United States Government Accountability Office

GAO

Report to Congressional Committees

July 2009

RECOVERY ACT

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

GAO

Accountability * Integrity * Reliability

GAO-09-830SP

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Overview

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

Use of funds: GAO's work focused on nine federal programs, including existing programs receiving significant amounts of Recovery Act funds or significant increases in funding, and new programs that were selected primarily because they have begun disbursing funds to states and the District. The District is using or plans to use these funds to help stabilize its budget and support Medicaid, public and charter schools, invest in improving highway infrastructure, and fund existing programs, as follows:

- **Funds Made Available As a Result of Increased Medicaid Federal Medical Assistance Percentage (FMAP):** As of June 29, 2009, the District had received over $98 million in increased FMAP grant awards of which it had drawn down over $89 million or almost 91 percent of its awards. The District is using funds to cover the increased Medicaid caseload, and maintain current Medicaid populations and benefits, as well as a locally funded health coverage program for certain District residents.[2]

- **Highway Infrastructure Investment Funds:** The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned $124 million in Recovery Act funds to the District in March 2009. As of June 25, 2009, $100 million of these funds had been obligated. The District Department of Transportation (DDOT) is using its apportioned funds for 9 of 15 "shovel ready" projects to repave streets and interstates, rehabilitate bridges, improve and replace sidewalks and roadways, and expand the city's bike-share program. The first project to be completed was the repaving of Interstate 395 in the District.

- **U.S. Department of Education State Fiscal Stabilization Fund (SFSF):** On June 16, 2009, the U.S. Department of Education

[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.

approved the District's application for SFSF funds, and awarded the District $60 million, or about 67 percent of its total SFSF allocation of $89.3 million. The District plans to use these funds to restore state-level support for the District's 60 local educational agencies (LEA) and the University of the District of Columbia, allowing them to, among other things, maintain teaching positions, as well as to support the Home Purchase Assistance Program and priority government services.

- **Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA):** The U.S. Department of Education allocated the first half of states' ESEA Title I, Part A allocations of about $18.8 million to the District on April 1, 2009. The District expects to receive a total of about $37.6 million in Recovery Act funds for its ESEA Title I program. The District plans to issue guidance on the appropriate use and reporting of these funds prior to releasing these funds to LEAs in early July 2009. The District is also taking steps to strengthen its ability to monitor the use of these funds.

- **Individuals with Disabilities Education Act (IDEA), Part B and C:** The U.S. Department of Education allocated the first half of the IDEA allocations on April 1, 2009, with the District receiving about $9.4 million of its expected $18.8 million Recovery Act IDEA Parts B and C allocation. The District plans to release its Recovery Act IDEA funds and issue guidance to the LEAs by early July 2009.

- **Workforce Investment Act (WIA) Youth Program:** As of April 3, 2009, the District had been allotted almost $4 million in Recovery Act funds for the WIA Youth Program. District officials told us they plan to spend the Recovery Act funds on the District's year-round WIA Youth Program that provides low-income in-school youth and out-of-school youth, with a variety of services including educational assistance, work experience, and occupational skill training. According to District officials, they had already allocated $45 million for its locally funded 2009 summer youth employment program—the second largest summer youth employment program in the nation serving about 23,000 youth—before receiving the Recovery Act funds.

- **Edward Byrne Memorial Justice Assistance Grants:** The Department of Justice's Bureau of Justice Assistance (BJA) has awarded about $11.7 million in Recovery Act funds to the District. The District plans to use these funds for a variety of programs focused on prisoners, criminal and juvenile justice research, and court diversion services for at-risk youth. On June 11, 2009, the Department of Justice approved the corrective actions the District had taken to address several outstanding audit issues, thereby enabling the District to begin obligating these funds. The District expects to be able to release funds by October 2009.

- **Public Housing Capital Fund:** The U.S. Department of Housing and Urban Development (HUD) has allocated $27 million to the District of Columbia Housing Authority (DCHA). As of June 20, 2009, DCHA had obligated about $2.2 million or about 8 percent of the $27 million it received in capital grant funds, and drawn down about $169,000 from DCHA's electronic line of credit control system account with HUD. DCHA plans to use the Recovery Act funds on 18 projects that include the rehabilitation of nearly 2,000 housing units and the installation of new energy-efficient projects at public housing facilities. As of June 6, 2009, four of the projects were underway.

- **Weatherization Assistance Program:** The U.S. Department of Energy (DOE) allocated about $8 million in Recovery Act Weatherization funds to the District for a 3-year period. On March 30, 2009, DOE provided the initial 10 percent allocation or $808,902 of Recovery Act funds to the District to be used for program management. On June 18, 2009, DOE approved the District's plans for using Recovery Act weatherization funds and awarded the District an additional 40 percent of its Recovery Act funds for a total of about $4 million. The District's Department of the Environment (DDOE), which is responsible for administering the program, will disburse the funds beginning in July 2009 through seven community-based organizations, to weatherize and improve the energy efficiency of low-income families' homes and rental units.

Safeguarding and transparency: The District has modified its accounting and grants management systems to more clearly track Recovery Act funds. The District has also distributed guidance to District agencies that describes how to separately track and identify or tag Recovery Act funds, and informs the agencies that they will be held accountable for ensuring full compliance with all Recovery Act requirements. In addition, the District has established a bank account exclusively for depositing Recovery Act funds, as well as a system for notifying agencies when Recovery Act funds are received in the bank account. Further, agencies are provided weekly reports of grant funding notifications that must be reconciled. While the District government and agencies have internal controls, the controls are not integrated or included in a citywide internal control program, and past District Office of the Inspector General (OIG) reports have identified numerous weaknesses in the District's internal controls. The OIG has identified six high-risk areas that possess known material weaknesses and problems, including some programs receiving Recovery Act funds. The OIG plans to maintain its audit efforts in these six areas, and also examine the use of Recovery Act funds as resources permit.

Assessing the effects of spending: The District plans to assess the impact of Recovery Act funds by continuing to use two established processes—the 13 work groups established to oversee the use of Recovery Act funds in each program area, and the weekly accountability sessions with key District agency officials. The District also plans to use the information in reports required by federal agencies under the Recovery Act, including information on the economic impact of the funds, such as on job creation. In addition, the City Administrator sent a memo to all District agency financial officers reminding agencies spending Recovery Act funds that they are required by the law to regularly report several pieces of data not typically required by government contracting, such as the number of jobs created by the work in the contract. To implement that reporting, the memo states that it is imperative that agencies include specific requirements in any contract using Recovery Act funds to complete this reporting in a reliable and timely manner. Officials in some District agencies told us that there are still questions regarding OMB's guidance on calculating the number of jobs created and jobs sustained through Recovery Act funds that need to be clarified to ensure that the required data are collected and reported correctly.

District of Columbia Uses of Recovery Act Funds

As of late June 2009, the District has been allocated about $418 million in Recovery Act funds and has drawn down or obligated about $191 million in funds for the nine programs we selected, as described in the following sections.

Recovery Act Funds Help Close Projected District of Columbia Budget Gap

The allocation of Recovery Act funds has helped the District close a gap between projected costs and revenues for the fiscal year 2010 budget.[3] According to the District's Chief of Budget Execution within the Office of the City Administrator, decreases in the District's revenue estimates from September 2008 through February 2009, resulted in a budget shortfall of $777 million, which was about 13 percent of the District's overall budget.

