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Highlights

Highlights of GAO-10-437, a report to the Congress

March 2010

RECOVERY ACT

One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability

Why GAO Did This Study

This report responds to two ongoing GAO mandates under the American Recovery and Reinvestment Act of 2009 (Recovery Act). It is the fifth in a series of reports since passage of the Recovery Act on the uses of and accountability for Recovery Act funds in 16 selected states, certain localities in those jurisdictions, and the District of Columbia (District). These jurisdictions are estimated to receive about two-thirds of the intergovernmental assistance available through the Recovery Act. It is also the second report in which GAO is required to comment on the jobs created or retained as reported by recipients of Recovery Act funds. GAO collected and analyzed documents and interviewed state and local officials and other Recovery Act award recipients. GAO also analyzed federal agency guidance and spoke with officials at federal agencies overseeing Recovery Act programs.

What GAO Recommends

GAO updates the status of agencies' efforts to implement GAO's 23 previous recommendations and makes 5 new recommendations to the Office of Management and Budget (OMB) and the Departments of Transportation (DOT), Housing and Urban Development (HUD), and Education. GAO continues to believe that Congress should consider changes related to the Single Audit process. Agency responses to new GAO recommendations are included on the following page.

View GAO-10-437 or key components. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What GAO Found

As of February 12, 2010, $88.7 billion, or a little more than 30 percent, of the approximately $282 billion of total Recovery Act funds for programs administered by states and localities had been paid out by the federal government. Of that amount, approximately $36 billion has been paid out since the start of federal fiscal year 2010. The following table shows the composition of Recovery Act funding by sector for fiscal years 2009-2011 and 2012-2019.

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

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

Note: Percentages may not total due to rounding.

Increased Medicaid Funding

As of January 29, 2010, the 16 states and the District have drawn down about $30 billion in increased Federal Medical Assistance Percentage (FMAP) funds, representing nearly 100 percent of these states' grant awards for federal fiscal year 2009 and about 57 percent for the first and second quarters of federal fiscal year 2010. Most states reported that, without the increased FMAP funds, they could not have continued to support the substantial Medicaid enrollment growth they have experienced, most of which was attributable to children. Most states reported that the increased FMAP funds were integral to maintaining current eligibility levels, benefits, and services and to avoiding further program reductions. As for the longer-term outlook for their Medicaid programs, the District and all but one of the selected states expressed concern about sustaining their programs after the increased FMAP funds are no longer available, beginning in January 2011.

Highway Infrastructure Investment and Transit Funding

As of February 16, 2010, the Federal Highway Administration (FHWA) had obligated $25.1 billion and the Federal Transit Administration (FTA) had obligated about $7.5 billion—combined about $32.6 billion (over 93 percent) of the $35 billion that the Recovery Act provided for highway infrastructure projects and public transportation. Nationwide, Recovery Act funding has been obligated for over 11,000 eligible highway projects. However, some requirements, such as the Recovery Act's maintenance-of-effort requirement—

which is designed to prevent states from substituting federal funds for state funds—have proven challenging. Many states have yet to complete a maintenance-of-effort certification that DOT finds fully acceptable, and this, coupled with states' fiscal challenges, raises questions as to whether this requirement will achieve its intended purpose. In addition, the Recovery Act does not require DOT to determine whether states have met this requirement until around 6 months after the provision's covered time period expires. GAO recommends that DOT gather timely information and report preliminary information to Congress within 60 days of the certified period (Sept. 30, 2010) on whether states met required program expenditures, the reasons that any states did not meet these certified levels, and lessons learned from the process. DOT is considering GAO's recommendation.

Education

As of January 22, 2010, the 16 states and the District had drawn down, in total, about $13.3 billion (56 percent) from the State Fiscal Stabilization Fund (SFSF); $1.1 billion (17 percent) of Elementary and Secondary Education Act (ESEA) Title I, Part A funds; and $1.2 billion (17 percent) of Individuals with Disabilities Education Act (IDEA), Part B, Recovery Act funds available to them. Much of the Recovery Act education funds have been used to pay education staff, including teachers. In response to GAO's recommendation that Education ensure states monitor subrecipients of SFSF funds, Education announced a plan for reviewing states' SFSF subrecipient monitoring plans. GAO is continuing to work with Education to address our recommendation to enhance transparency by requiring states to include an explanation of changes to maintenance-of-effort levels in their SFSF application resubmissions.

Other Selected Recovery Act Programs

Housing agencies are to obligate the $3 billion in Public Housing Capital Fund formula grant Recovery Act funds they received by March 17, 2010. As of January 30, 2010, about 31 percent of these funds had not been obligated. Over 200 agencies reported obligating no funds. HUD has worked hard to implement the Recovery Act but has faced challenges in simultaneously carrying out public housing programs mandated by the Recovery Act, including designing and carrying out a $1 billion grant competition, while meeting its continuing responsibilities for the ongoing Public Housing Capital Fund program. As a result, HUD delayed obligating its fiscal year 2009 funds by 3 months. HUD does not have a management plan to determine how to meet these competing demands. GAO recommends that HUD develop such a plan to determine the adequate level of staffing needed to administer its Recovery Act and regular capital funds and to determine the most effective use of the staff it currently has. While HUD disagrees with GAO's recommendation, GAO continues to believe HUD would benefit from developing such a plan. With regard to the Weatherization Assistance Program, as of December 31, 2009, the Department of Energy (DOE) had obligated about $4.73 billion to states for weatherization activities. On February 24, 2010, DOE reported that about 5 percent of the approximately 593,000 homes DOE originally planned to weatherize using Recovery Act funds had been weatherized as of December 31, 2009. State and local officials reported that weatherization activities had been slowed by concerns over compliance with the Davis-Bacon and National Historic Preservation Acts. The Recovery Act also included $1.2 billion for Workforce Investment Act (WIA) youth activities, including summer employment. As of December 31, 2009, $765 million of WIA youth funds had been drawn down nationwide. Over 355,000 youths reportedly participated in Recovery Act WIA activities.

Recipient Reporting

Progress was achieved in addressing some data quality and reporting issues identified in the first round; however data errors, reporting inconsistencies, and decisions by some recipients not to use the new job reporting guidance for this round compromise data quality and the ability to aggregate the data. For example in the education area, which was the largest category of jobs reported, GAO found that a number of states reported job numbers using the old methodology. Overall, while significant issues remain, the second round of reporting appears to have gone more smoothly as recipients have become more familiar with the reporting system and requirements. GAO expects that the simplified jobs reporting guidance and reporting system enhancements will ultimately result in improved data quality and reliability. GAO makes specific recommendations to Education, HUD, and OMB for improving reporting guidance. Education, HUD, and OMB generally agreed with the recommendations.

Accountability

GAO has recommended that OMB adjust the Single Audit process to help mitigate the risks posed by Recovery Act funding. Although OMB has taken steps to implement our recommendations, these efforts do not yet fully address the significant risks over Recovery Act funds. OMB's steps include a voluntary Single Audit Internal Control Project that encourages earlier reporting of deficiencies, so that corrective action can be taken. Auditors of states participating in the project submitted internal control reports to OMB by December 31, 2009. For 13 of the 16 states, auditors reported over 70 internal control deficiencies that affected the states' compliance with federal requirements for Recovery Act funds. These states also provided corrective action plans for the deficiencies. OMB plans to analyze the project's results to identify improvements to the Single Audit process by the spring of 2010.