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Report to Congressional Committees

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RECOVERY ACT

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

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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 Pennsylvania. The full report covering 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 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 or a significant increase in funding. Program funds are being directed to help Pennsylvania 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:

- **Funds Made Available as a Result of Increased Medicaid Federal Medical Assistance Percentage (FMAP).** As of June 29, 2009, Pennsylvania has received nearly $1.1 billion in increased FMAP grant awards, of which it has drawn down just over $957 million. This is over 87 percent of the awards to date. Pennsylvania is planning to use the funds made available as a result of the increased FMAP to cover the state's increased Medicaid caseload, ensure that prompt payment requirements are met, maintain current populations and benefits, and offset the state budget deficit.[2]

- **Highway Infrastructure Investment funds.** The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned $1.026 billion in Recovery Act funds to Pennsylvania, of which 30 percent was required to be suballocated to metropolitan and other areas. As of June 25, 2009, the federal government had obligated $729 million, and Pennsylvania had advertised for bids on $754 million. For example, one project in Bedford County is a bridge rehabilitation that is expected to begin in mid-July 2009 and be completed by November 2009. A transportation enhancement project in Chester County to construct and upgrade over 1,000 access ramps for people

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

[2]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.

with disabilities began in May 2009 and is expected to be completed in May 2010. Pennsylvania plans to use Recovery Act funds for 242 projects mainly for bridge rehabilitation and roadway resurfacing. This includes work on approximately 400 bridges, about 100 of which are structurally deficient.

- **U.S. Department of Education (Education) State Fiscal Stabilization Fund (SFSF).** As of June 30, 2009, Pennsylvania had not yet received its initial allocation of $1.3 billion of its total $1.9 billion allocation for SFSF. The Governor submitted a preliminary application to Education for initial funding on April 24, 2009, and submitted a final application on June 26, 2009. Pennsylvania will file an amended application thereafter, if necessary, based on the education provisions of the final fiscal year 2009-10 budget. According to state officials, the Governor's budget proposes to use the SFSF funds to increase education spending for school districts, whereas the Pennsylvania Senate has passed a bill to use the SFSF funds to hold education funding level. Local school districts will be uncertain about the SFSF funding until Pennsylvania adopts its budget for the fiscal year beginning July 1, 2009.

- **Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA).** Education has awarded Pennsylvania $200 million in Recovery Act ESEA Title I, Part A, funds or 50 percent of its total allocation of $400 million. Of these funds Pennsylvania has allocated $385 million to state local education agencies, based on information available as of June 30, 2009. Pennsylvania plans to make these funds available to local education agencies on or after July 1, 2009, to help educate disadvantaged youth. For example, the School District of Philadelphia plans to use the funds to provide a 4-week summer school program and to increase the number of school counselors, and the Harrisburg School District will use the funds to avoid teacher layoffs.

- **Individuals with Disabilities Education Act (IDEA), Part B & C.** Education has awarded $228 million in Recovery Act IDEA, Part B & C, funds, or 50 percent of its total allocation of $456 million. Of these funds, Pennsylvania has allocated $408 million to local education agencies, based on information as of June 26, 2009. Pennsylvania plans to make these funds available to local education agencies on or after July 1, 2009, to support special education and related services for children and youth with disabilities. For example, the School District of Philadelphia plans to fund teacher professional development and hire coaches to help special education teachers.

- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated about $253 million in Recovery Act weatherization funding to Pennsylvania for a 3-year period. DOE had provided Pennsylvania with its initial 10 percent allocation of funds for this program (approximately $25 million), and Pennsylvania had obligated none of these funds as of June 30, 2009. Pennsylvania plans to begin disbursing its Recovery Act funds in July 2009 to weatherize at least 29,700 houses and create an estimated 940 jobs.

- **Workforce Investment Act Youth program.** The U.S. Department of Labor allotted about $40.6 million to Pennsylvania in Workforce Investment Act Youth Recovery Act funds. Pennsylvania has allocated $34.6 million to local workforce boards, but only 40 percent of the allocations were available for the local boards to spend before July 1, 2009; state officials expect the balance to be available on or after July 1 when they expect Pennsylvania to enact its state budget. The workforce boards' summer youth programs are set to begin operating in early July. Workforce boards in Pennsylvania plan to use 70 to 90 percent of Recovery Act funds under this program by September 30, 2009, to create about 8,700 summer jobs for their youth.

- **Edward Byrne Memorial Justice Assistance grants.** The Department of Justice's Bureau of Justice Assistance has awarded $45.5 million directly to Pennsylvania in Recovery Act funding. As of June 30, 2009, none of these funds had been obligated by the Pennsylvania Commission on Crime and Delinquency, which administers these grants for the state.[3] The commission issued the first in a series of requests for proposals on June 18, 2009. The commission plans to use its state grant funds to fund initiatives such as criminal records improvement, data management focusing on technology, assistance with local criminal justice strategic planning, data collection and program evaluation, gun violence reduction, and mental health programs.

- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development has allocated about $212 million in Recovery Act funding to 82 public housing agencies in Pennsylvania. Based on information available as of June 20, 2009, about $5.8 million (2.7 percent) had been obligated by 42 of those agencies. At the two

[3]We did not review Edward Byrne Memorial Justice Assistance Grants awarded directly to local governments in this report because the Bureau of Justice Assistance's solicitation for local governments closed on June 17; therefore, not all of these funds have been awarded.

housing authorities we visited (in Harrisburg and Philadelphia), this money, which flows directly to public housing authorities, will be used for various capital improvements, including rehabilitating vacant housing units and, to a lesser extent, constructing new units, upgrading electrical and mechanical systems to meet building codes, and installing energy-efficient equipment.

Safeguarding and transparency: Pennsylvania will take several actions to safeguard Recovery Act funds and ensure transparency. It will use its existing integrated accounting system to track Recovery Act funds flowing through the state government. In June 2009, the Bureau of Audits completed its risk assessment of about 90 programs receiving Recovery Act funds and designated each program as high, medium, or low risk. The bureau also plans to focus attention on resolving Single Audit report findings and reducing the number of repeat findings. Agencies will be required to report quarterly on the status of corrective actions for Single Audit report findings, and the first quarterly reports will be due in October 2009. The Pennsylvania Stimulus Oversight Commission, chaired by the Chief Accountability Officer, holds public meetings to discuss progress on implementing Recovery Act programs. Pennsylvania's Auditor General also anticipates work auditing and investigating Recovery Act funds received by state and local agencies.

Assessing the effects of spending: Pennsylvania's Chief Accountability Officer is responsible for developing and using performance measures to demonstrate outcomes associated with Recovery Act spending and projects. Pennsylvania agencies continue to express concern about the lack of federal guidance on assessing the results of Recovery Act spending. Both state and local officials said they are awaiting further guidance from the federal government, particularly related to additional performance measures they may have to track.

Recovery Act Funding Will Help Minimize Reductions in Essential Services and Need for Tax Increases, but Work Remains to Balance the Budget

Budget officials have indicated that Recovery Act funding will help Pennsylvania narrow its estimated $3.2 billion budget gap for state fiscal year 2008-09, but lower-than-expected revenue collections have complicated efforts to balance the budget. The Pennsylvania Department of Revenue reported that as of June 1, 2009, general fund revenues collected were $2.8 billion—or 10.9 percent—less than estimated for fiscal year 2008-09. In addition, the Secretary of the Budget reported mandatory cost increases of $421 million across 2008-09 ($145 million) and 2009-10 ($276 million) because of increased demand for services during the recession. Further, the Secretary of the Budget notified the General Assembly that her office does not expect revenues to grow next fiscal year, which may contribute to a budget gap—where anticipated expenditures are greater than anticipated revenues—in fiscal year 2009-10.[4]

While Recovery Act funds are expected to minimize reductions in essential services and the need for state tax increases, additional actions have been taken and proposed to reduce Pennsylvania's budget gap in state fiscal year 2008-09 and balance the fiscal year 2009-10 budget. The Governor instituted several measures to reduce the budget gap in state fiscal year 2008-09, including prohibiting out-of-state travel by state employees, reducing the state's contributions to the employees' health care fund, and freezing hiring. As we reported in April, the Governor also proposed to cut spending by more than $500 million and to draw $250 million from Pennsylvania's Rainy Day Fund to help avoid further cuts in fiscal year 2008-09. The Governor has also proposed several actions to balance the state's budget in fiscal year 2009-10, including eliminating 2,995 authorized positions, reducing the general fund budget by 8.8 percent for all areas other than education, public welfare, corrections, and probation and parole; and lowering spending by approximately $1 billion by reducing funding for 346 programs and eliminating funding for 101 other programs. The Governor has further proposed increasing revenue by raising the cigarette tax 10 cents per pack, levying a tax on other tobacco products, and transferring lease payments from natural gas production to the general fund. In addition, the Governor has proposed using $375 million of the Rainy Day Fund in fiscal year 2009-10, leaving a balance of $128 million.[5] In June 2009, the Governor announced additional actions to balance the fiscal year 2009-10 budget, including temporarily increasing the state's

[4] Pennsylvania's state fiscal year begins on July 1 and ends on June 30.

[5] As of February 2009, Pennsylvania's Rainy Day Fund balance was $753 million.

personal income tax rate from 3.07 to 3.57 percent and cutting an additional $500 million across state agencies.

