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RECOVERY ACT

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

GAO Accountability * Integrity * Reliability

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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 North Carolina. The full report covering all of our work at 16 states and the District of Columbia is available at http://www.gao.gov/recovery/.

Use of funds: Our work in North Carolina focused on nine federal programs, selected primarily because they have begun disbursing funds to the state and include existing programs receiving significant amounts of Recovery Act funds or significant increases in funding, or are new programs. Program funds are being directed to helping North Carolina stabilize its budget and support local governments, particularly school districts and institutions of higher education (IHE), 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:

- **Increased Medicaid Federal Medical Assistance Percentage (FMAP) Funds.** As of June 29, 2009, North Carolina had drawn down over $710 million in increased FMAP grant awards, which is 100 percent of its awards to date. North Carolina officials reported that they are using funds made available as a result of the increased FMAP to offset the state budget deficit.

- **U.S. Department of Education State Fiscal Stabilization Fund (SFSF).** In total, North Carolina was allocated over $1.42 billion in SFSF. When the state's initial application was approved on May 20, 2009, the state was awarded over $1 billion of these funds. North Carolina has begun using these funds to restore state aid to institutions of higher education (IHE) in fiscal year 2009 and plans to provide funds to school districts in fiscal year 2010, helping to stabilize their budgets and, among other uses, retain staff.

- **Highway Infrastructure Investment funds.** The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned $736 million to North Carolina in March 2009 for highway infrastructure and other eligible projects. As of June 25, 2009, $423 million has been obligated. Funds have been obligated for 65 projects either begun or advertised for bids and largely involve road paving and widening. Of the 65 contracts, 55 representing $309 million have been

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

awarded, and of these contracts, 33 representing $200 million are underway.

- **Individuals with Disabilities Education Act (IDEA), Parts B and C.** The U.S. Department of Education (Education) allocated the first half of states' IDEA allocations on April 1, 2009, with North Carolina receiving $170 million. Of the $170 million, $163 million was for IDEA, Part B, and the additional funding was for IDEA, Part C. The state allocated Part B funds to school districts on April 29, 2009, to support education and related services for children and youth with disabilities, and the state plans to use Part C funds to retain staff and provide professional development.

- **Title I, Part A, of the Elementary and Secondary Education Act (ESEA) of 1965.** Education allocated the first half of states' ESEA Title I, Part A, allocations on April 1, 2009, with North Carolina receiving $129 million. North Carolina has begun making these funds available to school districts to help educate disadvantaged youth through, among other things, retaining teachers, professional development, parent participation, and expanding the school day.

- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated about $132 million in Recovery Act Weatherization funding to North Carolina for a 3-year period. Based on information available on June 23, 2009, DOE has provided $66 million to North Carolina, and North Carolina has obligated none of these funds. North Carolina is planning to use the Recovery Act funding allocation for ramp-up activities, weatherizing homes, and for training weatherization contractors and compliance officers.

- **Workforce Investment Act Youth Program.** The North Carolina Department of Commerce (NCDOC), which administers North Carolina's workforce development system, has received about $25 million in Recovery Act funds for the WIA youth program, of which about $480,000 has been expended. Of the $25 million, the state reserved 15 percent for statewide activities, and has allocated the remaining funds to the state's 24 local workforce boards. North Carolina plans to use WIA youth Recovery Act funds to create about 6,000 summer jobs in 2009 for its youth.

- **Edward Byrne Memorial Justice Assistance Grants (JAG).** The Department of Justice's Bureau of Justice Assistance (BJA) has awarded $34.5 million directly to North Carolina in Recovery Act funding. Based on information available as of June 30, 2009, none of these funds have been obligated by the Governor's Crime Commission, which administers these grants for the state.[2] Grant funds coming to North Carolina will be used for criminal justice improvement efforts and victims' services, and some of these funds will preserve jobs.

- **Public Housing Capital Fund.** North Carolina has 99 public housing agencies that have received $83.4 million from the Public Housing Capital Fund formula grant awards. As of June 20, 2009, 63 public housing agencies had obligated $12.7 million and 35 had expended $2 million. At the two housing authorities we visited, this money, which flows directly to public housing authorities, is being used for various capital improvements, including public housing rehabilitation, replacing water heaters, and building computer labs for public housing tenants.

Safeguarding and transparency: North Carolina is engaged in planning how it will enhance its accounting system to track Recovery Act funds, although modifications have not yet been made. State officials said that they are committed to meeting Recovery Act reporting deadlines, but cited certain challenges, particularly the high cost and staff time needed to modify their systems. The state is going beyond Recovery Act mandates by requiring agencies to account for funds on a weekly basis. In addition, to manage internal controls, North Carolina has developed a statewide program called Enhancing Accountability in Government through Leadership and Education (EAGLE). Subrecipient monitoring was one of the concerns that several state officials mentioned in regard to accountability for funds. The State Auditor's office plans to focus its Recovery Act work on subrecipient monitoring and on how the Recovery Act funds are being segregated from other federal funds coming through traditional funding streams.

Assessing the effects of spending: North Carolina agencies continue to express concern about the lack of clear federal guidance on assessing results of Recovery Act spending. A representative of the Governor has requested that all agencies provide written confirmation by June 24, 2009, of their readiness for quarterly reporting on jobs created and saved to the federal government beginning in October 2009. Agency officials with

[2]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 (BJA) solicitation for local governments closed on June 17; therefore, not all of these funds have been awarded.

whom we spoke said that they would meet these requirements, and that in some cases they had begun planning how they would meet the requirements. They were concerned, however, about the lack of specific definitions of jobs created and saved from the federal government.

Funds Are Being Expended and Will Partially Mitigate the State's Budget Shortfall

Falling State Revenues Created a Budget Gap That the State Will Address with Salary Cuts, Recovery Funds, and Other Steps

North Carolina budget officials told us that the state is facing a severe budget crisis resulting from a sharp and unexpected drop in actual and projected revenues. In its most recent April forecast, North Carolina state budget officials said that the budget shortfall increased to $3.2 billion for the current fiscal year, ending June 30, and by approximately $5 billion, or about 22 percent, for the biennial budget covering fiscal years 2009 and 2010. Under its constitution, North Carolina must have a balanced budget at the end of each fiscal year, and as a result has had to take several actions to ensure the budget is balanced. Furthermore, these officials also told us that this projected decrease was in addition to previous downward revisions in revenue projections for fiscal years 2009-10. For example, in February of this fiscal year, the state estimated a $2.2 billion reduction in revenues. In total, as of June 12, 2009, the budget shortfall was projected to be about $3.2 billion for the current fiscal year, or about 15 percent of total state spending. The shortfall is expected to grow to approximately $5 billion each year or about 22 percent, for fiscal years 2009-10 and 2010-11.

According to the state budget officials, the following factors contributed to the erosion of the state's financial condition:

- Current 10.8 percent unemployment rate is a historic high for the state of North Carolina. North Carolina now has one of the highest unemployment rates in the country.

- Historic drops in revenue of about 11 percent, primarily from state income taxes. Previously, North Carolina's largest revenue decline was 5 percent.

- The state's corporate income tax receipts were down by 30 percent for the year.
- Sales tax revenue was also down by 40 percent for the year.

In response to these challenges, the state has taken a number of measures to meet a budget shortfall of $3.2 billion for the current fiscal year, ending June 30, including the following:

- Further-tightened agency spending—as of April 9, 2009, agency spending was basically shut down for the remainder of the fiscal year, with the exception of payroll expenses.
- Transferring $387 million out of the state's "Rainy Day Fund," leaving a balance of about $150 million.
- Using $359 million of SFSF funds over the next 2 years to cover this year's shortfall.
- The state's 16-university school system is raising tuition by approximately 8 percent.
- Transferring $100 million to $200 million from trust fund accounts to the general fund.
- Cutting all state employee salaries by 3 percent in May and June. In turn, the state has created a "flexible furlough plan" in which employees can take 10 hours of flexible time off between July and December of this year.

In addition to taking actions to address this year's budget shortfall, the state is currently deliberating its next biennial budget covering fiscal years 2009 and 2010. The governor submitted her budget proposal to the General Assembly on March 17, 2009, and the Senate passed a budget on April 9, 2009. The state House of Representatives passed its budget in mid-June based on significantly lower revenue projections than the Senate and Governor, whose budgets were completed prior to the April revised revenue forecasts. After the House passed its budget, both chambers were meeting in conference with the goal of passing the state budget to send to the governor by June 30.

Recovery Act funding has helped North Carolina balance its budget this year, but budget officials told us that additional budget cuts are likely over the next 2 years, although they will be smaller than if Recovery Act funds were not available. State officials said that they see the Recovery Act funds as a way of buying North Carolina time on even-more difficult decisions. However, the state has not yet developed a formal strategy for ending the use of Recovery Act funds. According to state budget officials, using available Recovery Act funds has become a fiscal stabilization strategy, with the State Fiscal Stabilization Fund (SFSF) and increased Medicaid Federal Medical Assistance Percentage (FMAP) being key to the state's ability to balance its budget. For example, state budget officials said that if the increased FMAP funding had not been available, the state's General Assembly would have been forced to make even deeper across-the-board cuts to offset the state budget deficit, including in education, which is approximately 60 percent of the budget.

