

July 2009

RECOVERY ACT

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



GAO

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Appendix X: Mississippi

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 Mississippi. The full report on all of our work, which covers 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery/>.

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

- **Funds Made Available as a Result of Increased Medicaid Federal Medical Assistance Percentage (FMAP).** As of June 29, 2009, Mississippi had drawn down almost \$207 million in increased FMAP grant awards, which is over 89 percent of its \$232 million grant awards to date. Mississippi officials reported that they are planning to use funds made available as a result of the increased FMAP to cover Medicaid's increased caseload. The officials also noted that they are using freed up state funds to offset the state budget deficit.²
- **Highway Infrastructure Investment funds.** The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned \$355 million in Recovery Act funds to Mississippi, of which 30 percent was suballocated to metropolitan and other areas. As of June 30, 2009, the federal government's obligation was \$276 million, and Mississippi had awarded 44 contracts totaling \$208.4 million for "shovel ready" projects, including highway resurfacing, bridge improvement, and new construction projects. For example, one project in Lauderdale County, near the Mississippi-Alabama border, involves construction of a new interchange.

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

²The 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.

- **U.S. Department of Education (Education) State Fiscal Stabilization Fund (SFSF).** Education has awarded Mississippi \$321.1 million, or about 67 percent of its total SFSF allocation of \$479.3 million. The state has not obligated any of these funds as of June 30, 2009. Mississippi plans to use these funds to restore state support to education budgets for primary, secondary, and higher education. For example, a University of Mississippi official said these funds would be used to avoid tuition increases and layoffs.
- **Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA).** Education has awarded Mississippi \$66.4 million in Recovery Act ESEA Title I, Part A, funds or 50 percent of its total allocation of \$132.9 million. The Mississippi Department of Education has determined allocations for local education agencies and released this information on June 25, 2009. Local education agencies we visited plan to use these funds to, among other things, provide professional development for teachers and purchase new classroom equipment.
- **Individuals with Disabilities Education Act (IDEA), Part B & C.** Education has awarded Mississippi \$63.4 million in Recovery Act IDEA, Part B & C, funds, or 50 percent of its total allocation. The Mississippi Department of Education has determined allocations for local education agencies and planned to release this information by early July 2009. Local education agencies we visited plan to use these funds to purchase communication devices for students with disabilities and equipment for special education teachers. IDEA Part C is administered separately by the Mississippi Department of Health, which is planning to use the funds for personnel development and direct services for children.
- **Weatherization Assistance Program.** The U.S. Department of Energy awarded \$49.4 million in Recovery Act weatherization funding to Mississippi. Based on information available on June 30, 2009, DOE has allocated 50 percent (\$24.7 million) to the state. The Mississippi Department of Human Services (MDHS) has obligated all of these funds. MDHS also has started to disburse these funds to help reduce the energy bills of more than 5,000 low-income families across the state.
- **Workforce Investment Act Youth Program.** The U.S. Department of Labor allotted about \$18.7 million to Mississippi in Workforce Investment Act Youth Recovery Act funds. Mississippi has allocated about \$15.9 million to the state's four local workforce areas, based on information available on June 30, 2009. The local workforce areas'

summer youth programs were set to begin operating in late May and early June. Mississippi plans to create summer employment opportunities for about 6,000 youth using Recovery Act funds.

- **Edward Byrne Memorial Justice Assistance grants.** The Department of Justice's Bureau of Justice Assistance has awarded \$11.2 million in Recovery Act funding directly to Mississippi. Based on information available as of June 30, 2009, \$57,072 of these funds have been obligated by the Mississippi Department of Public Safety, which administers these grants for the states.³ Grant funds coming to the state will provide funding for law enforcement, community corrections, as well as prevention and education programs.
- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development has allocated about \$32.4 million in Recovery Act funding to 52 public housing agencies in Mississippi. Based on information available as of June 20, 2009, 18 of these agencies had obligated about \$5.7 million, or 17.6 percent. At the 2 public housing agencies we visited (in Gulfport and Picayune), this money, which flows directly to public housing agencies, is being used for various capital improvements, such as modernizing kitchens and bathrooms; replacing plumbing, flooring, and entrance doors; and installing new roofs and siding.

