GAO

Accountability·Integrity·Reliability

Highlights

Highlights of GAO-09-580, a report to Senate and House Committees on Appropriations, Senate Committee on Homeland Security and Governmental Affairs, and House Committee on Oversight and Government Reform

Why GAO Did This Study

The American Recovery and Reinvestment Act of 2009 (Recovery Act) is estimated to cost about $787 billion over the next several years, of which about $280 billion will be administered through states and localities. The Recovery Act requires GAO to do bimonthly reviews of the use of funds by selected states and localities. In this first report, GAO describes selected states' and localities' (1) uses of and planning of Recovery Act funds, (2) accountability approaches, and (3) plans to evaluate the impact of funds received. GAO's work is focused on 16 states and the District of Columbia—representing about 65 percent of the U.S. population and two-thirds of the intergovernmental federal assistance available through the Recovery Act. GAO collected documents from and interviewed state and local officials, including Governors, "Recovery Czars," State Auditors, Controllers, and Treasurers. GAO also reviewed guidance from the Office of Management and Budget (OMB) and other federal agencies.

What GAO Recommends

GAO makes a number of recommendations, which are discussed on the next page. In general, OMB concurred with the overall objectives of our recommendations and plans to work with GAO to further accountability for these funds.

View GAO-09-580 or key components.
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RECOVERY ACT

As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential

What GAO Found

Uses and Planning for Recovery Act Funds

About 90 percent of the estimated $49 billion in Recovery Act funding to be provided to states and localities in FY2009 will be through health, transportation and education programs. Within these categories, the three largest programs are increased Medicaid Federal Medical Assistance Percentage (FMAP) grant awards, funds for highway infrastructure investment, and the State Fiscal Stabilization Fund (SFSF). The funding notifications for Recovery Act funds for the 16 selected states and the District of Columbia (the District) have been approximately $24.2 billion for Medicaid FMAP on April 3, $26.7 billion for highways on March 2, and $32.6 billion for SFSF on April 2.

Increased Medicaid FMAP Funding

Fifteen of the 16 states and the District have drawn down approximately $7.96 billion in increased FMAP grant awards for the period October 1, 2008 through April 1, 2009. The increased FMAP is for state expenditures for Medicaid services. The receipt of this increased FMAP may reduce the state share for their Medicaid programs. States have reported using funds made available as a result of the increased FMAP for a variety of purposes. For example, states and the District reported using these funds to maintain their current level of Medicaid eligibility and benefits, cover their increased Medicaid caseloads-which are primarily populations that are sensitive to economic downturns, including children and families, and to offset their state general fund deficits thereby avoiding layoffs and other measures detrimental to economic recovery.

Highway Infrastructure Investment

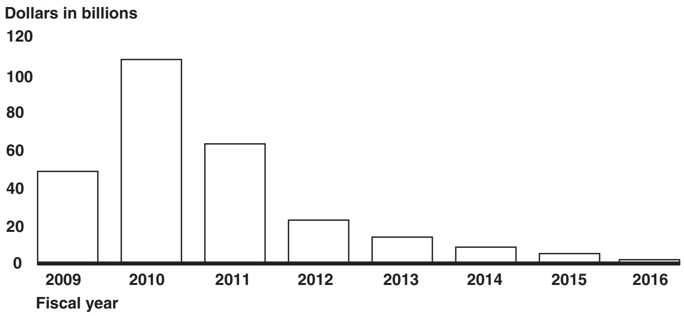
States are undertaking planning activities to identify projects, obtain approval at the state and federal level and move them to contracting and implementation. For the most part, states were focusing on construction and maintenance projects, such as road and bridge repairs. Before they can expend Recovery Act funds, states must reach agreement with the Department of Transportation on the specific projects; as of April 16, two of the 16 states had agreements covering more than 50 percent of their states' apportioned funds, and three states did not have agreement on any projects. While a few, including Mississippi and Iowa had already executed contracts, most of the 16 states were planning to solicit bids in April or May. Thus, states generally had not yet expended significant amounts of Recovery Act funds.

State Fiscal Stabilization Fund

The states and D.C. must apply to the Department of Education for SFSF funds. Education will award funds once it determines that an application contains key assurances and information on how the state will use the funds. As of April 20, applications from three states had met that determination-South Dakota, and two of GAO's sample states, California and Illinois. The applications from other states are being developed and submitted and have not yet been awarded. The states and the District report that SFSF funds will be used to hire and retain teachers, reduce the potential for layoffs, cover budget shortfalls, and restore funding cuts to programs.

This report contains separate appendixes on each of the 16 states and the District that discuss the plans and uses of funds in these three major programs as well as selected other programs that are receiving Recovery Act funds.

Planning continues for the use of Recovery Act funds. The figure below shows the projected timing of funds made available to states and localities.



Source: GAO analysis of CBO and FFIS data.

State activities include appointing Recovery Czars; establishing task forces and other entities, and developing public websites to solicit input and publicize selected projects. In many states, legislative authorization is needed before the state can receive and/or expend funds or make changes to programs or eligibility requirements.

Accountability Approaches

GAO found that the selected states and the District are taking various approaches to ensuring that internal controls to manage risk up-front; they are assessing known risks and developing plans to address those risks. However, officials in most of the states and the District expressed concerns regarding the lack of Recovery Act funding provided for accountability and oversight. Due to fiscal constraints, many states reported significant declines in the number of oversight staff—limiting their ability to ensure proper implementation and management of Recovery Act funds. State auditors are also planning their work including conducting required single audits and testing compliance with federal requirements. The single audit process is important for effective oversight but can be modified to be a more timely and effective audit and oversight tool for the Recovery Act and OMB is weighing options on how to modify it.

Nearly half of the estimated spending programs in the Recovery Act will be administered by non-federal entities. State officials suggested opportunities to improve communication in several areas. For example, they wish to be notified when Recovery Act funds are made available directly to prime recipients within their state that are not state agencies.

Plans to Evaluate Impact

Two of the several objectives of the Recovery Act are to (1) preserve existing jobs and stimulate job creation and (2) promote economic recovery. Officials in nine of the 16 states and the District expressed concern about determining jobs created and retained under the Recovery Act, as well as methodologies that can be used for estimation of each.

GAO's Recommendations

OMB has moved out quickly to guide implementation of the Recovery Act. As OMB's initiatives move forward, it has opportunities to build upon its efforts to date by addressing several important issues.

<u>Accountability and Transparency Requirements</u>

The Director of OMB should:

-- adjust the single audit process to provide for review of the design of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010

--continue efforts to identify methodologies that can be used to determine jobs created and retained from projects funded by the Recovery Act.

--evaluate current requirements to determine whether sufficient, reliable and timely information is being collected before adding further data collection requirements.

<u>Administrative Support and Oversight</u>

The Director of OMB should clarify what Recovery Act funds can be used to support state efforts to ensure accountability and oversight.

<u>Communications</u>

The Director of OMB should provide timely and efficient 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 state-wide interest in this information, and (3) all recipients, on planned releases of federal agency guidance and whether additional guidance or modifications are expected.