State recovery officials also told us many state agencies are struggling due to budget shortfalls and decreased staffing levels. The officials said that they are working with some state agencies and the Office of Management and Budget (OMB) to obtain administrative funds in order to conduct program compliance and monitoring. Recovery officials expressed concern that, so far, no funds have been made available to the state to provide oversight and accountability of Recovery Act dollars, noting the state does not have the funding or resources to support the extent of these activities.

While the state has committed to using Recovery Act funds to make up for a variety of budget gaps, state officials have expressed concerns about a sizeable structural gap in its budget forecasts when the stimulus funds are no longer available. To assist the state with understanding its current budget challenges, the state's recovery office has acquired a temporary staff person to look at some of the factors that may have caused its economic slowdown, and help plan for an exit strategy after Recovery Act funds expire. State officials told us that one of the potential lasting benefits of the Recovery Act may be that many of the management, accountability, and budgeting efficiencies required under the act will ultimately be adopted by the state government as standard operating practices.

North Carolina has begun to use some of its Recovery Act funds, as follows.

Medicaid

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 percent to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months from October 1, 2008, through December 31, 2010.[3] On February 25, 2009, the Centers for Medicare & Medicaid Services (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.[4] Generally, for federal fiscal year 2009 through the first quarter of federal fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for: (1) the maintenance of states' prior year FMAPs; (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs; and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

Increased FMAP Funds Have Helped North Carolina Maintain Its Medicaid Program; However, Reductions May Be Necessary in the Future

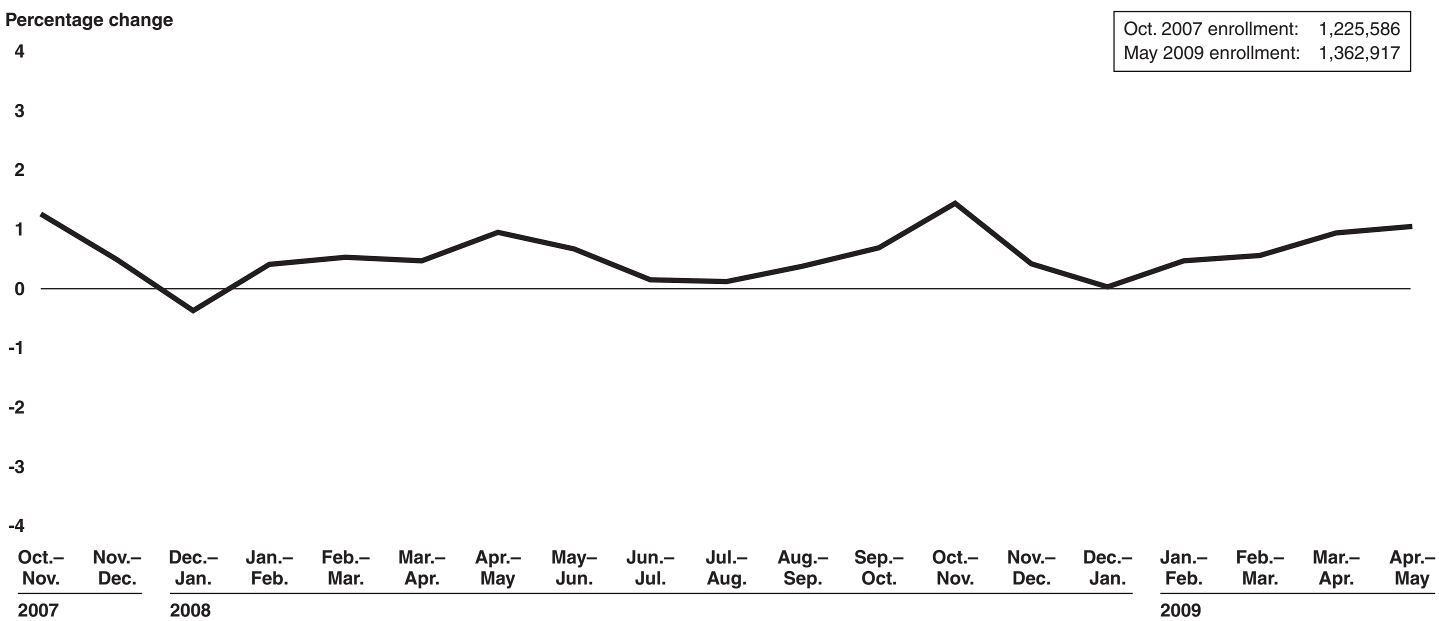
From October 2007 to May 2009, the state's Medicaid enrollment grew from 1,225,586 to 1,362,917, an increase of 11 percent.[5] The increase in enrollment was generally gradual during this period, with most of the increase attributable to the population group of children and families (see fig. 1).

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

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

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

Figure 1: Monthly Percentage Change in Medicaid Enrollment for North Carolina, 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, North Carolina had drawn down over $710 million in increased FMAP grant awards, which is 100 percent of its awards to date.[6] North Carolina officials reported that they are using funds made available as a result of the increased FMAP to offset the state budget deficit. State officials also indicated that even with the increased FMAP, cuts to Medicaid services may still be likely since the state's revenues have shrunk since January 2008. The officials added that they are exploring options with the legislature to cut services and are assessing the impact such reductions may have on beneficiaries. In using the increased FMAP, North Carolina 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; and
- personnel needed for routine administration of the state's Medicaid program.

[6]North Carolina received increased FMAP grant awards of over $710 million for the first three quarters of federal fiscal year 2009.

The state has few concerns about maintaining its eligibility for the increased FMAP funds.[7] It has taken a conservative approach in terms of making changes to its Medicaid program. Specifically, the state discusses proposed changes with officials from its CMS region and gets approval prior to implementation. For example, the state received assurances from CMS that certain changes to its Medicaid program, including an effort to increase the amount of income that Medicaid enrollees could disregard and still maintain their eligibility, would not affect its eligibility for increased FMAP. The state officials noted that in these cases, CMS has provided clear and timely responses.

Regarding the tracking of the increased FMAP, officials indicated that the state relies on new accounts to track separately the receipt and expenditure of increased FMAP funds. According to state officials, the Governor has set up a governmentwide Office of Economic Recovery and Investment (OERI), which is tasked with overseeing the accountability and efficient use of Recovery Act funds, including increased FMAP. Regarding the Single Audit, both the 2007 and 2008 audits identified material weaknesses in the state's Medicaid program. The 2007 Single Audit for North Carolina identified several material weaknesses related to the Medicaid program, two of which were related to inadequate application controls in the Eligibility Information System, the system used by counties to determine Medicaid eligibility. According to these state officials, the state has implemented corrective actions with individual counties to correct identified problems.[8] These corrective action plans include benchmarks for each county's Department of Social Services to use to monitor performance and outcomes. The 2008 Single Audit confirmed that the state had undertaken efforts that partially corrected several of the weaknesses identified in the 2007 audit. The 2008 Single Audit also identified one material weakness related to acquiring and maintaining all

[7]In order to qualify for the increased FMAP, states generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid plans or waivers on July 1, 2008. See Recovery Act, div. B, title V, §5001(f)(1)(A).

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

required information necessary to document eligibility of provider applicants.

Transportation: Highway Infrastructure Investments

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 Recovery 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 generally 80 percent.

Recovery Act Funds Have Been Obligated and North Carolina Transportation Has Received Bids below Cost Estimates

As we previously reported in April 2009, $736 million was apportioned to North Carolina in March 2009 for highway infrastructure and other eligible projects. As of June 25, 2009, $423 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 and a project agreement is executed. States request reimbursement from FHWA as the state makes payments to contractors working on approved projects. As June 25, 2009, $4.1 million had been reimbursed by FHWA.

The North Carolina Department of Transportation (NCDOT) has identified a number of highway infrastructure projects, and as of June 25, 2009, approximately 89 percent of the Recovery Act funds obligated had been targeted for pavement projects. (See table 1.) As reported in our April report, NCDOT officials told us that they identified these projects based on Recovery Act direction that priority is to be given to projects that are anticipated to be completed within a 3-year time frame, and that are located in economically distressed areas (EDA). For example, according to NCDOT officials, a highway resurface project on U.S. 13 in Hertford County, which NCDOT officials said is located in an economically distressed area, was selected[9] because the highway carries about 7,800 vehicles per day, which is high for a two-lane road, and many of those vehicles are large trucks used to support the agricultural industry.

Table 1: Highway Obligations for North Carolina 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
	$78	$159	$138	$0	$11	$3	$34	**$423**
Percent of total obligations[b]	18.5	37.5	32.6	0.0	2.7	0.7	7.9	**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.

