we reported in April and July 2009, we are concerned that, as federal funding of Recovery Act programs accelerates in the next few months, the Single Audit process may not provide the timely accountability and focus needed to assist recipients in making necessary adjustments to internal controls, so that they achieve sufficient strength and capacity to provide assurances that the money is being spent as effectively as possible to meet program objectives.

The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies noted in Recovery Act programs. The Single Audit Act requires that recipients submit their 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.[99] As a result, an audited entity may not receive feedback needed to correct an identified internal control or compliance weakness until the latter part of the subsequent fiscal year. For example, states that have a fiscal year end of June 30 have a reporting deadline of March 31, which leaves program management only 3 months to take corrective

[98]The reports are required by the Single Audit Act, 31 U.S.C. § 7502, and prepared in accordance with OMB Cir. No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which provides guidance to auditors on selecting federal programs for audit and the related internal control and compliance audit procedures to be performed.

[99]31 U.S.C. § 7502(b), (h)(2)(B). The guidance provides that under certain conditions, Single Audit auditees may be audited biennially instead of annually. For entities that are audited biennially, it is longer before internal control and compliance weaknesses are identified and remediated.

action on any audit findings before the end of the subsequent fiscal year. For Recovery Act programs, significant expenditure of funds could occur during the period prior to the audit report being issued.

The timing problem is exacerbated by the extensions to the 9-month deadline that are routinely granted by the awarding agencies, consistent with OMB guidance. According to an HHS OIG official, beginning in May 2009 HHS IG adopted a policy of no longer approving requests for extensions of the due dates of Single Audit reporting package submissions. OMB staff have stated that they are evaluating the elimination of time extensions on the reporting package but have not issued any official guidance or memorandums to the agencies, OIGs, or federal award recipients.

Our April and July 2009 reports on the Recovery Act included recommendations that OMB adjust the current audit process to

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

In our July 2009 report, we included a matter for congressional consideration pointing out that Congress is considering a legislative proposal and could address the following issues:

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

Although OMB had taken several steps through August 2009 in response to our recommendations, those actions did not sufficiently address the risks leading to our recommendations. To focus auditor risk assessments on Recovery Act-funded programs and to provide guidance on internal control reviews for Recovery Act programs, OMB was working within the framework defined by existing mechanisms—Circular No. A-133 and the Compliance Supplement. In this context, OMB made limited adjustments to its Single Audit guidance.

On September 10, 2009, OMB announced a proposed pilot project that, if properly implemented with sufficient coverage of Recovery Act-funded programs, could address concerns about the timeliness of Single Audit reporting related to internal control weaknesses in Recovery Act programs. Accordingly, in our September 10, 2009, testimony for the Senate Homeland Security and Governmental Affairs Committee,[100] we recommended that the Director of OMB take steps to achieve sufficient participation and coverage in the pilot project that provides for early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

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

On May 26, OMB issued the 2009 edition of the Circular A-133 Compliance Supplement. The new Compliance Supplement is intended to focus auditor risk assessment on Recovery Act funding by, among other things, (1) requiring that auditors specifically ask auditees about and be alert to expenditure of funds provided by the Recovery Act, and (2) providing an appendix that highlights some areas of the Recovery Act impacting Single Audits. The appendix adds a requirement that large programs and program clusters with Recovery Act funding cannot be assessed as low-risk for the purposes of program selection without clear documentation of the reasons they are considered low risk. It also calls for recipients to separately identify expenditures for Recovery Act programs on the Schedule of Expenditures of Federal Awards.

On August 6, 2009, OMB issued Compliance Supplement Addendum No. 1 to provide additional guidance related to specific compliance requirements for some Recovery Act programs (Part 4 of the Addendum). This addendum modified the 2009 Compliance Supplement by indicating the new Recovery Act programs and new program clusters, providing new

[100]GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, GAO-09-908T (Washington, D.C.: Sept. 10, 2009).

cross-cutting provisions related to the Recovery Act programs, adding compliance requirements for existing programs as a result of Recovery Act funding, and emphasizing the importance of internal controls for compliance for programs with Recovery Act expenditures (Part 6 of the Addendum).

Even with the two documents issued in May and August, the 2009 Compliance Supplement does not yet provide specific auditor guidance for some new programs funded by the Recovery Act, or for new compliance requirements specific to Recovery Act funding within existing programs, that may be selected as major programs for audit. OMB acknowledges that additional guidance is called for and plans to address specific Recovery Act-related compliance requirements in its guidance to be issued at the end of September 2009 and its 2010 Compliance Supplement.

The audit approach in OMB Circular A-133 relies heavily on the amount of federal expenditures in a program during a fiscal year and whether findings were reported in the previous period to determine whether detailed compliance testing is required for that year. Although OMB is using clusters for Single Audit selection to make it more likely that Recovery Act programs would be selected as major programs subject to internal control and compliance testing, the dollar formulas for determining major programs have not changed. This approach may not provide sufficient assurance that smaller, but nonetheless significant, Recovery Act-funded programs would be selected for audit.

In our discussions with state audit officials, many indicated that the above approach would not result in a significant increase in the number of major programs in the fiscal year 2009 Single Audit of their states. However, these officials are anticipating a much larger increase in the number of major programs for the fiscal year 2010 Single Audit in their respective states as Recovery Act funding is expended.

Steps toward More Timely Reporting on Internal Controls over Recovery Act-Funded Programs

To provide additional focus on internal control reviews, OMB's August 6 guidance emphasized the importance of prompt corrective action by management. This guidance also encouraged early communication by auditors to management and those charged with governance of identified control deficiencies related to Recovery Act funding that are, or likely to be, significant deficiencies or material weaknesses. Such early communication is intended to allow management to expedite corrective action and mitigate the risk of improper expenditure of federal awards.

In our July 2009 report, we stated that OMB was encouraging communication of weaknesses to management early in the audit process but did not add requirements for auditors to take these actions. This step was insufficient and 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.

Auditors vary in the timing and formality of communication of internal control findings during the course of the audit. All of the auditors we interviewed indicated that they inform program management of deficiencies or potential deficiencies prior to the release of the Single Audit report. However, the auditors indicated a variety of means of reporting and of the anticipated level of government to which the reports will be made. One state audit office indicated that it plans to release interim reports on internal control to the governor, state legislature, and the heads of agencies responsible for administering Recovery Act funding. Several state auditors said they release a letter addressing internal control issues, including management responses to findings, after completion of audit fieldwork but before the release of the Single Audit report. Others said that the main means of early communication of audit findings was through verbal comments by auditors to program management.

