United States Government Accountability Office

GAO

Report to Congressional Committees

July 2009

RECOVERY ACT

States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (Ohio)

GAO

Accountability * Integrity * Reliability

GAO-09-830SP

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Overview

The following summarizes GAO's work on the second of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)[1] spending in Ohio. The full report on all of our work, which covers 16 states and the District of Columbia, is available at http://www.gao.gov/recovery/.

Use of funds: GAO's work focused on nine selected federal programs, selected primarily because they have begun disbursing funds to states, include new programs, or include existing programs receiving significant amounts of Recovery Act funds. Program funds are being targeted to help Ohio stabilize its budget and support local governments, particularly school districts, and several are being used to expand existing programs. Funds from some of these programs are intended for disbursement through states or directly to localities. The funds include the following:

- **Medicaid Federal Medical Assistance Percentage (FMAP).** As of June 29, 2009, Ohio had drawn down over $711 million in increased FMAP grant awards, which is more than 85 percent of the over $832 million received for the first three quarters of federal fiscal year 2009. Ohio is using funds made available as a result of the increased FMAP to off-set the state's budget deficit which allows the state to maintain Medicaid eligibility, attempt to avoid reductions in services, and to assist the state in responding to rapid program enrollment growth, which is currently almost 20,000 new enrollees per month. Officials also noted that the increased FMAP has allowed the state to retain the small population expansions that the state legislature authorized in 2008. These targeted expansions include pregnant women, foster care children, and disabled individuals returning to work.

- **Highway Infrastructure Investment funds.** The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned $935.7 million in Recovery Act funds to Ohio. As of June 25, 2009, $384 million had been obligated for projects involving highway pavement, bridge, rail, and port improvements. For example, the Ohio Department of Transportation (ODOT) selected a project in Cuyahoga County to widen the ramp and replace the asphalt shoulders between two major interstate highways. Construction began on this project in early June 2009 and is expected to be completed by October 31, 2009.

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

- **State Fiscal Stabilization Fund (SFSF).** Ohio expects to receive $1.79 billion in SFSF funds for state fiscal year 2010 and 2011 budgets. In the state's approved SFSF application to the U.S. Department of Education (Education), about 92.5 percent of Ohio's share of SFSF funds will go to education, including higher education, and 7.5 percent will go to other government services, such as the Department of Rehabilitation and Corrections.

- **Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA).** Education has awarded Ohio $186.3 million in Recovery Act ESEA Title I, Part A, funds or 50 percent of its total allocation of $372.7 million. Ohio plans to make these funds available to local education agencies after the state budget passes, to help local districts build their long-term capacity to serve disadvantaged youth, for example, by providing professional development to teachers. For example, a Cleveland Municipal School District official said by using these funds, up to 200 teachers will be offered the opportunity to work full-time as mentors for students and professional development coaches for other teachers. These teachers must agree to retire or resign after 2 years, when the Recovery Act ends.

- **Individuals with Disabilities Education Act (IDEA), Part B & C.** Education has awarded Ohio $232.8 million in Recovery Act IDEA, Part B & C, funds, or 50 percent of its total allocation of $465.5 million. Ohio plans to make these funds available to local education agencies after the state budget passes, to support special education and related services for infants, toddlers, children, and youth with disabilities. Cleveland Municipal School District and Youngstown City School District officials told us that they plan to use Recovery Act IDEA funds to emphasize professional development because (1) the money would be well spent and (2) continuing funding commitments could be avoided.

- **Weatherization Assistance Program.** In March 2009, the U.S. Department of Energy (DOE) allocated about $266.8 million for Ohio's Weatherization Assistance Program for a 3-year period. Based on information available on June 18, 2009, DOE has awarded Ohio approximately $133.4 million and Ohio has obligated about $20.3 million of these funds. Ohio plans to begin production activities in July 2009 to weatherize approximately 32,000 dwelling units. The Ohio Weatherization Training Center will train and certify weatherization contractors and inspectors.

- **Workforce Investment Act Youth Program.** The U.S. Department of Labor has allotted Ohio about $56.2 million in Recovery Act funds for the Workforce Investment Act Youth program, and Ohio has reserved 15 percent of the funds for statewide activities. The Ohio Department of Job and Family Services set an overall target for local areas to spend 70 percent of the funds by October 31, 2009. While state officials said that last summer 479 youth were served statewide using Workforce Investment Act funds, local areas planned to serve 14,205 youth this summer with Workforce Investment Act Recovery Act funds.

- **Edward Byrne Memorial Justice Assistance grants (JAG).** The Department of Justice's Bureau of Justice Assistance has awarded about $38 million directly to Ohio in Recovery Act funding. Based on information available as of June 30, 2009, none of these funds have been obligated by Ohio's Office of Criminal Justice Services, which administers these grants for the state.[2] Currently, Ohio is evaluating 540 local government project applications and expects to notify localities of their awards by July 31, 2009. Although OCJS is in the process of allocating state JAG funds to localities, some local awards directly from BJA have been made, according to officials at the City of Columbus Department of Public Safety. The City of Columbus is using $1.2 million of Recovery Act JAG funds to pay the salaries, from March 2, 2009 through December 31, 2009, of 26 police cadets. From March through June, the City paid the cadet salaries from operating budgets and expects to be reimbursed from the allocation they share with Franklin County.

- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development has allocated about $128.3 million in Recovery Act funding to 52 public housing agencies in Ohio. GAO visited three of these public housing authorities—Columbus Metropolitan Housing Authority, Cuyahoga Metropolitan Housing Authority, and the London Metropolitan Housing Authority—which received capital fund formula grants totaling approximately $44.3 million. These funds, which flow directly to public housing authorities, are being used for various capital improvements, including construction of new housing units, rehabilitation of long-standing vacant units, upgrading units to meet

[2] Although we highlight one example in Columbus of Edward Byrne Memorial Justice Assistance Grants awarded directly to local governments, we did not review these funds in this report because the Bureau of Justice Assistance's (BJA) solicitation for local governments closed on June 17; therefore, not all of these funds have been awarded.

Americans with Disabilities Act standards, and replacing windows and doors. For example, the London Metropolitan Housing Authority plans to spend approximately $153,000 to replace the roofs on multiple public housing buildings.

Safeguarding and transparency: Ohio is in the process of refining its internal control processes to ensure that it can track and report on Recovery Act funding in accordance with federal and state laws. First, Ohio has developed a centralized Web-based hub to collect financial data, performance metrics, and other information on Recovery Act programs in the state. Second, the state is restructuring its internal control processes to ensure greater accountability for federal and state funds, including Recovery Act funds. Third, the state has a new State Audit Committee that among other things, is working to ensure consistent and speedy response to audit findings.

Assessing the effects of spending: Ohio agencies are exploring ways to assess the impact of Recovery Act funds, but they continue to express concern about the lack of clear federal guidance. Some agencies are using existing federal program guidance on job creation, such as FHWA's Federal-Aid Highway Surface Transportation Program. Other agencies are waiting for additional guidance on how and what to measure to assess Recovery Act impact. Officials are concerned about how they are to assess jobs created and jobs saved. For example, ODOT officials told us that FHWA's guidance appears to provide only a monthly snapshot of employment information.

Use of Recovery Act Funds to Stabilize State Budgets

Ohio enacted its biennial budget for fiscal years 2008 through 2009. Since the budget passed, the state has revised it four times because of declining revenues and the continuing deterioration of the state's budget situation. State officials said that, by law, Ohio cannot carry a budget deficit; when revenue estimates decline, as they have since 2008, the state has to reduce spending or take other actions to bring the budget back into balance. From March through December 2008, Ohio reduced state agency budgets by about $1.056 billion—or about 3 percent of the state share of the biennial budget. State officials said that most of the agencies have been able to absorb the reductions through administrative cuts, but there have been disruptions to services. For example, state funds sent to counties to administer federal programs, such as Temporary Assistance for Needy Families and Medicaid, were cut by 8.76 percent. For some counties, this resulted in layoffs or reductions in hours. In April 2009, the budget situation deteriorated further. Senior state budget officials told us that they now face a revenue gap of over $900 million. They are currently working with the legislature to close the gap and have identified about $182 million in administrative actions to reduce spending. The Ohio Office of Budget and Management (OBM) asked state agencies to review all existing contracts to determine if any could be terminated. Of 4,330 contracts, the state issued stop work orders on 588, or 13.6 percent, of them. Ohio officials are in the final stages of approving a plan to take about $730 million from the state's rainy-day fund to address the remaining shortfall.