The extent to which the infusion of Recovery Act funds will contribute to Pennsylvania's fiscal stability is difficult to assess at this time in part because the General Assembly has not appropriated federal Recovery Act funds for state use. Under Pennsylvania law, federal funds must, in general, be appropriated by the General Assembly.[6] The Governor submitted a supplemental budget request to begin spending some Recovery Act funds in fiscal year 2008-09, but the General Assembly had not passed the supplemental appropriations bill as of June 30, 2009. For fiscal year 2009-10, the Senate has passed an appropriations bill—Senate Bill 850[7]—that differs substantially in some key respects from the Governor's proposed budget.[8] The Governor's proposed budget and the Senate bill differ on issues such as targeted taxes to increase revenues, the use of Pennsylvania's Rainy Day Fund, and education funding (discussed below). As of June 30, 2009, the General Assembly had not passed and the Governor had not signed a budget for fiscal year 2009-10, which begins July 1, 2009.

Even as the Pennsylvania General Assembly and Governor debate how to incorporate Recovery Act funds into the fiscal year 2009-10 budget, budget officials are looking ahead for ways to balance future budgets when this temporary funding ends. Budget officials indicated that they are taking several steps to prepare for when Recovery Act funds are phased out, including using a multiyear budget planning process, implementing $1 billion in systemic budget cuts to control out-year spending, emphasizing onetime uses of funds where possible, and requiring agencies to use limited-term positions when hiring individuals using Recovery Act funds. State budget officials acknowledged that Pennsylvania may need to make additional cuts or consider revenue enhancements depending on how quickly the economy improves.

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[6] 72 Pa. Cons. Stat. § 4615.

[7] S. 850, Gen. Assem. of 2009-2010, Reg. Sess. (Pa. 2009).

[8] According to the Secretary of the Budget, Senate Bill 850 was based on a projected 2008-09 budget shortfall of $2.9 billion and assumed 1 percent growth in revenues. Based on her analysis, this budget proposal would result in a shortfall of $1.5 billion.

Increased FMAP Funds Have Allowed Pennsylvania to Avoid Medicaid Program Reductions

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.[9] On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act.[10] 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.

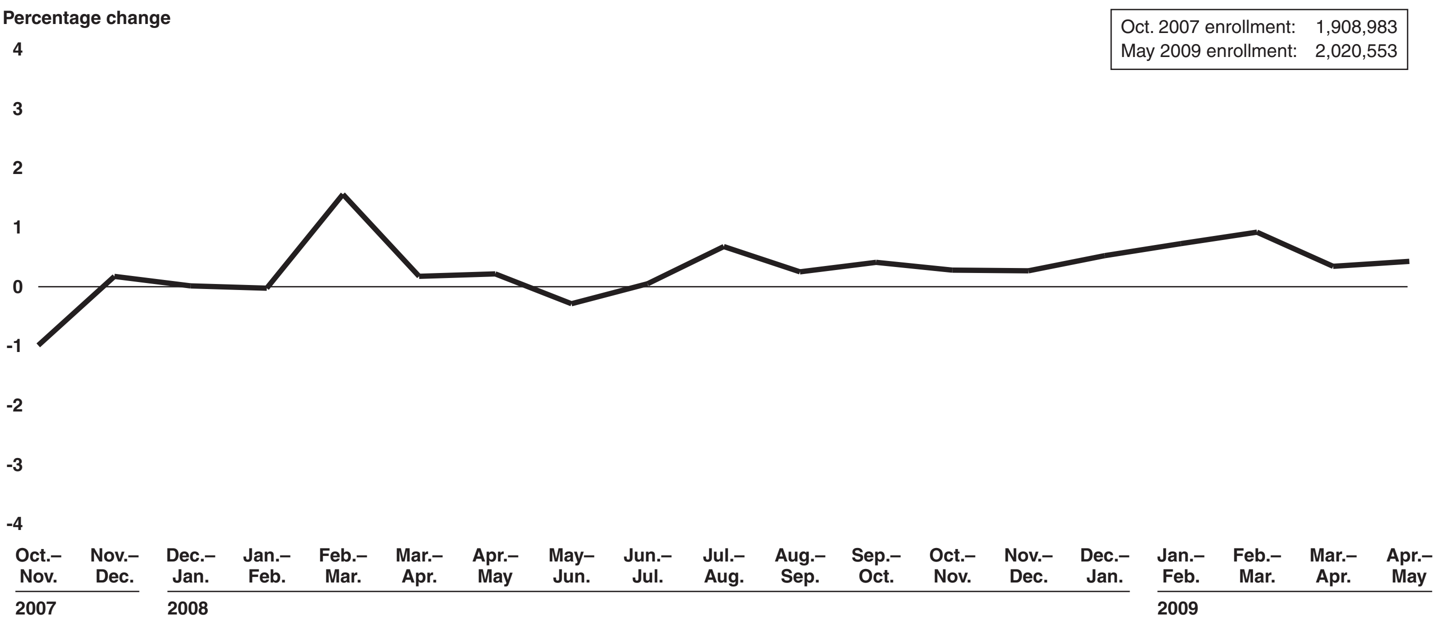
From October 2007 to May 2009, Pennsylvania's Medicaid enrollment grew from 1,908,983 to 2,020,553, an increase of about 6 percent.[11] Increases in enrollment varied during this period. (See fig. 1.) Most of the increase in enrollment was attributable to the population groups of disabled individuals and children and families.

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

[10] 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.

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

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



Source: GAO analysis of state reported data.

Note: The state provided projected Medicaid enrollment data for May 2009.

As of June 29, 2009, Pennsylvania had drawn down just over $957 million in increased FMAP grant awards, which is over 87 percent of its awards to date.[12] Pennsylvania officials reported that they are planning to use the funds made available as a result of the increased FMAP to offset the state budget deficit, cover the state's increased Medicaid caseload, ensure that prompt payment requirements are met, and maintain current populations and benefits, pending state approval to do so.[13] Pennsylvania officials also noted that given the decline in state revenues, program cuts in Medicaid would have been inevitable as the state faced a $2.3 billion dollar gap

[12]Pennsylvania received increased FMAP grant awards of nearly $1.1 billion for the first three quarters of federal fiscal year 2009.

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

between revenues and spending as of December 2008.[14] Officials added that the increased FMAP has allowed the state to maintain its Medicaid program. In the absence of these funds, officials noted that Pennsylvania would have seen a substantial reduction in funding for a number of programs because of declining state revenue. In using the increased FMAP, Pennsylvania officials reported that the Medicaid program has incurred additional costs related to development of new or adjustments to existing reporting systems or other information technology systems.

When asked about concerns related to maintaining eligibility for increased FMAP, state officials indicated that they have proceeded with caution with respect to making any programmatic changes that could be perceived as affecting eligibility.[15] For example, the state issued operational guidelines to codify the amount of time allowed for Medicaid applicants to provide documentation of citizenship, but chose to rescind them out of concern that it could be viewed as limiting eligibility. Similarly, the officials noted that they have asked CMS for clarification on its interpretation of maintenance of eligibility requirements as they relate to Medicaid service definitions under waiver programs and prior authorization requirements. Until CMS provides answers to specific questions, the state will not take any related actions out of concern that doing so could risk its eligibility for increased FMAP.

Regarding the tracking of increased FMAP, state officials indicated that the state will rely on existing accounting systems with unique account code structures, one of which is specific to increased FMAP, to track these funds. The officials also noted that they rely on the state's claims processing system, PROMISe (Provider Reimbursement and Operations Management Information System) to ensure that filed claims meet the Medicaid requirement for allowable expenditures. The officials added that the Bureau of Program Integrity also provides oversight by identifying and reviewing potential fraud, abuse, and wasteful practices by providers of medical assistance services. In addition, as part of the state's oversight of stimulus funding, the state's Office of the Comptroller will be conducting independent reviews of the Medicaid program. In addition, the 2007 Single

[14]As of June 2009, the estimated shortfall is $3.2 billion.

[15]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 programs on July 1, 2008. See Recovery Act, div. B, title V, §5001(f)(1)(A).

Audit report[16] for Pennsylvania identified a number of material weaknesses related to the Medicaid program. The state generally agreed with the material weaknesses that were identified, and in some cases, specified the corrective actions it undertook to address them. Specifically, state officials noted that they have been aggressively addressing the issue of documentation of eligibility determinations through training and information technology enhancements and have undertaken efforts to ensure that eligibility determinations are standard, automated, and more routine in nature. In addition, state officials said that the inaccurate reporting of $217 million was the result of an incorrect journal entry that occurred when the state moved to an accrual basis of accounting.

More Than Half of Pennsylvania's Highway Funds Have Been Obligated, and Most Recovery Act Funds Will Be Used for Bridges and Roadway Resurfacing

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 Act is up to 100 percent, while the federal share under the existing Federal-Aid Highway Program is usually 80 percent.

As we previously reported, $1.026 billion was apportioned to Pennsylvania for highway infrastructure and other eligible projects. As of June 25, 2009, $729 million had been obligated. The U.S. Department of Transportation has interpreted the "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 and the project agreement is executed. As of June 25, 2009, $3.4 million had been reimbursed by FHWA. States request reimbursement

[16]The Single Audit Act of 1984, as amended (31 U.S.C. ch. 75), requires that each state, local government, or non-profit 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 (OMB) Circular No. A-133, Audits of States, Local Governments and Non-Profit Organizations (June 27, 2003). If an entity expends federal awards under only one federal program, the entity may elect to have an audit of that program.

from FHWA as the states make payments to contractors working on approved projects.

Pennsylvania has also begun to award contracts and start work. As of June 26, 2009, Pennsylvania had awarded contracts for 149 projects representing about $349 million. Of these, 118 contracts representing about $250 million were under way—that is, a Notice to Proceed had been issued, which authorizes a contractor to begin work. According to a Pennsylvania Department of Transportation (PennDOT) official, the contracts would be "let"—that is, bids opened or received—for the remaining 74 projects by the end of August 2009. A department official noted that bids had been opened on 168 of 242 projects, leaving bids for 74 projects to be opened. PennDOT officials expect all work to be completed on the 242 Recovery Act projects within 3 years of the date the Recovery Act was enacted.