Under the proposed pilot project announced by OMB on September 10, 2009, 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 9 months required by the Single Audit Act. As currently envisioned, an auditor participating in the pilot would formally report internal control deficiencies identified in the course of the Single Audit to state and federal officials within 6 months of the end of the audited entity's fiscal year in order to achieve more timely accountability for selected Recovery Act-funded programs. Most states have a June 30 fiscal year-end; consequently, most of the preliminary internal control communications would be due by December 31, 2009. Participating auditors would be required to focus audit procedures on Recovery Act-funded programs in accordance with guidelines prescribed by OMB. OMB would offer to waive Circular A-133's requirement for risk assessment and audit procedures for smaller programs not receiving Recovery Act funding as an inducement to participate. OMB plans to identify the participating auditors and the programs that will be included by the end of September

2009. GAO believes that, if the pilot is properly implemented and achieves sufficient coverage of Recovery Act-funded programs, it may be effective in addressing concerns about the timeliness of Single Audit reporting related to internal control weaknesses in Recovery Act programs. The pilot is, however, still in its early stages and many surrounding issues are yet to be resolved. It is important to note that the pilot project is dependent on voluntary participation, which could impact OMB's ability to achieve sufficient scope and coverage for the project to meet its objectives.

Providing Relief to Balance Expected Increased Workload

While OMB has noted the increased responsibilities falling on those responsible for performing Single Audits, it has not issued any proposals or plans to address this recommendation to date. Many state audit officials we talked with told us their offices have experienced severe cutbacks in staff, and several have multiple furlough days for all staff.

States and auditors volunteering to participate in OMB's proposed pilot program will be granted some relief in the workload because the auditor will not be required to perform risk assessments of smaller federal programs. Auditors conduct these risk assessments as part of the planning process to identify which federal programs will be subject to detailed internal control and compliance testing. In addition, OMB has indicated that additional relief may be granted to participants for low-risk programs not receiving Recovery Act funds.

Congress is currently considering a bill that could provide some financial relief to auditors lacking the staff capacity necessary to handle the increased audit responsibilities associated with the Recovery Act. S. 1064, which is currently before the Senate Committee on Homeland Security and Governmental Affairs, and its companion bill that was passed by the House, H.R. 2182, would amend the Recovery Act to provide for enhanced state and local oversight of activities conducted pursuant to the act. One key provision of the legislation would allow state and local governments to set aside 0.5 percent of Recovery Act funds, in addition to funds already allocated to administrative expenditures, to conduct planning and oversight. In its current form, this does not specifically address audit funding needs.

Conclusions

Although OMB has taken some steps in response to our recommendations, significant uncertainties exist regarding the scope of the pilot project and its effectiveness as an accountability mechanism for reporting on internal controls over Recovery Act programs. Therefore, we are repeating our recommendation from our September 10, 2009, testimony that the Director

of OMB take steps to achieve sufficient participation and coverage in the pilot project that provides early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

Recommendations

Accountability and Transparency

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

- provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with high risk have audit coverage in the area of internal controls and compliance;
- develop requirements for reporting on internal controls during 2009 before significant Recovery Act expenditures occur, as well as for ongoing reporting after the initial report;
- evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act;
- develop mechanisms to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs; and
- take steps to achieve sufficient participation and coverage in the Single Audit pilot program that provides for early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

To reduce the impact of untimely Single Audit reporting, the Director of OMB should

- 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 nine month deadline, and
- Widely communicate this revised policy to the state audit community and others who have responsibility for the conducting single audits and submitting the single audit reporting package.

Matter for Congressional Consideration

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

- To the extent that appropriate adjustments to the Single Audit process are not accomplished under the current Single Audit structure, Congress should consider amending the Single Audit Act or enacting new legislation that provides for more timely internal control reporting, as well as audit coverage for smaller Recovery Act programs with high risk.
- To the extent that additional 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.

States Face Actual and Looming Revenue Shortfalls Cushioned by Recovery Act Funding

Since our July report, state revenues continued to decline and state budget officials anticipated continued fiscal stress cushioned by the temporary infusion of Recovery Act funds. Seven of the 16 selected states completed their fiscal year 2010 budgets since our July report and one state, Pennsylvania, continued to work toward agreement on the fiscal year 2010 budget even though its fiscal year began July 1.[101] In addition, Michigan

[101]In July we reported that Mississippi did not have a fiscal year 2010 budget as of early June 2009; Mississippi's legislature approved the state's fiscal year 2010 budget on June 30, 2009.

and the District continue to negotiate their budgets in anticipation of fiscal years beginning October 1.[102] Some state budget officials also reported their use or planned use of reserve or rainy-day funds since our July report. State budget officials also discussed actions planned and taken to recover central administrative costs related to Recovery Act oversight implementation. Officials in some states told us they had or plan to seek reimbursement of their central administrative costs through methods outlined in OMB guidance, while officials in one state plan to absorb these costs.

Many of the selected states and the District continued to experience steep declines in revenue. For example, officials in Michigan's Economic Recovery Office said that in each month since our July report, revenue collections dropped below already declining state projections, thus creating the potential for a $2 billion budget shortfall by the end of the current fiscal year—which in Michigan ends September 30, 2009. Officials from Michigan's House Fiscal Agency estimate that the state's general fund revenues for the upcoming fiscal year may fall to levels not seen since the 1960's (after adjusting for inflation). In New York the use of Recovery Act funds, as well as other measures, had already addressed a $20.1 billion budget gap for fiscal years 2008-2009 and 2009-2010. Continued declining revenues have now contributed to an anticipated $2.1 billion budget shortfall by the end of the first quarter of the current fiscal year. According to New York officials, the state's growing budget gap is due almost entirely to a reduction in state revenues. Officials in the Ohio Governor's Office also said they had revised revenue estimates. According to state officials, Ohio's revenue projections are nearly 6.5 percent below the amount included in the first budget submission developed for the current fiscal year just seven months ago in February 2009. Budget officials in Colorado responded to the current fiscal situation by asking most state agencies to submit revised fiscal year 2009-2010 budgets reflecting a ten percent reduction in expenditures from the appropriated levels. Georgia took similar steps and began fiscal year 2010 with a five percent withholding for all state agencies. Georgia budget officials are now asking agencies to submit budget reduction plans of four, six, and eight percent for the amended fiscal year 2010 and fiscal year 2011 budgets. New Jersey officials reported that projected base income and corporate tax revenues

[102]Not all jurisdictions have the same fiscal year. Most of the states we visited have fiscal years beginning July 1, with the following exceptions: The fiscal year for Texas begins on September 1; the fiscal year for the District of Columbia and Michigan begins October 1; and New York's fiscal year begins April 1.

for fiscal year 2010 will likely come in less than the actual fiscal year 2005 collections for those taxes. Preliminary projections by California's Department of Finance indicated that the state's revenues could continue to deteriorate and result in a $7 billion shortfall during the current fiscal year, with potentially greater shortfalls in future years. California's Legislative Analyst's Office also expects the state will have cash flow deficits for the next three to five years.

At least two states, Ohio and Florida, have plans for new revenue sources to address declining tax receipts. Ohio's enacted budget relies on a new revenue source—proceeds from new video lottery terminals, while Florida officials expect cigarette surcharges, motor vehicle fees, and court fees to produce more than $2 billion in new revenues.