Recovery Act funds were used to mitigate the effects of the December 2008 budget revision even before enactment of the Recovery Act. Revenue estimates had fallen 3.3 percent from what was forecast, and in December 2008, the Governor's budget office assumed that additional federal assistance would be forthcoming. By including funds made available as a result of the increased FMAP in the assumptions used to revise the budget, cuts to state agency budgets were less severe. Recovery Act funds have played a significant role in helping the state balance the budget for the next biennium as well. Recovery Act funds make up 4.9 percent of the estimated general revenues in the 2010-2011 biennial budget. For example, the state provides 2-year and 4-year public colleges and universities with state funding, in part, to help schools keep down the cost of tuition. In state fiscal year 2009, the state provided $1.84 billion in state funds for this activity. The state plans to reduce state funding to about $1.68 billion in 2010 and 2011 but will provide about $309 million from the Recovery Act each year to make up the difference. Although state officials said they are concerned about what happens when Recovery Act dollars are no longer available, they have been focused on the coming biennium (2010-2011). These state officials said key legislators have queried state agency officials during budget deliberations about plans for the next biennium (2012-2013) when Recovery Act funds are not available. State budget officials said that if the economy does not improve and revenues do not increase, all options will be on the table for discussion and debate.

To implement the Office of Management and Budget's (OMB) guidance on state administrative costs, state officials plan to amend Ohio's statewide cost allocation plan (SWCAP) to allow for charge backs for costs associated with centralized services such as information technology, internal audits, and the Inspector General. To maximize the impact of Recovery Act resources in the state, OBM officials said that individual state agencies will not be able to charge administrative costs. OBM officials said they expect to charge about $2 million in administrative costs—or about .025 percent of the total funds Ohio expects to receive from the Recovery Act.

Medicaid FMAP Funds

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 to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months from October 1, 2008, through December 31, 2010.[3] On February 25, 2009, the Centers for Medicare & Medicaid Services 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.[4] Generally, for federal fiscal year 2009 through the first quarter of federal 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. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

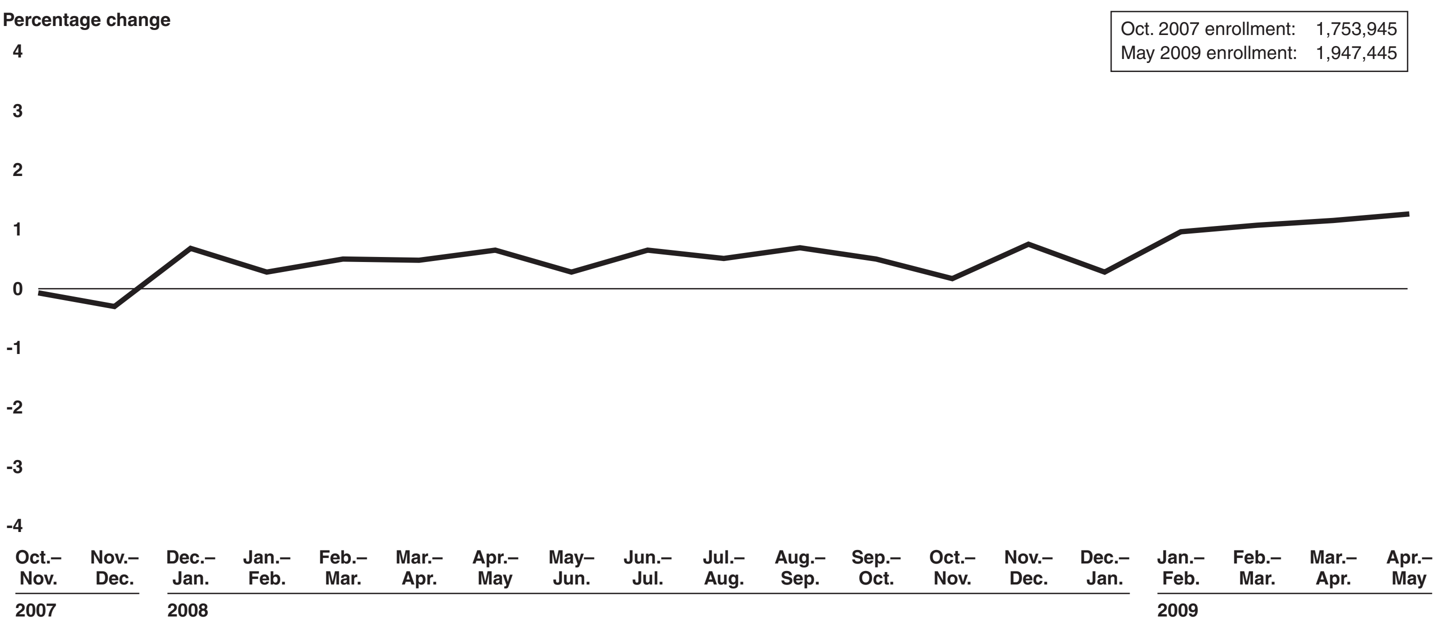
From October 2007 to May 2009, Ohio's Medicaid enrollment grew from 1,753,945 to 1,947,445, an increase of about 11 percent.[5] The increase was generally gradual over this period, with January 2009 to May 2009 showing a steady increase in enrollment. (See fig. 1.) Most of the increase in enrollment was attributable to the population group of children and families.

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

[4]Although the effective date of the Recovery Act was February 17, 2009, states generally may claim reimbursement for the increased FMAP for Medicaid service expenditures made on or after October 1, 2008.

[5]The state provided projected Medicaid enrollment data for May 2009.

Figure 1: Monthly Percentage Change in Medicaid Enrollment for Ohio, October 2007 to May 2009



Source: GAO analysis of state reported data.

Note: State estimated enrollment for May 2009.

As of June 29, 2009, Ohio had drawn down over $711 million in increased FMAP grant awards, which is more than 85 percent of its awards to date.[6] Ohio officials reported that the increased FMAP funds are credited to the state's general revenue fund. Funds made available as a result of the increased FMAP will be used to offset the state budget deficit, allowing the state to maintain Medicaid eligibility, attempt to avoid reductions in services, and assist the state in responding to rapid program enrollment growth, which is currently about 20,000 new enrollees per month. Officials also noted that the increased FMAP has allowed the state to retain the small population expansions that the state legislature authorized in 2008. These targeted expansions include pregnant women, foster care children, and disabled individuals returning to work. In using the increased FMAP, Ohio officials reported that the Medicaid program has incurred additional costs related to

[6]Ohio received increased FMAP grant awards of over $832 million for the first three quarters of federal fiscal year 2009.

- the development of new or adjustments to existing reporting systems or other information systems,
- personnel needed to ensure compliance with reporting requirements related to the increased FMAP, and
- personnel needed to ensure programmatic compliance with requirements associated with the increased FMAP.

In addition, although state officials indicated that they did not have any current concerns about the state maintaining its eligibility for the increased FMAP, they noted that when they recently renewed a Medicaid demonstration waiver, they opted not to reduce the number of slots for eligible individuals because of concerns that this could affect the state's eligibility for increased FMAP.[7]

In terms of tracking increased FMAP funds, state officials indicated that Ohio developed unique accounting codes to identify increased FMAP funds and that it relies on existing systems to track these funds. To ensure the accuracy and completeness of the increased FMAP data, state officials manually record all federal draws related to the increased FMAP funds on a daily basis, which they then compare to the state's accounting system and the federal government's payment system. The officials reconcile any identified discrepancies on a monthly basis.

The 2007 Single Audit Act audit (Single Audit) report for Ohio identified two material weaknesses that affect the Medicaid program: (1) a lack of internal testing of automated controls for information systems used to record and process Medicaid eligibility and financial information and (2) untimely completion of modifications to the information system the state uses to determine Medicaid eligibility and benefits amounts.[8,9] In

[7]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).

[8]The Single Audit Act of 1984, as amended (31 U.S.C. ch. 75), 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 Office of Management and Budget 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.

[9]According to a federal official, the statewide Single Audit for 2008 is scheduled to be completed in December 2009.

responding to the first audit finding, the state Medicaid program noted that it did not have the resources to test the automated controls for its information systems, and for the second finding, indicated that other programming issues were of a higher priority.[10] In an update to its corrective action plan, a Medicaid official acknowledged that the program continued to face budgetary constraints but would work with the state's Office of Internal Audit to review applicable systems and processes to comply with requirements. To address the second finding, state officials told us that they were planning to develop a new system for eligibility determinations. However, due to budget constraints, they could not initiate the project. Therefore, they continue to rely on the current eligibility system and are in the process of making corrective actions to address weakness identified in the 2007 audit.

The Auditor of State also issued a management letter to the JFS in connection with its 2007 single audit highlighting concerns, such as duplicate requests for prior authorization and the potential for overpayment of Medicaid claims, which it identified during its audit of the Medicaid program.[11] JFS officials indicated that findings identified in the management letter were reviewed and taken under advisement by the appropriate program or administrative area within JFS. However, a JFS official also said that JFS does not track corrective actions taken in response to management letters.[12]

Highway Infrastructure Investment

The Recovery Act provides funding to the 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 act requires that 30 percent of these funds be suballocated for projects in metropolitan and other areas of the state. Highway funds are apportioned to the states through existing federal-aid highway program mechanisms and states must follow the requirements of the existing program, including planning, environmental review, contracting, and other requirements. However, the federal fund share of highway infrastructure investment projects under the Recovery

[10]The Ohio Department of Job and Family Services (JFS) administers the state's Medicaid program.