Pennsylvania Will Use Recovery Act Funds for Bridges and Resurfacing Needs, and Bid Amounts Have Been Less Than Estimated

Pennsylvania selected projects that can be awarded quickly and focused on bridge deficiencies and roadway pavement needs (resurfacing). FHWA data show that as of June 25, 2009, most of the Recovery Act funds for Pennsylvania have been obligated for pavement improvements and bridges; lesser amounts have been obligated for other projects, such as transportation enhancements. (See table 1 for the amount of funds obligated by project type.) We looked at two projects: a bridge rehabilitation project in Bedford County and a transportation enhancement project to construct and upgrade over 1,000 access ramps for people with disabilities in Chester County. The Bedford project had not yet begun, but the Chester project began design work in May 2009. PennDOT officials said the Bedford project would begin in July 2009 and be completed by November 2009. The Chester project is expected to be completed by May 2010. Pennsylvania has a need for bridge projects. In September 2008, we reported that about 26 percent of bridges in Pennsylvania (about 5,800 bridges out of 22,325) were structurally deficient—a reflection of the state's consistently poor bridge conditions.[17] Recovery Act funds will be used to support work on approximately 400 bridges, about 100 of which are structurally deficient.

[17]GAO, *Highway Bridge Program: Clearer Program Goals and Performance Measures Needed for a More Focused and Sustainable Program*, GAO-08-1043 (Washington, D.C.: Sept. 10, 2008).

Table 1: Highway Obligations for Pennsylvania 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
	$0	$285	$9	$0	$28	$209	$198	**$729**
Percent of total obligations	0	39.1	1.2	0	3.8	28.7	27.2	**100.0**

Source: GAO analysis of Federal Highway Administration data.

[a]Includes safety projects such as improving safety at railroad grade crossings, transportation enhancement projects such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

According PennDOT, bids for Recovery Act highway and bridge projects have been less than estimated. As of June 26, 2009, total bid amounts were 14.6 percent (or about $69 million) less than original project cost estimates. PennDOT officials attributed this to the economic downturn, which has made contractors eager for the work. Department officials were reluctant to predict whether this bidding environment may continue and instead are using certain measures, such as the number of bidders, to monitor the bidding climate. Since the bidding climate can change quickly, PennDOT and FHWA officials told us that it is too early to change project cost estimating practices. FHWA officials told us that bidding is tracked over time and procedures used to develop cost estimates will eventually reflect any change in the bid climate.

Pennsylvania Expects to Meet All Recovery Act Requirements for Highway Funds, but Its Maintenance of Effort Calculation Is under Review

The Recovery Act includes a number of specific requirements for highway infrastructure spending. First, states are required to ensure that 50 percent of apportioned Recovery Act funds are obligated within 120 days of apportionment (before June 30, 2009) and that the remaining apportioned funds are obligated within 1 year.[18] 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

[18]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 programs, FHWA assesses the ability of each state to obligate its apportioned funds 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 the authority for some states to obligate funds and increasing the authority of other states.

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, 66.9 percent of the $719 million in Recovery Act funds that are subject to the 50 percent rule for the 120-day redistribution had been obligated. PennDOT stated that it plans to meet the requirement of the law in order to take advantage of any additional funds that FHWA may not be able to obligate for other states.

Second, the Recovery Act requires states to give priority to projects that can be completed within 3 years and to projects located in economically distressed areas (EDA). EDAs are defined by the Public Works and Economic Development Act of 1965, as amended. Pennsylvania expects to have all of its 242 Recovery Act projects completed within 3 years. However, PennDOT officials acknowledged that their first priority was not selecting projects that could be completed within 3 years but rather getting projects out quickly to spur employment. This focus was consistent with guidance provided by PennDOT to its planning partners in advance of the Recovery Act advising them to develop lists of candidate projects that focused on system preservation and could be advanced within 6 months of the signing of the legislation. A PennDOT official told us that some of the planning partners accelerated this to 3 months. PennDOT officials said they were following the direction of the U.S. Department of Transportation, which had urged states and metropolitan planning organizations to be ready to approve projects literally within hours after the Recovery Act was signed.

As of June 26, 2009, $325 million had been obligated for projects in EDAs located in Pennsylvania. All EDAs in Pennsylvania except for one (Mifflin County) had Recovery Act highway projects selected and all non-EDAs in Pennsylvania except for one (Elk County) also had Recovery Act projects selected. PennDOT officials said the one EDA did not have projects selected because it did not have "shovel-ready projects." PennDOT officials said both counties had projects selected in the regular—that is, non-Recovery Act—Federal-Aid Highway Program. PennDOT officials acknowledged that projects were selected before they had received EDA guidance from the U.S. Department of Transportation in late February 2009. After receiving the guidance, which largely left compliance up to the states, PennDOT revisited its project selections and decided to make no changes. Options were considered, including taking projects away from non-EDAs and awarding projects to EDAs. However, a decision was made to "stay the course" since this was believed to provide the greatest potential to provide jobs in an expeditious manner. FHWA officials told us that they reviewed Pennsylvania's selection of projects and were comfortable that Pennsylvania made a good faith effort to comply with giving priority to selecting Recovery Act projects in EDAs.

Finally, 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. On March 17, 2009, the Governor of Pennsylvania submitted a certification that the state would maintain its level of transportation spending as required by the Recovery Act. However, the certification letter contained an explanation that the spending estimates were based on the best information available at the time of the letter. On April 20, 2009, the U.S. Secretary of Transportation informed Pennsylvania that its certification did not comply with section 1201 or implementing guidelines. The Secretary provided additional guidance on preparing the certification as well as an opportunity for Pennsylvania to review and amend its original certification by May 22, 2009. The state submitted an amended certification letter on May 20, 2009. According to U.S. Department of Transportation officials, the department reviewed Pennsylvania's resubmitted certification letter and concluded that the form of the certification was consistent with the additional guidance.

PennDOT officials noted that the amended level of effort certification removed the original condition statement and recalculated planned state spending on covered programs on the expenditure basis, not the obligation basis, as required by the additional federal guidance. PennDOT faced several challenges in recalculating its level of effort, such as the lack of a cash flow model for expenditures, the use of projected figures for three different state fiscal years, and the impact of a possible reduction of current financial support for Pennsylvania's transportation programs from the Pennsylvania Turnpike Commission. The recalculation resulted in the total planned state spending on the covered transportation programs increasing by $6 million ($2.195 billion in the amended certification compared with $2.189 billion in the original certification). The U.S. Department of Transportation is currently evaluating whether the states' methods of calculating the amounts that they planned to expend for the covered programs are in compliance with Transportation's guidance.

Funding Available for Education Remains Uncertain Until Pennsylvania Adopts Its Budget

As part of our review of Recovery Act education funding, we looked at three programs administered by the U.S. Department of Education (Education): the State Fiscal Stabilization Fund (SFSF); Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA); and the Individuals with Disabilities Education Act (IDEA), Part B & C. We met with Pennsylvania Department of Education officials and visited two school districts—Harrisburg School District and School District of Philadelphia. We selected these districts because they are to receive some of the largest ESEA Title I, Part A, Recovery Act suballocations within Pennsylvania and have a number of schools in improvement status.[19] The Harrisburg School District has an approximate student enrollment of 8,000. The School District of Philadelphia is the eighth largest school district in the nation and represents about 9 percent of the entire student population in the state. The approximate population of the School District of Philadelphia is 173,000.

Pennsylvania's current budget debate centers on the state basic education funding level, and according to state officials, local school districts are unable to spend Recovery Act funds until they are appropriated in the Pennsylvania budget.[20] State officials said that for the 2008-09 school year, Pennsylvania enacted a new school funding formula with "adequacy targets" for each school district. The formula is based on the actual enrollments, numbers of low-income students and English as a second language-learners, the size of the school district, and regional cost differences. For fiscal year 2009-10, the Governor's application for SFSF funds proposes to maintain state funding for elementary and secondary education at the fiscal year 2008-09 level of about $5.2 billion and use $418 million in education stabilization funds for elementary and secondary education. In contrast, Senate Bill 850 proposes to reduce appropriations for state basic education funding for school districts to the fiscal year 2005-06 level of about $4.5 billion and use $729 million of Recovery Act funds for basic education.[21] The Senate bill provides about $5.2 billion in

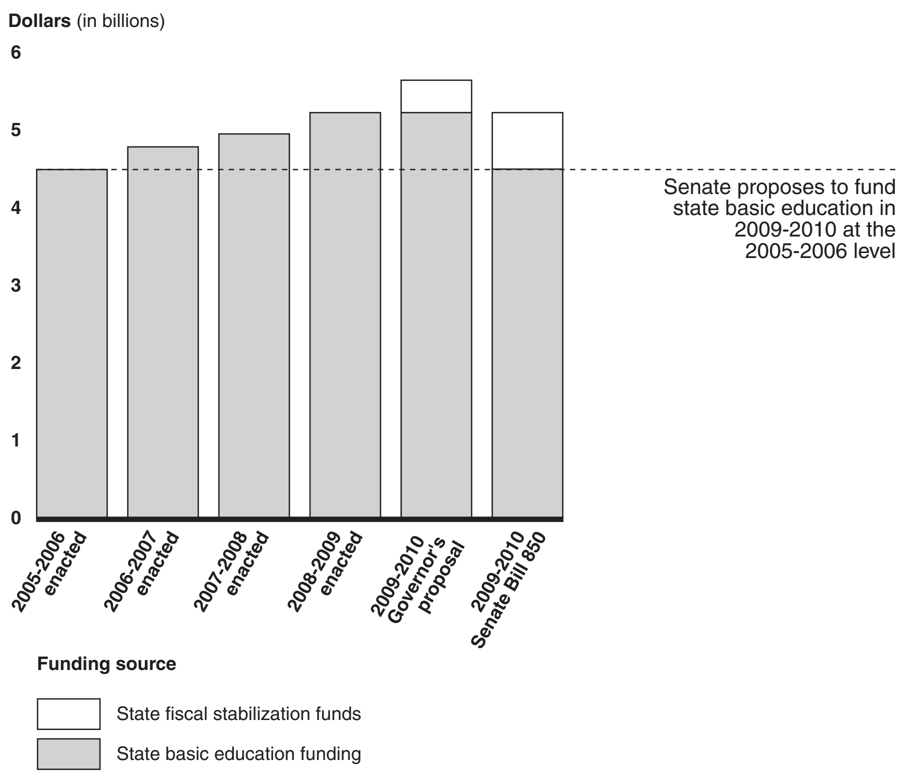
[19]ESEA Title I, Part A requires states accepting funds to, among other things, develop academic standards and tests, measure student proficiency in certain grades and subjects, and determine whether schools are meeting proficiency goals. Schools that fail to meet state academic goals for 2 or more years are to be identified for improvement and are required to take a series of actions intended to improve student performance.