Officials in Illinois, Florida and Texas said they were somewhat optimistic that an economic recovery would produce increased revenues later in the current fiscal year or beginning in 2011. Officials from Illinois anticipated that the state will enact legislation that will increase tax revenues and provide the fiscal support necessary to transition into fiscal year 2011 without the need for additional fiscal stabilization funds from the Recovery Act. However, officials from many states did not share this outlook, and instead reported that they foresee continued revenue declines. In a few states, such as Arizona and Colorado, officials also projected increases in expenditures. Colorado officials, for example, anticipate that fiscal year 2011 will be, in their words, "brutal," resulting in additional budget cuts, while expenditures associated with Medicaid, corrections facilities, and higher educational enrollments are expected to increase.

All of the selected states and the District have at least one rainy day or reserve fund and, as reported in our April and July reports, states continued to use these reserve funds to address declining revenues. More than half of the 16 selected states used their rainy-day or reserve funds to address budget shortfalls in either fiscal year 2009, 2010 or both. For example, officials in Massachusetts used $1.39 billion in state rainy-day funds to help stabilize the state's budget during fiscal year 2009, and state officials anticipate using $214 million in rainy-day funds in fiscal year 2010. This would leave Massachusetts' rainy-day fund with a projected balance of $571 million at the end of fiscal year 2010. According to budget officials in a few states it is too soon to tell whether their revenue shortfalls will require them to tap into their reserve funds, sometimes for a second time, for their current fiscal year. New York and Texas, as well as the District of Columbia, specifically decided not to use their rainy-day funds to fill

budget gaps—in fiscal year 2009-2010 for New York, in fiscal years 2009-2010 and 2010-2011 for the District or in biennium 2010-2011 for Texas. The reasons for this decision varied—the District, for example, chose not to use the reserves because according to officials, local law requires repayment within a short time frame. The Texas Governor's Office explained that it did not anticipate a need to use the rainy-day fund in their fiscal year 2010-2011 budget, adding that the fund is not a readily available option because approval for its use requires a supermajority vote of the state legislature. Arizona, Ohio, Florida, Michigan, and New Jersey have depleted, or nearly depleted, their formal rainy-day funds. However, while New Jersey used its entire rainy-day reserve to help close a $735 million budget gap for fiscal year 2009, the state also plans to set aside $500 million for fiscal year 2010. New Jersey state budget officials explained that rather than continue to fund their rainy-day fund, which has restricted uses, they plan to maintain the $500 million in a "free balance" account that budget officials can use for any purpose without restrictions.

States Expressed Concerns Regarding the Feasibility of Recovering Central Administrative Costs and Have Proposed Alternate Methods

States recover administrative costs for federal grant programs pursuant to OMB Circular A-87 guidelines.[103] OMB also issued Memorandum 09-18 which applies A-87 guidelines to recouping central administrative costs related to Recovery Act programs.[104] States generally recover central administrative costs associated with federal grant programs, including the Recovery Act, after expenses are incurred.[105] OMB guidance does not provide additional funds for these costs, rather, it permits central costs to be recovered from program funds. To recover administrative costs, states submit a State-Wide Cost Allocation Plan (SWCAP)[106] annually to the

[103]OMB Circular, No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (CFR, Part 225). OMB Circular No. A-87 established principles for determining the allowable administrative costs incurred by state, local and federally recognized Indian tribal governments.

[104]OMB Memorandum, M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Act Activities* (May 11, 2009). This memorandum clarifies and encourages states to utilize existing flexibilities to recover administrative costs related to carrying out Recovery Act programs and activities in a more timely manner.

[105]Other entities, such as colleges and universities, are able to recover administrative costs in an up-front manner pursuant to principles established by OMB Circular, No. A-21, *Cost Principles for Educational Institutions* (2 CFR, Part 220).

[106]The statewide cost allocation plan is a required document that identifies, accumulates, and allocates; or develops billing rates based on the allowable costs of services (e.g., accounting, purchasing, computer services, motor pools, fringe benefits, etc) provided by a governmental unit to its departments and agencies.

Division of Cost Allocation (DCA) of the U.S. Department of Health and Human Services (HHS). With respect to Recovery Act central administrative costs, states are expected to update their SWCAP to include the costs of administering Recovery Act programs, as indicated in OMB Memorandum M-09-18. The OMB memorandum indicates that states can recover central administrative costs up to 0.5 percent of the total Recovery Act funds received by the state.

The guidance also identifies two alternatives by which states can recover central administrative costs for Recovery Act programs.

- **Allocated cost method:** States can use budgeted or estimated costs for Recovery Act administrative costs in the SWCAP submission, and costs must not total more than 0.5 percent of total Recovery Act funds received by the state. States must justify the services billed and the basis for the amounts estimated. Reconciliation between actual costs and claimed costs will be adjusted in the subsequent year review of the SWCAP by HHS.

- **Billed services method:** States can submit a methodology for identifying, recording, and charging administrative costs within the SWCAP and must detail the services provided and billing rates. Once approved, the methodology can be used to charge administrative program costs to state agencies that would recover these costs through billing the Recovery Act programs. Costs must not total more than 0.5 percent of total Recovery Act funds received by the state.

As shown in table 18, nine states and the District reported that they are moving forward with the administrative cost recovery process described in the OMB guidance. One state reported plans to absorb administrative costs. Iowa officials reported that the state had to absorb administrative costs because Recovery Act funds had already been allocated to programs through the state budget process and it was not possible to re-allocate funds for administrative purposes without state legislative approval. At least four states, Florida, Illinois, New York, and North Carolina are undecided about what they will do while four states, Arizona, California, Colorado, and Massachusetts have proposed alternative methods to HHS, discussed later in this section.

Table 18: State Approaches to Recouping Recovery Act Administrative Costs

Using OMB alternatives	Absorbing costs	Undecided	Proposing alternative to OMB methods
Arizona, District of Columbia, Colorado, Georgia, Massachusetts, Michigan, New Jersey, Ohio, Pennsylvania, Texas	Iowa	Florida, Illinois, New York, North Carolina	Arizona, California, Colorado, Massachusetts

Source: GAO analysis of interviews with state officials.

Note: Some state officials indicated they are utilizing more than one approach for example, using OMB alternatives and proposing alternative methods to HHS, therefore they are identified in the table in both categories.

Due to state officials' uncertainty regarding the central administrative cost recovery methods outlined in OMB's initial guidance, at least two states, Massachusetts and California, had concerns regarding which Recovery Act programs could be billed or charged to cover central administrative activities such as oversight and reporting. For instance, state officials said it was unclear whether some programs, such as Medicaid FMAP or competitive grant awards, could contribute toward the funding of these central administrative activities. OMB subsequently issued a FAQ on its Web site to clarify the process for recovering administrative costs.[107] This FAQ clarifies that all Recovery Act funds coming to the state as a prime recipient are eligible to be charged for central administrative costs unless otherwise subject to specific limitations or restrictions on central administrative cost recovery.[108] However, the FAQ does not explicitly state which programs are excluded when calculating the 0.5 percent for central administrative costs for Recovery Act programs.