[3]The District of Columbia's fiscal year begins on October 1 and ends on September 30.

With the enactment of the Recovery Act in February 2009, the District was able build some assumptions about Recovery Act funding into the Mayor's proposed fiscal year 2010 budget proposal. The Mayor proposed the following actions to address the revenue gap:

- use of Recovery Act funds (about $186 million)—local resources will be offset by the District's planned use of the Recovery Act funds;
- onetime uses of fund balance (about $146 million)—nonrecurring funding that supports the proposed budget (includes $50 million from the fiscal year 2008 general fund surplus);
- additional revenue from proposed policy changes (about $73 million)—includes an increase of the earned income tax credit and incorporates the effect of Recovery Act tax changes;
- transfer pay-as-you-go projects to general obligation borrowing (about $112 million)—the District will maintain the planned funding levels for school modernization, which was previously funded with annual sales tax revenues, but finance it with general obligation borrowing; and
- spending reductions (about $260 million)—the proposed budget eliminates 1,631 of about 34,000 FTE positions, including 776 filled positions and 855 vacant positions.

District officials told us that because they knew that Recovery Act funds were coming while they were developing the fiscal year 2010 budget, they did not have to create a budget scenario in which additional actions, such as furloughs or reduced hours for District employees, were necessary to make up the revenue gap. The District has also developed a strategy to prepare for when Recovery Act funds are phased out. According to District officials, because they are required to prepare a 5-year balanced budget, the fiscal year 2010 budget included budgets through 2015 that showed reduced revenues as the Recovery Act funds are phased out.

On June 22, 2009, the District's Chief Financial Officer notified the Mayor and Chairman of the City Council that deteriorating economic conditions and lower than expected revenue collections had reduced the fiscal year 2009 revenue estimate by $190 million and the fiscal year 2010 estimate by $150 million. According to the District's Chief of Budget Execution, because the District is three-quarters of the way through its fiscal year which ends on September 30, the District does not have a lot of options for making up the revenue shortfall except tapping into its rainy day fund.

Specifically, he told us that the District would likely use its Contingency Reserve Fund, which currently has a balance of about $227 million, to make up for the revenue shortfall in fiscal year 2009. Whatever funds are drawn from the Contingency Reserve Fund would have to be paid back, with 50 percent of the funds repaid in the next fiscal year and the remaining 50 percent repaid in the following year. For fiscal year 2010, the Director of Budget Execution told us that the District would likely have to reopen the budget discussion to consider spending cuts to make up the projected revenue shortfall of $150 million, which will be about 3 percent of the total budget.

According to District officials, they have sufficient staff to comply with the provisions of the Recovery Act. Many District employees have been assigned Recovery Act duties in addition to their current responsibilities. The District officials were not aware of any cases where District employees were currently dedicated solely to Recovery Act responsibilities.

Increased Federal Medical Assistance Percentage Funds Have Allowed the District to Maintain Health Care Reform Initiatives

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.[4] 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.[5] 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

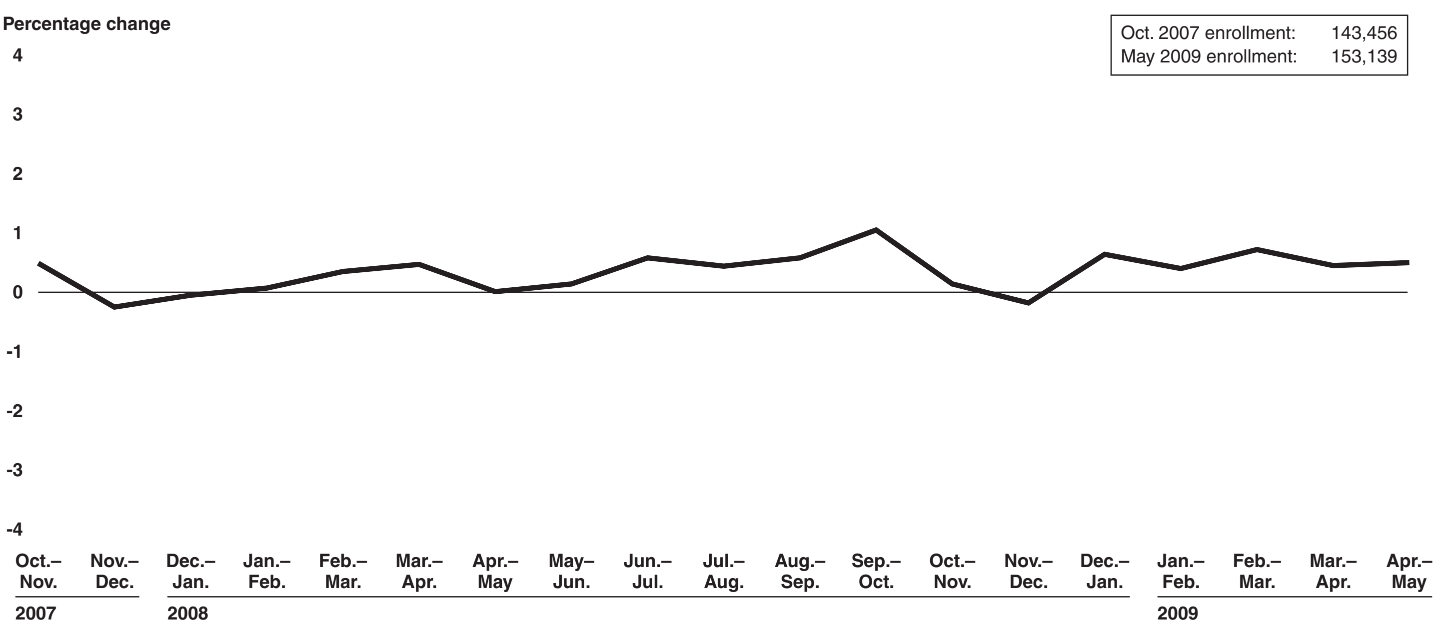
[4]See Recovery Act, div. B, title V, §5001.

[5]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.

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, the District's Medicaid enrollment grew from 143,456 to 153,139, an increase of 6.8 percent.[6] The increase in enrollment was generally gradual over this period (fig. 2) and was mostly attributable to the children and families and disabled individuals' population groups.

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



Source: GAO analysis of state reported data.

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

As of June 29, 2009, the District had drawn down over $89 million in increased FMAP grant awards, which is almost 91 percent of its awards to

[6] The District projected enrollment for May 2009.

date.[7] District Medicaid officials reported that they are using funds made available as a result of the increased FMAP to cover the increased Medicaid caseload, maintain current Medicaid populations and benefits as well as maintain a locally funded program for certain District residents. According to District Medicaid officials, these funds have allowed them to maintain programs such as the D.C. Healthcare Alliance program, which would have been particularly vulnerable to cuts as it is funded solely with District funds. The D.C. Healthcare Alliance program covers any District resident—including undocumented individuals—below 200 percent of the Federal Poverty Level (FPL).[8] District Medicaid officials noted that without the funds made available as a result of the increased FMAP, the District would have had to reduce enrollment in this program. As such, officials concluded that the D.C. Healthcare Alliance program—and other locally funded programs—have survived because of the Recovery Act funds. Finally, District Medicaid officials indicated that the Medicaid program had incurred no additional costs related to the administrative and reporting requirements associated with use of these funds.