Safeguarding and transparency: Mississippi has enhanced its accounting system to track Recovery Act funds that flow through the state treasury and the state central accounting system and is making changes to most of its software programs so that the use of the funds will be more transparent. Once software changes are completed, detailed information on the use of Recovery Act funds, including the total amount of Recovery Act funds received, the amount of funds obligated or expended for grants, a detailed list of all grants and activities (including projects under those grants), and the number of jobs created or sustained, will be available on the State of Mississippi Web site.

Assessing the effects of spending: Mississippi agencies continue to express concern about the lack of clear federal guidance on assessing the effects of Recovery Act spending. For example, officials at the two local

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

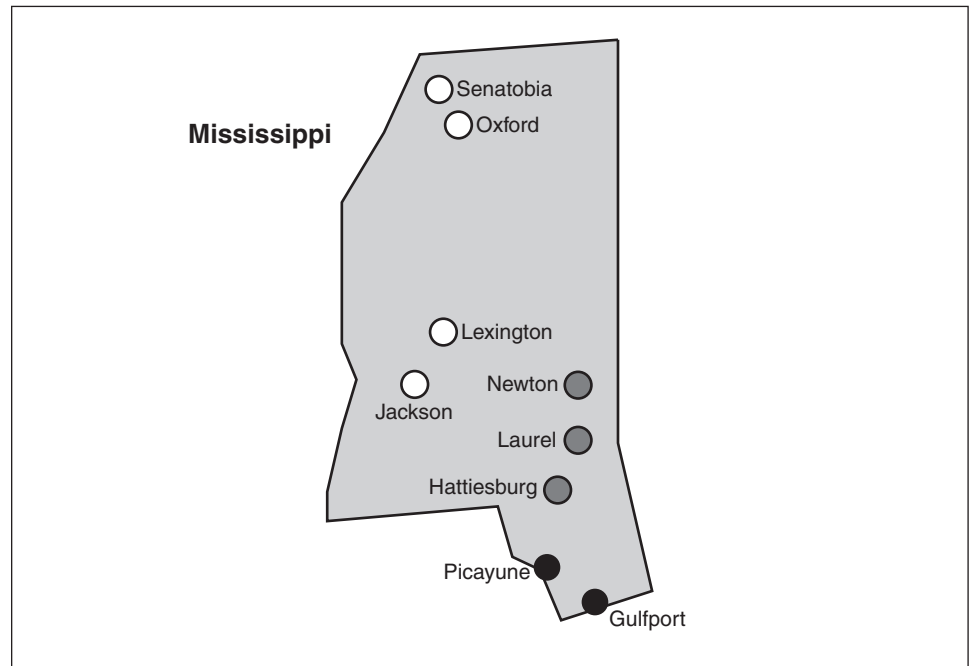
education agencies and three institutions of higher education we visited told us that they plan to use Recovery Act funds to avoid layoffs and hire new staff. These officials noted that they would like more specific reporting guidance—including how to track jobs created and sustained—from their state oversight boards. In addition, officials from the state oversight boards told us that they were expecting to receive additional guidance on reporting requirements from Education and the Office of Management and Budget and would share this guidance with their local education agencies and institutions of higher education. Officials from the two public housing agencies we visited in Mississippi also told us that they have not received specific guidance from the U.S. Department of Housing and Urban Development regarding how to assess the effects of Recovery Act spending, such as the number of jobs created or retained.

Introduction

As part of our second bimonthly review of Recovery Act spending in Mississippi, we visited several localities, including one Mississippi Department of Transportation (MDOT) district office, two MDOT project offices, two public housing agencies, two 4-year institutions of higher learning, one community college, and two local education agencies.⁴ Figure 1 shows the location of the offices visited.

⁴We discuss the basis for our selection of these localities throughout this appendix.

Figure 1: Localities GAO Visited during Second Bimonthly Recovery Act Review



- Education (local agencies: Holmes County School District, Lexington; City of Jackson Public School District; higher education agencies: Northwest Mississippi Community College, Senatobia; University of Mississippi, Oxford; Jackson State University, Jackson)
- Transportation (Mississippi Department of Transportation District Office, Hattiesburg; Mississippi Department of Transportation Project Offices, Laurel and Newton)
- Housing (Mississippi Regional Housing Authority No. VIII, Gulfport; Housing Authority of the City of Picayune)

Sources: GAO; Art Explosion (map).