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

According to NCDOT, as of June 30, 2009, the department had advertised 65 contracts representing $335 million in Recovery Act funding. Of the 65 contracts, 55 representing $309 million have been awarded, and of these contracts 33 representing $200 million are underway. Approximately 27 of the 65 projects advertised for bid, representing $70 million, are anticipated to be complete by December 1, 2009.

NCDOT officials told us that construction contracts for Recovery Act projects are being awarded for less than the estimated costs. We reviewed bids that were submitted for three selected Recovery Act highway projects and found the bids were between 16 and 34 percent under the department's estimated costs. For example, a bid for improvements to a major route in the city of King[10] was 16 percent less than the estimated cost of $18 million. According to NCDOT officials, lower bids have come

[9]We selected this county because the highway project was located in a rural and economically distressed area. In addition, we factored in the proposed timing of the contract award and the amount of funds the highway division was awarded. NCDOT has 14 highway divisions and each division represents a number of counties. The majority of the state's Recovery Act projects will be administrated by NCDOT.

[10]We selected this location because the highway project was located in an urban area. In addition we factored in the proposed timing of the contract award and the amount of funds the highway division was awarded.

in because contractors have had difficulties finding work in the current economy. The officials believe the current bidding climate will continue but they do not plan to change their estimating practices because the bids are competitive.

North Carolina Transportation Officials Expect to Meet Obligation and Maintenance-of-Efforts Requirements, but State's Equity Allocation Formula Impacted the Selection of Projects in Economically Distressed Areas

Funds appropriated for highway infrastructure spending must be used as required by the Recovery Act. The states are required to do the following:

- 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. The 50 percent rule applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use. The U.S. Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames.

- 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.

- 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.[11]

North Carolina met the 50 percent obligation requirement. As of June 25, 2009, 61 percent of the $515 million that is subject to the 50 percent rule for the 120-day distribution had been obligated. NCDOT officials noted

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

that the department has estimated that it will expend most of the funds (about 95 percent) in fiscal years 2009-2012.

In an effort to be proactive in anticipation of the Recovery Act, in November 2008 NCDOT pursued a strategy to identify projects that can be completed within 3 years. NCDOT officials stated that they used several sources to identify projects such as a potential deferred 6-month project list, out-year and Statewide Transportation Improvement Program projects, division-managed projects,[12] and input from public transportation planners and providers.

According to NCDOT officials, the department used the state's Equity Allocation Formula as the guiding principle for distributing funds, which impacted which projects would be selected for Recovery Act funding. As we reported in April, the Equity Allocation Formula is a state statutory funding formula that creates a target value for programming future expenditures in various regions of the state. NCDOT officials stated that since 80 percent of North Carolina's roads are managed by the state, the equity formula ensures that each area will obtain its fair share of the federal and state funds for highway projects. The next factors used to select projects were whether the projects could be completed in 3 years, the projects' role in achieving NCDOT's mission and goals, and identifying projects in EDAs. The NCDOT officials noted that their overriding concern was the projects had to be "shovel ready,"[13] which limited the projects from which NCDOT could select, and also noted that after applying the state's Equity Allocation Formula about two-thirds of the funds would go to EDAs. In a review of a NCDOT list of potential Recovery Act projects, we found that not all projects in EDAs were selected and at least one was not selected because of the Equity Allocation Formula. According to FHWA NC Division officials, one of the criteria was to consider EDAs as part of the selection process but there were other factors considered such as projects had to (1) be completed with 3 years and (2) create jobs across the state.

As we reported in April, North Carolina submitted a "conditional" maintenance of effort certification, meaning that the certification was

[12]The NCDOT has 14 highway divisions that represent several counties and manage highway projects.

[13]Shovel-ready means the projects could be started and completed expeditiously, in accordance with Recovery Act requirements.

subject to conditions or assumptions, future legislative action, future revenues, or other conditions. Specifically, North Carolina stated that final state funding amounts are dependent upon actual revenue collections. On April 22, the Secretary of the U.S. Department of Transportation informed states that conditional and explanatory certifications were not permitted, provided additional guidance, and gave states the option of amending their certifications by May 22. North Carolina resubmitted its certification on May 19, 2009. According to U.S. Department of Transportation officials, the department has reviewed North Carolina's resubmitted certification letter and has concluded that the form of the certification is consistent with the additional guidance. The department is currently evaluating whether the states' method of calculating the amounts they planned to expend for the covered programs is in compliance with DOT guidance.

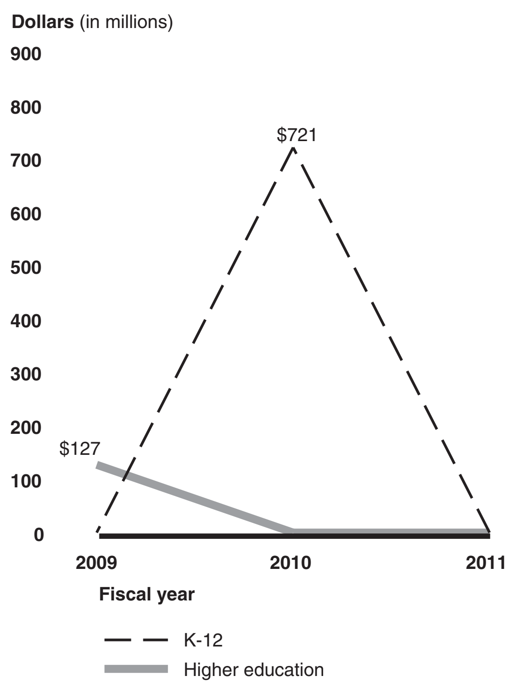
State Fiscal Stabilization Fund

The Recovery Act created a State Fiscal Stabilization Fund (SFSF) to be administered by the U.S. Department of Education (Education). The SFSF provides funds to states to help avoid reductions in education and other essential public services. The initial award of SFSF funding requires each state to submit an application to Education that provides several assurances. These include assurances that the state will meet 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.

Stabilization Funds Have Helped North Carolina to Address Budget Shortfalls, but Districts and IHEs Told Us More Information Would Help Them Plan for Next School Year

In total, North Carolina was allocated over $1.42 billion in SFSF. Of these funds, about $1.16 billion—81.8 percent—are education stabilization funds and $259 million—18.2 percent—are government services funds. When the state's initial application was approved on May 20, the state was awarded over $1 billion of these funds and will be eligible for the additional funds in the fall of 2009. To restore state support for K-12 and higher education, the state plans to divide the $1.16 billion in education stabilization funds. The state provided funds to IHEs in fiscal year 2009—which ended on June 30, 2009—and plans to provide funds to districts in fiscal year 2010 to restore the levels of state support for education. Because the North Carolina legislature must pass an appropriations bill for funds to be disbursed, funding figures for fiscal year 2010 will not be final until the budget is signed. As of June 26, 2009 the budget was still under consideration. See figure 4 below for additional information about these funds. These expenditures will leave a balance of approximately $314 million in education stabilization funds. State documents show that the state plans to use these remaining funds in fiscal year 2011, but it is not yet clear how these funds will be used.

Figure 2: Planned Annual Expenditures of Education Stabilization Funds



Source: GAO analysis of North Carolina's application for SFSF funds.

In a letter accompanying the state's application, Governor Perdue indicated that the state would use SFSF funds to cover the shortfall in the current fiscal year, in addition to taking several other steps such as furloughing staff. The Governor requested that the state be permitted to use about $127 million from the education stabilization fund to cover May and June 2009 payroll in IHEs. Another $232 million of the SFSF funds would come from the government services fund and will be used for public safety, according to the state application. She noted that these steps were in response to agencies' budgets being hurt by the state revenue shortfall. Education approved these steps in a follow-up letter. State budget officials told us that SFSF funds were a critical element of the state's efforts to close its budget gap, and that without these funds many more individuals would likely lose their jobs.

Community colleges received their allocations of SFSF funds on June 4, 2009. In total, the state community college system received about $42 million for fiscal year 2009. The colleges were required to use these funds to cover payroll obligations for May 2009. Officials from the Cape Fear Community College[14] said that they would not have been able to meet their payroll obligations without SFSF funds.

The state planned to use the additional $85 million from the education stabilization fund for fiscal year 2009 to cover June payroll for state universities, according to an official from the state university system. The two state universities that we spoke with—University of North Carolina-Charlotte and Fayetteville State University[15]—were notified in early June that they would be receiving SFSF funds.

[14]We selected Cape Fear Community College because it is one of the largest community colleges in the state.

[15]We selected the University of North Carolina-Charlotte because it is one of the largest 4-year institutions in the state. We selected Fayetteville State University because it is on of the nation's Historically Black Colleges and Universities (HBCU). In our review of Recovery Act implementation across the United States, we wanted to include the perspective of minority-serving institutions.