District Medicaid officials indicated that they have concerns regarding maintaining eligibility for the increased FMAP funds. Specifically, the District's Medicaid program is implementing a new claims-processing system, which officials anticipate will be fully operational in October 2009. District officials are aware of possible implementation issues that could affect the District's compliance under the Recovery Act, particularly related to compliance with the Act's prompt payment provisions.[9] As such, District officials indicated that they will submit a request to CMS for a waiver of the prompt payment and reporting requirements under the Recovery Act.[10] According to District officials, the implementation of the

[7]The District received increased FMAP grant awards of over $98 million for the first three quarters of federal fiscal year 2009.

[8]District officials added that the D.C. Healthcare Alliance program had 50,000 enrollees as of May 2009, but they are projecting an increase to 60,000 due to the economy.

[9]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).

[10]The Secretary of Health and Human Services may waive the application of the prompt payment requirement and the associated reporting requirement if exigent circumstances prevent the timely processing of claims or submission of reports. See Recovery Act, div. B, title V, §5001(f)(2)(A)(iii).

new claims processing system should be considered an “exigent circumstance” that could affect the timely processing of claims or submission of reports.

Regarding tracking the increased FMAP, the officials indicated that the District has created a special fund that is separate from the regular Medicaid fund. Although District Medicaid officials expect to use an automated system in the future to track the increased FMAP using a special grant number, they need to wait until the District’s fiscal year 2010 budget is finalized. In addition, the District plans to rely on existing mechanisms to review the receipt and expenditure of increased FMAP.

The 2007 Single Audit for the District identified a number of material weaknesses related to the Medicaid program, including insufficient controls related to its claims-processing system, cash-management issues, and missing documentation for eligibility determinations.[11] With regard to the claims-processing system, the audit noted that the absence of several controls could jeopardize the accuracy and completeness of provider claims processed, which could affect the District’s financial results. Similarly, the audit reported that some of the eligibility files lacked sufficient documentation, such as having no evidence of income verification. According to officials, the District undertook a number of corrective actions to correct weaknesses that were identified. For example, to address the finding related to missing documentation for eligibility determinations, the Medicaid program has implemented a corrective action plan, which included retraining of staff.

[11]The Single Audit Act of 1984, as amended (31 U.S.C. ch. 75), requires that each state, local government, or nonprofit organization that expends $500,000 or more a year in federal awards must have a single audit conducted for that year subject to applicable requirements, which are generally set out in Office of Management and Budget (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.

The District Is Still in the Early Stages of Using Highway Infrastructure Funds, but Has Met the Key Recovery Act Obligation Deadline

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. 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 generally 80 percent.

The District Has Not Begun Construction on Most Recovery Act Highway Projects

As we previously reported, $124 million was apportioned to the District of Columbia in March 2009 for highway infrastructure and other eligible projects. As of June 25, 2009, $100 million had been obligated. The U.S. Department of Transportation has interpreted the term “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. States request reimbursement from FHWA as they make payments to contractors working on approved projects. The District Department of Transportation (DDOT) has identified 15 “shovel ready” projects for these funds and as of June 25, 2009, DDOT had $100 million of its Recovery Act funds obligated by the Federal Highway Administration (FHWA). As of June 25, 2009, $8,256 had been reimbursed by FHWA. DDOT plans to use Recovery Act funds on projects to improve bridges, improve and replace sidewalks and roadways, and expand the city’s bike-share program, among other things. See table 1 for project improvement types that have funds obligated as of June 25, 2009.

Table 1: Highway Obligations for the District of Columbia 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
	$0.0	$31	$4	$0.0	$0.0	$36	$29	**$100**
Percent of total obligations	0.0	31.0	4.5	0.0	0.0	35.9	28.6	**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.

The District's largest Recovery Act highway project is the extensive rehabilitation of the New York Avenue Bridge, which is considered fracture-critical.[12] As of June 25, 2009, DDOT had not awarded any contracts for new Recovery Act projects. However, DDOT had issued task orders off three existing contracts to undertake new work using Recovery Act funds. For example, DDOT used an existing citywide repaving contract to complete a $1.7 million repaving project that included using $1 million in Recovery Act funds (see figs. 2 and 3).[13]

[12]Fracture critical bridges are bridges that contain elements whose failure would be expected to result in collapse of the bridge. The District has multiple fracture-critical bridges, and of these bridges, the New York Avenue Bridge was a top priority for Recovery Act funding because it was shovel-ready and could be completed within 3 years exclusively with Recovery Act funds.

[13]The highway resurfacing project was undertaken using an existing contract that did not require new bids. The FHWA division office reviewed and approved DDOT's decision not to rebid this project.

Figure 2: Portion of Interstate 395 in Southwest Washington before Repaving, January 15, 2009

Source: District Department of Transportation.

Figure 3: Portion of Interstate 395 in Southwest Washington After Repaving, June 2009

Source: District Department of Transportation.

District Officials Are Confident of Compliance with Key FHWA Requirements

Funds appropriated for highway infrastructure spending must be used as required by the Recovery Act. The states and the District 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.[14] 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. The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames;

[14]The 50 percent rule applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use.

- 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; and
- certify that it 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 or the mayor of the District of Columbia 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.[15]

DDOT officials do not anticipate problems meeting key FHWA requirements for highway projects. As of June 25, 2009, 95.5 percent of the $86 million that FHWA has determined is subject to the 50 percent rule for the 120-day redistribution has been obligated, thus exceeding its requirement to obligate 50 percent of these funds before June 30, 2009. DDOT also took steps to comply with the intent of the Recovery Act when selecting projects. DDOT officials told us that key priorities in their project-selection process were whether projects were shovel-ready and whether they could be completed within 3 years. DDOT and FHWA division office officials both expect that all Recovery Act highway funds will be expended within 3 years.[16] Although all of the District of Columbia is considered an economically distressed area, DDOT officials told us that they also took the relative economic distress of different areas within the city into consideration when selecting projects. While no formula was used to determine how funds would be distributed among areas of the city, DDOT officials report that approximately 70 percent of the District's $124 million apportionment will go towards projects in areas with higher unemployment rates and lower average income levels than others. In particular, two major bridge-rehabilitation projects are located in such

[15]States that are unable to maintain their planned levels of effort will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011. As part of the federal-aid highway program, FHWA assesses the ability of each state to have their apportioned funds obligated by the end of the federal fiscal year (September 30) and adjusts the limitation on obligations for federal-aid highway and highway safety construction programs by reducing the authority of some states to obligate funds and increasing the authority of other states.

[16]While one major project with mixed funding may take longer than 3 years to complete, DDOT officials report that Recovery Act funding for this project will be expended first.

areas, including the District's largest Recovery Act–funded project, the $40 million New York Avenue bridge rehabilitation.

The Recovery Act also requires states and the District to certify that they will maintain their planned level of spending for the types of transportation projects funded by the Recovery Act. On March 19, 2009, the District submitted its maintenance-of-effort certification to DOT. In our April 2009 report, we noted that DOT was reviewing conditional and explanatory certifications, such as the one submitted by the District, to determine if they were consistent with the law. On April 20, 2009, the Secretary of Transportation informed the District that conditional and explanatory certifications were not permitted, and gave the District the option of amending its certification by May 22, 2009, which it did. This second certification still contained explanatory language, which DOT asked to be removed. DDOT resubmitted its certification on May 27, 2009. According to DOT officials, the department is reviewing the District's resubmitted certification letter and has concluded that the form of the certification is consistent with the additional guidance. DOT is currently evaluating whether the District's method of calculating the amounts it planned to expend for the covered programs is in compliance with DOT guidance.