[11]Ohio Department of Job & Family Services, "Management Letter for the Year Ended June 30, 2007," April 25, 2008, Columbus, Ohio.

[12]Neither Generally Accepted Government Auditing Standards nor OMB's Circular A-133 require management to respond to issues raised in management letters.

Act is up to 100 percent, while the federal share under the existing federal-aid highway program is generally 80 percent.

In March 2009, Ohio was apportioned $935.7 million for highway infrastructure and other eligible projects. As of June 25, 2009, $384 million had been obligated. The U.S. Department of Transportation has interpreted “obligation of funds” to mean the federal government’s contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government approves a project agreement and the project agreement is executed. As of June 25, 2009, $118,286 has been reimbursed to the state by the Federal Highway Administration (FHWA). States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

Ohio selected mostly highway pavement and bridge improvement projects to receive Recovery Act funding. Ohio selected projects that (1) could be quickly started, (2) had a high potential for maximizing job creation and retention, and (3) were located within economically distressed areas (EDA). According to FHWA data, more than a third of Ohio’s Recovery Act funds had been obligated as of June 25, 2009, were for pavement improvement projects. Table 1 shows obligations as of June 25, 2009, by highway project type.

Table 1: Highway Obligations for Ohio by Project Type as of June 25, 2009

Dollars in millions

	Pavement projects			Bridge projects				
	New construction	Pavement improvement	Pavement widening	New construction	Replacement	Improvement	Other[a]	Total[b]
	$105	$139	$5	$22	$15	$46	$54	**$384**
Percent of total obligations	27.3	36.1	1.2	5.7	3.8	11.9	13.9	**100.0**

Source: GAO analysis of Federal Highway Administration data.

[a]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.

[b]Totals may not add to 100 due to rounding.

Of the first $384 million obligated funds, $139 million, or 36.1 percent, funded highway pavement improvement projects. Bridge improvements accounted for another $46 million, or 11.9 percent, of the obligated funds.

The two Ohio projects we visited—in Cuyahoga County and Hancock County—were in the early construction process. The Cuyahoga project involves repaving the shoulders and widening the ramp between two major interstates. Construction began on this project in early June 2009 and is expected to be completed by October 31, 2009. The Hancock County project involved repairing and replacing concrete barriers along Interstate 75 and U.S. Route 68. As of June 11, 2009, the contractor had been selected and the project is to be completed by August 30, 2009.

As of June 25, 2009, Ohio had awarded 52 contracts valued at $92.1 million. Generally, contract bids are coming in under the state's estimated cost. For example, the Ohio Department of Transportation's (ODOT) review of the bids for the first 17 Recovery Act projects found that bids are coming in about 8.0 percent under state estimates. According to ODOT officials, the bids are coming in under estimated costs because of the current economic situation. ODOT officials suspect that as construction season gets under way, contractors' workloads increase, and the economy improves, bids will no longer come in under estimates. At the Hancock County project we visited, we found that all three bids received were over the state's estimated amount. ODOT District 1 officials attributed the higher bid amounts to the increase in cost because of maintenance of traffic issues, like short-term lane closures affecting the cost of placing asphalt on the project.

The Recovery Act includes a number of specific requirements for highway infrastructure spending. First, the states are required to ensure that 50 percent of apportioned Recovery Act funds are obligated[13] 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. As of June 25, 2009, Ohio had obligated $338.9 million, or 51.7 percent of the $654.9 million that is subject to the 50 percent rule, for the 120-day redistribution. To help ensure the state meets this requirement, ODOT reallocated $119.0 million

[13]The U.S. Department of Transportation has interpreted "obligation of funds" to mean the federal government's contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

of the $200.0 million of Recovery Act funding targeted for the Cleveland Innerbelt project to 53 additional projects. According to ODOT officials, these funds were reallocated to projects that could be started more quickly so that funds could be obligated by the June 29, 2009, deadline.

Ohio expects all but one of the transportation projects receiving Recovery Act funds to be completed within 3 years—the Cleveland Innerbelt Bridge project is the exception—and most will be in EDAs. The Cleveland Innerbelt Bridge is a major project that involves a 50-year-old bridge that is deteriorating faster than expected. It is estimated that it will take over 4 years to rebuild this bridge that will be used to carry westbound Interstate 90 traffic. ODOT told us that while the Innerbelt Bridge will take longer than 3 years to complete, Recovery Act funding would be spent in the first 3 years with state and other federal funds used in later years.

Of the 210 transportation projects identified by ODOT, 194, or about 92 percent, are located within EDA counties. As of June 25, 2009, $357 million of the ODOT's Recovery Act highway infrastructure investment funds obligated has been for projects located within EDA counties. This is 93 percent of the $384 million obligated. While targeting EDAs was a factor in project selection, it was not the only consideration. According to ODOT officials, 79 of Ohio's 88 counties are considered economically distressed as defined by Section 301 of the Public Works and Economic Development Act of 1965. Since nearly 90 percent of Ohio is considered to be economically distressed, selecting projects located in EDAs was not difficult. FHWA Ohio Division officials met with ODOT officials to discuss the steps to be taken to fulfill the requirements that priority be given ensure that priority is given to selecting projects in EDAs. While FHWA provided guidance to ODOT, it did not provide targets for what percentage of projects or project funding should be in EDAs.

The Recovery Act required the governor of each state to 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 planned to expend from state sources as of February 17, 2009, for the period beginning on that date and extending through September 30, 2010.[14] In March 2009, the Governor of Ohio submitted the state's maintenance of effort (MOE) certification. As we reported in April, the state submitted conditional certifications and the U.S. Department of Transportation (DOT) informed us that it was reviewing these certifications to determine if they were consistent with the law.

On April 20, 2009, DOT informed states that conditional and explanatory certifications were not permitted, provided additional guidance, and gave states the option of amending their original certifications. Ohio received a letter from DOT informing the Governor that the Ohio certification appeared to condition the MOE amount on future events or other matters. The letter noted that there was a possibility that Ohio may need to amend the certification amount because of the method it used to calculate the funding levels and advised Ohio to resubmit its certification. Ohio resubmitted its certification on May 21, 2009. Ohio's amended certification excludes all conditions and assumptions that could affect achieving funding levels. Further, Ohio changed its maintenance amount calculation from encumbered funds to a cash basis per FHWA guidance, resulting in changes to the amount of state spending for the covered transportation programs. According to DOT officials, the department is reviewing Ohio's resubmitted certification letter and has concluded that the form of the certification is consistent with the additional guidance. DOT is currently validating whether the states' method of calculating the amounts they planned to expend for the covered program is in compliance with DOT guidance.

Even with DOT guidance and the amended certification, officials are unclear on what is required to meet the MOE requirement. More specifically, Ohio officials do not know whether the state must meet only the total MOE amount or whether it must meet the amount spent in each program. For example, if Ohio spends more in one transportation program than anticipated but less in other programs, and the overall amount spent equals or exceeds the total certified MOE amount, ODOT officials did not

[14]States that are unable to maintain their planned levels of effort will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011. As part of the federal-aid highway program, FHWA assesses the ability of 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.

know if that means the state has met its MOE requirement. On May 29, 2009, ODOT officials requested clarification from DOT on this issue but, as of June 25, 2009, had not received clarification.

State Fiscal Stabilization Fund

The Recovery Act created a State Fiscal Stabilization Fund (SFSF) to be administered by the U.S. Department of Education (Education). The SFSF provides funds to states to help avoid reductions in education and other essential public services. The initial award of SFSF funding requires each state to submit an application to Education that provides several assurances. These include assurances that the state will meet MOE requirements (or it will be able to comply with waiver provisions) and that it will implement strategies to meet certain educational requirements, including increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and improving the quality of state academic standards and assessments. Further, the state applications must contain baseline data that demonstrate the state's current status in each of the assurances. States must allocate 81.8 percent of their SFSF funds to support education (education stabilization funds), and must use the remaining 18.2 percent for public safety and other government services, which may include education (government services funds). 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 institutions of higher education (IHE). When distributing these funds to school districts, states must use their primary education funding formula but maintain discretion in how funds are allocated to public IHEs. In general, school districts maintain broad discretion in how they can use stabilization funds, but states have some ability to direct IHEs in how to use these funds.

Ohio submitted an amended application to Education on June 4, 2009, that was approved on June 10, 2009.[15] As of June 17, 2009, Ohio has received $1.2 billion of its total $1.79 billion in SFSF funds for its fiscal years 2010 and 2011 budgets. The state's SFSF application allocates 58.7 percent of the government services funds to state aid for IHEs. As a result, about 92.5 percent of Ohio's share of the SFSF will go to education, including higher education, and 7.5 percent to other government services, such as the Department of Rehabilitation and Corrections. The state is requiring local

[15]Ohio's application provided assurance that the state will meet MOE requirements.

education agencies (LEA) to provide assurances to the state that, in spending their SFSF monies, the LEA will comply with the requirements of the Recovery Act. Ohio Department of Education officials told us that almost all of its LEAs had submitted their assurances for SFSF, and that upon passage of the budget, the state will be able to commit almost all of the SFSF monies for LEAs. Likewise, upon passage of the budget, the Ohio Board of Regents expects to commit to its public IHEs all SFSF monies appropriated in the budget to IHEs, amounting to about $400 million each year for fiscal years 2010 and 2011.