[107]See, http://www.whitehouse.gov/omb/recovery_faqs/.

[108]According to OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act* (June 22, 2009), the prime recipients are non-federal entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government.

NASACT submitted a Proposal to Allow Waivers of Some Provisions of the SWCAP Process on Behalf of States; HHS Final Approval is Dependent on OMB

The National Association of State Auditors, Comptrollers, and Treasurers (NASACT) wrote a letter to OMB on August 7 to clarify states' responsibilities and propose a waiver of certain requirements of OMB Circular A-87, which governs the SWCAP process.[109] NASACT outlined two proposals. First, NASACT proposed waiving the requirement that states must depreciate equipment over the life of the equipment.[110] Second, NASACT proposed waiving the requirement that reimbursement be after the funds are expended rather than prior to the expenditures. As stated in the letter, Recovery Act capital assets are needed primarily to fulfill reporting and compliance with Recovery Act mandates. NASACT's concern is that Recovery Act assets, primarily information technology, are needed for the Recovery Act period, which is shorter than the depreciation life cycle for these assets. In addition, according to the letter, Recovery Act funds have a substantial impact on state budgets and require a commitment of additional state resources for oversight and implementation. Timely reimbursement for these administrative costs is particularly essential for states during a time of fiscal stress. At least four of the states we spoke with—Arizona, California, Colorado, and Massachusetts—expressed support for these proposals. Arizona and California were concerned that they would not be able to recover the full costs of depreciable equipment dedicated to Recovery Act purposes, since the equipment is expected to last longer than is needed for Recovery Act reporting periods. Many states, Arizona, California, Colorado, Illinois, Massachusetts, Mississippi, New York and Texas, also expressed frustration with using the traditional cost allocation method, whereby states estimate costs for each type of administrative cost using a separate methodology for each. California and Massachusetts proposed two alternate cost allocation methods to allow states to estimate costs and reconcile the differences later, and to allow states to allocate based on budget, respectively. Massachusetts' proposal, which mirrors the NASACT proposal, was submitted as part of its SWCAP addendum. State officials told us that HHS gave provisional approval of the proposal but stated that final approval is contingent on OMB approval of the waiver requested by NASACT. HHS is designated by OMB as the cognizant federal agency for

[109]The National Association of State Auditors, Comptrollers and Treasurers (NASACT) is an organization of state auditors, comptrollers and treasurers in the 50 states, the District of Columbia, and U.S. territories who deal with the financial management of state government.

[110]Depreciation reflects the use of the asset(s) during specific operating periods in order to match costs with related revenues in measuring income or determining the costs of carrying out program activities.

reviewing, negotiating and approving cost allocation plans. According to HHS officials, HHS does not have the authority to grant Recovery Act central administrative cost waivers which are covered by OMB memorandums and circulars. OMB staff said they are continuing to review the NASACT waiver request.

Concluding Observation and Recommendation

Administrative cost reimbursement proposals: State fiscal relief is one of the purposes of the Recovery Act. During a time when states are grappling with unprecedented levels of declining state revenues and fiscal stress, states continue to seek relief from additional pressures created by requirements to implement and comply with the Recovery Act. States play a central role in the prudent, timely and transparent expenditure of Recovery Act funds. To fulfill this role properly, states often take on additional fiscal and administrative burdens. These additional costs can exacerbate states' existing fiscal stress. Therefore it is critical for state governments to quickly and effectively build the necessary capacities to meet their reporting requirements and responsibilities under the Recovery Act. 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.

Recommendation: 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.

Crosscutting Recommendations

In addition to the cross-cutting recommendations to the Office of Management and Budget that follow, we have made recommendations to the Secretaries of Education, Housing and Urban Development, Labor, and Transportation within the body of the report. Recommendations are for Education's State Fiscal Stabilization Fund; HUD's Public Housing Capital Fund; Labor's Workforce Investment Act (WIA) Youth Program; and Transportation's Transit Capital Assistance and federal highways programs. The discussion on federal highways also includes an earlier recommendation on highway projects in economically distressed areas that has been implemented since our last report.

Accountability and Transparency

Recipients of Recovery Act funding face a number of implementation challenges. The act includes new programs and significant increases in funds out of normal cycles and processes. There is an expectation that

many programs and projects will be delivered faster so as to inject funds into the economy, and the administration has indicated its intent to ensure transparency and accountability over the use of Recovery Act funds.

Recipient financial tracking and reporting: OMB's guidance calls for the tracking of funds by the prime recipient, recipient vendors, and subrecipients receiving payments. OMB's guidance also allows that "prime recipients may delegate certain reporting requirements to subrecipients." Either the prime or subrecipient must report the D-U-N-S number (or an acceptable alternative) for any vendor or subrecipient receiving payments greater than $25,000. In addition, the prime recipient must report what was purchased and the amount, as well as a total number and amount for subawards of less than $25,000. By reporting the D-U-N-S number, OMB guidance provides a way to identify subrecipients by project, but this alone does not ensure data quality.

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

These concerns also pertain to recipient financial reporting and its federal reporting vehicle, www.federalreporting.gov. OMB guidance does not explicitly mandate a methodology for conducting quality reviews. Rather, federal agencies are directed to identify material omissions and significant reporting errors to "ensure consistency" in the conduct of data quality reviews. Although recipients and federal agency reviewers are required to perform data quality checks, none are required to certify or approve data for publication.

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.

Status of recommendation: 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.

Agency comments and our evaluation: 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.

We agree that OMB will need time to assess the data quality of recipient reports and that what it proposes to do is an important first step. We also recognize that there may be more than one way to ensure data quality and that a global requirement may not be the best approach. We will continue to monitor the situation.

Reporting on Impact

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. In addition to statutory requirements OMB has directed federal agencies to collect performance information and to assess program accomplishments.

Section 1512 recipient reporting: Under the Recovery Act, responsibility for reporting on jobs created and retained falls to nonfederal recipients of Recovery Act funds. As such, states and localities have a critical role in identifying the degree to which Recovery Act goals are achieved. The unprecedented public disclosure on the use of these funds required by the act and the expectation that information will be updated quarterly to the federal government through a newly created system, www.federalreporting.gov, have raised concerns for reporting officials.

Recommendation: In our July 2009 report, we recommend that OMB work with federal agencies to provide program-specific examples to increase reporting consistency and to seek opportunities to educate state and local officials through Web- or telephone-based information sessions.

Finally, we recommended that OMB and federal agencies clarify which new or existing performance measures should be used and data collected to demonstrate the impact of Recovery Act funding.[111]

Status of recommendation: In recent weeks, federal agencies have issued guidance that expands 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 frequently asked questions—FAQs—and tip sheets. Additionally, agencies are expected to provide examples of recipient reports for their programs, which is consistent with what we recommended. We have not yet assessed the sufficiency of this additional guidance.