Long-Term Impact of Recovery Act on Mississippi Budget Is Uncertain

The funding provided by the Recovery Act may help Mississippi reduce the impact of budget reductions made in fiscal year 2009, but the longer-term impact of the Recovery Act funding remains uncertain.

The legislature normally conducts its regular session from January through the end of March, but recessed early in part because of uncertainty regarding how the state's portion of Recovery Act funds should be spent. The legislature reconvened in late May to reconsider the budget. However, the legislature, in early June, completed its regular session without reaching agreement with the Governor on a budget for fiscal year 2010.

According to a state official, the legislature passed appropriations for fiscal year 2010 for most state agencies on June 30, 2009. The official added that several of the agency appropriations use Recovery Act funding as a funding source. However, the Governor is concerned that the Recovery Act funding will not be enough to address the deficits the state may face in the next 3 fiscal years.

Recovery Act Funding May Lessen Recent Budget Reductions, but Gaps Remain

As we reported in April 2009, prior to the Recovery Act, Mississippi had made two budget reductions to maintain a balanced budget for the 2009 fiscal year, which ended on June 30.⁵ In response to anticipated budget shortfalls, the Governor, in November 2008, cut most state agency budgets by 2 percent of the amount the legislature appropriated for fiscal year 2009, or \$42 million. In January 2009, the Governor cut state agencies' budgets by an additional \$158.3 million, bringing the total cuts to \$200 million. The Governor made a smaller reduction, in terms of the program's overall budget, to the state's Adequate Education Program, which supports local education.⁶ The Governor determined that the reductions were necessary to comply with state law requiring a balanced budget, noting that the state had collected less tax revenue than expected.

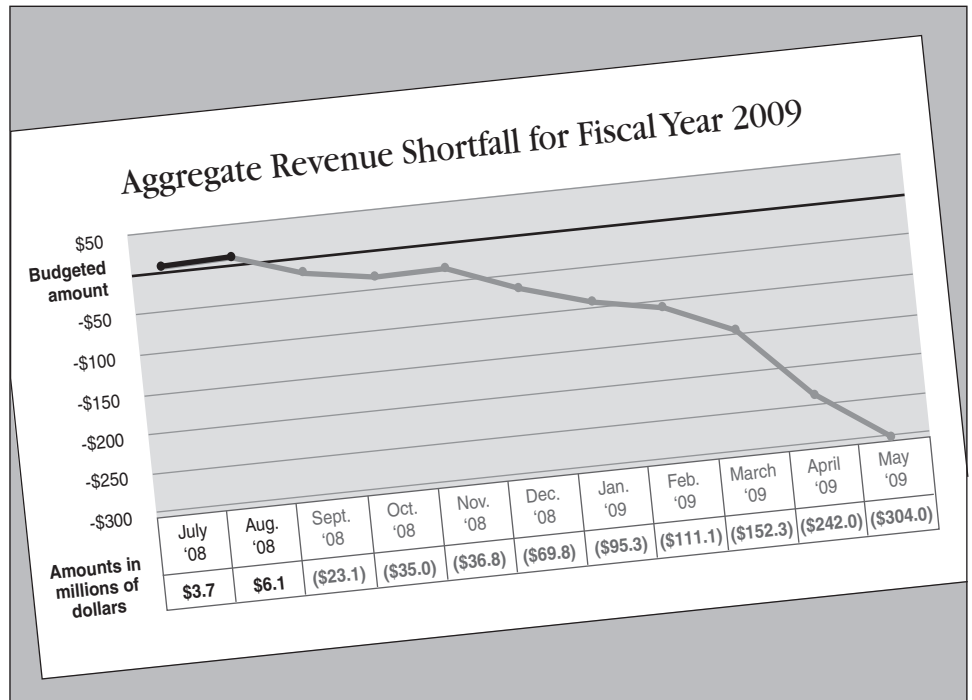
A May 2009 assessment by the Governor's office indicates that the state's revenue shortfall significantly increased from January 2009 through April 2009. As figure 2 shows, the Governor's assessment is that the state's revenue shortfall has continued to worsen, reaching \$304 million by May 2009. Similarly, the state's Joint Legislative Budget Committee issued revised revenue estimates in March 2009, indicating that the revenue shortfall for fiscal year 2009 would be larger than previously expected.⁷

⁵GAO, *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).