The District Plans to Use U.S. Department of Education State Fiscal Stabilization Funds for Public Education, Housing Assistance, and Essential Government Services

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 formula but maintain discretion in how funds are allocated to public IHEs. In general, school districts maintain broad discretion in how they can use stabilization funds, but states have some ability to direct IHEs in how to use these funds.

On June 16, 2009, the U.S. Department of Education approved the District's application for SFSF funds, and awarded the District $60 million, or about 67 percent of its total SFSF allocation of $89.3 million. The District plans to use these funds over the next 3 years to support public education, housing assistance, and other essential government services. Specifically, District of Columbia Public Schools (DCPS), District public charter schools, and the University of the District of Columbia will receive a total of $76.3 million, the Home Purchase Assistance Program will receive $6.5 million, and the remainder will support priority government services in 2011.

According to the District's approved SFSF application, the District plans to use $17.9 million to restore the level of District support for elementary and secondary education to the fiscal year 2008 level. Similarly, the District plans to use about $700,000 in fiscal year 2009, and again in fiscal year 2010 to restore the level of District support for the University of the District of Columbia, the District's only public institution of higher education. Because the District is receiving more education stabilization funds than will be needed to restore education spending, the Office of the State Superintendent of Education (OSSE) will distribute the remaining funds to LEAs using the District's ESEA Title I funding formula, as required.[17] OSSE officials told us that they are developing guidance to help the LEAs understand the appropriate uses for the funds and how to report on these uses. Officials said they will require the LEAs to include narrative statements on their applications that describe the direct impact of the funds, the way fund usage may influence the broader community, and how Recovery Act funds will help the LEA to leverage additional dollars. OSSE officials also told us that they would like more guidance on how to define and measure jobs created and preserved. Officials from one of the LEAs we visited told us that State Fiscal Stabilization Funds would be used to pay teachers at the 2008-2009 school year pay level. Officials from another

[17]While some education stabilization funds will be allocated using the District's Title I funding formula, these funds are to be treated as education stabilization funds, not Title I funds.

LEA we visited told us that they were unsure at this point how the funds would be used. They explained that while they anticipated receiving more funds for general education use, they also anticipated a per-pupil decrease in their capital funds. As a result, they were unsure about the net effect on their budget for the 2009-2010 school year. Officials from both LEAs told us that they were unclear at this point about how they would report on the use of the funds, but they would follow any guidance given to them. With regard to the government services fund of the SFSF, District officials plan to use 20 percent of these funds to avoid budget cuts for the LEAs and about 40 percent of the funds to continue the District's Home Purchase Assistance Program, which helps low- and moderate-income residents who are first-time home buyers in the District with down payments and closing costs. The District has not yet determined how it will use the remaining 40 percent of these funds.

The District Plans to Allocate ESEA Title I (Part A) Education Funds to LEAs in June or July 2009

The Recovery Act provides $10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A, of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act. The Recovery Act requires these additional funds to be distributed through states to LEAs using existing federal funding formulae, 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 these funds by September 30, 2010.[18] The U.S. Department of Education (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 the District receiving $18.8 million of it's approximately $37.6 million total allocation.

The District's state education agency—the Office of the State Superintendent of Education or OSSE—plans to allocate Recovery Act ESEA Title I funds to LEAs and issue guidance by early July 2009 and has taken steps that could strengthen its ability to monitor the use of these

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

federal funds. OSSE officials told us they will allocate the first phase of Recovery Act funds under ESEA Title I, along with ESEA regular Title I funds, in late June or early July 2009, because LEAs are still spending their fiscal year 2007 and 2008 ESEA Title I funds. OSSE officials told us that they were developing guidance for the LEAs regarding the appropriate use and reporting of ESEA Title I Recovery Act funds that would be released prior to making these Recovery Act funds available. Specifically, they told us that such guidance would focus on appropriate uses of the funds and provide examples of how ESEA Title I Recovery Act funds could be used to meet the goals of the Recovery Act and avoid a funding cliff—the situation in which completion of the activity would require funds from another source when Recovery Act funds are no longer available. Officials from the two LEAs we visited told us they had preliminary plans for how they would use these additional ESEA Title I dollars, but were awaiting state guidance before finalizing such plans. For example, officials from both LEAs told us they were aware of the need to avoid a funding cliff, and planned to do so by using some of the ESEA Title I funds to improve academic achievement by supporting out-of-school activities, such as tutoring or summer school. LEA officials told us they were also awaiting guidance from OSSE on reporting uses of the Recovery Act and assessing the impact of the funds.

The District Plans to Allocate Its U.S. Department of Education Individuals with Disabilities Education Act Funding in June or July 2009

The Recovery Act provided supplemental funding for programs authorized by Parts B and C of the Individuals with Disabilities Education Act (IDEA), the major federal statute that supports special education and related services for infants, toddlers, children, and youth with disabilities. Part B includes programs that ensure 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 Parts B and C (50 percent of the total IDEA funding provided in the Recovery Act). States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements. All IDEA Recovery Act funds must be used in accordance with IDEA statutory and regulatory requirements.

Education allocated the first half of states' IDEA allocations on April 1, 2009, with the District receiving $9.4 million for all IDEA programs. The largest share of IDEA funding is for the Part B school-aged program for children and youth. The District's initial allocation was

- $130,243 for Part B preschool grants,
- $8,220,962 for Part B grants for school-aged children and youth, and
- $1,069,922 for Part C grants.

OSSE plans to allocate the District's Recovery Act IDEA Part B funds and issue guidance to the LEAs by early July. Officials from OSSE told us that they have not yet allocated these funds to the LEAs, but expect to do so in late June or early July 2009. Officials told us that they requested that the LEAs spend any fiscal year 2007 and fiscal year 2008 IDEA funds before receiving their Recovery Act allocations. OSSE officials told us that the time frame for LEA assurances and allocations for Recovery Act funding for IDEA Part B would coincide with time frames for annual allocations of regular IDEA Part B funds. In addition, they told us that they were developing guidance for the LEAs regarding the appropriate use and reporting of Recovery Act funding for IDEA Part B that would be released prior to making these funds available. Specifically, such guidance would focus on appropriate uses of the funds and provide examples of how Recovery Act funding for IDEA Part B could be used to meet the goals of the Recovery Act and avoid a funding cliff. DCPS officials told us they hoped to use the Recovery Act IDEA Part B funding to improve the education of students with disabilities in a sustainable manner. Specifically, the District currently has about 2,200 children with disabilities who are served in nonpublic schools across several states, in part because the District was not able to provide timely services to these students. DCPS officials told us that they plan to use the Recovery Act funds to improve the services DCPS provides in order to serve more students with disabilities in its public schools. Finally, OSSE officials told us they are working on their plans for using the Recovery Act funding for IDEA Part C.

The District Plans to Use Workforce Investment Act Youth Funding for Year-Round Programs

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 age 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 Department of Labor and funds are distributed to states based upon a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving up to 15 percent for statewide activities. The local areas, through their local workforce investment boards, have flexibility to decide how they will use these funds to provide required services. In the conference report accompanying the bill that became the Recovery Act, the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth.[19] Summer employment opportunities 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.[20]

In the District of Columbia, the Department of Employment Services (DOES) plans and administers employment-related services to all segments of the population, including the WIA Youth Program. Unlike states, the District does not have local areas to which they are required to distribute funds; therefore they use the entire allocation for District-wide activities. The Mayor and City Council are actively involved in decisions regarding the size, scope, and budget for the District's summer youth program.