School district[16], community college, and university officials did not yet know whether they would receive SFSF funds in fiscal year 2010, or how much they would receive, which could affect decisions about layoffs. These officials told us that they had initially planned for a 3 to 7 percent budget cut next year, but that they now anticipate cuts could be as high as 11 percent. They hoped that SFSF funds could fill their budget gaps, but said that they did not yet know whether they would receive funds. For example, Robeson County School District officials said that they did not know whether they would receive any additional funds, and that if they don't receive information about expected SFSF allocations for fiscal year 2010 by June 30, they will need to begin making layoffs. Similarly, officials from one charter school we visited said that if there is an 11 percent cut in state funds, layoffs will be required, but they did not know how much SFSF funding they will receive. State officials provided estimates of how much districts would receive based on the most recent budget bill, but the documents indicate that these estimates are subject to change until the legislature finalizes the budget. While local districts do not know how much funding they will receive, they expect to use the funds to pay staff.

Community college officials said that the state legislature controls tuition and that, as a result, SFSF funds would not have a direct impact on tuition. However, one official added that by improving the state's fiscal situation the funds could indirectly mitigate tuition.

ESEA Title I, Part A

The Recovery Act provides new funds to help local school districts 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. The Recovery Act requires these additional funds to be distributed through states to school districts 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, local educational agencies (LEA) are required to comply with current statutory and regulatory requirements, and must

[16]We visited Charlotte-Mecklenburg Schools and the Public Schools of Robeson County because both districts had a number of schools categorized as Needs Improvement, and because Robeson is considered a rural school district. In addition, we visited two charter schools, Sugar Creek Charter School, and the Roger Bacon Academy, that are also classified as districts for funding purposes. These were selected based on geographic distribution.

obligate 85 percent of these funds by September 30, 2010.[17] Education is urging local districts 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 allocated the first half of states' ESEA Title I, Part A, allocations on April 1, 2009, with North Carolina receiving $129 million.

Districts Were Planning to Expend Recovery Act Title I Funds

North Carolina is currently making funds available to districts. On April 24, the state announced districts' allocations for ESEA Title I Recovery Act funds, and on May 4 began making those funds available to districts. In order to access these funds, district officials told us they must submit a planned budget to the North Carolina Department of Public Instruction (DPI). After the plan has been accepted, the districts may begin to obligate and expend funds. As of June 19, 31 districts or charter schools had submitted applications out of 115 districts and approximately 60 charter schools. The state has held a statewide ESEA Title I training conference and provided several question and answer documents, information about how much districts will be receiving, and weekly e-mails to keep districts informed about Recovery Act ESEA Title I requirements.

Some localities had begun receiving Recovery Act ESEA Title I funds. Robeson County Public Schools had begun distributing these funds to schools, which, according to district officials, were using the funds to retain 46 teaching positions. Officials from Charlotte-Mecklenburg Public Schools said that they submitted a budget for Recovery Act ESEA Title I funds on June 23, and that they were planning to use funds for professional development, parent participation, and pre-kindergarten. They specifically mentioned that they chose to focus on these activities because they could improve district capacity without creating a long-term funding obligation. Officials from one of the two charter schools we visited said that they had received funds as of June 25. Local education officials said that it was very difficult to plan their budget because they do not yet know how much they will receive in state funds and how much in SFSF. Robeson officials said that the additional funds will be used as the district normally uses ESEA Title I funds, which is for elementary schools instead of secondary schools or preschool. Officials from both districts

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

said that few if any new schools would receive ESEA Title I funds as a result of the Recovery Act. Both districts that we visited would like to receive flexibility with the carryover provisions,[18] and Robeson officials said that they would also like flexibility with certain set-aside requirements so that they could use those funds for other district needs. The state is planning to request waivers for the carryover, set-aside, and maintenance-of-effort requirements.[19]

Individuals with Disabilities Education Act, Parts B and C

The Recovery Act provided supplemental funding for programs authorized by 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. IDEA programs receiving this funding include those that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education (Part B) and that provide early intervention and related services for infants and toddlers with disabilities or at risk of developing a disability and their families (Part C). 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). 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 North Carolina receiving $170 million. Of the $170 million, $163 million was for IDEA Part B, and additional funding was for IDEA Part C.

[18]LEAs are required to obligate at least 85 percent of their ESEA Title I funds each fiscal year and may carry over no more than 15 percent for 1 additional fiscal year, unless granted a waiver by the state. The state may only grant an LEA a waiver once every 3 years; however, Education may waive this limitation.

[19]Education may waive a number of ESEA Title I statutory requirements with respect to Recovery Act funds, including (1) the requirement that an LEA in improvement status spend 10 percent of ESEA Title I funds on professional development; (2) an LEA's obligation to spend an amount equal to at least 20 percent of its ESEA Title I, Part A, Subpart 2, allocation on transportation for school choice and supplemental educational services; and (3) the Title I, Part A, maintenance-of-effort requirements.

Districts Have Received IDEA Part B Funds, but Some Are Concerned about Maintenance-of-Effort Requirements

North Carolina allocated IDEA funds to districts on April 29, 2009. The state has provided guidance and several memorandums to assist districts in using IDEA Part B funds. A state IDEA official said that their biggest concern was the local maintenance-of-effort requirements. Specifically, the official said that the state is concerned that districts will inappropriately take funds from IDEA and use them to fill in for lost dollars in other areas. The state has provided several documents to districts to outline the maintenance-of-effort requirements and clarify which districts are eligible to have their maintenance-of-effort level reduced.[20] According to a state IDEA official, 63 of the state's 115 districts can reduce their maintenance of effort level by up to 50 percent of their increase in IDEA, Part B, funds since the previous year. These are districts that have met requirements for providing services to children with disabilities and have a performance designation of at least "Meets Requirements." The official also said that Recovery Act funds had been an opportunity to start a conversation with charter schools about the services that charter schools provide for students with disabilities. Charter school officials with whom we spoke said that they would use IDEA, Part B, funds to hire additional staff to work with students with disabilities and purchase materials.

Charlotte-Mecklenburg public education officials said that their Recovery Act IDEA, Part B, dollars would be focused on early intervention services that would reduce the need for services later on. Specifically, the funds would go to technology tools that would put Individual Education Plans (IEP) online, and to hiring additional staff. In contrast, Robeson officials said that funds would be used primarily to retain staff members who might otherwise be released. Charlotte-Mecklenburg officials said they would welcome flexibility with the maintenance-of-effort requirements, but Robeson County officials did not expect maintenance of effort to be problematic for their district.

[20]Under certain circumstances, in any fiscal year that a school district's IDEA, Part B, allocation exceeds the amount the school district received in the previous year, the school district may reduce the level of state and local expenditures by up to 50 percent of the amount of the increase, as long as the school district uses those freed-up local funds for activities that are authorized under the ESEA.

North Carolina Has Also Received IDEA, Part C, Funds

Officials from the North Carolina Department of Health and Human Services Division of Public Health said that they had received half of the IDEA, Part C, Recovery Act allocation. They said that they had proposed using the funding to retain and hire staff and for professional development to ensure the state's continued ability to provide Part C services. The state's proposal was undergoing internal review at the North Carolina Department of Health and Human Services and OERI. The state had received guidance from Education, and officials said that they did not have major outstanding questions.

North Carolina Pubic Housing Agencies

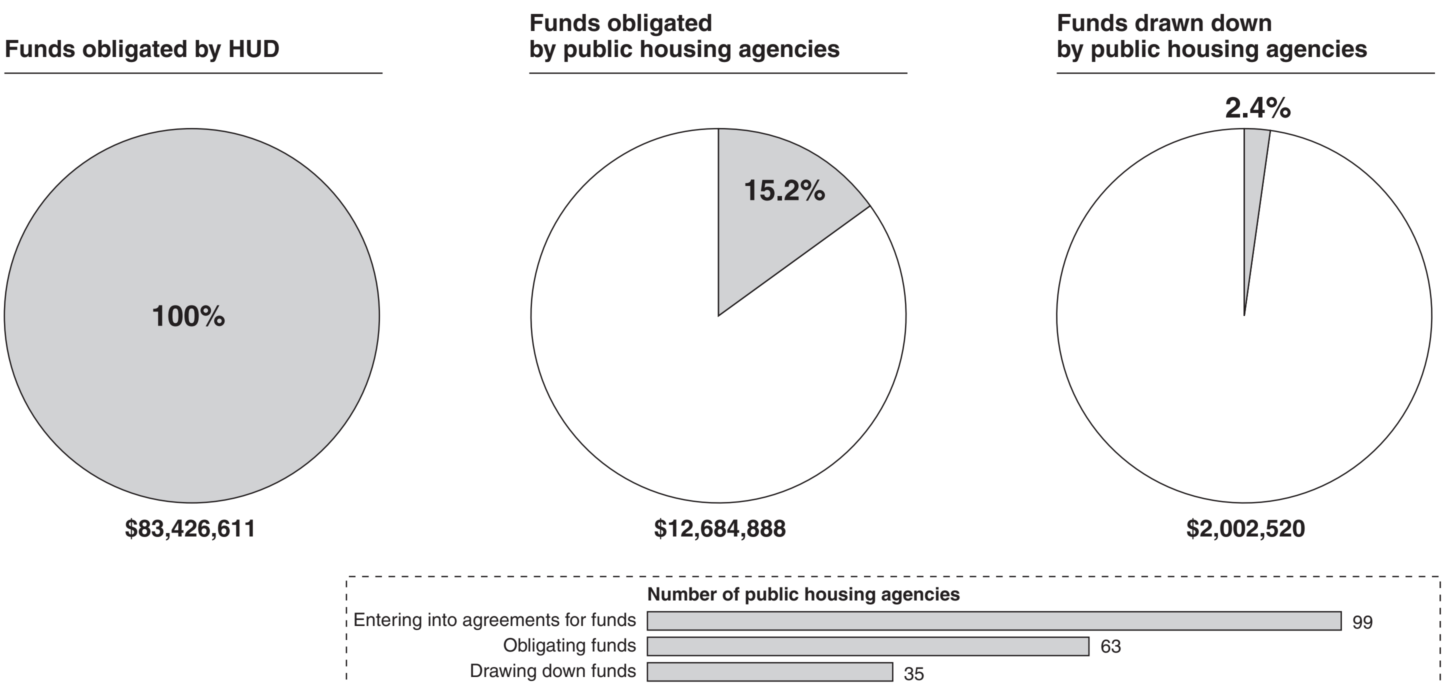
The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.[21] The Recovery Act requires 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, 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 (NOFA) that describes the competitive process, criteria for applications, and time frames for submitting applications.[22] North Carolina has 99 public housing agencies that have received Recovery Act formula grant awards. In total these public housing agencies received $83.4 million from the Public Housing