⁶The Governor's reductions also excluded state Medicaid services and court-ordered settlements.

⁷In October 2008, the Joint Legislative Budget Committee estimated that the state would collect slightly more than \$5 billion dollars in general fund revenue for fiscal year 2009, but in March 2009 the committee lowered this estimate to slightly more than \$4.8 billion dollars.

Figure 2: The Governor’s Office’s Revenue Shortfall Projections



Source: Governor’s Fiscal Year 2010 Modified Budget Recommendations, May 6, 2009.

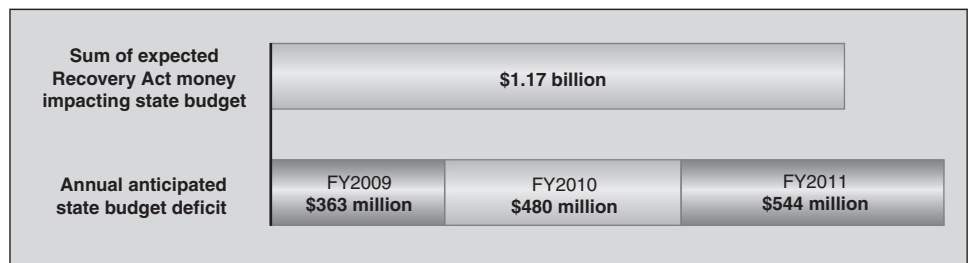
The Governor in his May 2009 budget recommendations had discussed plans to use Recovery Act funds to partially restore funding for some of the state programs that had been reduced in fiscal year 2009. However, a state budget official noted that a cautious approach was being taken in restoring funding because recent tax collections had been less than expected. The legislature and Governor were considering other sources of revenue such as drawing from the Rainy Day Fund,⁸ a tobacco tax increase, and a hospital assessment. As of June 30, 2009, it was not clear the extent to which funding had been restored for state programs as the legislature worked to finalize appropriations for fiscal year 2010.

⁸The Mississippi Rainy Day Fund, formally called the Working Cash-Stabilization Reserve Fund, is intended, among other uses, to be used to cover any projected deficits that may occur in the General Fund at the end of a fiscal year as a result of revenue shortfalls. Miss. Code § 27-103-203.

Governor Concerned about Longer-Term Budgetary Impacts

The Governor’s assessment is that the state faces significant fiscal challenges beyond fiscal year 2010. The Governor believes that Mississippi will likely face deficits that exceed the amount of Recovery Act funds the state anticipates will be available, as shown in figure 3. The Governor noted that the global economy may worsen and historically state tax revenues recover more slowly than the overall economy. By fiscal year 2012, the Governor’s office believes that the shortfall may reach \$500 million or more.

Figure 3: Governor’s May 11, 2009, Assessment of the Impact on Recovery Act Funds on Addressing Revenue Shortfalls



Source: Governor’s Fiscal Year 2010 Modified Budget Recommendations, May 6, 2009.

Note: Mississippi state law imposes upon the Mississippi Legislative Budget Office the duty to prepare an overall balanced budget of the entire expense and income of the state for each fiscal year. This balanced budget is to encompass the operations of all general-fund agencies of the state, all special-fund agencies of the state, and MDOT. Miss. Code § 27-103-113.

The Governor suggests that the Recovery Act may only partly address the challenges the state is facing. Moreover, the Governor notes that when the Recovery Act funding ends the state may continue to face a large revenue shortfall. Consequently, the Governor says the legislature should at some point consider major reforms and restructuring. For example, one longer-term measure the Governor recommends is to “create a mechanism to consider every department and agency of the state government from the bottom up,” to improve performance in the state government.

Federal Medical Assistance Percentage Funds

Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state’s per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures is known as 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, 2010.⁹ On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act.¹⁰ Generally, for federal fiscal year 2009 through the first quarter of federal fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for (1) the maintenance of states' prior year FMAPs; (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs; and (3) a further increase to 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.