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 is also preparing to deploy regional federal employees to serve as liaisons to state and local recipients in large population centers. The objective is to provide on-site assistance and, as necessary, direct questions to appropriate federal officials in Washington, D.C. OMB plans to establish a call center for entities that do not have an on-site federal liaison.

Communications and Guidance

Since enactment of the Recovery Act in February 2009, OMB has issued three sets of guidance—on February 18, April 3, and June 22, 2009[112]—to, among other things, assist recipients of federal Recovery Act funds in

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

[112]OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Apr. 3, 2009). This guidance supplements, amends, and clarifies the initial guidance, OMB Memorandum M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Feb. 18, 2009). OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

complying with reporting requirements. OMB plans to respond as needed to questions that arise through FAQs and other forms of communication, including outreach efforts with the Recovery Accountability and Transparency Board for the first quarterly recipient report. Federal agencies are responsible for program-specific Recovery Act guidance.

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

OMB does not have a master timeline for issuing federal agency guidance. OMB's preferred approach is to issue guidance incrementally. This approach potentially produces a more timely response and allows for midcourse corrections; however, this approach also creates uncertainty among state and local recipients responsible for implementing programs. We continue to believe that OMB can strike a better balance between developing timely and responsive guidance and providing a longer range timeline that gives some structure to states' and localities' planning efforts.

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

Status of 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. Beginning August 28, OMB has taken the additional step of requiring

federal agencies to notify recovery coordinators in states, the District of Columbia, commonwealths, and territories within 48 hours of an award to a grantee or contractor in their jurisdiction. This latest effort may provide the real-time notification we recommend. We will continue to monitor the situation and will report on the effectiveness of OMB's approach in a future report.

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

We are sending copies of this report to the Office of Management and Budget and to the Departments of Education, Labor, Housing and Urban Development, and Transportation. In addition, we are sending sections of the report to the officials in the 16 states and the District covered in our review. The report will be available at no charge on the GAO Web site at http://www.gao.gov.

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

Gene L. Dodaro
Acting Comptroller General of the United States

Addressees

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 Nancy Pelosi
Speaker of the House of Representatives

The Honorable Steny Hoyer
Majority Leader
House of Representatives

The Honorable John Boehner
Minority Leader
House of Representatives

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

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

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

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

Appendix I: Objectives, Scope, and Methodology

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

Objectives and Scope

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

Our teams visited the 16 selected states, the District, and a non-probability sample of 168 localities during July and August 2009.[2] As described in our previous Recovery Act report's OSM, our teams met again with a variety of state and local officials from executive-level and program offices. During discussions with state and local officials, teams used a series of program review and semistructured interview guides that addressed state plans for management, tracking, and reporting of Recovery Act funds and activities. We also reviewed state constitutions, statutes, legislative proposals, and other state legal materials for this report. Where attributed, we relied on state officials and other state sources for description and interpretation of state legal materials. Appendix II details the states and localities visited by GAO. Criteria used to select localities within our selected states follow.

States' and Localities' Uses of Recovery Act Funds

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

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

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

(SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA); Parts B and C of the Individuals with Disabilities Education Act (IDEA); the Workforce Investment Act (WIA) Youth program; the Public Housing Capital Fund; the Transit Capital Assistance Program, and the Weatherization Assistance Program. We also reviewed how Recovery Act funds are being used by states to stabilize their budgets. In addition, we analyzed www.recovery.gov data on federal spending.

Medicaid Federal Medical Assistance Percentage

For the increased FMAP grant awards, we obtained increased FMAP draw down figures for each state in our sample and the District from the Centers for Medicare & Medicaid Services (CMS). To examine Medicaid enrollment, changes to states' Medicaid programs, states' efforts to comply with the provisions of the Recovery Act, and related information, we relied on our web-based inquiry, 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 spoke with CMS officials regarding CMS oversight of increased FMAP grant awards and funds drawn down by states, and guidance to states on Recovery Act provisions.

Federal-Aid Highway Surface Transportation Program

For highway infrastructure investment, we reviewed status reports and guidance to the states and discussed these with the U.S. Department of Transportation (DOT) and Federal Highway Administration (FHWA) officials. We obtained data from FHWA on obligations, reimbursements, and types of projects funded with Recovery Act highway infrastructure funds nationally and for the District and each of the 16 states selected for our last Recovery Act report. From state DOT officials, we obtained information on the status of projects and contracts, including the number of projects planned, out for bid, awarded and completed. We interviewed contracting and state highway officials for two highway projects in each selected state, and collected information to assess how states manage and oversee the significant additional amounts of funding they receive for Recovery Act projects.

We interviewed officials from departments of transportation and metropolitan planning organizations in four states—Arizona, Massachusetts, New Jersey, and Ohio—to determine what plans the states have for using Recovery Act funds in metropolitan areas. We selected these four states because they had the lowest obligation rates for suballocated areas among the states we reviewed. To obtain information on the designation of Economically Distressed Areas, we interviewed officials from the U.S. Department of Transportation and the Economic

Development Administration (EDA) within the U.S. Department of Commerce.

SFSF, ESEA Title I, and IDEA

To understand how the U.S. Department of Education (Education) is implementing SFSF, ESEA Title I, and IDEA under the Recovery Act and monitoring states' use of Recovery Act funds, we reviewed relevant laws, guidance, and communications to the states and interviewed Education officials. For SFSF, Title I, and IDEA, we obtained data from Education on the amount of funds made available to the 16 states and the District of Columbia covered by our review and the amount of funds these states have drawn down from their accounts with Education. Also, from these states we obtained data on local education agencies' (LEAs) expenditures of SFSF, Title I, and IDEA Recovery Act funds. To learn about expenditures of SFSF funds by institutions of higher education (IHEs), we obtained expenditure data from 6 states covered by our review— Arizona, Colorado, Illinois, Iowa, North Carolina, and Ohio. We reviewed relevant documents, spoke with state officials, or visited local areas to learn about specific issues related to Recovery Act funds for education programs in Arizona, California, Colorado, the District of Columbia, Illinois, Iowa, Massachusetts, Mississippi, New Jersey, North Carolina, and Ohio.

WIA

We reviewed the Recovery Act-funded WIA Youth program in 10 of our 16 states (California, Florida, Georgia, Illinois, Massachusetts, Michigan, New York, Ohio, Pennsylvania, and Texas). We primarily focused on the results of local efforts to provide summer youth employment activities. To learn about program implementation and operation, the use and oversight of funds, and the challenges faced, we interviewed local workforce development officials in all 10 states for a total of 21 local areas. We also designed and implemented an email survey to gather information about state expenditures and spending targets, the number of expected and actual participants and their characteristics, monitoring activities and safeguards, and the measurement of post-program outcomes related to WIA summer youth work activities. We sent our survey to state workforce development officials in all 10 states and achieved a 100 percent response rate. We obtained and reviewed state portions of monitoring plans. We also reviewed relevant documents obtained from state and local officials. In addition, we supplemented our work in the 10 states by analyzing national data on the characteristics of youth participating in Recovery Act-funded WIA youth activities and the extent to which funds have been drawn down. We also reviewed Labor's guidance to states and local areas on Recovery Act funds.