[20]According to state education officials, local schools districts may obligate ESEA Title I, Part A and IDEA Recovery Act funds as soon as their applications are received in an approvable form.

[21]S.B. 850, Gen Assembly of 2009, Reg. Sess. (PA 2009).

state basic education funding to school districts. As shown in figure 2, school districts would get the same funding for 2009-10 school year that they had during 2008-09 school year under Senate Bill 850, but school districts would receive an increase in funding under the Governor's budget.

Figure 2: Pennsylvania Governor's Budget and State Senate Bill 850's Proposed Use of Recovery Act Education Stabilization Funds for the 2009-10 School Year



Source: State budget documents and proposed budgets.

School Districts Are Uncertain of State Fiscal Stabilization Fund Allocations Because of the Unresolved Budget Situation

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 maintenance of effort 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 formulas 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.

As of June 30, 2009, Pennsylvania had not yet received the initial allocation of $1.3 billion of its total $1.9 billion allocation of SFSF funds. The Governor submitted a preliminary application to Education for initial funding under the SFSF on April 24, 2009, and submitted a final application on June 26, 2009. Pennsylvania will file an amended application thereafter, if necessary, based on the education provisions of the final fiscal year 2009-10 budget. For state fiscal year 2009-10, the Governor plans to allocate $953 million, including $418 million for state basic education funding; $285 million in onetime grants for elementary and secondary schools; $77 million to restore funding for higher education; and $173 million for Department of Corrections operations.

To expedite the approval of state basic education funding for 2009-10, the Pennsylvania Department of Education directed school districts to submit their applications based on two possible budgets. Under the first scenario (the Governor's budget proposal), the state's basic education funding increases by $418 million from the fiscal year 2008-09 level with the addition of SFSF money. Under the second scenario (Senate Bill 850), state basic education would not increase above the 2008-09 level even with the addition of SFSF money. Based on the Governor's June 2009 proposal, the Pennsylvania Department of Education will allocate an additional $285 million in onetime SFSF grants through the ESEA Title I, Part A formula to school districts.[22]

Given the budget uncertainty, Pennsylvania Department of Education officials are uncertain of the funding levels for SFSF Recovery Act funds, but they have plans to monitor the funds once they become available. State officials are encouraging school districts to use SFSF Recovery Act money for onetime expenses like teacher retention bonuses or to encourage teachers to take positions in rural or hard-to-fill school districts. The state plans to monitor use of the SFSF Recovery Act funds by visiting school districts and examining quarterly and annual reports. The state will also monitor the use of SFSF Recovery Act funds through the Pennsylvania Accountability to Commonwealth Taxpayers (PA-Pact) applications and through a data collection and review process.[23] The Pennsylvania Department of Education is working with the Pennsylvania Department of General Services to issue a request for proposal for such services.

As of May 2009, the School District of Philadelphia plans to use the SFSF Recovery Act funds to meet the state basic education requirement as well as to fund part of Imagine 2014—the city's 5-year education strategic plan. Based on the Governor's budget proposal, SFSF funds would be used for a gifted students program, a peer mediation program, and reducing class size, among other things. A summer school program supported by SFSF funding is planned to start on July 1, 2009, but school district officials are concerned that any delay in the budget process could force it to push back its start date. The school district is moving forward without funding for the summer school program because it has to buy supplies, but officials said this puts them at risk because they are temporarily borrowing money to make these purchases.

With regard to tracking these funds, the School District of Philadelphia is planning to either upgrade its current tracking system or create a new one. To assess impact, some SFSF funding will be used to increase the number

[22]In cases where states allocate education SFSF funds above restoration amounts, the Recovery Act requires these funds to be distributed to local education agencies according to the federal ESEA Title I, Part A, formulas. Recovery Act, div. A, title XIV, § 14002(a)(3).

[23]The PA-Pact is a consolidated application for three Pennsylvania education funding streams: Accountability Block Grant, Increase to State Basic Education Funding, and the Educational Assistance Program.

of program monitoring staff. School district officials stated that they need final guidance from the U.S. Department of Education on performance measures and oversight before they can finalize their tracking and impact monitoring plan.

The Harrisburg School District has plans to use and track SFSF Recovery Act funds and measure the results of the spending. As of May 2009, the school district plans to use SFSF Recovery Act funds to replace funding lost from other sources, such as federal and state funding. Under the Governor's budget proposal, the school district officials stated that they plan to use SFSF funds to preserve jobs and the alternative education program—a program for 500 students in grades 4-12 who have difficulty learning in a traditional classroom setting. To track the SFSF Recovery Act funds, school district officials plan to use separate accounting codes. With regard to assessing impact, school district officials stated that they have not received guidance on the required reporting. The school district does have some measures available, however, such as graduation rates, test scores, reading assessments, suspension rates, and expulsion rates. In addition, school district officials collect data on the number of children who leave the alternative school and their success going back to a traditional school setting.

School Districts Cannot Spend ESEA, Title I, Part A Funds Until the State Budget Passes

The Recovery Act provides $10 billion to help local educational agencies (LEA) educate disadvantaged youth by making additional funds available beyond those regularly allocated through 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. 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 Pennsylvania receiving $200 million of its approximately $400 million allocation.

School districts were to apply for the funds through the Federal Programs eGrant system, and applications were due on May 15, 2009. Once their applications are received in an approvable form, school districts may begin obligating funds, but they cannot spend the funds until the General Assembly appropriates the federal funds.

According to the Pennsylvania Department of Education, none of the school districts will receive funds until the fiscal year 2009-10 budget passes. If new programs are created using Recovery Act dollars, state officials said that school districts will have to plan for sustainability as the ESEA Title I, Part A funding is for only 1 year. Local school district officials stated that the Recovery Act funds are going to be used to prevent them from having to cut educational programs or lay off teachers.

The School District of Philadelphia has plans to use and track ESEA Title I, Part A funds. The school district has been allocated $162.4 million in ESEA Title I, Part A funds, of which $81.2 million has been obligated according to officials we interviewed, but no funds can be spent until the General Assembly appropriates the federal funds. School district officials in Philadelphia plan to use the ESEA Title I, Part A Recovery Act money to, among other things, hire counselors to reduce student-to-counselor ratios, run a 4-week summer school program, and help fund an early childhood regional center. This early childhood regional center will offer initiatives such as screenings to check for developmental delays and parent education classes. In terms of tracking and reporting on the use of these funds, the School District of Philadelphia is still waiting for guidance on compliance, waivers, and performance measures. To ensure adequate controls over the additional ESEA Title I, Part A funds, the school district plans to hire additional grants management and accounting staff.

The Harrisburg School District has plans to track its ESEA Title I, Part A funds. The school district has been allocated $3.7 million in ESEA Title I, Part A Recovery Act funds and has obligated all of that money, according to officials we interviewed. The Harrisburg School District plans to spend all its ESEA Title I, Part A funds in the first year (2009-10) to pay teacher salaries and prevent layoffs. School district officials were not sure of the exact requirements for tracking and monitoring these funds, but they do not anticipate problems meeting them. While the Harrisburg School District received a stimulus guide from the Pennsylvania Department of Education, school district officials stated that this document lacked specific details and they would like more information on the reporting structure and timeline.

The 2007 Single Audit reports—the most recent available—for the two school districts we visited revealed control weaknesses over ESEA Title I funds. In both school districts, auditors found failure to properly remit the interest earned from ESEA Title I cash advances. In Philadelphia, other findings included failure to document comparability of services among schools, as required under the ESEA Title I program, and concerns with internal controls over payroll processes at 20 percent of the schools in the district. In Harrisburg, auditors found that the district lacked procedures to identify when new accounts were opened and found that the Finance Department did not have a culture that prompts staff to question past practices. In addition, proper documentation to verify the total number of students and low-income students served could not be found, which could result in inaccurate allocations under ESEA Title I.

Recovery Act IDEA, Part B & C, Funding Cannot Be Spent Until the State Budget Passes

The Recovery Act provided supplemental funding for programs authorized by Part B & 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 an application to Education in order to receive the initial Recovery Act funding for IDEA, Part B & 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.

Education allocated the first half of states' IDEA allocations on April 1, 2009, with Pennsylvania receiving $228 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

- $7 million for Part B preschool grants,
- $214 million for Part B grants to states for school-aged children and youth, and
- $7 million for Part C grants for infants and families for early intervention services.

Pennsylvania Department of Education officials provided their views on IDEA spending, tracking funds, and challenges. The officials stated that they will track and monitor progress of the school districts and look at such measures as test scores, attendance data, behavior data, and other relevant data in order to assess progress meeting program goals. With regard to challenges tracking the Recovery Act IDEA money, state officials expressed concern with the administrative burden. For example, the state officials said they are asked to adhere to additional accounting requirements and meet with federal agencies and auditors to discuss the use of Recovery Act funds.