Recent Increases in Mississippi Medicaid Enrollment Add Pressure to State Budget Situation, Underscoring Need for Additional Federal Guidance

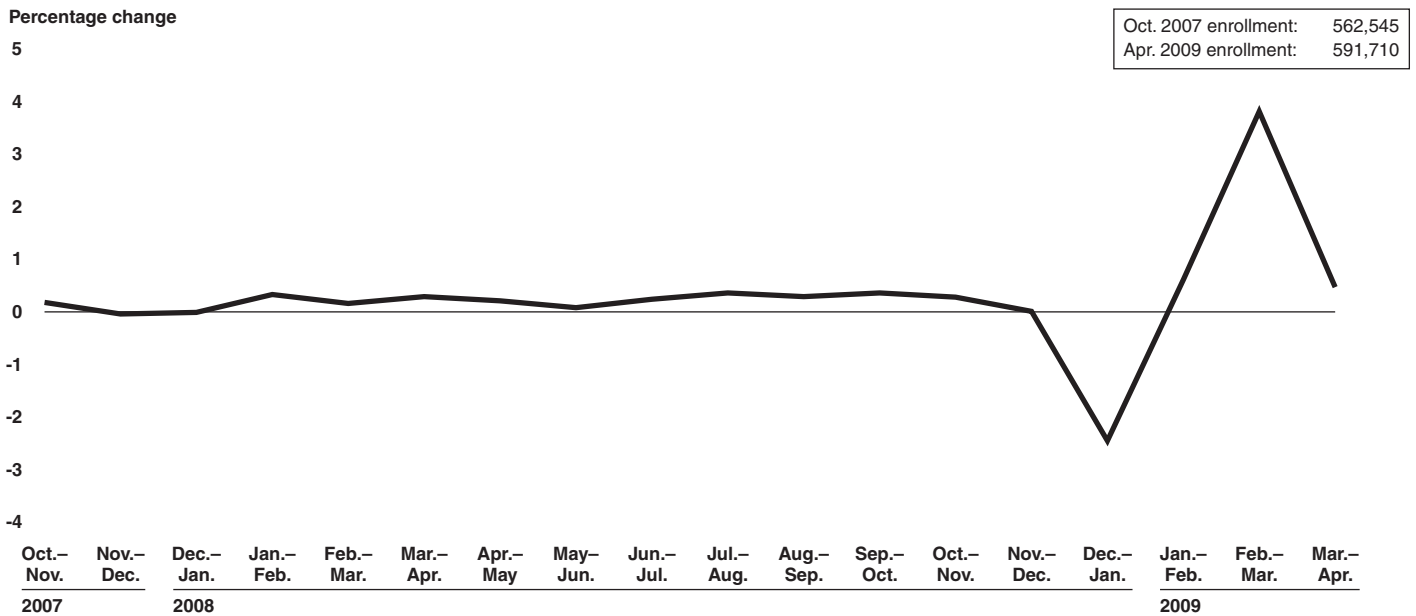
From October 2007 to April 2009, the state's Medicaid enrollment grew from 562,545 to 591,710, an increase of 5.2 percent. (See fig. 4.) The increase in enrollment varied over this period, with a larger increase from February to March 2009, and 3 months where enrollment decreased. Most of the increase in enrollment was attributable to two populations groups: (1) children and families and (2) disabled individuals. There was also a decrease in enrollment in a Family Planning Waiver.¹¹

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

¹⁰Although 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.

¹¹Mississippi's Family Planning Waiver is part of the state's Early and Periodic Screening, Diagnosis and Treatment services available to women from 13 years to 44 years of age. These services include medical exams, education, lab services, follow-up doctor visits and birth control.

Figure 4: Monthly Percentage Change in Medicaid Enrollment for Mississippi, October 2007 to April 2009



Source: GAO analysis of state reported data.

As of June 29, 2009, Mississippi had drawn down almost \$207 million in increased FMAP grant awards, which is over 89 percent of its awards to date.¹² Mississippi officials reported that they are using funds made available as a result of the increased FMAP to offset the state budget deficit. The state is also planning to use such funds to cover Medicaid’s increased caseload. Mississippi Medicaid officials noted that due to the state’s funding constraints they could not address any growth in the Medicaid program, which experienced an enrollment increase of about 22,000 beneficiaries in March 2009 alone. Mississippi officials reported that the Medicaid program has incurred additional costs related to

- personnel needed to ensure compliance with reporting requirements related to the increased FMAP,
- systems development or adjustments to existing reporting systems, and
- personnel associated with the routine administration of the state’s program.