Public Housing Capital Fund

For Public Housing, we obtained data from HUD's Electronic Line of Credit Control System (ELOCCS) on the amount of Recovery Act funds that have been obligated and drawn down by each housing agency in the country, and calculated rates of obligating and drawing down funds using these data. We reviewed statements made by officials at selected housing agencies during earlier interviews with GAO and the plans for Recovery Act funds submitted to HUD by selected housing agencies in order to understand the nature of Recovery Act projects and to help explain patterns in rates of obligating and drawing down Recovery Act funds. To obtain the current status of HUD's Capital Fund Recovery Competition, we interviewed agency officials and analyzed data on number of applications available on HUD's web site. We also reviewed agency documents, laws, and regulations applicable to the competition. To learn about HUD's initiatives on recipient reporting, we interviewed knowledgeable officials about the Department's plans to develop reporting solutions to enable Recovery Act grant recipients to meet the requirements of the law. To gain knowledge of reporting requirements, we reviewed relevant documentation on recipient reporting from the Office of Management and Budget. We also interviewed officials from public housing industry groups to get their views on the competitive grant application process and the recipient reporting requirements. We obtained information from HUD's Monitoring and Planning System (MAPS) as of June 10, 2009 to identify housing agencies with open Single Audit findings and determine the amount of Recovery Act funds that have been allocated to such housing agencies. We also interviewed HUD officials to understand their procedures for monitoring housing agency use of Recovery Act funds and identify specific actions that are being taken to close open findings.

We assessed the reliability of the data by (1) interviewing agency officials knowledgeable about the data, and (2) examining data elements used in our work by comparing actual with anticipated values and with published data. For the ELOCCS data, we obtained explanations on inconsistencies we found in the data from agency officials. For the MAPS data, we obtained written explanations of the procedures HUD undertakes to determine the accuracy of the data. We determined that the data were sufficiently reliable for the purposes of this report.

Transit Capital Assistance Program

For Recovery Act public transit investment, we focused on the Federal Transit Administration's (FTA) Transit Capital Assistance Program. Based on Recovery Act funds apportioned to urbanized and nonurbanized areas, we chose to focus our work on a geographically dispersed mix of urbanized and nonurbanized areas in eight states—California, Colorado,

Georgia, Illinois, Massachusetts, New Jersey, New York, and Pennsylvania—and the District of Columbia. We reviewed status reports and guidance to the states and discussed these with U.S. Department of Transportation (DOT) and FTA officials. To determine the current status of transit funding, we obtained data from FTA on obligations and unobligated balances for Recovery Act grants nationally and for each of our selected urbanized and nonurbanized areas, and the numbers and types of projects funded. We reviewed information from selected urbanized and nonurbanized areas to include how projects were chosen, how funds were used and how progress was reported and we compared that to project schedules and milestones, when available. To determine how transit agencies and states are ensuring the accountability of funds and addressing reporting requirements, we reviewed the guidance each state uses to meet reporting requirements, including reporting on project status, subcontracts and estimated jobs created.

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. We also coordinated activities with officials from the Department's Office of Inspector General. In addition, we collected information from 14 states. We conducted semi-structured interviews of officials in the states' energy agencies that administer the weatherization program. We collected data about each state's total allocation for weatherization under the Recovery Act, as well as the allocation already provided to the states. We asked DOE officials about the status of state energy plan reviews and met with Department of Labor officials to discuss the status of their prevailing wage survey for weatherization workers. Finally, we reviewed the state weatherization plans to determine how each state intends to allocate their funds and the outcomes they expect.

State Budget Stabilization

To further understand how states and the District continue to use Recovery Act funds to stabilize government budgets we reviewed enacted and proposed state budgets and revenue estimates for state fiscal years 2008-2009 and 2009-2010. We interviewed state budget and legislative officials to determine how states are using Recovery Act funds to avoid reductions in essential services, using "rainy day" funds, closing budget gaps and developing exit strategies to plan for the end of Recovery Act funding. In addition, we interviewed state and federal officials and analyzed relevant federal guidance to determine how states and the

District are recouping Recovery Act centralized administrative overhead costs.

Assessing Safeguards and Internal Controls

To determine how states are planning for the recipient reporting requirements of the Recovery Act, the teams for the 16 states and the District asked cognizant officials to describe the responsibility for recipient reporting, guidance that has been issued to state agencies and subrecipients, monitoring plans, and policies and procedures that have been developed for recipient reporting. We also reviewed relevant recipient reporting guidance issued by OMB. For single audit, we reviewed the OMB guidance and discussed with relevant OMB staff the Single Audit reports and guidance. We also discussed Single Audit risks and review of early design of internal control with State Auditors. In addition, we analyzed how OMB was addressing the recommendations related to the Single Audit in the April and July 2009 Recovery Act reports.

Data and Data Reliability

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

We conducted this performance audit from July 3rd, 2009, to September 18th, 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Department of Labor

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

SEP 18 2009

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:

Thank you for the opportunity to review and comment on the section pertaining to Workforce Investment Act (WIA) Youth summer employment activities from the Government Accountability Office (GAO)'s September 2009 bi-monthly draft report on the American Recovery Act and Reinvestment Act (Recovery Act).

The U.S. Department of Labor (the Department) has two key roles in the Recovery Act effort: providing worker training for the jobs created or saved; and easing the burden of the recession on workers and employers by providing extended and expanded unemployment benefits and assisting and educating them regarding expanded access to continued health benefits. The Department received $44.9 billion, of which $1.2 billion was designated to provide funds for Workforce Investment Act (WIA) youth activities, including summer youth employment.

Although the Department's timeframe to review and draft a response to the draft report was limited, the Department has done its best to complete its initial review and provide thoughtful responses to GAO's two recommendations.

GAO made two recommendations in this report:

To better support state and local efforts to provide youth with employment and training in green jobs, the Secretary of Labor should provide additional guidance about the nature of these jobs and the strategies that could be used to prepare youth for careers in green industries.

To enhance the usefulness of data on work readiness outcomes, the Secretary of Labor should provide additional guidance on how to measure work readiness of youth, with a goal of improving the comparability and rigor of the measure.

The Department of Labor agrees with both of these recommendations. In response to the recommendation to provide additional guidance on green jobs, the Department recognizes the need to provide assistance to states and local workforce areas to assist them in preparing youth for careers in green industries. In addition to continuing to work to support the state and local workforce system through guidance and technical assistance, the Department has several significant efforts underway.