[21]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.

[22]HUD released a revised NOFA 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.

Capital Fund formula grant awards. As of June 20, 2009, 63 public housing agencies had obligated $12.7 million and 35 had expended $2 million. GAO visited two public housing agencies in North Carolina—the Housing Authority of the Town of Beaufort and the Housing Authority of the City of Charlotte. We selected the Charlotte Housing Authority because it received the largest capital fund grant allocation in North Carolina and selected the Beaufort Housing Authority because it received one of the smallest allocations.

Figure 3: Percent of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in North Carolina



Source: GAO analysis of HUD data.

North Carolina Public Housing Agencies Have Obligated Recovery Act Funds to Rehabilitate Various Units

The two Public Housing Agencies we visited in North Carolina received Capital Fund formula grants totaling $7.7 million. As of June 20, 2009, the Beaufort Housing Authority had obligated $201,222, or 100 percent of its total award. It had drawn down $125,363. Also, Charlotte Housing Authority had obligated $218,289, or 3 percent of its $7.5 million award. It had not drawn down any funds because according to Charlotte Housing Authority officials, they did not want to combine closing the agency's fiscal year accounting cycle in March 2009 with drawing down Recovery Act funds, so they decided to obtain the funds during the next fiscal year.

The public housing agencies have begun funding a variety of types of projects. Beaufort Public Housing Authority officials stated that they plan to rehabilitate 100 units, which include duplexes, triplexes, and some single dwellings. Also, the Charlotte Housing Authority has plans to rehabilitate 609 units, and currently the authority has no vacant units. The rehabilitation includes such activities as replacing 522 water heaters and appliances and installing site-security poles and Internet cameras at 22 sites. We visited the Southside Homes for which the Charlotte Housing Authority is expected to use $266,454 in Recovery Act funds. During the visit, we toured the community center where proposed plans are to remodel the center's offices and build a computer lab and purchase computers for tenants to use. Also, the Charlotte Housing Authority plans to use $3.3 million to demolish the Boulevard Homes. Demolition will cost $2 million, and $1.3 million will be used to relocate the tenants.

North Carolina Public Housing Agencies Took Steps to Prioritize Projects and One Initially Faced Challenges in Obtaining Recovery Act Funds

The two Public Housing Agencies that we visited in North Carolina took steps to give priority consideration to the rehabilitation of vacant rental units, and projects that are underway or included in the 5-year plan.[23] According to the Beaufort Housing Authority Executive Director, the agency had already implemented the current year's portion of its 5-year plan when it was notified about the Recovery Act funding. With the Recovery Act funding, the agency was able to undertake additional projects in its 5-year plan. The Beaufort Housing Authority told us that as units become vacant, they will be taken offline until they are rehabilitated. However, the Charlotte Housing Authority proposed projects for Recovery Act funds that were not part of its existing 5-Year Plan and a public

[23]The Public Housing Authority Plan is a comprehensive guide to public housing agency policies, programs, operations, and strategies for meeting local housing needs and goals. There are two parts to the Plan: the 5-Year Plan, which each public housing agency submits to HUD once every 5th public housing agency fiscal year, and the Annual Plan, which is submitted to HUD every year.

hearing was required to approve the projects.[24] A public hearing was held on April 8, 2009, with Charlotte Housing Authority Board of Commissioners, Resident Advisory Council, and other interested residents to review the additional allocation of capital funding the agency had received under the Recovery Act. The Board of Commissioners approved the Charlotte Housing Authority's Recovery Act projects. According to Charlotte Housing Authority officials, they did not have any vacant units.

The Beaufort Housing Authority faced challenges when initially drawing down funds from HUD. The Beaufort Housing Authority's Executive Director said the agency experienced challenges when registering as part of a new process for accessing Recovery Act funds from the Central Contractor Registration system. According to the Executive Director, the system had incorrectly identified the Beaufort Housing Authority, which took over a month to correct, in part because of a lack of guidance from HUD on how to register and submit an application in the system. Also, the Executive Director mentioned that since registering with the system has never been required, the HUD field office was not trained to help with the process. After these issues were resolved, the Executive Director stated the agency was able to draw down Recovery Act funds from the system.

Charlotte Housing Authority officials said that they had to change their procurement policies, as required to expedite awards. Specifically, the Charlotte Housing Authority amended its procurement policies in May 2009 and required that the Public Housing Authority shall give priority to Capital Fund Stimulus Grant projects that can award contracts based on bids within 120 days from February 17, 2009. Charlotte Housing Authority officials stated that as a result of the revised policies, they will expect to be able to meet the accelerated requirements to obligate and expend funds within the time frames of the Recovery Act.

[24] In 2001, the North Carolina State Legislature passed General Statute 159-42 entitled "special regulations pertaining to public housing authorities." According to state officials, the statute requires housing authorities to adopt a project ordinance as defined in General Statute 159-13.2 for those programs that span 2 or more fiscal years. In an effort to clearly show compliance with the State statute, the public housing agency staff was to prepare a grant project ordinance and have the Board of Commissioners adopt the project ordinance by resolution.

Selected North Carolina Public Housing Agencies Report They Have Established Processes to Track and Safeguard Recovery Act Funds, but Could Use More Guidance

Officials from the Public Housing Agencies we visited in North Carolina told us they have established processes to track and safeguard Recovery Act projects and funds. Specifically, the agencies plan to use a unique identifier in the general ledger and use existing processes for tracking Recovery Act funds. For added assurance, both agencies plan to use Excel spreadsheets and compare the information to the general ledger to track Recovery Act funds.

Officials from the Beaufort and Charlotte Housing Authorities indicated that HUD has not yet provided guidance on how to measure the effects of Recovery Act spending. However, they plan to use contractors' information to measure the effects of Recovery Act spending. Specifically, the Beaufort Housing Authority plans to review contractors' payroll reports to determine the jobs created and sustained. Likewise, the Charlotte Housing Authority plans to use contractor reports that show jobs created and sustained. Charlotte Housing Authority officials indicated that it would be helpful to obtain guidance as soon as possible.

North Carolina Edward Byrne Memorial Justice Assistance Grant (JAG) Program

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.[25] The total JAG allocation for North Carolina state and local governments under the Recovery Act is about $56.3 million, a significant increase from the previous fiscal year 2008 allocation of about $4.1 million.

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

North Carolina Has Selected Local Justice Assistance Grant Program Projects, Which the Governor Has Approved

As of June 23, 2009, North Carolina had received its full state award of about $34.5 million.[26] The North Carolina Governor's Crime Commission (GCC), which administers JAG funds for the state, plans to use the funds in two main areas: Criminal Justice Improvement and Crime Victims' Services. Criminal Justice Improvement funding priorities include such things as overtime requests to ensure that departments can maintain full coverage and requests for equipment, including weapons, uniforms, and communications devices. Crime Victims' Services funding priorities include such things as (1) sexual assault and domestic violence services, (2) child abuse and neglect services, (3) law enforcement, prosecutors' office, and court officials, (4) services for underserved crime victims, and (5) supervised visitation centers.