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

[20]Current federal wage law specifies a minimum wage of $6.55 per hour until July 24, 2009, when it becomes $7.25 per hour.

As of April 3, 2009, the District had been allotted almost $4 million in Recovery Act funds for the WIA Youth program. As of June 29, 2009, the District had not yet expended any of these funds. DOES officials said they plan to spend the Recovery Act funds on the District's year-round WIA Youth Program, rather than on summer-only employment activities. The District's year-round program provides in-school youth, ages 14 to18, academic enrichment activities, work-readiness skills, project-based learning, life skills and leadership development. It also provides out-of-school youth, ages 16 to 24, skills workshops, career awareness and work readiness modules, basic education, GED preparation, and basic computer training.[21] In addition, the program provides vocational skills training in the following areas: construction trades, emergency medical technology, hospitality, education, and information technology. The Director of DOES stated that the District plans to serve approximately 920 participants this summer through the year-round WIA Youth program.

According to the DOES Director, the District plans to use local funds, and not the Recovery Act funds, for the summer youth employment program as it has done in the past. According to the Director, the District currently runs the second largest summer youth employment program in the nation, serving approximately 23,000 youth. The District had already allocated $45 million for its locally funded 2009 summer youth employment program before receiving the Recovery Act funds. However, they have identified two possible unique additions to the summer youth employment program, which, if implemented, would be funded with Recovery Act funds—a youth cadet program and a program that would offer employment experiences in the federal government.

[21]In general, WIA Youth funds may be used to fund services for youth up to age 21. Services funded by the Recovery Act WIA Youth funds may be provided for youth up to age 24.

The District Has Identified Areas for the Edward Byrne Memorial Justice Assistance Grant Program Funding

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. The total JAG allocation for the District under the Recovery Act is about $11.7 million, a significant increase from the previous fiscal year 2008 allocation of about $870,000. For the District, all JAG funds are awarded directly to the District.

As of June 29, 2009, the District received its entire JAG award of about $11.7 million. While BJA initially imposed a special condition that prevented the District from obligating, expending, or drawing down funds under the award until outstanding audit issues had been satisfactorily addressed, on June 11, 2009, BJA issued a grant adjustment notice releasing the hold on its Recovery Act funds. The District plans to use funds on six key areas—prisoner reentry programs; detention and incarceration diversion initiatives; criminal and juvenile justice research; court diversion services for at-risk youth; services for adjudicated youth; and evaluation, data, and technology capacity building. JGA is in the process of evaluating grant applications from community-based organizations and government agencies. Grant funds are expected to be released in October 2009. JGA has also hired two new employees to assist with the administration of Recovery Act grant funds and to assist with developing and implementing policies and procedures, and may hire another grant manager, contingent on the number of grants awarded.

JGA plans to use several mechanisms to ensure grantees' compliance with program guidelines, including requiring grantees to submit monthly requests for reimbursement and quarterly financial and program reports, and performing annual site visits and evaluations of each grantee's use of funds. According to JGA, if weaknesses are identified as part of the administrative evaluation, the grantees must take corrective actions within specified time frames. Penalties for failure to meet deadlines will be in the form of graduated sanctions to allow the grantee an opportunity to implement corrective actions. A continued lack of progress or failure to comply will result in funds being revoked by JGA.

The District Has Started Using Public Housing Capital Grants on Several Projects

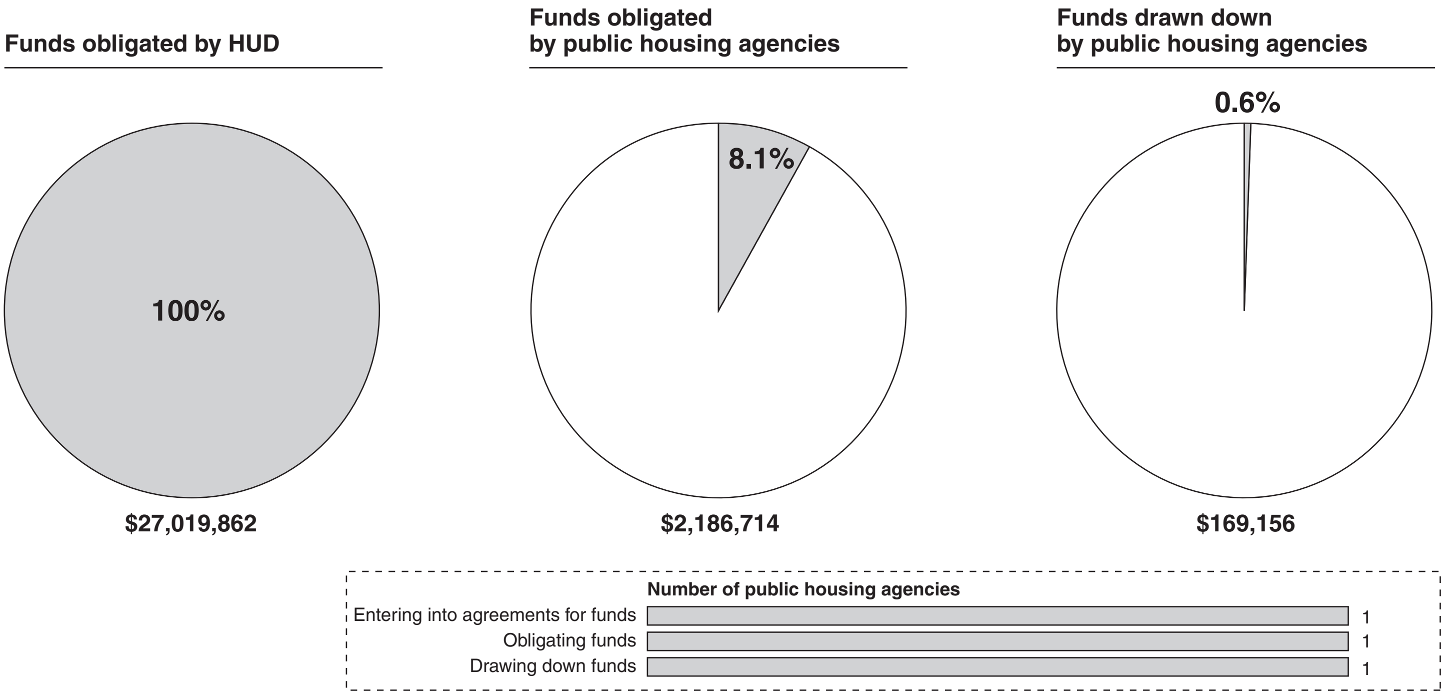
The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.[22] The Recovery Act requires the 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 for obligation, expend at least 60 percent of funds within 2 years of that date, and expend 100 percent of the funds within 3 years of that date. Public housing agencies are expected to give priority to projects that can award contracts based on bids within 120 days from the date the funds are made available, as well as projects that rehabilitate vacant units, or those already underway 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.[23]

The District has one public housing agency, the District of Columbia Housing Authority (DCHA), which has received Recovery Act formula grant awards totaling $27 million. As of June 20, 2009, DCHA had obligated about $2.2 million or about 8 percent of the $27 million it received in capital grant funds, and drawn down about $169,000 from DCHA's electronic line-of-credit control system account with HUD.