-2-

Directly related to WIA Youth, the Department currently is planning two Recovery Act WIA Youth technical assistance forums in November and December of 2009. A primary focus of these forums will be preparing youth for careers in green industries and identifying the necessary training and appropriate work experiences to assist youth in green career pathways.

In addition, the Department of Labor's Bureau of Labor Statistics (BLS) is developing a definition for green sectors and green jobs that will inform state and local workforce development efforts to identify and target the green jobs and their training needs. The Department also has supported occupational research that begins to: define green jobs; review industry sectors impacted by green investments; and gain a better understanding about how new, green technologies and materials will affect various occupational requirements. The Department has funded the Occupational Information Network (O*NET) project which produced a research paper titled, Greening of the World of Work: Implications for O*NET-SOC and New and Emerging Occupations. This study reflects three general categories of occupations, based on different consequences of green economy activities and technologies: (1) existing occupations expected to experience primarily an increase in employment demand; (2) existing occupations with significant change to the work and worker requirements; and (3) new and emerging green occupations. The Department hopes that this research will be used as a starting point for identifying green industries and occupations and informing the development of training and job placement programs.

Finally, the Recovery Act provided the Department of Labor with $500 million to prepare workers to pursue careers in energy efficiency and renewable industries. On June 24, 2009, Secretary Solis announced five grant competitions which made funds available for research, labor exchange and job training projects. One of these competitive opportunities, the State Labor Market Information Improvement Grants, will fund state workforce agencies to collect, analyze and disseminate labor market information to educate individuals about careers in green industries. Sponsored by the Department, the green jobs research conducted by state workforce agencies and consortia of these agencies will provide valuable resources for the delivery of services to youth (and others) along green career pathways. Further, through additional competitive grant opportunities, funded through both the Recovery Act and the proposed FY 2010 Green Jobs Innovation Fund, the Department will provide green job training to individuals 18 and over. The Department will evaluate these experiences, gather examples and models from different grantees, and share what works through technical assistance efforts.

In response to GAO's recommendation on the work readiness measure, the Department recognizes that the flexibility provided by the Department's guidance for measuring work readiness leads to a lack of consistency among states in how the attainment of work readiness skills is measured. Given the short time frame to implement summer employment under the Recovery Act, the Department opted to remain consistent with the definition of a work readiness skill gain as measured under the WIA skill attainment rate. This current definition provides a framework for measuring work readiness, but allows for state and/or local flexibility in assessment instruments and what constitutes a gain so as not to create an additional burden on states and local areas. While the work readiness indicator is meaningful in a specific local area, it becomes less meaningful at the state and national level due to the lack of comparability.

-3-

Through its WIA Youth Recovery Act process evaluation and through regional monitoring visits, the Department currently is assessing the methodologies used this summer to measure work readiness. Based on the information gathered, the Department plans to further refine the work readiness indicator and determine a more effective way of measuring work readiness. In the event that a significant number of local areas have Recovery Act funds available for summer employment in 2010, or if the Department receives funds for future summer employment activities where the work readiness measure is used to assess the effectiveness of summer employment, the Department will issue further guidance for measuring work readiness that allows for the reporting of more consistent and meaningful data. In either case, the Department will provide technical assistance to states and local areas on effective ways to measure work readiness based on the information learned this summer and further research on best practices.

GAO's report asserts that "…flexibilities given to states and local areas in how they measure work readiness … provide little understanding of what the program actually achieved." While the Department acknowledges that the work readiness measure, when aggregated at the national level, limits comparability, the Department believes the work readiness indicator does offer valuable data on the achievement of work readiness skills gained at the local level. The Department recommends qualifying the finding to state that the while the measure provides challenges with comparability at the national level, it is meaningful at the local level.

If you would like additional information, please do not hesitate to call me at (202) 693-2700.

Sincerely,

Jane Oates

Jane Oates
Assistant Secretary

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

Table 19: Location of Highway Projects Visited by GAO

States and the District of Columbia	City/location	Name
Florida	Chipley	Florida Department of Transportation
	Lake City	Florida Department of Transportation
Georgia	Atlanta	Georgia Department of Transportation
	Lawrenceville	Gwinnett County Department of Transportation
Illinois	Chicago	Chicago Department of Transportation
	Grundy County	Illinois Department of Transportation
Iowa	Atlantic	Cass County Engineer's Office
	Council Bluffs	Iowa Department of Transportation-District 4
	Des Moines	Polk County Public Works Department
	Sioux City	Iowa Department of Transportation-District 3
Massachusetts	Boston	Boston Region Metropolitan Planning Organization
	Taunton	Southeastern Massachusetts Metropolitan Planning Organization
Michigan	Flint	Genesee County Road Commission
Mississippi	Covington	US 49 from N of Seminary
	Gulfport	Gulf Regional Planning Commission
	Hattiesburg	Hattiesburg-Petal-Forrest-Lamar Metropolitan Planning Organization
	Jackson	Central Mississippi Planning and Development District
	Panola	Benson-Herron Road Bridge Reconstruction
	Panola	Mt. Level Road Bridge Reconstruction
New York	Albany	Albany County
	Between the Town of Verona and the City of Rome	Oneida County
North Carolina	Edenton	North Carolina Department of Transportation Highway Division 1
	Raleigh	Federal Highway Administration-North Carolina Division
	Raleigh	North Carolina Department of Transportation
	Wilson	North Carolina Department of Transportation Highway Division 4
Ohio	Cincinnati	Ohio-Kentucky-Indiana Regional Council of Governments (OKI)
	Cleveland	Northeast Ohio Areawide Coordinating Agency (NOACA)
	Columbus	Mid-Ohio Regional Planning Commission (MORPC)
	Dayton	Miami Valley Regional Planning Commission (MVRPC)
Pennsylvania	Bedford	Bedford County
	Chester	Chester County

Source: GAO.

Table 20: Location of Transit Projects Visited by GAO

States and the District of Columbia	City/county	Name
California	Los Angeles	Los Angeles County Metropolitan Transportation Authority
	Los Angeles	Southern California Association of Governments
	Orange	Orange County Transportation Authority
	Stockton	San Joaquin Council of Governments
	Stockton	San Joaquin Regional Rail Commission
	Stockton	San Joaquin Regional Transit District
Colorado	Denver	RTD-Denver
	Summit County	Summit Stage
Georgia	Atlanta	Metropolitan Atlanta Rapid Transit Authority (MARTA)
	Lawrenceville	Gwinnett County Transit
Illinois	Chicago	Chicago Metropolitan Agency For Planning
	Chicago	Chicago Transit Authority
	Chicago	Metra
Massachusetts	Boston	Massachusetts Bay Transportation Authority
	Springfield	Valley Transit Authority
New York	Fort Edward	Adirondack/Glens Falls Transportation Council
	New York	Metropolitan Transportation Authority
	New York	New York Metropolitan Transportation Council
	Queensbury	Greater Glens Falls Transit
Pennsylvania	Butler	Butler Transit Authority
	Philadelphia	Delaware Valley Regional Planning Commission
	Philadelphia	Southeastern Pennsylvania Transportation Authority
	Pittsburgh	Port Authority of Allegheny County
	Pittsburgh	Southwestern Pennsylvania Commission

Source: GAO.