According to GCC officials, the process for identifying, prioritizing, and selecting eligible local projects for funding was conducted by GCC committees between July and September 2008. GCC officials said that their original priorities were aligned with the Recovery Act priorities once officials were aware that GCC would be receiving Recovery Act funding. The committees conducted research on crime trends and coordinated with local police departments on issues such as prisoner reentry and used this information to determine funding priorities. After applications were reviewed and scored, GCC officials selected 85 eligible projects for JAG funding that supported funding priorities. For example, the North Carolina Department of Corrections Tyrrell Prison Work Farm is an eligible project that is expected to receive Recovery Act funding to preserve four positions for 2 years at a 58-bed substance-abuse treatment program.

The list of Recovery Act projects to be funded was submitted and approved by the Governor on May 29, 2009. According to GCC officials, funding for JAG grants can not be given prior to July 1st and until officials receive the signed grant award and acceptance of all special conditions from the subgrantee. GCC officials expect to be able to allocate funds to projects in July.

While subrecipients have not yet received any funding, GCC officials were initially concerned about some subrecipients' ability to report the JAG programmatic performance measures within 30 days after the end of each quarter, as required by BJA. Specifically, GCC officials are concerned that some of the new nonprofits that are expected to receive funding may be

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

more challenged than others to meet the reporting requirements and the reporting deadlines. For those agencies that the GCC identified as potentially having challenges with the increased reporting requirements, officials have made preaward site visits with their staff to identify strategies to assist them in submitting reports ahead of or by deadlines. If, as a result of these meetings, GCC officials believe the agency does not have the capacity to efficiently manage a Recovery Act grant, they do not plan to pursue funding for that agency. GCC officials said that BJA was supposed to develop a performance-management tool to assist gang-prevention pilot programs with assembling the BJA reporting requirements. However, GCC has not yet received this guidance. Furthermore, GCC officials said that they plan to hold their grant award workshops in June to explain the Recovery Act requirements to potential recipients.

U.S. Department of Energy 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. 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 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.

North Carolina Has Plans in Place for Managing and Safeguarding Weatherization Recovery Act Funds, but Challenges Remain

DOE allocated to North Carolina $132 million for the Recovery Act Weatherization Assistance Program for a 3-year period. The Office of Economic Opportunity (OEO) of North Carolina's Department of Health and Human Services is responsible for administering the program, and the program is administered locally through 30 subgrantees, generally community action agencies, which serve all 100 of the state's counties. In order to develop the weatherization plan, OEO received a Funding Opportunity Announcement on March 24 and received additional guidance from DOE. Additionally, officials said that they received a visit from DOE's District 4 Program Management Officer in order to go over the special reporting requirements. OEO developed a plan designed to assist low-income households in reducing their fuel costs and to contribute to national energy conservation through increased energy efficiency and consumer education. According to OEO officials, this plan was submitted to DOE for review and approval on May 12. OEO officials expect that DOE will approve the plan in less than 60 days. Additionally, officials said that the plan was submitted for review to the North Carolina Office of Economic Recovery and Investment (OERI). According to OEO officials, OERI reviewed the application to make sure that the weatherization plan did not include any new subrecipients that might cause concerns or problems with tracking and reporting the Recovery Act funding. Additionally, OERI wants additional education to be provided to subrecipients so they have a clear understanding of the Recovery Act requirements, and in response OEO officials plan to provide training on the weatherization elements to both subgrantees and subcontractors.

On April 1, 2009, DOE provided the initial 10 percent allocation (approximately $13.2 million) to North Carolina, and once DOE reviewed North Carolina's weatherization plan, DOE provided an additional 40 percent allocation (approximately $52.8 million). After demonstrating successful implementation of its plan, North Carolina will receive the remaining funding. However, OEO officials said that none of the Recovery Act funding will be spent prior to June 30. OEO plans to weatherize approximately 24,224 units with a total annual estimated energy savings of

434,412 MBtu.[27] Of the total $132 million the state will receive, the planned allocation is $109 million for weatherization production and $23 million for training and technical assistance.

OEO officials said that they plan to identify an external group that will assist with the monitoring and oversight of the Recovery Act funds. However, officials acknowledged that while this is part of the plan, they currently do not have the funding or staff to do all of the training and monitoring that they would like to do. To assist in oversight of the weatherization program, an OERI official said that the state plans to undertake a vigorous risk assessment as part of its responsibilities. As part of this effort, OERI planned to issue a Request for Proposal in June for compliance contractors for weatherization audits. The scope of work covered for a weatherization compliance audit would include a review prior to any work being performed on a dwelling to ensure the need for such energy improvements, as well as a review after the weatherization was completed to ensure the work was actually performed. An OERI official said that they believe they can use Recovery Act funds to hire these contractors. Furthermore, one of North Carolina's local subgrantees that we visited said that it also plans to hire and train compliance "quality assurance" teams that would then do pre- and post-audits of weatherization projects at the individual house level.

At the local level, agency officials in charge of administering a subgrant said that the Recovery Act funding will provide additional funds that will allow the agency to weatherize additional properties. According to officials from one community action agency that uses contractors to do the weatherization, they will review contractors' qualifications to ensure that the contractors are familiar with DOE's weatherization requirements. Officials plan to inquire and collect information on whether the contractors have received DOE's training on how to weatherize homes according to industry standards. Additionally, officials said that they plan to use a portion of the funding that they receive for training and technical assistance to cover the costs associated with training and technical assistance for the agency's weatherization coordinator and any other agency staff involved in the program. Officials said that the state will

[27]MBtu stands for 1 million British thermal units. The Btu is a unit of energy used for power, steam generation, heating, and air conditioning measurement. It represents the quantity of heat required to raise the temperature of 1 pound of liquid water by 1 degree Fahrenheit at the temperature at which water has its greatest density (approximately 39 degrees Fahrenheit).

provide additional guidance on the acceptable expenses that can be incurred to train subcontractors. Furthermore, officials identified evaluating the impact of Recovery Act funds as a potential challenge. Specifically, they are struggling to develop data on the creation and retention of jobs because the funds are short term and will be used within 16 to 18 months.

WIA Youth Program

The Recovery Act provides an additional $1.2 billion in funds nationwide for the Workforce Investment Act (WIA) youth program to facilitate the employment and training of youth. The WIA youth program is designed to provide low-income in-school and out-of-school youth 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,[28] the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth. 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.[29]

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

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

Recovery Act Funds Have Resulted in More Local Boards Providing Summer Youth Employment Activities

The North Carolina Department of Commerce (NCDOC), which administers North Carolina's workforce-development system, has received about $25 million in Recovery Act funds for the WIA youth program, of which about $480,000 has been expended as of June 5, 2009. Of the $25 million, the state reserved 15 percent for statewide activities, and has allocated the remaining funds to the state's 24 local workforce boards. NCDOC officials said that the major statewide summer youth activity resulting from the use of these state-level funds was marketing the program. NCDOC did not set a target amount for local boards to spend on summer youth employment activities, but gave local areas the flexibility to provide a combination of services for youth. State officials told us that they anticipate that all local boards will have stand-alone summer youth employment activities in 2009, and that local workforce boards estimated that they would spend about $18.4 million on these activities in 2009. The state plans to serve approximately 6,000 youths this summer. Few local workforce boards operated a similar program in the summer of 2008.

NCDOC officials told us that they do not anticipate major challenges managing and overseeing the 2009 summer youth employment activities. They said that they follow specific procurement policies and ensure that local boards also have appropriate policies. They also noted that they will separately track all Recovery Act funds to ensure that these funds are spent appropriately. NCDOC will conduct programmatic and fiscal monitoring of local boards, such as reviewing their payroll, procurement, and participant-eligibility policies and practices. In addition, NCDOC will also monitor a random sample of work sites. State NCDOC officials said, however, that they would like guidance about how local boards should track jobs created and jobs saved.

Officials from one local workforce development board that we visited, the Cape Fear Workforce Development Board,[30] said that enrollment is likely to increase due to the Recovery Act and did not anticipate any major challenges. Cape Fear Board officials said that enrollment would likely exceed 250 youths this year, which was higher than in prior years, and that they expected to receive more applications than they had slots. The Cape Fear Board has operated a stand-alone summer youth program for years, and officials did not expect any major challenges as a result of Recovery

[30]Local workforce development boards were selected based on the amount of WIA youth funds they received and geographic distribution.

Act funds. Cape Fear Board officials said that "green" jobs would be a focus of this year's efforts.

In contrast, the Charlotte-Mecklenburg Workforce Development Board will be operating a stand-alone program for the first time this summer. Officials from the Charlotte-Mecklenburg board said that they would serve approximately 450 youths this summer, and that the biggest challenges were recruiting youths and using a Request for Proposal process under the tight time frames necessary to have an operational program by the summer.