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

[23]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 4: Percent of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in the District of Columbia



Source: GAO analysis of HUD data.

According to the HUD guidance implementing the Recovery Act, public housing agencies can use the grants to address deferred maintenance needs, including but not limited to: (1) replacement of obsolete systems and equipment with energy-efficient systems and equipment that reduce power consumption; (2) work items related to code compliance, including abatement of lead-based paint and implementation of accessibility standards; (3) correction of environmental issues; and (4) rehabilitation and modernization activities that have been delayed or not undertaken because of insufficient funds. According to DCHA officials, they will use their capital grant funds for new energy-efficient and environmentally friendly projects at existing public housing developments that they have been unable to begin because of a lack of funds. Specifically, DCHA has identified 18 projects that include activities, such as roof and boiler-room improvements, window replacement, balcony repair, and kitchen upgrades. According to DCHA officials, they would not have been able to begin these projects at this time without Recovery Act funds. Altogether, these 18 projects will include the rehabilitation of 1,971 inhabited housing units and 25 vacant units. Officials noted that the low number of rehabilitated vacant units is because the authority does not historically have a large number of vacant units and normally maintains high occupancy rates.

As of June 6, 2009, work had begun at four DCHA projects, three of which we visited. At one project we visited, DCHA was using Recovery Act funds to upgrade the security systems and common-area interiors of the housing complex. At the time of our visit, contractors were painting and installing security cameras and improved, more energy-efficient lighting throughout the building. This work began in April 2009 and is expected to be completed by August 2009. At another project we visited, DCHA had already used Recovery Act funds to install solar panels and a rainwater collection system on top of one of the residential buildings in the complex as part of its effort to “green retrofit” all the housing units in the complex (see fig. 5). This work began in March 2009 and is expected to be completed in December 2010 after the replacement of all the windows in the complex with more energy-efficient ones is finished. At the last project we visited, DCHA had begun to use Recovery Act funds to rehabilitate unit balconies as part of its effort to modernize both the exterior and interior of all the housing units in the complex. This work began in March 2009 and is expected to be completed in December 2010 after the interiors of all the units are upgraded with more energy efficient fixtures and environmentally friendly finishes. (See fig. 6). By the end of calendar year 2009, DCHA plans to have begun work on all 18 projects with 8 beginning in the summer and the remaining 6 beginning in the fall and winter. Most of this work will be similar to the work already started in that it will include the installation of more environmentally friendly windows, kitchens, bathrooms, and interior lighting but will also include exterior site work such as improved building entrances.

Figure 5: Installed Solar Panels on Top of a District of Columbia Housing Authority Residential Building

Source: GAO.

Figure 6: Balcony Rehabilitation Work at a District of Columbia Housing Authority Housing Complex

Source: GAO.

DCHA officials told us they used their 5-year plan to identify projects for funding. In determining which projects in the 5-year plan to fund, officials told us they consulted with the District Housing Board and public housing residents and selected those projects that met one or more of the following considerations:

- Projects that could be begun and completed quickly, that is, projects where contracts could be awarded within 120 days of when the funds were made available to the agency.
- Projects that promoted energy efficiency.
- Projects that had the fewest environmental concerns or worked to address existing environmental concerns.
- Projects with facilities that were in most need of repair.
- Projects where modernization was begun but was unfinished.

Although, as of June 6, 2009, DCHA had only drawn down about $169,000, DCHA officials told us they did not anticipate a problem meeting the accelerated obligation and expenditure time frames required by the Recovery Act. DCHA officials said they have fast-tracked the award and obligation of DCHA's Recovery Act projects through their normal job-order contracting procedures. According to DCHA officials, job-order contracting procedures minimize unnecessary engineering, design, and other procurement processes by awarding long-term contracts to contractors for a wide array of project improvements and renovations. Because of the efficiencies associated with job-order contracting procedures, officials said they would have no difficulty in meeting the obligation and expenditure deadlines set by HUD.

The District Has Developed Plans for Using Weatherization Assistance Program Funding

The Recovery Act appropriated $5 billion for the Weatherization Assistance Program, administered by the Department of Energy (DOE) through each of the states and the District.[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 and air conditioning equipment. During the past 32 years, the weatherization 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 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 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 the Recovery Act allocation. DOE will provide the next 40 percent of funds to a state once the department has approved the relevant State Plan, which outlines, among other things, the state's plans for using the weatherization funds, and for monitoring and measuring performance. DOE plans to release the final 50 percent of the funding to each state

[24]DOE also allocates funds to Indian tribes and U.S. territories (American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands).

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.

DOE allocated about $8 million in Recovery Act funds to the District for the Weatherization Assistance Program for a 3-year period. The District's Department of the Environment (DDOE), which is responsible for administering the program, will disburse the funds through seven community based organizations. On March 12, 2009, DDOE received a Funding Opportunity Announcement from DOE identifying and explaining the initial application process, and DDOE submitted its application for funding on March 23, 2009. DDOE subsequently received additional guidance by phone, e-mail, and regional conference calls for the development of its Weatherization Program Plan, which it submitted to DOE on May 12, 2009. DDOE 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.

On March 30, 2009, DOE provided the initial 10 percent allocation or $808,902 of Recovery Act funds to the District to be used for program management. DDOE planned to use the initial allocation for "ramping up" for the Recovery Act program, including providing training and hiring additional staff, because DOE guidance prohibits using any of the initial 10 percent for actual weatherization activities. However, on June 9, 2009, DOE issued revised guidance lifting this limitation to allow states and the District to provide funds for production activities to local agencies that previously provided services and are included in state Recovery Act plans. As of June 1, 2009, DDOE's officials are working on allocating the weatherization funds. On June 18, 2009, DOE approved the District's plans for using Recovery Act weatherization funds and awarded the District an additional 40 percent of its Recovery Act funds for a total of about $4 million. DDOE plans to begin providing weatherization assistance with Recovery Act funds in July 2009.

As stated in the Recovery Act weatherization plan submitted to DOE for review and approval, DDOE's goals for the Recovery Act funds include making energy improvements to approximately 785 homes over the next 3 years. The highest priority will be given to the weatherization of single-family homes. This will be followed by multifamily dwelling units occupied by eligible homeowners or renters and other energy consuming residences. At a minimum, approved applicants will receive a weatherization starter kit that includes materials such as a carbon-monoxide detector, caulking, energy-efficient light bulbs, and a brush to clean their refrigerator and air conditioner. Improvements can also include the installation of energy-efficient appliances, weatherstripping, insulation, doors, and, in some instances, the replacement of heating or air conditioning systems, or both.

The District Has Plans for Ensuring Adequate Safeguards Are in Place, but Needs to Address Internal Control Weaknesses for Oversight of Recovery Act Funds

The District of Columbia Has Implemented Separate Tracking and Tagging Methods

The District of Columbia's Office of the City Administrator (OCA) and Office of the Chief Financial Officer (OCFO), have distributed guidance to District agencies on how to separately track and identify or tag Recovery Act funds. The guidance states that agencies will be held accountable for ensuring full compliance with all Recovery Act requirements. The Office of Budget and Planning (OBP) under the OCFO has modified the District's accounting system—System of Accounting and Reporting (SOAR), as well as the District's Grants Management System (GRAMS) to comply with Recovery Act fund-tracking requirements. The District is treating Recovery Act funds in the same manner as grants. A new grant type, RA, has been created in GRAMS for Recovery Act funds. Agencies must classify Recovery Act funds using this grant type when creating a record of the grant in GRAMS. In addition, OBP strongly recommends that new grant names be assigned to all Recovery Act grants, and the letters ST or RA be added to each assigned grant name.