The state plans to allocate the share of the education stabilization funds to school districts, charter schools, and public IHEs through formulas that are designed to allow the state to share in the operating costs of those institutions. For example, the state supports instruction at public IHEs to control the rising cost of tuition. The IHE share of the SFSF will contribute to the state share of instruction at those institutions. School district officials we spoke with said they were used to working with different federal funding streams and anticipated no challenges tracking and reporting on the uses of Recovery Act funds. These districts expected the funds to be appropriated by the state legislature for the 2009-2010 school year and to be available in July 2009. School district officials in Youngstown and Cleveland[16] said they had been given guidance from the Ohio Department of Education (ODE) that mirrored the guidance of Education on the use of funds. In contrast, officials with the IHEs we visited said they received written notification the week of June 1, 2009, that SFSF funds would require separate tracking and reporting. A senior official with Ohio's Board of Regents said the board has issued initial guidance on allowable uses of funds and how to track and report on the use of the funds, and this guidance will be updated based on future federal guidance. Officials at the IHEs we visited also did not anticipate challenges tracking and reporting on the uses of Recovery Act funds.

ESEA Title I, Part A, and IDEA, Part B and C, Funding

Ohio's schools are receiving Recovery Act funding under both Title I, Part A of the Elementary and Secondary Education Act (ESEA) and the Individuals with Disabilities Education Act (IDEA), Part B and C. The following describes each program.

[16]GAO visited the Cleveland Municipal School District and the Youngstown City School District because both were among the top 10 districts in the state in terms of ESEA Title I appropriations and both had schools in improvement status.

ESEA Title I, Part A. The Recovery Act provides $10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated through ESEA Title I, Part A. 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 their fiscal year 2009 funds (including Recovery Act funds) by September 30, 2010.[17] Education is advising LEAs to use the funds in ways that will build their long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. Education made the first half of states' ESEA Title I, Part A funding available on April 1, 2009, with Ohio receiving $186.3 million of its approximately $372.7 million total allocation.

IDEA, Parts B and C: The Recovery Act provided supplemental funding for programs authorized by Parts B and C of IDEA, the major federal statute that supports special education and related services for infants, toddlers, children, and youth with disabilities. Part B includes programs that ensure that preschool and school-aged children with disabilities have access to a free and appropriate public education, and Part C programs provide early intervention and related services for infants and toddlers with disabilities or at risk of developing a disability and their families. IDEA funds are authorized to states through three grants—Part B preschool-age, Part B school-age, and Part C grants for infants and families. States were not required to submit applications to Education in order to receive the initial Recovery Act funding for IDEA Parts B and C (50 percent of the total IDEA funding provided in the Recovery Act). States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements. All IDEA Recovery Act funds must be used in accordance with IDEA statutory and regulatory requirements.

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

Education allocated the first half of states' IDEA allocations on April 1, 2009, with Ohio receiving a total of $232.8 million for all IDEA programs. The largest share of IDEA funding is for the Part B school-aged program for children and youth. The state's initial allocation was

- $6.7 million for Part B preschool grants;
- $218.9 million for Part B grants to states for school-aged children and youth; and
- $7.2 million for Part C grants to infants, toddlers, and families.

Although LEAs cannot spend funds until the state's biennial budget passes, ODE has provided LEAs with allocation amounts under ESEA, Title I, Part A and IDEA Part B to allow them to plan for the use of funds for the upcoming school year. These funds will be available as soon as the budget passes.

Each year, LEAs must complete and submit grant applications to outline their plans for the use of their formula grants before funds are released to them. The electronic consolidated application is maintained within ODE's e-grant system and contains information on all formula-driven grants, such as regular ESEA, Title I, Part A and IDEA Part B grants. This year, an additional application, a Recovery Act consolidated application, was created to maintain the formula-driven grants appropriated under the Recovery Act, such as the Recovery Act ESEA Title I and IDEA grants. As of June 30, 2009, ODE officials identified that 214 LEAs had substantially approvable applications for Title I, Part A, and these districts will receive $102.6 million or 27.5 percent of the state's total allocation, upon passage of the state's budget. For IDEA Bart B grants to school-age children and youth, 229 LEAs had substantially approvable applications, and these districts will receive $113.0 million of the state's total allocation for that program.

According to state officials, as part of the Recovery Act consolidated applications, ODE included guidance intended to help LEAs think through opportunities and options for spending Recovery Act funds. Earlier, ODE issued guidance on allowable uses of IDEA Recovery Act funds, spending parameters, and additional information on use of Recovery Act funds intended for children with disabilities.

Officials of both school districts we visited, in Youngstown and Cleveland, said that they still needed more information on restrictions and reporting, but they said that the state had provided helpful communication and guidance to date. One of Cleveland's uses of ESEA Title I funds will be a program in which up to 200 teachers will be offered the opportunity to be paid with Recovery Act ESEA Title I funds to work full-time as mentors for students and professional development coaches for other teachers. As part of receiving these funds, these teachers must agree to retire or resign after 2 years, when the Recovery Act funding ends. When the program ends, the district says that the employee departures will help mitigate a projected budget shortfall. Youngstown City School District was in the preliminary planning stages at the time of our interview, but provided several potential uses for funds, many aimed at increasing use of technology in the classroom, engaging parents, and providing professional development for teachers.

Similarly, officials' preliminary plans for IDEA Part B funds emphasized professional development, both because they thought that money spent on professional development efforts would be money well spent, and because professional development programs can avoid continuing funding commitments for LEAs, by hiring individuals on a temporary basis or offering training or reference materials to teachers that represent a onetime cost. Cleveland officials expressed concerns about purchasing additional assistive technology, because they believed that they have been meeting students' needs under IDEA and wanted to avoid offering students "super IEPs" (individualized education programs). A senior school district official said that the district wanted to be careful not to begin embedding various enhancements in IEPs that had not been deemed necessary and appropriate until now, and further, would be concerned with how the district would maintain those enhancements after Recovery Act resources are gone. According to ODE officials, LEAs are waiting to receive more guidance from Education on potential flexibility in the use of funds under both ESEA Title I and IDEA, given the significant increase in funds that Recovery Act represents. IDEA Part C is administered through the Ohio Department of Health, and the Bureau Chief for the IDEA Part C program said that his agency was still in the planning phase for specific uses of these funds and was seeking specific guidance from Education regarding several options.

ODE is considering asking Education for a number of waivers, including one for the requirement that districts spend an amount equal to at least 20 percent of their ESEA Title I, Part A, subpart 2, allocation for providing supplemental educational services and transportation for school choice. Supplemental educational services may include tutoring and after-school services, but ODE is concerned that increasing such offerings for the limited time that Recovery Act funds will be available might not yield high-quality services. Also, to give LEAs more time to spend the increased funds under ESEA Title I, ODE is also considering requesting that Education waive the requirement that LEAs carry over no more than 15 percent of ESEA Title I funds any year, but apply the waiver exclusively to the Recovery Act funds.

Officials in both districts we visited expressed confidence that they could report and track Recovery Act funds separately and report on impacts to the state, although officials in both said they are considering hiring an employee to oversee and coordinate Recovery Act spending. Separately, Ohio LEAs also must report monthly to the Auditor of State on uses of Recovery Act funds. ODE's Office of Internal Audits plans to perform various tests specific to the Recovery Act funding, including testing the accuracy, integrity, and completeness of fiscal and program data from the LEAs. The Bureau Chief for the IDEA Part C program said that he saw no problems at the state level with tracking funds separately, and that the agency will work with subgrantees that have varying abilities to manage the tracking of multiple funding sources. According to this official, the Ohio Department of Health has had regular conference calls with potential subgrantees, and has planned a webinar during which officials will present in detail these components.

Weatherization Assistance Program

The Recovery Act appropriated $5.0 billion for the Weatherization Assistance Program, administered by the U.S. Department of Energy (DOE) through each of the states and the District of Columbia.[18] This funding is a significant addition to the annual appropriations for the weatherization program that have been about $225.0 million per year in recent years. The program is designed to reduce the utility bills of low-income households by making long-term energy efficiency improvements to homes by, for example, installing insulation, sealing leaks around doors and windows, or modernizing heating equipment and air circulating fans. During the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. According to DOE, by reducing the utility bills of low-income households instead of offering aid, the Weatherization Assistance Program reduces their dependency by allowing these funds to be spent on more pressing family needs.

[18]DOE also allocates funds to American Samoa, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, the Virgin Islands, the Navajo Indian tribe, and the Northern Arapahoe Indian tribe.