The School District of Philadelphia has plans to use and track the IDEA Part B Recovery Act funds it receives. Philadelphia will receive an initial allocation of $24 million and plans to use the IDEA Part B Recovery Act money for Imagine 2014 programs, such as professional development for teachers, purchasing assistive technology, and hiring coaches to help special education teachers. The school district officials stated that Imagine 2014 is aligned with the goals of IDEA with regard to building capacity and placing students in the least restrictive environments. To measure and report on the impact of Recovery Act IDEA funds, the school district plans to keep logs of the number of people working, equipment purchased, and professional development completed. The newly created jobs will be filled by a mix of rehired retired professionals and contractors, according to school district officials. School district officials stated that if they are able to fully implement the Imagine 2014 programs successfully, they should be able to sustain the new jobs through the money saved in future educational services. The school district plans to track the money through separate account codes.

For the Harrisburg School District, which will receive an initial allocation of $1 million, officials stated that most of the IDEA Part B Recovery Act money will be spent in the 2009-10 school year to prevent teacher layoffs. They are not sure how they are going to spend some of the money, however, as it will depend on the needs of their population. The school district officials said that they are encouraged by the state not to use the Recovery Act funds for unsustainable commitments and plan to use the money to replace lost federal and state funds. Still, they plan to use the funds to prevent layoffs in the upcoming school year without a clear plan of sustainability for funding these jobs beyond the 2009-10 school year.

For IDEA Part C, Pennsylvania has plans to use and track Recovery Act funds for the infant and toddler early intervention program and for the preschool early intervention program. Pennsylvania will receive $14.2 million in total Recovery Act funds for the infant and toddler early intervention program. The state officials said they plan to use a total of

$13.2 million for direct service delivery and $1 million on their early childhood integrated data system. For the preschool early intervention program, Pennsylvania will receive a total of $43.5 million in Recovery Act funds. The state plans to use $7 million for direct services in fiscal year 2008-09, $14.8 million in fiscal year 2009-10, and $8.8 million in fiscal year 2010-11. Almost $9 million will be spent on assistive technology and $4 million on the early childhood integrated data system over the next 2 years. To account for the IDEA Part C Recovery Act money, state officials said they plan to use separate accounting codes to track the Recovery Act funding along with their established monitoring procedures. Overall, state officials said that the school districts are generally prepared for the additional compliance requirements.

Pennsylvania Has Developed a Plan for Its Recovery Act Weatherization Assistance Program

The Recovery Act appropriated $5 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.[24] This funding is a significant addition to the annual appropriations for the weatherization program that have been about $225 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.

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

[24]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.

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.

Pennsylvania Will Receive a Large Increase in Weatherization Funding and Has Developed Plans and Established Goals for the Program

DOE allocated to Pennsylvania $252.8 million for the Recovery Act Weatherization Assistance Program for a 3-year period. This amount is more than seven times larger than Pennsylvania's weatherization program for fiscal year 2008-09. Pennsylvania's Department of Community and Economic Development (DCED), which is responsible for administering the program, will disburse the funds through 42 implementing entities, such as private firms and nonprofit organizations, that implement its current weatherization activities. On March 12, DCED received a Funding Opportunity Announcement from DOE identifying and explaining the initial application process, and DCED submitted its application for funding on March 23. DCED subsequently received additional guidance via phone, e-mail, and regional conference calls for the development of its Weatherization Program Plan, which it then developed and submitted to DOE on May 12. DCED expects DOE to verify that the state's plan meets requirements provided in its guidance, and that DOE will approve the plan within 60 days of the May 12 submission date. DCED officials also noted that clear guidance is needed on the application of the Davis-Bacon Act.[25] The officials added that agencies could have difficulty tracking the number of hours worked by employees who perform tasks at both prevailing wage and non-prevailing wage rates.

On March 27, 2009, DOE provided the initial 10 percent allocation (approximately $25.3 million) to Pennsylvania. As of June 30, 2009, the Pennsylvania General Assembly had not enacted a budget providing appropriation authority, so DCED had not obligated or spent any of its Recovery Act funds. DCED plans to use its initial allocation for "ramping up" for the Recovery Act program, including planning for training and hiring additional staff, because DOE guidance received on April 10, 2009, prohibited using any of the initial 10 percent for actual weatherization

[25]The Recovery Act requires all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wages as determined under the Davis-Bacon Act. Recovery Act, div. A, title XVI, § 1606. Under the Davis-Bacon Act, the U.S. Department of Labor determines the prevailing wage for projects of a similar character in the locality. 40 U.S.C. §§ 3141-3148.

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. DCED expects to receive an additional 40 percent of the funding shortly after the plan is approved and Pennsylvania's General Assembly approves the state's annual budget for the fiscal year starting July 1, 2009.

As stated in the Recovery Act weatherization plan submitted to DOE for review and approval, DCED's goals for the Recovery Act funds include reducing energy usage by the equivalent of powering about 7,000 homes per year, weatherizing at least 29,700 houses, and employing an estimated 940 people. Of the total $252.8 million the state will receive, the planned allocation is $224.5 million for weatherization production, $20 million for training and technical assistance, and $8.3 million for DCED to cover its costs for program management, oversight, reporting, and administration.

Pennsylvania Is Using WIA Youth Recovery Act Funds to Create Summer Jobs

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,[26] the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth.

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

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 sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines and federal/state wage laws.[27]

The Pennsylvania Department of Labor and Industry (L&I) administers Pennsylvania's WIA Youth program through local areas. Pennsylvania's 67 counties are divided into 23 local workforce investment areas, each led by a Workforce Investment Board whose purpose is to support the labor and job training demands of industries and help students, job seekers, and incumbent workers acquire skills and attain rewarding, family-sustaining jobs. Workforce investment areas vary widely in the geographic area served, ranging from one that serves only the City of Pittsburgh to a regional area that serves nine counties. Programs and services may also vary within and among local areas. In 2008, 7 of Pennsylvania's 23 local workforce areas—Allegheny, Central Counties, Northwest Counties, Philadelphia, Pittsburgh, Pocono Counties, and Westmoreland/Fayette[28]—had extensive stand-alone summer youth programs, and 2,205 youth were served statewide.

Pennsylvania Has Developed Plans for Summer Youth Employment Activities, Allocated Funds to Local Area Agencies, and Enrolled Youth in the Programs

Pennsylvania was allotted $40.6 million in WIA Youth funds under the Recovery Act and has enrolled youth in summer programs. L&I allocated $34.6 million (85 percent) to the 23 local areas for the WIA Youth program, but only 40 percent of the allocations were available for the local boards to spend before July 1, 2009. Pennsylvania officials expect the balance to be available on or after July 1 when they expect Pennsylvania to enact its state budget. L&I retained $6 million (15 percent) at the state level for possible statewide activities, such as incentive grants to encourage best practices. As of June 30, 2009, L&I had expended $1.3 million for all WIA

[27]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, employers must comply with both, which means paying wages at the higher rate.

[28]The Central regional board includes Centre, Clinton, Colombia, Lycoming, Mifflin, Montour, Northumberland, Snyder, and Union counties. The Northwest regional board includes Clarion, Crawford, Erie, Forest, Venango, and Warren counties. The Pocono regional board includes Carbon, Monroe, Pike, and Wayne counties. The city of Philadelphia is a countywide city. The city of Pittsburgh and the remainder of Allegheny County are two separate local workforce areas served by one workforce investment board.

Youth program activities. Local boards' funds will be available to spend on or after July 1, 2009, when the Pennsylvania General Assembly and Governor are expected to pass the fiscal year 2009-10 budget.

Pennsylvania did not set an overall target number of youths to be served in summer youth employment activities, and L&I instead issued guidance in April 2009 directing local areas that they were expected to spend more than 50 percent of the Recovery Act WIA Youth funds by the end of September 2009. In May 2009, L&I requested that each local board submit its Recovery Act implementation strategy plan by June 5, 2009. Based on the local boards' plans, the 23 local areas plan to spend 70 to 90 percent of their allocations and serve approximately 8,700 youth. As of June 19, 2009, the local boards reported to L&I that 4,678 youth—including 293 youth ages 22 to 24—were enrolled in summer programs. L&I officials said that they expected enrollment to rise dramatically later in June once the school year ends.

Pennsylvania Has Developed Plans for Overseeing the Summer Youth Program, but Faces Potential Challenges in Program Management and Youth Recruitment

At the state-level, L&I has existing systems for tracking and reporting financial and program activities for WIA funds and established additional mechanisms for monitoring the summer youth employment activities. L&I increased its program oversight staffing by adding a director and three staff persons who will monitor financial and program performance of providers that implement the program. The monitoring will also entail frequent visits to providers' facilities and project sites. As of June 2009, L&I officials were confident that the reporting processes that they are putting in place will be more than adequate to track the funding as required by the U.S. Department of Labor. L&I officials anticipate that the Recovery Act reporting requirements will be incorporated into their existing Commonwealth Workforce Development system for the August 2009 and subsequent reports. Because the U.S. Department of Labor guidance was received late in May 2009, however, L&I officials said that local areas will need to report summer youth employment data manually via a spreadsheet to meet the first reporting deadline of July 15, 2009.

Several challenges may affect the successful implementation of summer youth employment activities. L&I officials stated that initial planning for the increased Recovery Act program activities had been difficult because of the state government's overall hiring freeze in Pennsylvania. However, L&I was able to obtain a waiver to hire term employees to help with monitoring and site visits.[29] L&I officials had been concerned that weak economic conditions in Pennsylvania might make it difficult to find eligible work sites at which to place youth participants and were pleased with the approximately 8,700 placements planned by the local boards. L&I officials said that serving youth ages 18 to 24 who are out of school and disconnected from employment remains a concern statewide. The population of out-of-school youth represents 32 percent of enrollments as of June 19, 2009. L&I officials said that they plan to use a portion of Recovery Act WIA Youth funds retained by the state for incentive grants to encourage best practices in serving this age group.