The District's guidance calls for the assignment of a unique four-digit code in SOAR for Recovery Act funds, known as the fund detail,[25] which will be

[25]The fund details are used to record all accounting activity, including budget, expense, and revenue activities.

used to facilitate separate tracking. Individual fund details have been created to label Recovery Act funds from specific sources and to prevent all of the Recovery Act funds from accumulating under one fund detail. The new fund detail assignments are for

- Medicaid Recovery Act Grant—Local match,
- Federal Recovery Act Funding—Capital projects,
- Unemployment benefits—Federal additional compensation,
- Federal Grants—Recovery Act,
- Medicaid Recovery Act Grants, and
- State Fiscal Stabilization Funds (SFSF).

Additionally, the Office of Finance and Treasury (OFT) has established a bank account exclusively for depositing Recovery Act funds. Agencies are notified by OFT when Recovery Act funds are received in the bank account. All Recovery Act revenue received will be tracked by OFT in a separate database. When Recovery Act funds are ready to be distributed from federal agencies to District agencies, Recovery Act grant funding notifications are sent directly to the District agencies. When an agency receives a grant funding notification, it is the agency's responsibility to report the receipt to OBP. OBP provides weekly reports of grant funding notifications that are reconciled by the agencies.

Officials from each agency we spoke with stated that they are capable of tracking Recovery Act funds separately. In addition to citywide tracking activities, some agencies will track Recovery Act funds with their own in-house systems.

- Officials from the District of Columbia Housing Authority (DCHA) stated that they use PeopleSoft Accounting, apart from SOAR, to track and report on Recovery Act funds. Recovery Act funds related projects are identified by project number and task order.

- Officials from District Department of Transportation (DDOT) are assigning unique labels to Recovery Act funds that tie to Recovery Act–related projects, allowing DDOT to separately track and identify funds. DDOT's financial management system is integrated with FHWA's financial management system.

The District Does Not Have an Overall Internal Control Program

According GAO's Standards for Internal Control in the Federal Government,[26] internal control is a major part of managing an organization. Effective internal control helps in managing change and evolving demands and priorities. As programs change, management must continually assess and evaluate its internal control to assure that the control activities being used are effective and updated when necessary. GAO's *Internal Control Management and Evaluation Tool*,[27] based upon the *Standards for Internal Control in the Federal Government*, provides that agencies should document their internal control structure in writing, and that the internal controls should include identification of the agency's activity-level functions and related objectives and control activities. The documentation should appear in management directives, administrative policies, accounting manuals, and other such manuals.

Although the District government and agencies have various internal controls, the controls are not integrated or included in a citywide internal control program, and past reports have identified numerous weaknesses in the District's internal controls. The District's Office of Inspector General (OIG) has issued reports that identified weaknesses in the District's internal controls and made several recommendations to improve internal controls. One report recommends that the CFO, in conjunction with the City Administrator, issue citywide guidance requiring managers to establish, assess, correct, and report on internal controls and that these requirements should be reflected in personnel performance plans.[28] The report adds that the guidance could be patterned after the Federal Managers' Financial Integrity Act of 1982 (FMFIA)[29] and OMB Circular No. A-123, *Management's Responsibility for Internal Control.*[30] In addition, the fiscal year 2007 Single Audit report for the District of Columbia identified 89 material weaknesses in internal controls over both financial reporting and compliance with requirements applicable to major federal

[26]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[27]GAO, *Internal Control Management and Evaluation* Tool, GAO-01-1008G (Washington, D.C.: August 2001).

[28]District of Columbia, *Audit of the Department of Parks and Recreation's Oversight of Capital Projects*, OIG No. 06-1-08HA (May 2008).

[29]31 U.S.C. § 3512 (c), (d).

[30]OMB Circular No. A-123, *Management's Responsibility for Internal Control* (rev. Dec. 21, 2004).

programs. There were three financial reporting material weaknesses related to (1) fraudulent activities involving the Office of Tax and Revenue, (2) management of the Medicaid program, and (3) systemic weaknesses in DCPS. The Single Audit report identified material weaknesses in compliance with requirements applicable to major federal programs including Medicaid's FMAP, ESEA Title I Education grants, and Workforce Investment Act programs, all of which are receiving Recovery Act funds. The findings were significant enough to result in a qualified opinion for that section of the report.

In September, 2008, OCFO contracted with an independent accounting firm to identify areas with internal control problems and deficiencies in the office. The review may help direct OCFO in developing an internal control program. The assessments will not be available until the end of 2009. When the firm has completed its OCFO assessment, it will expand its review to District agencies.

The District Is in the Beginning Phase of Risk Assessment

GAO's *Standards for Internal Control in the Federal Government* states that management needs to comprehensively identify risks and should provide for an assessment of the risks the agency faces from both external and internal sources. Once risks have been identified, they should be analyzed for their possible effect. Adequate mechanisms should exist to identify risks to the agency. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks.

Currently, the District's approach to identifying both internal and external risks is using findings reported by the Comprehensive Annual Financial Report (CAFR) and the annual Single Audit report. In addition, the District also depends on the OIG's audits to identify both external and internal risks. The District does not have any additional formal risk-assessment procedures. The lack of a formal risk assessment and reliance on audits prevents the District from comprehensively identifying risks that could impede the efficient and effective achievement of management objectives. Without the identification, management cannot put the mechanisms in place to anticipate, identify, and react to those risks in a systematic, orderly, and proactive fashion. The District has not evaluated risks that can affect the Recovery Act funds and therefore will be challenged to mitigate problems if they arise.

The CFO is in the process of hiring a Chief Risk Officer to lead the District's risk management effort. District officials also stated that contracting the independent audit firm is the main approach and largest dedicated resource that the District uses to identify internal risks.

District-wide Monitoring and Oversight Activities

District agency subrecipients will be receiving Recovery Act funds. District officials stated that they are concerned with losing visibility of Recovery Act funds once it is distributed to subrecipients. However, the District already has subrecipient monitoring procedures in place. In 2004, the Office of Integrity and Oversight (OIO) developed a subrecipient monitoring manual in response to recurring weaknesses found in subrecipient monitoring reported in the Single Audit. The manual, distributed to all agencies, is a guide for monitoring District- and federal-funded programs administered by subrecipients. It includes internal control checklists and direction from OMB Circulars A-133,[31] A-110,[32] A-122,[33] and A-87.[34] Agencies are instructed to monitor and provide reasonable assurance that subrecipients are in compliance with all applicable requirements. District agencies are required to develop a plan that addresses monitoring needs. Agencies use a risk-based approach to determine which subrecipients to monitor and the level of monitoring subrecipients should receive. Agencies communicate their findings and concerns to subrecipients in a report. The manual requires subrecipients to submit a corrective action plan that addresses monitoring findings. Currently, OIO is responsible for reviewing subrecipient corrective action plans and ensuring that agencies take action.

Two efforts to monitor the use of Recovery Act funds have been initiated in the District. First, the CAFR Oversight Committee expanded its original role to facilitate coordination efforts with regard to the Recovery Act among the Executive Office of the Mayor (EOM), the District Council, the OCFO, other District management officials, independent auditors, and the OIG. In addition, OBP has created a Budget and Planning Stimulus Funding Committee consisting of officials and personnel from OBP,

[31]OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (rev. June 27, 2003).