State Agencies Making Progress with Accountability, but Gaps May Remain in Localities

Agencies' Efforts to Move Ahead with Modifying Accounting Systems to Track Funds Separately

As we reported in May 2009, several of North Carolina's state agency accounting systems will need to be modified to track Recovery Act funds as required by the Recovery Act. Officials from the Office of the State Controller (OSC) told us that they are continuing with their planning efforts for system modifications related to the Recovery Act requirements but have not yet made any system modifications. Current plans include modifications to the E-procurement system, the North Carolina Accounting System, and the Interactive Purchasing System. These officials told us that they are committed to meeting the Recovery Act's July 1, 2009, deadline with their current level of resources, with one possible exception. These officials expressed concern with the Recovery Act requirement to use the DUNS (Data Universal Numbering System) number, which is a nine-digit identification number that is assigned to an entity and identifies specific information about the entity such as the entity's business name and address. The OSC received a cost estimate from Dun & Bradstreet stating that the initial cost for merging the North Carolina data with the Dun & Bradstreet database would be $140,000, with an annual estimate for adding new vendors of $7,800. According to the OSC officials, the cost estimates do not include the cost of merging data in any of the university or community college systems with the Dun & Bradstreet database, which would increase the cost to approximately $1 million. Officials said that implementing and maintaining the DUNS number for the entire state and across several systems would require additional staff and funding. Officials stated that they asked OMB for additional guidance on this requirement and are waiting to make any system modifications until they receive the OMB guidance. Furthermore, a local North Carolina Public Housing Authority official said that the housing authority had experienced difficulty in using its DUNS number, which made accessing Recovery Act funds a difficult and lengthy process. The official said that the new process for accessing Recovery Act funds required the use of the DUNS number and registration on the Central Contractor Registration system, which was not the process used before to access funds. According to the authority official, the system had incorrectly identified the Beaufort Housing Authority, which took time to correct, in part because of a lack of guidance from HUD on how to register.

Challenges Exist in Tracking Recovery Act Funds

On March 30, 2009, the State Budget Director, State Controller, and OERI Director jointly issued *NC/ARRA Directive #1—Budgeting and Accounting for Federal Recovery Funds* to agency heads and chancellors of universities and chief financial officers of agencies and universities, which included among other things a requirement that every state government entity receiving Recovery Act funds use a unique 4-digit budget fund code as Recovery Act funds are received and expended. In addition, the directive emphasized that funds received as a result of the Recovery Act may not be commingled with other funds, even if they are used to enhance, supplement, or expand existing programs. Also in March, the Director of Fiscal Management, within North Carolina's Department of State Treasurer's Office, State and Local Government Finance Division, and the Local Government Commission,[31] sent a memorandum to local government and public housing authority officials and their independent auditors regarding Recovery Act fiscal management issues. Specifically, this memorandum stated that any local government that receives a direct grant from a federal agency should inform the OERI of the grant and supply a copy of the grant agreement to OERI, and local units must budget

[31]North Carolina's Local Government Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment. One key function is monitoring certain fiscal and accounting standards prescribed for units of local government by the Local Government Budget and Fiscal Control Act. In addition, the Commission furnishes on-site assistance to local governments concerning existing financial and accounting systems, as well as aid in establishing new systems.

and account for Recovery Act funds in a way that tracks all receipts and expenditures of those funds by project.

As we reported in May 2009, OERI was set up by the state to help agencies track, monitor, and report on Recovery Act funds. The state Web site www.NCrecovery.gov is designed to maintain a record of how Recovery Act funds are being spent in a way that is transparent and accountable. In the meantime, OERI is tracking the state's Recovery Act funds on an Excel spreadsheet. OERI officials told us that the current system relies heavily on the state agencies reporting complete and accurate information to OERI. OERI in turn uses the information provided by the agencies to update its spreadsheet. When asked how OERI can be certain that it has a complete and accurate compilation of North Carolina's Recovery Act funds, these officials told us that OERI's tracking is not all-inclusive, but at this time it is the most comprehensive report available. For example, OERI does not currently receive obligation or expenditure information from localities, universities, or community colleges. OERI officials added that they are currently working with OSC to create a report from the statewide information system that OERI can use to reconcile its spreadsheet for the agencies that use the statewide system.

State Is Requiring Weekly Reporting and Other Accountability Mechanisms

Beginning October 10, 2009, each state that has received Recovery Act funds is required to submit a quarterly report to each federal agency that provided funds to meet the reporting requirements of Section 1512 of the Recovery Act. Three of the first four management directives issued by North Carolina's OERI Director to state agency senior management addressed reporting and other accountability mechanisms requiring (1) weekly reporting from state agencies; (2) centralized review of grant applications; and (3) state agency readiness reviews.

Weekly Reporting of Expended Funds by State Agencies: In his first management directive issued on April 9, 2009, OERI's Director stated that state agencies were to report to OERI on a weekly basis the amount of Recovery Act funds they had obligated, disbursed, and drawn down.

Submit Grant Applications to OERI for Review: The second directive was issued 5 days later and stated that prior to submission to the federal entity, state agencies (not universities) were to submit all applications for funding under the Recovery Act to OERI for review and approval. According to the directive, OERI will pay particular attention to agencies' requests for technical assistance or administrative funds, or both, and their proposed use of those funds.

State Agency Readiness Assessment: On June 3, 2009, the Director of OERI issued a directive requiring that state agencies identified as a prime recipient of Recovery Act funds provide OERI with written confirmation, by returning its completed *Prime Recipient Readiness Assessment* form no later than June 24, 2009, of their readiness for reporting quarterly to the federal government. The directive stated that this was being done as an initial trial run for the October submission of first quarterly reports to OMB. The directive also acknowledged that although the data elements had not been finalized by the federal government, OERI did not expect significant changes from the proposal contained in the notice published in the Federal Register.[32] For any areas that were not in compliance, agencies were to submit a Plan of Compliance along with their Prime Recipient Readiness Assessment form, including specific strategies and the expected completion date (not to exceed June 30) for each strategy.

North Carolina Is Using Its Statutory Internal Control Program and Other Initiatives for Recovery Act Programs

In North Carolina, the Office of the State Controller (OSC) is statutorily responsible for establishing internal control standards. North Carolina's State Governmental Accountability and Internal Control Act[33] charges OSC with the establishment of comprehensive standards, policies, and procedures to ensure a strong and effective system of internal controls. OSC is meeting this requirement by implementing the EAGLE program (Enhancing Accountability in Government through Leadership and Education). The underlying foundation of the EAGLE program was based on the widely accepted internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The purpose was not only to establish adequate internal control, but also to increase fiscal accountability within state government.

Management and Oversight Agencies Use Risk Assessments to Enhance Accountability

Conducting risk assessments means performing comprehensive reviews and analyses of program operations to determine if risks exist and the nature and extent of risks that have been identified. In North Carolina, the OSC in conjunction with the state's EAGLE program requires agencies to

[32] In accordance with the Paperwork Reduction Act (44 U.S.C. 3501 et seq.), OMB invited (through a notice in the April 1, 2009, issue of the Federal Register) the general public and federal agencies to comment on the standard data elements that were being reviewed for use in complying with reporting requirements under section 1512 of the American Recovery and Investment Act of 2009. 74 Fed. Reg. 14,824.

[33] N.C. Gen. Stat. §§ 143D-1 to 143D-12.

perform annual risk assessments. The state views risk assessment as a benefit to the agencies as it identifies risks and compensating controls that reduce the possibility of material misstatements of financial reports and misappropriation of assets, as well as opportunities to increase efficiency and effectiveness in business processes and operations. In addition to these statewide risk assessments, we identified three other state agencies in North Carolina that perform risk assessments during the course of developing their annual audit plan to help ensure that federal funds are spent for their intended purposes.

Statewide: North Carolina is using a phased approached to implement the EAGLE program. In Phase I, state agencies and state universities are required to perform an annual assessment of internal control over financial reporting. The State contracted with Ernst & Young (E&Y) and worked jointly with E&Y to develop and implement a comprehensive risk-assessment program, using a top-down approach, in which entity-level controls are considered first, followed by transaction-level controls. In January 2008, the State Controller requested each agency to appoint an Internal Control Officer to lead the agency's risk-assessment team and monitor the agency's compliance with EAGLE requirements. Phase II of the program will be "efficiency of operations" and Phase III will be "compliance with laws and regulations." These three phases can be found in COSO's Internal Control—Integrate Framework, which defines internal control as a process to provide reasonable assurance of achieving the following objectives: internal control over financial reporting; efficiency of operations; and compliance with laws and regulations.[34] Although all state agencies have now implemented Phase I of the EAGLE program, 14 of the state universities and the 58 community colleges have not yet implemented the EAGLE program. OSC plans to begin Phase I implementation of EAGLE at these remaining universities and the community colleges in the fall of 2009.

North Carolina's statewide internal control program has been the subject of several newsletters and other publications. In the Institute of Internal Auditors' November/December 2008 issue of *Internal Auditor Magazine*,

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

a feature article acknowledged North Carolina for being a national leader in both fiscal management and governmental accountability.[35]

State Auditor's Office: As discussed in our April 23, 2009, report,[36] the State Auditor uses a risk-based approach to auditing and plans to focus the State Auditor's Recovery Act work on subrecipient monitoring and on how the Recovery Act funds are being segregated from other federal funds coming through traditional funding streams. A briefing document dated June 3, 2009, reiterated this focus of work and discussed how the influx of Recovery Act funds and the associated risks has caused the Office of the State Auditor to alter its normal auditing and reporting practices for federal grant funds. Specifically, the State Auditor will evaluate the design of internal control over Recovery Act funds early in the fiscal year and issue a statewide report on the evaluation by mid-year. Subsequently, the State Auditor will perform an evaluation of the state's during-the-award subrecipient monitoring efforts and report near year-end. Finally, the state will complete remaining procedures related to the audit of the state's major federal programs and report the results as required by OMB.