Philadelphia and South Central Pennsylvania Have Developed Plans for the Summer Youth Program, but Financial Management and Other Issues May Present Challenges

We visited two local area agencies—the Philadelphia Workforce Investment Board and the South Central Workforce Investment Board—-to determine their plans for and status in implementing the summer youth programs using Recovery Act WIA Youth funds. We selected the Philadelphia local board because it received the largest Recovery Act WIA Youth allocation in Pennsylvania and it had a summer youth program in 2008. The Philadelphia local board is authorized to spend nearly $3 million of its $7.4 million allocation (representing more than 20 percent of the state allotment). We selected the South Central local board—located in Harrisburg and serving eight neighboring counties in the region—because it did not have an extensive stand-alone summer youth program in 2008.[30] The South Central regional board is authorized to spend nearly $625,000 of its $1.6 million allocation. State officials expected the Philadelphia and South Central boards to receive the remaining 60 percent of their allocations on or about July 1, 2009, when they expected Pennsylvania to enact its state budget.

Using Recovery Act WIA Youth funds, the Philadelphia local board plans to serve 2,533 youth participants—1,200 more than it served in 2008 with WIA funds—and the South Central board plans to serve 500 youth. Officials we interviewed at both these local area agencies were confident of meeting their targets. Both local areas we visited had developed program plans and were in the process of recruiting and enrolling youth. According to data reported to L&I as of June 19, 2009, South Central had enrolled 255 youth, including 40 youth ages 22 to 24, and Philadelphia had

[29]Two persons have already been hired and are currently on board.

[30]The South Central regional board serves Adams, Cumberland, Dauphin, Franklin, Juniata, Lebanon, Perry, and York counties.

enrolled 1,732 youth, including 27 youth ages 22 to 24. Both local areas we visited stated that they would monitor the program closely using their existing oversight systems and personnel. Neither local area we visited needed to request a waiver from the U.S. Department of Labor of existing requirements for procuring youth services. Neither plans to extend the program to older youth beyond September but, rather, will attempt to integrate older youth into their year-round programs.

The Philadelphia local area program will be administered by the Philadelphia Youth Network (PYN), a local nonprofit organization that has been involved in summer youth employment activities since the 1990s. For its 2008 summer youth program, PYN spent approximately $10 million serving 7,960 youth using WIA and a variety of other funds. The Philadelphia local area program includes a variety of activities, such as academic immersion, corporate internships, and work experiences, all of which are tailored to various age groups. To attract youth aged 21 to 24 in the Philadelphia local area, PYN has a process to build opportunities that combine education, job placement, and occupational skills specifically focused on this age group. Philadelphia plans to deliver programs at 259 work sites using 38 providers. Planned work sites included those with green jobs, such as an urban agricultural project where crops will be grown and sold locally, and a training program focused on the importance of recycling. As it has done in prior years' programs, the Philadelphia local area plans to measure skill gains in seven work readiness areas, such as verbal communication, hygiene, and timeliness. PYN is responsible for payroll and recruitment of youth and sites, and will pay youth with automatic deposits from providers using a debit card system.

The South Central local area faces some potential challenges. It did not have a separate summer youth program and served 31 youth in 2008, but will directly administer its program through four providers at seven work sites in the eight-county region. As of May 2009, South Central officials were uncertain of some program activities, but said that they are planning to include green jobs in the program. South Central will measure the success of the program by tracking the number of youth who complete the program and their job readiness credentials. Officials in the South Central area stated that identifying youth in the 21- to 24-year-old category is difficult and that their preference would be to have a comprehensive year-round program to address the challenges of assisting older youth. Providers in the South Central local area will be responsible for paying youth participants and will do so with either stipends or checks for wages earned. South Central local area officials noted several concerns:

- They were hindered by the short time frame they had to plan and train for the program, especially since they had not had the experience of carrying out a summer youth program in 2008.
- Some youth in rural areas face difficulty participating because of the lack of public transportation.
- “Green jobs” is not clearly defined. For example, they were not certain whether a youth working in a plastics factory that makes parts for a windmill is performing a green job.

Officials in both local areas noted that they had experienced difficulties obtaining and verifying applicants’ eligibility requirements, such as family income level and proper identification. Both local areas cited the eligibility process as a major barrier to the success of the program. Specifically, officials in the Philadelphia local area agency noted three challenges:

- Earnings by a youth in the summer program—in addition to other earnings during the year—could increase the family’s income to an amount that could make the family ineligible for food stamps and or welfare.
- Some parents are reluctant to allow the youth to take Social Security cards and payroll records to an enrollment location, fearing loss or theft.
- Some youth applicants whose parents had recently lost their jobs were not eligible for the program because eligibility is based on income earned during the period prior to dislocation.

Officials in both local areas we visited anticipated other challenges, such as the following:

- Some providers, particularly small not-for-profit organizations, may have difficulty obtaining sufficient cash to meet payrolls on time. However, both local areas were working with local financial and other institutions in an effort to avoid this situation.
- At the time of our visits in May 2009, officials in both areas said that they were unsure of the reporting requirements for Recovery Act funds and were waiting for additional guidance from the U.S. Department of Labor.

- It is still unclear whether they will be able to find placements for youth in some types of employment because other workers in the area are currently laid off.

Pennsylvania Completed Planning and Is Soliciting Local Projects to Use State Justice Assistance Grant Funds

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.[31] The total JAG allocation for Pennsylvania state and local governments under the Recovery Act is about $72.4 million, a significant increase from the fiscal year 2008 allocation of about $5.5 million.

Pennsylvania was awarded $45.5 million and had not obligated or expended any of the JAG funds as of June 30, 2009.[32] According to the application the Pennsylvania Commission on Crime and Delinquency[33] submitted for its state award, some of the criminal justice initiatives the commission plans to fund include criminal records improvement, data management projects focusing on technology, law enforcement, public awareness of victim compensation and services, assistance with local

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

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

[33]The Pennsylvania Commission on Crime and Delinquency is the state administering agency for JAG in Pennsylvania. The Commission consists of representatives from all aspects of criminal justice, including Pennsylvania's Attorney General, State Police Commissioner, Welfare Department Secretary, Department of Corrections Secretary, members of the General Assembly, Governor's Victim Advocate, law enforcement representatives, victims' services practitioners, a judge, a prosecutor, a prison warden, a county government official, other local criminal justice policy makers and knowledgeable private citizens.

criminal justice strategic planning, improvements in data collection and program evaluation, gun violence reduction, mental health initiatives, and training. The initiatives are in areas where Pennsylvania would like to make significant improvements, according to the application. For example, the application identifies alternatives to detention for nonviolent adult offenders to address issues related to prison or detention overutilization. The initiatives expand existing efforts as well as include some new projects. The commission chose to focus more on initiatives already in place rather than experiment with many new initiatives, according to a commission official. The Governor's office approved the plan for Pennsylvania's allocation, which was followed by the commission's approval on June 9, 2009. Pennsylvania plans to issue several requests for JAG proposals, each with a different focus, at different times throughout the 2-year funding period. The first request soliciting proposals was released on June 18, 2009, with an application deadline of July 24, 2009. The request, in an effort to increase the efficiency and functioning of the juvenile justice system, seeks to fund assistant public defenders and assistant district attorneys to process juvenile cases.

Pennsylvania officials administering the program have concerns about subrecipients meeting reporting requirements under tight time frames, and stated that many may likely lack experience administering JAG funding. Furthermore, these officials said that existing subrecipients will have to quickly adjust to new requirements. To help introduce the reporting requirements, Pennsylvania plans to hold training sessions for subrecipients, and will ask those subrecipients to self-certify their capability to meet these reporting requirements. To aid in monitoring, the Commission on Crime and Delinquency receives quarterly fiscal and program reports on JAG subrecipients. Commission staff review the reports and use phone outreach to each subrecipient at least quarterly. The commission plans to hire term employees to help existing staff, but officials were unsure of upcoming workloads and whether they would be doing on-site visits for new subrecipients.