[32]OMB Circular No. A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (Sept. 30, 1999).

[33]Circular No. A-122, *Cost Principles for Non-Profit Organizations* (rev. May 10, 2004).

[34]OMB Circular No. A-87, *Cost Principles for State, Local and Indian Tribal Governments* (rev. May 10, 2004).

OCFO, OFT, and Office of Financial Operations and Systems to monitor the Recovery Act funds.

The OIG identified six high-risk areas that possess material weaknesses and problems. The six areas are in Medicaid, procurement, community safety issues, vulnerable populations, the payment process, and education. Recovery Act funds have been allocated to Medicaid's FMAP and Education's Title I, IDEA, and SFSF programs. In addition, Recovery Act funds will flow through the other four high-risk areas. Acknowledging that these areas are subjects of concern, the OIG will maintain its audit efforts in these six areas until problems are mitigated. The OIG also stated that the flow of Recovery Act funds have highlighted new risk areas that the office will monitor as resources permit. Recovery Act funds increase the number of contracts created and dependency on contractors. The OIG is concerned that the area of credentialing and conducting background checks for contracting officers is a new area of high risk.

In addition to District-wide oversight activities, some agencies will engage in additional oversight on their respective Recovery Act funds.

- Officials from DDOT stated that their electronic automated billing system is reviewed about three times a year by FHWA's Financial Integrity Review and Evaluation, in addition to the Single Audit. The billing system requires multiple approvals as a means of ensuring funds are expended.
- Officials from the Office of the State Superintendent of Education (OSSE) stated there will be an increase in on-site visits and project inspections to provide additional monitoring of Recovery Act funds. Specifically, ESEA Title I staff has doubled to about 11 or 12 staff, and plans to monitor about half to two-thirds of the District's local education authorities (LEA) every year.
- Officials from the Justice Grants Administration (JGA) stated that they will require grantees to provide quarterly program reports and may require monthly reports. Additionally, they will perform annual site visits to each grantee to monitor Recovery Act funds. As a new monitoring tool, officials are planning to provide an end-of-year administrative evaluation of each grant recipient. If weaknesses are found, the grantee must correct the findings, otherwise funds will be taken away by JGA.

- Officials from DCHA stated they conducted a review of their internal controls over procedures to account for Recovery Act funds. Officials deemed the internal controls in place are sufficient.

- Officials from the District's Department of the Environment (DDOE) stated that contractors will be inspected by both community-based organizations and DDOE energy auditors.

The District Auditor told us that there are no plans to undertake any new engagements related to the Recovery Act, because the audit staff is initiating new audits in other areas. Once the new audits are in progress, the District Auditor may begin to research ways to aid in the tracking of Recovery Act funds. The District Auditor may be able to help with tracking when there are actual expenditures from Recovery Act funds. Currently, the District Auditor will only audit Recovery Act funds if programs that are already being audited or planned to be audited receive Recovery Act funds. The District Council has not requested the District Auditor to plan additional work related to the Recovery Act.

Single Audit Results Used by Various District Officials for Oversight Activities

The District uses Single Audit results as its principle source of oversight of its agencies. The District monitors agencies for resolution of all findings that are reported in the Single Audit report. OIO distributes management alerts to all agencies, informing agencies to correct deficiencies identified by the Single Audit, so findings do not reappear in subsequent audits and for adequate financial and programmatic management. Agencies must create corrective action plans for all corresponding material weakness and significant deficiency findings. Once the corrective action plan is submitted, the OIO tests each corrective action for effectiveness and makes recommendations if necessary.

The fiscal year 2007 Single Audit identified that the District's Medicaid FMAP, ESEA Title I Education grants, and Workforce Investment Act programs all had material weaknesses with internal control over compliance. These three programs are receiving Recovery Act funds and are responsible for 15 of the 89 material weaknesses identified. The District is currently in the process of resolving the findings but could not provide details. The resolutions will be reported in the fiscal year 2008 Single Audit report.

DDOT does not use the Single Audit as part of risk assessment or to monitor subrecipients because it does not have subrecipients. DDOT has not had a Single Audit report finding since 2005. The department is, for Single Audit purposes, a low-risk agency and is only subjected to the compliance audit procedures under OMB Circular A-133 once every 3 years on a rotational basis.

The District's Office of the State Superintendent of Education (OSSE) uses the Single Audit findings as part of its risk assessment and monitoring of subrecipients. OSSE integrates the findings into local education authority (LEA) risk and financial analysis. Each program manager is responsible for understanding the implications of material weaknesses in subrecipients. Findings are used to design monitoring programs and determine risk levels for each LEA. The risk levels are used to develop monitoring strategies and work plans. Using the findings from the Single Audit report, OSSE develops a corrective action plan, which it reports to the U.S. Department of Education (Education), addressing the material weaknesses reported. The corrective action plan is also submitted to OIO for review. The plan includes efforts to eliminate material weaknesses. OSSE intends to use the corrective action plan to strengthen the monitoring of the LEAs.

Plans to Assess Impact of Recovery Act Funds Have Been Developed

The District plans to assess the impact of Recovery Act funds by using the information in reports required by federal agencies under the Recovery Act, including information on the economic impact of the funds, such as on job creation. Specifically, the City Administrator sent a memo to all District agency financial officers reminding agencies spending Recovery Act funds that they are required by the law to regularly report several pieces of data not typically required by government contracting, such as the number of jobs created by the work in the contract. To implement that reporting, the memo states that it is imperative that agencies include specific requirements in any contract using Recovery Act funds to complete this reporting in a reliable and timely manner. The simplest way to support this requirement is to make it part of the specification or statement of work, and therefore incumbent upon the awarded vendor to substantiate and verify these information and reporting requirements.

District officials told us that there are still questions regarding OMB's guidance on calculating the number of jobs created and jobs sustained through Recovery Act funds. While the direct impact of Recovery Act funds may be measurable, District officials said it remains unclear what methods should be used to track the indirect impact and how to separate the impact of Recovery Act funds and the impact from other federal funds in programs that receive both sources and utilize both sources in their program implementation. In addition, District officials would like to have a standardized reporting template with addendums for each federal agency. This would clarify confusion for the District and other states since a reporting template would reduce reporting burden, especially since the amount of funding per issue area varies from state to state. Officials request that OMB provide a template for the format and required information for the Recovery Act transparency Web sites as well.[35] On District officials are also using the CapStat performance-based accountability program to examine the impact of the use of Recovery Act funds on District agencies and programs.

District of Columbia's Comments on This Summary

We provided the Office of the Mayor of the District with a draft of this appendix on June 18, 2009. On June 22, 2009, the City Administrator's office informed us that neither they nor the District agencies whose programs are discussed in this appendix had any substantive comments on the appendix.

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Staff Acknowledgments

In addition to the contacts named above, John Hansen, Assistant Director; Mark Tremba, analyst-in-charge; Shawn Arbogast; Sunny Chang; Marisol Cruz; Nagla'a El-Hodiri; James Healy; Linda Miller; Justin Monroe; Ellen Phelps Ranen; Melissa Schermerhorn; and Maria Strudwick made major contributions to this report.

[35]After soliciting responses from a broad array of stakeholders, OMB issued additional implementing guidance for recipient reporting on Jun 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*.