DOE allocates weatherization funds among the states and the District of Columbia using a formula based on low-income households, climate conditions, and residential energy expenditures by low-income households. DOE required each state to submit an application as a basis for providing the first 10 percent of Recovery Act allocation. DOE will provide the next 40 percent of funds to a state once the department has approved its state plan, which outlines, among other things, its plans for using the weatherization funds and for monitoring and measuring performance. DOE plans to release the final 50 percent of the funding to each state based on the department's progress reviews examining each state's performance in spending its first 50 percent of the funds and the state's compliance with the Recovery Act's reporting and other requirements.

In March 2009, DOE allocated to Ohio approximately $266.8 million in funding for the Recovery Act Weatherization Assistance Program for a 3-year period. The Ohio Department of Development (ODOD) is responsible for administering the program and will disburse funds directly to 34 grantees that currently provide weatherization services. ODOD received a Funding Opportunity Announcement on March 12, 2009, and submitted its funding application on March 23, 2009. On March 27, 2009, DOE provided the initial 10 percent allocation (approximately $26.7 million) to Ohio. ODOD used available guidance and several conference calls with DOE to develop a state plan to implement the program, which it submitted to DOE on May 12, 2009. As of June 18, 2009, ODOD has obligated about $20.3 million of its initial funding to 32 grantees and the Ohio Weatherization Training Center. On the same day, DOE announced its approval of the state plan, and awarded Ohio the next 40 percent (approximately $106.7 million) of its allocated funds.

ODOD anticipates receiving a total of approximately $266.8 million. It plans to allocate approximately $260.3 million of the total funding for local weatherization agency providers and other contracts, approximately $3.2 million for the operation of the Ohio Weatherization Training Center to provide training and technical assistance, and approximately $3.3 million for additional costs, including administration, travel, materials and supplies, equipment, and other indirect costs. An ODOD official explained that these providers will "ramp up" with activities, such as hiring additional staff and purchasing equipment and materials, because the initial allocation cannot be used for production activities. However, on June 9, 2009, DOE issued revised guidance lifting this limitation to allow states to provide funds for production activities to local agencies that previously provided services and are included in state Recovery Act plans.

An ODOD official also noted that prevailing wage guidance is unclear. The official noted that several weatherization-specific positions are hard to define based upon current wage/job definitions. ODOD officials also stated that additional inspectors and contractors will be trained and certified at the Ohio Weatherization Training Center, which operates five training facilities throughout the state. An ODOD official stated that the 40 percent allocation (approximately $106.7 million) will be used for production activities, planned to begin in July 2009. As stated in the Ohio plan, ODOD's goals include reducing energy usage by at least 634,000 MBtus and weatherizing approximately 32,000 dwelling units.

WIA Youth Program

The Recovery Act provides an additional $1.2 billion in funds nationwide for the Workforce Investment Act (WIA) Youth program to facilitate the employment and training of youth. The WIA Youth program is designed to provide low-income in-school and out-of-school youth ages 14 to 21, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. The Recovery Act extended eligibility through age 24 for youth receiving services funded by the act. In addition, the Recovery Act provided that of the WIA Youth performance measures, only the work readiness measure is required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. Within the parameters set forth in federal agency guidance, local areas may determine the methodology for measuring work readiness gains. The program is administered by the U.S. Department of Labor and funds are distributed to states based upon a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving up to 15 percent for statewide activities. The local areas, through their local workforce investment boards, have flexibility to decide how they will use these funds to provide required services. In the conference report accompanying the bill that became the Recovery Act, the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth.[19] Summer employment may 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. Work experience may be provided at public

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

sector, private sector, or non-profit work sites. The work sites must meet safety guidelines and federal/state wage laws.[20]

The Ohio Department of Job and Family Services (JFS) administers the state's workforce development system, including the WIA Youth program, in addition to administering other federally funded social service programs. County commissioners are actively involved in decision making for the workforce system, and the design of summer youth employment activities differs from county to county, according to a JFS official. For our review of the summer youth employment activities, we visited four counties—Franklin, Licking, Montgomery, and Union. We selected these counties to give us a mix of population sizes and of recent experience operating summer youth programs.

Ohio received $56.2 million in Recovery Act funds for the WIA Youth program and reserved 15 percent for statewide activities.[21] JFS did not set a target amount to be spent on summer youth employment activities. However, JFS did set an overall expenditure rate target for the Recovery Act Youth funds, requiring local areas to expend at least 70 percent of the funds by October 31, 2009, and 90 percent by January 31, 2010. Local areas in Ohio that do not meet this target risk having those funds recaptured by their local area or, eventually, the state, according to JFS. Local officials in one of the four counties we visited expressed concerns about their ability to meet the state's expenditure rate targets.

Statewide, as a result of receiving the Recovery Act funds, local officials have projected serving more youth than were served last summer by WIA or through other funding sources. While state officials report that Ohio served 479 youth statewide using WIA funds last summer, local areas planned to serve 14,205 youth statewide this summer, according to the most recent amendments to their plans. Beyond the WIA Youth program, several local areas in Ohio had operated separate summer youth employment activities last year funded through other non-WIA sources. JFS could not provide information on the number of youth served through

[20]Current federal wage law specifies a minimum wage of $6.55 per hour until July 24, 2009, when it becomes $7.25 per hour. Where federal and state law have different minimum wage rates, the higher standard applies.

[21]Ohio intends to use its statewide funds—$8.7 million—to fund two special youth initiatives, one with projects beginning between September 1, 2009, and December 10, 2009, and the other during the summer.

these other programs. However, two of the four local areas we visited had operated such activities, and both expect to serve many more youth this year given the Recovery Act funds. For example, Franklin County expects to serve 2,500 youth this year—twice the number it served last year using other funding sources.[22] State and local officials have made progress in getting key pieces in place, and while state officials are generally optimistic about their ability to meet their targets, it may be too soon to know whether they are on track. At the time of our visits to the four counties, they were enrolling youth or determining their eligibility/evaluating applications.

The counties we visited were using their Recovery Act funds for providing work experience, and some were combining it with occupational skills or other academic training. Most had initial sessions that included work readiness training, employer screening, and, in three of the four sites we visited—Franklin, Montgomery, and Union—financial literacy training. For example, Franklin County has arranged for a local bank to help participating youth set up bank accounts into which their paychecks will be automatically deposited. Youth will receive debit cards to access their account and will receive basic financial counseling. Work sites ranged from community colleges, public schools, and community action agencies to hospitals and rural electric cooperatives. Green jobs were available in all local areas we visited, but officials were not always clear on what constituted a green job. The jobs they cited included natural resource conservation, an automotive fuel technology project at a university, as well as jobs in energy efficiency and weatherization.

County officials that we met with in Ohio are developing their own work readiness assessment tool. For example, Union County is developing an approach that would use a blend of available instruments, and would ask youth specific questions about their own work preparedness and about how they might respond in certain hypothetical work situations. Montgomery County officials had not yet determined what approach they would be using at the time of our visit and reported that developing a work readiness measure was one of their greatest challenges.

[22]Franklin County had previously used a combination of city funds, WIA and Temporary Assistance for Needy Families (TANF), but expects to receive very little in TANF funding this year for the program because of budget cuts. Their projections for this year include a combination of city and county funds and those from the Recovery Act.

Regarding monitoring of employment activities, JFS will use an approach similar to what it has used in the past, but it will monitor more frequently, according to officials. JFS plans to complete risk assessments to guide its monitoring efforts and plans to make at least one on-site visit each month to each local area. At the local level, the programs we visited were all planning to monitor work sites.

Although we heard positive comments about the expanded summer youth activities, implementing such an effort in a short period of time presented challenges. The nature of some of the challenges that local areas faced depended, in part, upon whether they had recent experience operating stand-alone work experience activities. Two local areas we visited—Licking and Union Counties—had to build the activities from the ground up and had to quickly make some basic decisions: how to structure the activities, how to recruit work sites and participants, and whether to use vendors or whether to administer the activities in-house. However, two other areas—Franklin and Montgomery Counties—had well-developed summer youth employment programs. While these areas already had some of these basic structures in place, they had to quickly expand their existing activities.

Across the local areas we visited, staff were challenged to address the needs of the growing number of youth they needed to serve. Expected increases in enrollments are leaving local areas' staff and facilities stretched thin. To address this challenge, some counties are reassigning employees from other programs to work on the WIA Recovery Act summer youth employment activities, and in one county to possibly avert layoffs because of budget cuts in other areas. Montgomery County arranged for additional staff for the summer by using a temporary placement agency. To help increase its capacity and outreach, Franklin County will be using a mobile unit and local library branches to provide employment services.

Although finding eligible youth was not cited as a challenge, the counties we visited were concerned about being able to quickly ensure that the large number of applicants was screened and that they had the documentation requirements (including proof of family income) for WIA's eligibility criteria. To address this issue, Franklin and Montgomery Counties are using an online portal for youth to input eligibility information and do initial prescreening.