Local Housing Authorities Receive Capital Fund Formula Grants

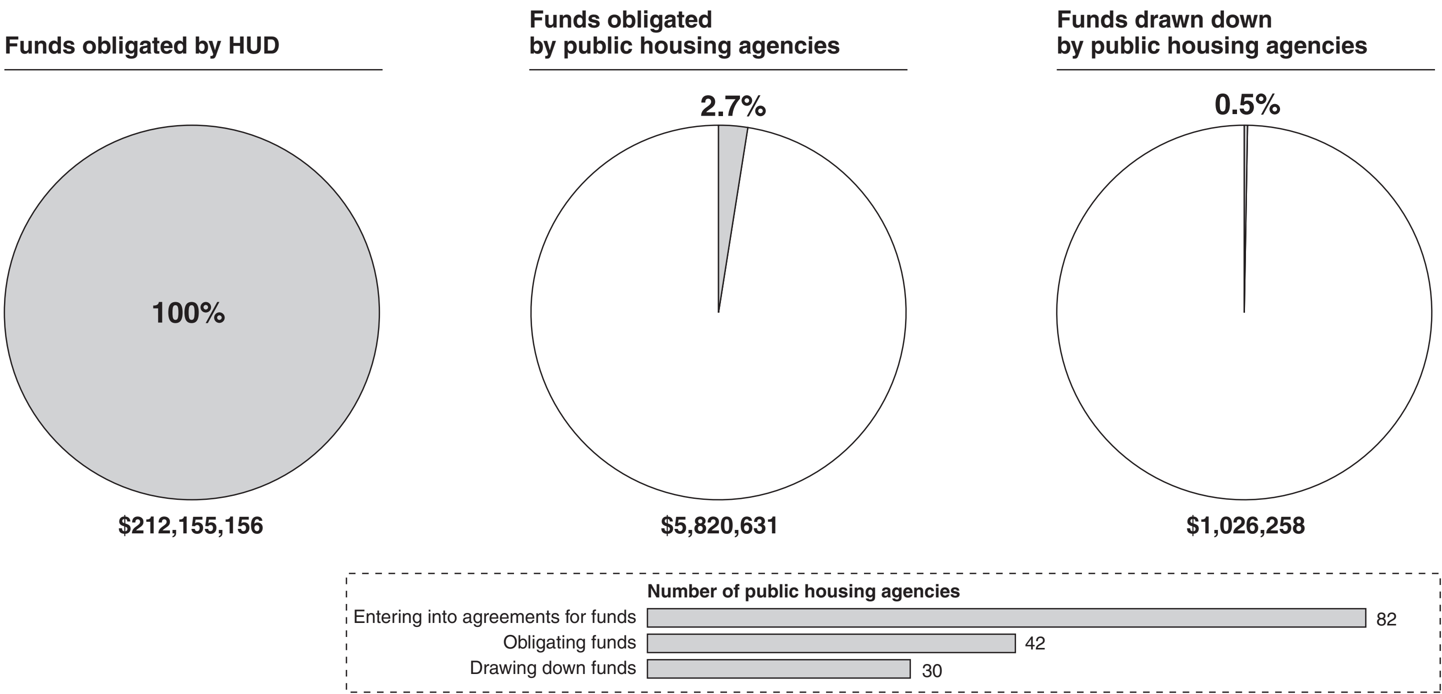
The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.[34] The Recovery Act requires 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 to public housing agencies, 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 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.[35]

Pennsylvania has 82 public housing agencies that have received in total $212.2 million in Public Housing Capital Fund formula grant awards. As shown in figure 3, 42 public housing agencies in Pennsylvania have obligated $5.8 million and 30 public housing agencies have drawn down $1 million, as of June 20, 2009. In Pennsylvania, we visited two public housing agencies—Harrisburg Housing Authority and Philadelphia Housing Authority. We selected these two because Philadelphia received the largest Public Housing Capital Fund formula grant allocation ($90.6 million) in Pennsylvania and Harrisburg received the fifth largest ($4.4 million); their awards amount to nearly 45 percent of Pennsylvania's Recovery Act Public Housing Capital Fund formula grants.

[34]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.

[35]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.

Figure 3: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in Pennsylvania



Source: GAO analysis of HUD data.

The Harrisburg Housing Authority had obligated $662,779, or 15 percent of its $4.4 million, and had drawn down $48,097 as of June 20, 2009. To date, the authority has awarded contracts for architectural and engineering services and expects to award additional contracts over the summer. Harrisburg Housing Authority officials did not expect to have any problems meeting the time frames for obligating and expending Recovery Act funds.

The Harrisburg Housing Authority plans to use $2.4 million (54 percent) to rebuild the interiors and add porch facades to two 1940s-era buildings containing 28 mostly vacant units (see fig. 4). After reconfiguration, the buildings will have 17 units, some of which will be accessible for persons with disabilities. At a 120-unit high-rise property for seniors, the Harrisburg Housing Authority plans to use $1.2 million (27 percent) to upgrade the kitchens with new cabinets, countertops, and energy star appliances; upgrade electrical service; and recarpet and paint the authority's offices. Harrisburg officials estimated that these two projects would start in the summer of 2009 and be completed in 12 to 18 months.

The balance of the funds will be used to replace old boilers with energy-efficient equipment at four properties and repaving.

Figure 4: A 1940s-Era Building in Harrisburg, Pennsylvania, to Be Renovated

Source: GAO.

The Philadelphia Housing Authority received HUD approval of its Recovery Act plan on June 4, 2009, and had not obligated or drawn down any of its $90.6 million award as of June 20, 2009. Philadelphia Housing Authority officials did not expect to have any problems meeting the time frames for obligating and expending Recovery Act funds.

The Philadelphia Housing Authority plans to use nearly 70 percent of its funds to rehabilitate existing units or build new units. First, the authority will use $29.3 million to rehabilitate 300 vacant units at scattered sites (see fig. 5). This work—which will start in June 2009 at some sites—will include new kitchens and bathrooms; electrical upgrades, as needed; and new roofs, windows, doors, and energy-efficient heating equipment. Second, $12.5 million will be used to construct 25 new two-story four-unit complexes accessible for persons with disabilities on vacant land owned by the authority. Third, the Philadelphia Housing Authority plans to use

$14.6 million to rebuild 53 units and install new elevators and mechanical systems in a midrise senior building that is currently vacant because of severe fire damage sustained in 2004. This building will include a “green” roof to manage water runoff, energy star appliances, and energy-efficient water heaters. Fourth, the Philadelphia Housing Authority plans to use about $6 million to rehabilitate or build 23 houses to complete the remaining blighted block on Markoe Street (see fig. 6).[36] The balance of the funds (31 percent) will be used to upgrade or replace energy and mechanical systems at approximately 31 buildings to reduce energy consumption and upgrade sprinkler standpipes in 18 high-rise buildings to meet fire safety codes. Most projects are estimated to start in the fall of 2009 and be complete by March 2012.

[36]Markoe Street is part of the Mill Creek Revitalization Project, which was spread out over a 20-block radius and involved tearing down old high-rise buildings and developing new housing units at a lower rate of concentration.

Figure 5: Two of the Vacant Units at Scattered Sites in Philadelphia, Pennsylvania, to Be Rehabilitated

Source: Philadelphia Housing Authority.

Figure 6: Part of Markoe Street to Be Developed in the Mill Creek Revitalization Project in Philadelphia, Pennsylvania

Source: Philadelphia Housing Authority.

According to officials we interviewed, both public housing agencies gave priority to projects that rehabilitate vacant units. According to Philadelphia Housing Authority officials, improvements to vacant units scattered through the city not only create affordable housing but can also reduce blight and improve property values of entire blocks. Harrisburg Housing Authority officials said that they also considered whether projects would create jobs in the short term. For example, Harrisburg chose not to rebuild additional buildings at the 1940-era complex because staging logistics (i.e., how many dumpsters and construction trailers fit on-site) meant that only a limited number of buildings can be under renovation at one time. Instead, Harrisburg officials selected a mix of Recovery Act projects, including paving, plumbing, and kitchen cabinet replacement, that could start sooner and create more jobs in the short term.

The officials we interviewed also stated that they have given priority to projects already included in their 5-year plans and that they could award contracts based on bids within 120 days of the date that funds were made available. Harrisburg officials said that all of their projects were included in their 5-year plan, and Philadelphia Housing Authority officials said that they selected projects from their 5-year plan or received authority from their board to select projects outside of the current plan. The Philadelphia Housing Authority said that it also gave priority to projects that involve energy conservation retrofits. As of June 4, 2009, the Philadelphia Housing Authority was waiting for HUD approval of its development plans for the scattered sites and for any environmental reviews.

According to officials we interviewed, the two local housing agencies we visited will use HUD's Electronic Line of Credit Control System to separately code and track Recovery Act funds. Harrisburg Housing Authority officials said that they initially had problems using this system because of difficulties in accessing the Central Contractor Registration (CCR) Web site to obtain a Data Universal Numbering System (DUNS) number and that it took several weeks to obtain a response from CCR with their DUNS number needed to access the HUD system. Harrisburg Housing Authority officials anticipated some challenges in separately tracking Recovery Act funds. At one complex where renovations were already under way with HUD funding, officials said that they chose to renovate separate buildings to minimize tracking problems. Also, Harrisburg officials said that staff will keep time sheets to track administrative costs for Recovery Act activity. Philadelphia Housing Authority officials said that Recovery Act funds would be tracked in a separate fund and that expenditures would be tracked by the specific project and site where funds were spent.

Pennsylvania Has Taken Steps to Track Recovery Act Funds and Assess Risks, and Oversight Plans Continue to Evolve

Pennsylvania has an enterprise resource planning (ERP) system that is used by all state agencies to account for federal and state funding, and this integrated accounting system will be used to track Recovery Act funds.[37] To accommodate the Recovery Act, on March 10, 2009, Pennsylvania's Budget Office issued an administrative circular to all agencies under the Governor's jurisdiction describing the specific accounting codes they must use to separately identify the expenditure of Recovery Act funds. As of June 9, 2009, the Office of Comptroller Operations has established 102 unique accounting codes to be used for tracking Recovery Act receipts, obligations, expenditures, and available balances by appropriation or

[37]An ERP solution is an automated system using commercial off-the-shelf software and consisting of multiple, integrated functional modules that perform a variety of tasks, such as accounts payable, general ledger accounting, and grant management.

grant. State officials reported that the state would not track or report Recovery Act funds that go straight from the federal government to localities and other entities, such as public housing authorities.

According to the Secretary of the Budget and her staff, in addition to tracking funds by appropriation and by grant or project, Pennsylvania's ERP system allows for electronic work flows to document transaction review and approval. For example, Pennsylvania issues bids electronically and suppliers submit quotations through an online portal. The ERP system contains controls to check that proper approvals are obtained prior to posting bid and award documents. The ERP system controls are intended to provide segregation of duties to reduce the risk of fraud and ensure that Pennsylvania pays no more than what was appropriated and agreed by contract or grant agreement. As we reported in April, auditors found weaknesses in segregating duties among staff and monitoring user activities to reduce the risk of inappropriate changes to accounting data or misappropriation of assets. Pennsylvania's Secretary of the Budget told us that to mitigate this risk, internal auditors now are to work closely with the Office of Administration and the Office of Information Technology on all new system changes to ensure that internal controls are built into the application. Pre-audit controls include (1) the Office of Comptroller Operations reviews supporting documentation, including fully executed contracts and grant agreements before initiating transactions for payment, and (2) Pennsylvania's Treasurer's Office reviews the supporting documentation before payments are processed.