North Carolina Department of Transportation's Office of Inspector General (DOT/OIG): DOT/OIG also uses a risk-based approach to auditing recipients of federal transportation grant dollars. DOT/OIG is planning to modify its risk assessment to ensure Recovery Act–funded projects are the agency's highest priority. In addition, the North Carolina DOT/OIG External Audit Branch, Single Audit Compliance Branch, Manager told us that nonprofit entities, as a whole, are considered high-risk, and with this in mind the DOT/OIG developed separate policies and procedures specifically designed for oversight and monitoring of federal and state grants to nonprofit entities.

Office of Internal Audit: On August 23, 2007, North Carolina's Internal Audit Act was ratified requiring each state agency with an annual operating budget that exceeds $10 million, has more than 100 full-time equivalent employees, or receives and processes more than $10 million in

[35]Ron Marden, "EAGLE: North Carolina's Statewide Internal Control Program," *Internal Auditor Magazine* (November/December 2008).

[36]GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009).

cash in a fiscal year to establish an internal audit program.[37] The Office of Internal Audit (OIA) is housed within Office of State Budget and Management and provides internal audit services for eight state agencies: (1) Department of Administration (DOA); (2) NCDOC; (3) State Auditor's Office; (4) Department of Labor; (5) Community Colleges Central Office; (6) OSBM; (7) Governor's Office; and (8) Wildlife Resource Commission.

Annually, OIA is to perform a risk assessment of each of these eight state agencies. It started performing these risk assessments in August 2008. No risk assessment was done for the Governor's Office because of the change in administration. OIA's Audit Director stated that the influx of Recovery Act funds and other changes to criteria used in the risk assessment will most likely result in significant changes to OIA's audit plan. Specifically, the Director noted that in fiscal year 2009 the State Energy Office was housed within the DOA. According to state officials, proposed legislation would relocate the State Energy Office to be under NCDOC. The proposed legislation has passed North Carolina's House of Representatives and is now in the Senate. Now, with the influx of a large amount of Recovery Act funds to the State Energy Office, NCDOC will most likely end up with the highest risk rating.

Plans for Monitoring and Oversight of North Carolina's Recovery Act Funds Present Challenges

As noted by the North Carolina State Auditor, monitoring an ongoing grant project is a challenge. According to the State Auditor, the state agencies do not have sufficient staff dedicated to on-site monitoring, which is the most effective way of monitoring while a grant project is ongoing. On-site monitors may inspect accounting records supporting financial reports, examine invoices and other documents supporting expenditures, recalculate salaries charged to grant programs, and review evidence supporting the achievement of performance goals.

According to a State Auditor's June 3, 2009, briefing document, a portion of Recovery Act funding is being set aside for administration and oversight, and as a result state agencies may be able to temporarily strengthen on-site monitoring by contracting with Certified Public Accountant firms. Such an arrangement may include asking the firm to help develop monitoring procedures to be performed and then commissioning an "agreed-upon-procedures" engagement, whereby the firm will perform the specific monitoring procedures designated by the

[37] N.C. Gen. Stat. §§ 143-745 to 143-747.

state agency and report the results of the procedures. It would then be the state agency's responsibility to follow up on problems reported and ensure that corrective action is taken. One audit manager at DOT/OIG told us that, due to lack of funding, his staff auditors have not traveled to subrecipients to perform oversight and monitoring site visits since October 2008. However, he added that since Recovery Act funds come from the federal government he believes there will be funds available for travel to audit subrecipients.

OERI plans to issue a Request for Proposal in June for compliance contractors for weatherization and other Recovery Act grant compliance audits. One of the Director's concerns has been the capacity of the nonprofit community action agencies to handle the Recovery Act funds because the state has not looked at how well these agencies have been performing in a long time. OERI's Director said that the states are getting an indication that they can use some of their Recovery Act funds for administrative funds and therefore he is developing a budget with this in mind.

Some North Carolina Localities May Not Be Fully Prepared to Ensure Accountability for Funds

North Carolina's State Auditor said that subreceipient monitoring at the local level is an area that is considered a high risk and that more scrutiny and extensive reviews are required to ensure that Recovery Act funds are used appropriately. According to the State Auditor, subrecipient monitoring includes: (1) informing the subrecipient about the federal award information and applicable compliance requirements at the time of the award, (2) monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved, and (3) auditing subrecipients to ensure that they are meeting audit requirements and are taking timely and appropriate corrective action on all audit findings. In North Carolina's 2007 Single Audit report, 5 of the 18 findings were related to insufficient subrecipient monitoring. Specifically, the State Auditor identified small rural localities that will be receiving Recovery Act funds as risk areas since the Recovery Act funding will have additional reporting requirements and these areas may not have sufficient financial staff to comply with the reporting requirements. The State Auditor notified the Director of OERI to ensure that the office was aware of any identified subreceipient monitoring weaknesses and the need for a sound subrecipient monitoring program.

North Carolina's State Auditor said that the weatherization program is an area that is considered a high risk and that more scrutiny is required to ensure that Recovery Act funds are used appropriately. Specifically, the State Auditor said that the weatherization program has an increased level of risk because it will receive significantly more funds than in prior years, and because the program's current staff capacity may not be able to oversee the tracking and monitoring of funds. According to North Carolina officials in charge of the weatherization program, the program recently lost its Director, and only three of its five staff positions are currently filled. Officials said that staff levels have not increased as a result of the Recovery Act funding; however, officials said that they plan to identify an external group that will assist with the monitoring and oversight of the Recovery Act funds. Furthermore, officials said that they plan to put in place a new process to ensure that work is done properly by reviewing weatherization work both before and after a job is done. However, officials acknowledged that while this is part of the plan, they currently do not have the funding or staff to do all of the training and monitoring that they would like to do. Furthermore, an OERI official expressed concern over the capacity of the community action agencies, which administer the weatherization program, to handle Recovery Act funding. According to an OERI official, the state has not looked at how well these agencies have been performing in a long time. OERI is planning to bring on contractors to assess the capability of these existing agencies.

North Carolina State and Local Government Finance Division officials said that each locality is required to submit an annual audit. Officials said that most audits usually identify some type of an error. However, localities that have material weaknesses or financial issues that are identified in the audit are put on a watch list. If the issues are not resolved by the next audit, they will remain on a watch list. Officials said that of 1,200 localities, there are approximately 80 on the watch list. Officials said that these are mainly small towns and approximately six counties, and that the list is growing due to the poor economy as it is hard for small towns to hire and keep trained staff members that have a finance background.

Plans to Assess Impact of Recovery Funds Are Being Developed

State and local agencies told us that they planned to comply with the Recovery Act requirement that they provide quarterly reports on jobs created and jobs retained,[38] but that they were still waiting for guidance. As described above, the Director of OERI issued a directive requiring state agencies to provide OERI with written confirmation by June 24, 2009, of their readiness for quarterly reporting on jobs created and saved to the federal government. In these reports, nearly all agencies reported that they understood the Recovery Act reporting requirements and would be ready to meet the quarterly reporting requirement starting on July 31, 2009. Agency officials with whom we spoke said that they would meet these requirements, and that in some cases they had begun planning how they would meet the requirements. For example, DPI is in the process of developing a Web site that districts can use to enter jobs created and jobs saved information. Officials from the Beaufort Public Housing Authority plan to review the contractor's payroll to determine the jobs created and sustained. However, agency officials told us that they were concerned about the lack of guidance on reporting on the impact of Recovery Act funds. Officials in the Governor's Crime Commission (GCC) told us that they were concerned that they did not yet have specific definitions of jobs created and retained from the federal government. They noted that the sooner they obtain this guidance on assessing the effectiveness of Recovery Act spending, the more quickly the agency can start taking the steps necessary to implement this requirement.

Officials from several state Recovery Act programs told us that they would be using state program performance measures to evaluate impact, but that they were not planning any additional evaluations. For example, ESEA Title I, Part A, officials told us that they would measure academic outcomes for schools receiving ESEA Title I, Part A, funds under the Recovery Act, but that there were no other impact evaluations for the Recovery Act funds. For SFSF, which was not a preexisting program, state officials said that the state may use its own performance measures.

State Comments on This Summary

We provided the Governor of North Carolina with a draft of this appendix on June 24, 2009. The Director of OERI responded for the Governor on June 26, 2009. In general, the comments were either technical or were status updates. These were incorporated as appropriate.

[38]Recovery Act, div. A, titleXV, § 1512.

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