The Edward Byrne Memorial Justice Assistance Grant

The Edward Byrne Memorial Justice Assistance Grant (JAG) program within the Department of Justice's Bureau of Justice Assistance (BJA) provides federal grants to state and local governments for law enforcement and other criminal justice activities, such as crime prevention and domestic violence programs, corrections, treatment, justice information sharing initiatives, and victims' services. Under the Recovery Act, an additional $2 billion in grants are available to state and local governments for such activities, using the rules and structure of the existing JAG program. The level of funding is formula based and is determined by a combination of crime and population statistics. Using this formula, 60 percent of a state's JAG allocation is awarded by BJA directly to the state, which must in turn allocate a formula-based share of those funds to local governments within the state. The remaining 40 percent of funds is awarded directly by BJA to eligible units of local government within the state.[23] The total JAG allocation for Ohio state and local governments under the Recovery Act is about $61.6 million, a significant increase from the previous fiscal year 2008 allocation of about $4.7 million.

As of June 30, 2009, Ohio had received its full state award of about $38 million, and is in the process of evaluating applications of proposed projects submitted by state and local entities; no funds have been obligated or expended.[24] These applications were due on May 1, 2009, and 540 were received by that date, according to the Office of Criminal Justice Services (OCJS), the state administering agency.[25] OCJS plans to notify subrecipients of their awards by July 31, 2009, and approved projects will begin from August 1, 2009, through December 31, 2010.[26] In making the grant award, BJA imposed a special condition that prevents Ohio from obligating, expending, or drawing down funds under the award until OCJS submitted all delinquent reports for grants funded by the Office of Justice Programs, which it did, and on June 15, 2009, BJA removed the special condition of the grant award.

[23]We did not review these funds awarded directly to local governments in this report because the Bureau of Justice Assistance's solicitation for local governments closed on June 17.

[24]Due to rounding, this number may not exactly equal 60 percent of the total JAG award.

[25]Ohio received about 1,200 letters of intent (project proposals without applications) through the http://www.recovery.ohio.gov/ Web site through the end of April 2009.

[26]According to an OCJS official, OCJS does not have to seek any additional appropriations before spending its funds; authority is granted in its biennial budget.

OCJS sets the priorities for how the state's JAG funding is awarded. Staff work with local planners to learn the justice issues in the state, and the office has issue area expert groups who are also knowledgeable about localities and crime issues. In addition, the Statistical Analysis Center in OCJS looks at crime trends and patterns. According to Ohio's application for state funding, funding priorities for JAG funds are based on the state's current nine purpose areas: law enforcement, prevention and education, corrections and community corrections, prosecution, court and victim services, research, evaluation, technology improvement, and JAG law enforcement programs.

OCJS's selection criteria for specific projects to be funded with its JAG funds include the project's potential for creating and preserving jobs; potential for stimulating the economy; and capability to separately track, account for, and report on the funds. In addition, OCJS is looking at past successful programs and using those models to help make funding decisions. The office also will strive to fund projects in areas with high populations, historically depressed regions, and Appalachia. OCJS plans to use 10 percent of the federal funds for administrative costs, in particular to fund positions to monitor local projects' compliance with state and federal guidelines. OCJS is currently discussing with the Governor's office whether state agencies will be receiving any of the state's pass-through funds, given the number of funding requests from localities.[27]

Although OCJS is in the process of allocating state JAG funds to localities, some local awards directly from BJA have been made, according to officials at the City of Columbus Department of Public Safety. The City of Columbus is using $1.2 million of Recovery Act funds to pay the salaries, from March 2, 2009 through December 31, 2009, of 26 police cadets.[28] However, if an income tax increase in Columbus is not passed by voters in

[27]JAG required that states pass through a formula-based share of funds to local entities within the state; however, state administering agencies may chose to fund projects that will be administered by the state but directly benefit local government if affected local entities agree to the projects.

[28]The $1.2 million is part of about $4.2 million in Recovery Act local JAG funds that went to Franklin County, who passes a portion of the funds to the City of Columbus per an interlocal agreement. Franklin County received the funds in June; at the end of June, the City of Columbus will make a claim for reimbursement for the cadet salaries it paid between March and June 2009. The cadet salaries were initially paid from operating budgets, according to an official at the Columbus Department of Public Safety.

August, the cadets face probable layoffs after December 2009, according to an official at the Columbus Department of Public Safety.

Public Housing Capital Fund

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.[29] 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. Recovery Act requirements specify that public housing agencies must obligate funds within 1 year of the date they are made available for obligation, expend at least 60 percent of funds within 2 years of that date, and expend 100 percent of the funds within 3 years of that date. Public housing agencies are expected to give priority to projects that can award contracts based on bids within 120 days from the date the funds are made available, as well as capital projects that rehabilitate vacant units, or those already under way or included in the required 5-year capital fund plans. HUD is also required to award $1 billion to housing agencies based on competition for priority investments, including investments that leverage private sector funding/financing for renovations and energy conservation retrofit investments. On May 7, 2009, HUD issued its Notice of Funding Availability that describes the competitive process, criteria for applications, and time frames for submitting applications.[30]

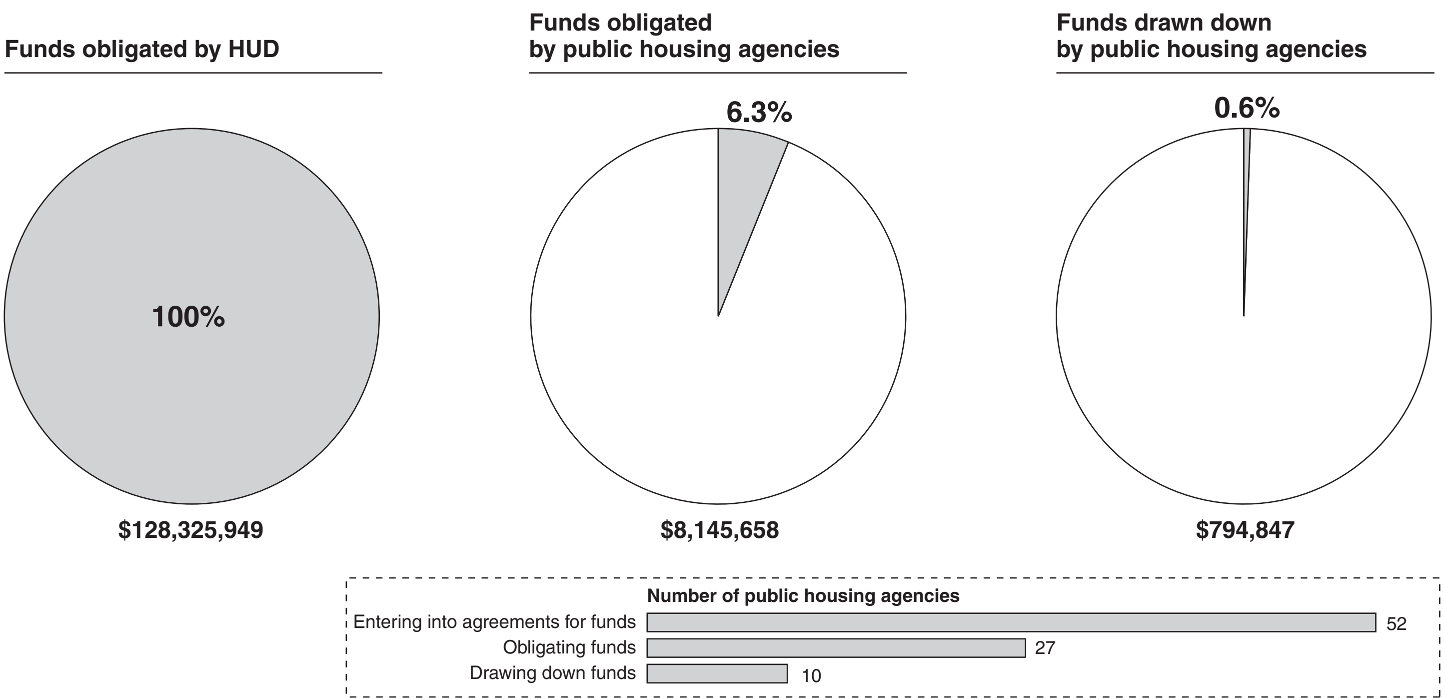
Ohio has 52 public housing agencies that have received Recovery Act formula grant awards. In total, these agencies received approximately $128.3 million in Public Housing Capital Fund grant awards. As of June 20, 2009, the state's public housing agencies have obligated approximately $8.1 million and have expended $794,847. GAO visited three public housing agencies in Ohio: the Columbus Metropolitan Housing Authority, Cuyahoga Metropolitan Housing Authority, and London Metropolitan Housing Authority. The Columbus Metropolitan Housing Authority was

[29]Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

[30]HUD released a revised Notice of Funding Availability for competitive awards on June 3, 2009. The revision included changes and clarifications to the criteria and time frames for application and to funding limits.

selected to continue our Recovery Act longitudinal study of that organization. We selected the Cuyahoga Metropolitan Housing Authority because it is a large public housing agency and it received the largest fund allocation in Ohio. Finally, we selected the London Metropolitan Housing Authority because it is a small public housing agency and was one of the first agencies to draw down Recovery Act funds. Figure 2 shows the funds allocated by HUD that have been obligated and drawn down by Ohio public housing agencies.

Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in Ohio



Source: GAO analysis of HUD data.

The three public housing agencies that we visited in Ohio received capital fund formula grants totaling approximately $44.3 million. As of June 20, 2009, these public housing agencies had obligated about $1.9 million, or 4.3 percent of the total award. The Cuyahoga Metropolitan Housing Authority had obligated approximately $1.5 million in Recovery Act funds and had drawn down $239,028 for architect fees. The London Metropolitan Housing Authority had also drawn down $9,375 for architect fees and expected to draw down an additional $80,000 in June 2009 to purchase construction materials. The Columbus Metropolitan Housing Authority had not drawn down any funds because it was still in the process of completing required environmental reviews for each of its projects and had not received any invoices for services provided by the architecture and engineering firms that it contracted with for the initial design work on Recovery Act-funded projects. The Columbus Metropolitan Housing Authority expected to make its first drawdown in June 2009.

The three public housing agencies that we visited are funding 16 different projects with the Public Housing Capital Fund grant awards. They include major projects, such as the construction of new public housing, rehabilitation of long-standing vacant housing units, and upgrading units to meet the Americans with Disabilities Act standards, to more basic household improvements, such as kitchen and bathroom renovations, window and door replacements, new flooring, and new furnace installations. The projects range in cost from a $12 million mixed financing community redevelopment initiative being pursued by the Cuyahoga Metropolitan Housing Authority to a multibuilding roof replacement project of approximately $153,000 at the London Metropolitan Housing Authority. More than 1,300 housing units will be directly improved through the projects that these three public housing agencies are pursuing, which include the construction of 192 new public housing units and the renovation of 161 long-standing vacant units. In addition, 1,495 public housing units will benefit from several roof replacement projects to be completed with Recovery Act funds. The London Metropolitan Housing Authority's roof replacement project is one of the first projects to begin construction, with an expected start date of June 2009. All 16 projects will be under construction by January 2010, and 12 of the projects are expected to be complete by December 2010.

All three public housing agencies bid and awarded initial design work to architecture and engineering firms for many of the projects within the first 120 days after the Recovery Act funding was made available in March 2009. The Columbus Metropolitan Housing Authority awarded contracts for its initial engineering design work in April 2009. The Cuyahoga Metropolitan Housing Authority will competitively award specific work orders for projects, but chose to expedite its design work, using architecture and engineering firms that already have indefinite delivery, indefinite quantity contracts with the agency. Both the Cuyahoga Metropolitan Housing Authority and the London Metropolitan Housing Authority are using Recovery Act funds for projects already included in their respective capital fund program 5-year action plans. The Columbus Metropolitan Housing Authority chose projects that were not originally in its 5-year capital fund plan and has submitted a revised capital fund program 5-year action plan to HUD that incorporates these projects. A

London Metropolitan Housing Authority official explained that the first phase of the roof replacement project, which is currently in the 5-year plan, was already under way. Taking into consideration the accelerated requirement to obligate and expend Recovery Act funds[31] and the condition of the roofs on the housing units, the London Metropolitan Housing Authority chose to accelerate the remaining phases of the roof renovation project with Recovery Act funds. Anticipating the passage of the Recovery Act, the Columbus Metropolitan Housing Authority began planning its projects in December 2008, focusing on rehabilitating housing units. Neither the Columbus Metropolitan Housing Authority nor the London Metropolitan Housing Authority gave priority to vacant units because these agencies do not have long-standing vacancies. In contrast, the Cuyahoga Metropolitan Housing Authority is funding a vacancy reduction project, which will renovate approximately 157 long-standing vacant units.[32]

None of the three public housing agencies identified any problems in accessing, obligating, or expending Recovery Act funds. While Recovery Act funds have accelerated obligation and expenditure time frames, none of the public housing agencies was concerned about meeting them because each agency selected its projects to meet the accelerated time frames. For example, the Columbus Metropolitan Housing Authority chose projects that could start quickly and would have the greatest impact on the agency's housing stock. One public housing official was unaware of HUD's reporting requirements under the Recovery Act, but planned to adhere to any future guidance on reporting the use of Recovery Act funds. Officials had received some guidance from HUD regarding the current competitive grant process. Two of the three public housing agencies we visited are planning to apply for the competitive grant to fund additional capital projects.

[31]The Recovery Act requires public housing authorities to obligate all Recovery Act funds within 1 year, expend at least 60 percent within 2 years, and expend all the funds within 3 years, in contrast to regularly appropriated public housing capital funds, which must be obligated within 2 years and expended within 4 years.

[32]The budgeted numbers used for the vacancy reduction were projected costs. When bids are received for this work, and if the costs exceed the budgeted amounts, the balance will be supplemented with Public Housing Capital Fund Program funds or funds will be reprogrammed within the line items under the Recovery Act budget. Also, another four long-standing vacant housing units are being renovated as part of a separate Recovery Act-funded project that is upgrading units to meet Americans with Disabilities Act standards.

Safeguards and Internal Controls

Ohio is in the process of refining its internal control processes to help ensure that it can track and report on Recovery Act funding in accordance with federal and state laws. First, Ohio has developed a centralized Web-based hub to collect financial data, performance metrics, and other information on Recovery Act programs in the state. Second, the state is in the process of restructuring its internal control processes to provide greater accountability for federal and state funds, including Recovery Act funds. Third, the state has a new Audit Committee that among other things, is working to facilitate consistent and speedy response to audit findings.

Tracking and Reporting on Recovery Act Funds

According to an Office of Budget and Management (OBM) official, Ohio has nearly completed development of a centralized reporting system for Recovery Act programs that allows state agencies to submit information electronically via a Web-based portal. This portal, designed to store both qualitative and quantitative data, will serve as the source for reports required by the federal government and will be populated with financial information from the Ohio Administrative Knowledge System (OAKS) by June 2009. OAKS is Ohio's official book of record and is used by state agencies and state-supported colleges and universities to process and capture information about financial transactions.

The OBM lead programmer told us that OBM plans to have most programs in the portal by the end of June 2009 and plans to produce the first report in July 2009. While state officials anticipate that additional modifications will be necessary in order to produce the section 1512 reports mandated by the Recovery Act,[33] these officials said they would be able to comply with federal specifications, when they are promulgated, in time to produce the first reports by the statutory reporting deadline of October 10, 2009.

Internal Control Processes

Ohio has made strides in refining its internal control processes to accommodate the Recovery Act funds. Internal controls help program managers achieve desired results through effective stewardship of public resources. The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) standards for internal control include five key elements: control environment, risk assessment, control activities,

[33]Recovery Act, div. A, title XV, § 1512.

information and communications, and monitoring.[34] These standards apply to the programmatic, financial, and compliance aspects of agencies' operations.

- **Control environment:** At the statewide level, OBM has made strides to develop a strong control environment for Recovery Act funds. A series of guidance on establishing a framework for managing these funds is available on OBM's Web site. OBM issued its first set of guidance on February 27, 2009, instructing state agencies to supply information on timelines to apply for Recovery Act funding. The most recent set of guidance, the eighth, dated May 4, 2009, dealt with procurement policies.

- **Risk assessment:** OBM issued guidance on risk assessment in March 2009, highlighting the significance of risk mitigation strategies that all state agencies should have in place to ensure that management controls are operating effectively to identify and prevent wasteful spending and minimize waste, fraud, and abuse. The new Office of Internal Audit (OIA) is working with state agencies to develop and evaluate these risk assessments. Based on these agency risk assessments, OIA told us that they were developing an oversight strategy that the office will present to the Audit Committee.

- **Control activities and monitoring:** There are a number of oversight bodies in Ohio with responsibility for monitoring Recovery Act-funded projects. For example, the state recently appointed a deputy inspector general who would be responsible for overseeing and monitoring state agencies' distribution of Recovery Act funds, reviewing contracts associated with projects paid for by Recovery Act funds, and investigating all wrongful acts or omissions committed by officers or employees of, or contractors with, state agencies. The Auditor of State is also developing plans to assess the safeguards in place at state agencies for tracking and accounting for Recovery Act funds.

  Most major programs undergo a compliance review by the Auditor of State each year; smaller programs are also reviewed but less frequently. Very small programs are not always captured in the Auditor of State's annual compliance reviews. For example, the Weatherization Assistance Program has been very small in the last few years. However, Ohio has been allocated more than $266.0 million from the

[34] COSO, Internal Control - Integrated Framework, 1992 and 1994.

Recovery Act, and the program's internal controls have not been reviewed for more than 10 years.