Beyond the ERP system and the pre-audits, officials in Pennsylvania's Office of the Budget said they do not have a single commonwealth-wide program of internal controls. Instead, the Office of Administration issues overarching guidance—the state procurement manual, administrative circulars such as the one on Recovery Act fund tracking, and management directives—and program agencies are responsible for the specific system controls. Those controls are subject to audit by the newly created Bureau of Audits within the Office of the Budget.

Pennsylvania Is Taking Steps to Assess Risks and Focus Attention on Resolving Single Audit Report Findings

In June 2009, the Bureau of Audits completed its risk assessment of about 90 programs receiving Recovery Act funds and designated each program as high, medium, or low risk. Bureau of Audits officials said that they assessed the risk levels using the 5 accountability standards, the 11 risk factors outlined in the Office of Management and Budget's (OMB) implementing guidance for the Recovery Act, and 2 additional risk factors added by the Bureau of Audits that they believed to be necessary to adequately assess risk in the Pennsylvania programs. In addition, bureau staff reviewed previous audit findings and met with agency officials to discuss their risk factors. According to Bureau of Audits officials, the common Single Audit report findings in Pennsylvania for Recovery Act programs are inadequate subrecipient reporting, inadequate supporting documentation for expenditures, and inadequate support for required federal reports.

The bureau plans to evaluate the programs, including the 15 programs designated as high risk, to determine priorities for its fiscal year 2009-10 audit plan. Throughout fiscal year 2009-10, Bureau staff plan to meet with the agencies about risk self-assessments so that each agency can identify its specific risks and outline a plan to manage and mitigate those risks. At this time, the Bureau of Audits has not assessed subrecipient risks. For those Recovery Act programs on its audit plan, the Bureau of Audits can draw on its Single Audit review unit—a repository of Single Audit reports for Pennsylvania school districts and municipalities—to identify high-risk subrecipients.

The Bureau of Audits plans to focus on resolving single audit findings and reducing the number of repeat findings. As part of its risk assessments, bureau staff created a matrix to highlight repeat findings in Pennsylvania's fiscal year 2007 Single Audit report and identify areas where corrective actions have been taken. Some repeat findings were referred to the Bureau of Quality Assurance, which will follow up with affected agencies on their corrective actions. According to the Bureau of Audits, agencies should have already implemented corrective action plans and be working with federal agencies to resolve any audit findings from 2006 or earlier. To ensure that senior managers are aware of audit findings and set the tone at the top on the need for corrective actions, the Bureau of Audits briefed deputy administrative secretaries across the agencies on the basics of the Single Audit process and corrective action plan requirements. Further, the Secretary of the Budget plans to revise existing guidance to require quarterly reports, beginning in October 2009, on the progress on corrective actions rather than relying on annual updates.[38]

Bureau officials said agencies must do the following to resolve findings that may affect multiple programs: make management decisions

[38]Quarterly updates will be required as of March 31, June 30, September 30, and December 31 and will be due 30 days after the quarter ends.

addressing the findings within 6 months, make necessary adjustments relative to cost settlements or disallowances, monitor subrecipient implementation of corrective actions, and impose or coordinate remedial actions.

Oversight Plans Continue to Evolve

The Pennsylvania Stimulus Oversight Commission, chaired by the Chief Accountability Officer, met four times since its creation in March 2009.[39] At its public meetings, the commission is briefed by the Chief Implementation Officer and other state officials on the progress in implementing Recovery Act programs. The Chief Accountability Officer told us that the state's approach will maximize and coordinate existing oversight resources in Pennsylvania. Specifically, he is currently trying to demarcate roles and define an accountability approach distinct from auditing and compliance.

As we reported in April, Pennsylvania's Auditor General anticipates work auditing and investigating Recovery Act funds received by state and local agencies. For example, the Auditor General will audit Recovery Act funds during the annual Single Audit review and will initiate additional compliance audits for Recovery Act programs. As of June 2009, Auditor General staff told us that they may review the Recovery Act funds for FMAP, unemployment compensation, weatherization, and transportation. The Auditor General observed that the Recovery Act did not provide funding specifically for his office to undertake work related to the act, and the office did not expect to receive additional funding in light of Pennsylvania's budget outlook.

Pennsylvania Is Considering How to Assess the Effects of Recovery Act Funds

Under the Recovery Act, state and local recipients are expected to report on a number of performance measures, including the use of funds, the amount expended or obligated, and the estimated number of jobs created and retained. In addition to reporting on jobs created and retained, OMB guidance directs federal agencies to collect performance information from entities that receive funding "to the extent possible." The guidance also requires agencies to instruct recipients to collect and report performance

[39] In addition to the Chief Accountability Officer, the commission is composed of the Governor, the Recovery Act Chief Implementation Officer, four representatives selected by Pennsylvania's congressional delegation, members of each of the four caucuses in Pennsylvania's General Assembly, and representatives from the Pennsylvania Chamber of Business and Industry, United Way of Pennsylvania, and Pennsylvania AFL-CIO.

information as part of their quarterly submissions that is consistent with the agencies' program performance measures.[40] This will allow an assessment of what OMB describes as the marginal performance impact of Recovery Act requirements.

Pennsylvania's Chief Accountability Officer is responsible for developing and using performance measures to demonstrate outcomes associated with Recovery Act spending and projects. He told us that he is in the process of meeting with agencies to identify existing performance measures—in addition to job creation and retention measures—to report on the outcomes from Recovery Act funding and determine what data will be available for the measures. He said his team is outlining the performance measures that they have identified in federal Recovery Act guidance and considering what additional measures state agencies determine are important to report for their programs. By the end of July 2009, he plans to compile a list of performance measures and identify how to record and track the data; ultimately, the performance reporting will be available on Pennsylvania's Recovery Act Web site, www.recovery.pa.gov. Based on his preliminary work on this process, the Chief Accountability Officer said that it is challenging to identify measures representing meaningful outcomes that the public can identify with and that data can support. For example, transportation measures would include the number of bridges restored and the amount of road miles resurfaced, but measures more related to productivity, such as the number of cars and travel speed, would be more relevant to citizens.

PennDOT has begun reporting to FHWA on the number of people working on Recovery Act projects and hours worked. In March 2009, PennDOT established policies and procedures for prime contractors and consultants to report monthly, by project, the number of employees, work hours, and the amount of payroll; reports are to include all subcontractors and subconsultants. This is consistent with FHWA guidance that requires collection of this type of information. According to PennDOT officials, project inspectors in the district offices with day-to-day contact with contractors on the projects review the reports for reasonableness. PennDOT uses the contractor monthly reports to prepare and submit summary information to FHWA. However, the information collected could

[40]OMB Memorandum, M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Apr. 3, 2009). This guidance supplements, amends, and clarifies the initial guidance issued by OMB on February 18, 2009.

overstate the number of jobs. For example, the contractor reports submitted may not prevent multiple counting of individuals who may work on several Recovery Act projects at the same time. Since the contractors submit separate reports for each project, it is possible that the same person could be included in the total for each project funded by the Recovery Act that the contractor or consultant may have. A PennDOT official told us the department recognizes the potential for multiple counting of individuals and believes that it is collecting data in compliance with both FHWA and Recovery Act reporting requirements.

Officials in other programs we met with expressed concerns about assessing jobs created and retained. Officials from the Pennsylvania Department of Education stated that they are telling districts to not use Recovery Act funds to create new positions that will need to be sustained beyond the 2-year period that Recovery Act money will be received. Instead, the department is encouraging school districts to use Recovery Act money for onetime costs, such as retention bonuses to help move teachers into rural school districts, and collect data on such alternative measures instead.

Some programs receiving Recovery Act funds plan to continue using their existing performance outcomes, and other programs are waiting for federal guidance before putting plans in place.[41] For WIA summer youth activities, Pennsylvania's L&I has plans to review participation and retention rates, work readiness outcomes, expenditure rates, characteristics of participants, analysis and listing of work site types, and best practices and innovative approaches to recruitment, retention, and work readiness. L&I officials told us that the guidance received from the U.S. Department of Labor on May 21, 2009, clarifies the increased reporting requirements for Recovery Act WIA Youth funds. Because the guidance was received late in May 2009, however, L&I officials said that local areas will need to report summer youth employment data manually via a spreadsheet to meet the first reporting deadline of July 15, 2009. L&I officials anticipate that the Recovery Act requirements will be incorporated into Pennsylvania's existing reporting mechanisms for the August 2009 and subsequent reports.

[41] After soliciting responses from a broad array of stakeholders, OMB 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.*

Officials from the Pennsylvania Department of Education stated that they will continue to track measures for existing programs, such as ESEA Title I, but are still waiting for guidance from the U.S. Department of Education on the exact measures they will need to track specific for the Recovery Act funding. Officials from both the Harrisburg School District and the School District of Philadelphia confirmed that they still need federal guidance on the measures they will need to track for the Recovery Act money received. However, officials from the School District of Philadelphia stated that they need guidance soon, as the large size of their district requires them to augment their data collection systems now in preparation for the upcoming school year.

State Comments on This Summary

We provided the Governor of Pennsylvania with a draft of this appendix on June 19, 2009, and the Chief Implementation Officer, Chief Accountability Officer, and the Secretary of the Budget responded for the Governor on June 23, 2009. These officials agreed with our draft and provided clarifying and technical comments that we incorporated where appropriate.

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