Table 21: Educational Institutions Visited by GAO (to Review Use of State Fiscal Stabilization Fund)

States and the District of Columbia	City	Name
Arizona	Tempe	Arizona State University
	Tempe	Maricopa Community College
District of Columbia	Washington	District of Columbia Public Schools
	Washington	Friendship Public Charter School
	Washington	William E. Doar, Jr. Public Charter School
Iowa	Ames	Iowa State University
	Creston	Southwestern Community College
North Carolina	Hertford	Perquimans County Schools
	Lincolnton	Lincoln County Schools
Ohio	Wilberforce	Central State University

Source: GAO.

Table 22: School Districts Visited by GAO (Local School Districts: Title I-LEA, IDEA)

States and the District of Columbia	City	Name
District of Columbia	Washington	District of Columbia Public Schools
	Washington	Friendship Public Charter School
	Washington	William E. Doar, Jr. Public Charter School
Illinois	Chicago	Chicago Public Schools
Michigan	Detroit	Detroit Federation of Teachers
	Detroit	Detroit Public Schools
	Lansing	MI Association of School Boards
	Lansing	MI Education Association
	Wayne	Wayne County Regional Educational Service Agency
Mississippi	Brandon	Rankin County Public Schools
	Greenville	Greenville Public Schools
	Jackson	Jackson Public School District

Source: GAO.

Table 23: Workforce Investment Act Youth Programs Visited by GAO

States and the District of Columbia	City/county	Name
California	Los Angeles	Boyle Heights Technology Youth Center
	Los Angeles	Clean & Green
	Los Angeles	Los Angeles Community Development Department
	Los Angeles	LA Conservation Corps
	Los Angeles	Million Trees LA
	San Francisco	African American Art & Culture Complex
	San Francisco	Bayview Opera House/Urban YMCA
	San Francisco	Larkin Street Youth Services
	San Francisco	San Francisco Office of Economic and Workforce Development
	San Francisco	TJ Maxx
	San Francisco	Vietnamese Youth Development Center
Florida	Broward	Workforce One, Employment Solutions
	Hillsborough	Tampa Bay WorkForce Alliance
Georgia	Atlanta	Atlanta Regional Workforce Board
	Atlanta	Ashton Staffing, Inc
	Augusta	Richmond/Burke Job Training Authority, Inc
	Duluth	CorVel Healthcare Corporation
	Riverdale	Hearts to Nourish Hope
	Savannah	Coastal Workforce Services
	Savannah	The Paxen Group
	Savannah	Savannah Impact Program
	Savannah	Telamon Corporation
Illinois	Chicago	Central States Ser -Jobs for Progress, Inc.
	Chicago	Chicago Department of Family Support Services
	Chicago	Chicago Workforce Board
	Chicago	Museum of Science and Industry
	Kankakee	Community Foundation of Kankakee River Valley
	Kankakee	Grundy-Livingston-Kankakee Workforce Board
	Kankakee	Kankakee Community College
	Kankakee	Kankakee Community Resource Center
Massachusetts	Lawrence	Merrimack Valley Workforce Investment Board
	Worcester	Central Massachusetts Regional Employment Board
Michigan	Detroit	CVS/pharmacy
	Detroit	Detroit Workforce Development Department
	Detroit	Young Detroiter Magazine

States and the District of Columbia	City/county	Name
	Lansing	Eaglevison Ministries
	Lansing	Inghan County School Districts
	Lansing	Sparrow Health System
	Lansing	Spartan Internet Consulting Corporation
New York	Rome	Resource Center for Independent Living
	Utica	Oneida County Workforce Development
	Utica	Mohawk Valley Community College
	Utica	Utica Municipal Housing Authority
Ohio	Columbus	The Center for Automotive Research (CAR)
	Columbus	Central Ohio Workforce Investment Corporation (COWIC)
	Columbus	Centro Esperanza Latina
	Columbus	Columbus State Community College Center for Workforce Development
	Columbus	Godman Guild Association
	Columbus	The Publishing Group Ltd.
	Dayton	Allstate Insurance Company
	Dayton	Area 7 Workforce Investment Board
	Dayon	Encore Consignments & More
	Dayton	Montgomery County Department of Job and Family Services (MCDJFS)
	Marysville	Union County Department of Job and Family Services
Pennsylvania	Harrisburg	South Central Workforce Investment Board
	Philadelphia	Philadelphia Workforce Investment Board
Texas	Arlington	North Central Workforce Development Board
	Houston	Gulf Coast Workforce Development Board

Source: GAO.

Table 24: Weatherization Programs Visited by GAO

States and the District of Columbia	City	Name
Arizona	Flagstaff	Northern Arizona Council of Governments (NACOG)
	Phoenix	Arizona Department of Commerce (ADOC) Energy Office
	Phoenix	City of Phoenix, Neighborhood Services Department
	Phoenix	FSL Home Improvements Southwest Building Science Training Center
Colorado	Denver	Arapahoe County
	Grand Junction	Housing Resources of Western Colorado
Florida	Live Oak	Suwannee River Economic Council, Inc.

States and the District of Columbia	City	Name
Iowa	Des Moines	Polk County Public Works Department
	Harlan	West Central Community Action Agency
Mississippi	D'Lo	South Central Community Action Agency
	Greenville	Warren Washington Issaquena Sharkey Community Action Agency
	Jackson	Mississippi Department of Human Services - Division of Community Services
	Jackson	Mississippi Department of Human Services - Division of Program Integrity
	Meridian	Multi-County Community Service Agency
North Carolina	Raleigh	Department of Health and Human Services Office of Economic Opportunity
New Jersey	Burlington	Burlington County Community Action Program
	Trenton	New Jersey Housing Mortgage and Finance Agency
New York	Centereach	Community Development Corporation of Long Island
	Syracuse	People's Equal Action and Community Effort, Inc.
Ohio	Columbus	Mid-Ohio Regional Planning Commission (MORPC)
	Dayton	Community Action Partnership of the Greater Dayton Area

Source: GAO.

Table 25: Localities Visited by GAO to Assess Other Recovery Act Programs and Issues

States and the District of Columbia	City	Name
District of Columbia	Washington	District of Columbia Housing Authority
Michigan	Flint	City of Flint
North Carolina	Bethel	Bethel
	Hendersonville	Hendersonville
	Raleigh	North Carolina Office of Economic Recovery and Investment
	Williamston	Williamston
	Woodfin	Woodfin

Source: GAO.

Appendix IV: GAO Contacts and Staff Acknowledgments

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GAO's Mission

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