When federal funds are passed through to subrecipients and contractors, state agencies are responsible for overseeing these funds, and in some cases, the controls necessary to monitor subrecipients are not in place. For example, Ohio's JFS oversees the Medicaid program, Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, and WIA program. Our analysis of the Single Audit report findings for fiscal year 2007 found frequent citations of problems with operations at the local JFS offices. In one recent case, the Auditor of State declared a local workforce investment board "unauditable," but JFS officials responsible for overseeing the fiscal operations of the department were not aware of the status of this subrecipient until we brought it to their attention. JFS then contacted the Auditor of State to get additional information and the subrecipient to identify corrective actions. On the other hand, according to an official at ODE, it monitors school districts, charter schools, and other grantees and monitors subrecipient drawdowns, performance metrics, and financial and compliance audits.

Some Recovery Act funds do not go through the state at all but are provided directly to subunits of governments, public housing authorities, and other grantees. The Auditor of State is also responsible for financial and compliance audits for these subunits of government. It has (1) developed a Web-based tool for subunits of government to report in real-time the amount of Recovery Act funding the government has received, (2) planned outreach and training for JFS and local governments and joint training programs for school districts with ODE on Recovery Act requirements; and (3) issued additional guidance for its auditees on how to track and report on Recovery Act spending.

- **Information and communication:** The Web-based portal described earlier will be the central depository for all information related to Recovery Act spending. Quantitative and qualitative information on each Recovery Act funded program will be available on this portal. Financial information from the state's financial accounting system will feed directly to the portal, and performance metrics, state agency assurances, and other information will be linked to the Web page for each program. Program managers, auditors, and GAO will have access to this information on a real-time basis.

Officials in OBM's OIA told us that they will present their audit plan for fiscal year 2010 to the state's Audit Committee on June 30, 2009. In its plan, OIA will provide details about how it intends to monitor the internal control processes.

State Audit Committee

The State of Ohio established its Audit Committee in November 2007. The committee assists the Governor and Director of OBM in fulfilling their oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes, and compliance with laws, rules, and regulations. OBM's OIA assists the Audit Committee with its responsibilities by furnishing it with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed, and by promoting effective control at a reasonable cost. The committee must meet at least four times annually. Among the responsibilities of the committee is to provide a forum to discuss the status of audit resolution.

The Auditor of State is the constitutional officer in Ohio responsible for auditing all public offices in the state, including state agencies, boards, commissions, cities, villages, schools, universities, counties, and townships. Among other duties, the Auditor of State's office prepares and reports on the statewide Single Audit for Ohio.[35] The State of Ohio's fiscal year ends on June 30; therefore, its Single Audit report is due by March 31 the following year (9 months after fiscal year-end). However, Ohio has requested and was granted a 9-month extension to submit its statewide Single Audit report; as a result, the fiscal year 2008 Single Audit report will not be submitted until December 31, 2009. According to OBM, the fiscal year 2008 statewide Single Audit report is delayed because state agencies, as well as OBM's financial reporting accountants, are constructing financial statements from OAKS (a new financial accounting system) for the first time.

[35]The Single Audit Act, as amended (31 U.S.C. ch. 75), requires that each state, local government, or nonprofit organization that expends $500,000 or more a year in federal awards have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in the Office of Management and Budget 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.

Findings relevant to federal programs managed by state agencies are included in the statewide Single Audit report and the related state agency management letters. It is the responsibility of management in each state agency to implement corrective actions to resolve these findings.

- According to an ODE official, audit coordinators with ODE will notify program offices of Single Audit report findings and any questioned costs associated with LEAs to obtain additional information for determining the validity of the claim, and work with various program offices to go over improvement plans and determine if refunds are necessary. ODE will use these Single Audit report results in developing risk assessments for its subrecipient monitoring process.
- At the Ohio Department of Transportation (ODOT), audit staff run several database queries at the beginning of the year to identify a complete list of all subrecipients for that year. Then they obtain and review Single Audit reports to identify material weaknesses and significant deficiencies. Based on this review, ODOT prepares a report summarizing the Single Audit report and management letter findings. These reports are reviewed by the Audit Administrator and ODOT management. ODOT uses Single Audit report results as one of the factors in determining whether a grantee receives a desk review or a site visit.

Assessing the Impact of Recovery Act Funds

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. As a means of implementing that goal, guidance has been issued and will continue to be issued to federal agencies, as well as to direct recipients of funding. To date, the Office of Management and Budget (OMB) has issued three broad sets of guidance to the heads of federal departments and agencies for implementing and managing activities enacted under the Recovery Act. OMB has also issued detailed proposed standard data elements that will be required for recipients to report their use of Recovery Act funds.[36]

[36]In response to requests for more guidance on the recipient reporting process and required data, OMB-in consultation with a broad range of stakeholders-issued additional implementing guidance for recipient reporting on June 22, 2009. See, OMB Memorandum, M-09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009.

Recipients of Recovery Act funds must report the total amount of recovery funds received from each federal agency and the amount obligated or expended on the projects or activities. Recipient reports must also include a list of all projects and activities for which Recovery Act funds were obligated or expended, including the name and description of the project or activity, an evaluation of its completion status, the estimated number of jobs created and the number of jobs retained by the project or activity, and information on any subcontracts by the recipient, as specified in the Recovery Act.[37] Ohio OBM officials told us that the emphasis on measuring the impact of Recovery Act funding has focused, thus far, on job creation. However, they noted that without comprehensive guidance on what federal agencies want reported, states will struggle to assess impact on some of these other outcomes. In Ohio, some state and local agencies are using existing federal program guidance or performance measures to evaluate impact, particularly for ongoing programs, such as FHWA's Federal-Aid Highway Surface Transportation Program. Other agencies are waiting for additional guidance on how and what to measure to assess impact.

While some Ohio agencies are waiting for guidance, others are proceeding on their own. For example, officials of Ohio's JFS responsible for the summer youth program under WIA as well as officials from ODE responsible for ESEA Title I and IDEA programs told us they had not yet received any specific guidance on measuring jobs created or preserved. Further, officials from the London Public Housing Authority appeared unaware of the requirements to track Recovery Act funding and assess its impact. They told us that they are awaiting guidance from HUD on performance measures and metrics and assume they will manually collect the data.

In planning to dispense Edward Byrne Memorial Justice Assistance grants, the Office of Criminal Justice Services (OCJS) has advised potential grant recipients to be prepared to track and report on the specific outcomes and benefits attributable to use of Recovery Act funds. However, the specific performance reporting requirements are not yet known. OCJS is waiting for guidance from OMB as well as performance measures being developed by the federal Bureau of Justice Assistance.

[37]Recovery Act, div. A, title XV, § 1512.

Officials from the Columbus Metropolitan Housing Authority told us that they plan to track the number of jobs created and preserved by including these performance measures in contracts, requiring the prime contractor and subcontractors to report these data to the housing authority for recording in a spreadsheet. However, neither a reporting format nor guidance had been provided by HUD to help the housing authority determine what steps it needs to take. Officials stated that they will use two existing performance measures already being reported to HUD—direct employment and business opportunities resulting from activities to those receiving HUD financial assistance and participation of minority business enterprises in general contractor and subcontractor awards. Cuyahoga Metropolitan Housing Authority officials told us that they have retained the services of a private vendor to track and report on jobs created and retained with Recovery Act funding based on analyses of construction-related items and contractor records.

At ODOT, officials told us that they are following FHWA-provided guidance designed to satisfy the Recovery Act reporting requirement that states collect and analyze certain employment data for each funded contract. ODOT requires contractors and subcontractors to complete the Monthly Employment Report (Form FHWA 1589). By contract, the contactors and subcontractors must report monthly direct on-the-project jobs for their workforces and the workforces of their subcontractors active during the reporting month. Contractors electronically report employment data to ODOT using the Contract Management System. In turn, ODOT reports the employment data to FHWA using the Monthly Summary Employment Report (Form FHWA 1587). However, ODOT officials are concerned about how to assess jobs created and jobs retained through use of Recovery Act funds. Based on federal calculations for transportation investment, ODOT officials estimated that 21,257 jobs would be created or retained through the transportation projects funded by the Recovery Act funding. While contractors are required to collect payroll data at the subcontractor level, determining the total number of jobs created may be a challenge because the numbers of employees on any transportation project vary day to day depending on the work planned for that day.

State Comments on This Summary

We provided the Governor of Ohio with a draft of this appendix on June 19, 2009, and representatives of the Governor's office responded on June 22, 2009.

In general, they agreed with our draft and provide some clarifying information, which we incorporated. The officials also provided technical suggestions that were incorporated, as appropriate.

GAO Contacts

Cynthia M. Fagnoni, (202) 512-7202 or fagnonic@gao.gov

David C. Trimble, (202) 512-9338 or trimbled@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Bill J. Keller, Assistant Director; Sanford Reigle, analyst-in-charge; Matthew Drerup; Laura Jezewski; Myra Watts-Butler; Lindsay Welter; Charles Willson; and Doris Yanger made major contributions to this report.