¹²Mississippi received increased FMAP grant awards of just over \$232 million for the first three quarters of federal fiscal year 2009.

State Medicaid officials noted that they need additional guidance from CMS related to certain aspects of requirements for maintaining eligibility for increased FMAP funds and on the appropriate use of the increased FMAP funds. Specifically, according to state Medicaid officials, CMS required the state to change the frequency with which it determined beneficiary eligibility under its family planning waiver from every 2 years to annually before CMS would approve the renewal of the waiver. CMS also required the state to preclude individuals with additional health insurance from coverage under the waiver. Although these changes were required by CMS, state Medicaid officials were concerned that they could be considered more restrictive under the Recovery Act's maintenance of eligibility requirements.¹³ As of June 30, 2009, a state Medicaid official indicated that she has received a verbal response from CMS that any waiver changes made to be in compliance with federal Medicaid regulations will not affect the state's eligibility for the increased FMAP. The official added that they are waiting for written confirmation of this from CMS. Also, state Medicaid officials reported concerns related to the state's ability to comply with the increased workload associated with Recovery Act reporting requirements, given the state's hiring freeze. However, despite this concern, one of the officials noted that the state is currently utilizing existing staff to address the reporting requirements and there is not a need for additional staff at this time.

Despite the additional funds available under the Recovery Act, Mississippi continues to have longer-term funding concerns for future periods, particularly after Recovery Act funds have been exhausted.¹⁴ State Medicaid officials expressed their understanding of the Recovery Act prohibition on depositing general fund savings resulting from the increased federal match into a rainy day fund for general use,¹⁵ and they inquired with CMS about setting aside state dollars from other sources in order to address a funding shortfall anticipated for Medicaid in 2011. In

¹³In 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).

¹⁴For a discussion of Mississippi's long-term funding concerns from the Governor's perspective, see www.governorbarbour.com/features/budget/2010%20Mod%20Budget%20LETTER.pdf.

¹⁵A state is not eligible for certain elements of increased FMAP if any amounts attributable directly or indirectly to them are deposited or credited into a state reserve or rainy day fund. Recovery Act, div. B, title V, § 5001(f)(3).

particular, state Medicaid officials noted that, based on conversations with CMS, it would be permissible to delay the use of Tobacco Settlement payments that are received in the state's "Healthcare Expendable Fund" in state fiscal year 2010 until state fiscal year 2011. These officials reiterated that the Tobacco funds have no connection to Recovery Act savings and thus, could be allocated to a later year.

Regarding the tracking of the increased FMAP, Mississippi established new account codes for its existing accounting system, which allows the state to identify and track the increased FMAP. State officials also noted that the state separately codes expenditure transactions related to the increased FMAP and that the State Auditor's Office is currently undertaking a performance audit to determine compliance with Recovery Act requirements. In addition, the 2007 and 2008 Single Audit reports for Mississippi did not identify any material weaknesses specifically related to the Medicaid program.¹⁶

Contracts Awarded in March and April for Mississippi Recovery Act Highway Fund Projects Under Way

The Recovery Act provides funding to the states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program, and for other eligible surface transportation projects. The act requires that 30 percent of these funds be suballocated for projects in metropolitan and other areas of the state. Highway funds are apportioned to the states through existing federal-aid highway program mechanisms and states must follow the requirements of the existing program including planning, environmental review, contracting, and other requirements. However, the federal fund share of highway infrastructure investment projects under the Recovery Act is up to 100 percent, while the federal share under the existing Federal-Aid Highway Program is generally 80 percent.

In Mississippi, there are two agencies that administer Recovery Act funding for transportation projects. These two agencies are the Mississippi Department of Transportation (MDOT) and the Office of State Aid Road

¹⁶The 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.

Construction (OSARC). MDOT has responsibility for 14,300 miles of roadway statewide, including interstate highways, U.S. highways, and State Routes. OSARC assists Mississippi's 82 counties in the construction and maintenance of 19,019 miles of secondary, non-state roads and bridges. The State Aid engineer is appointed by the governor in contrast to MDOT, which is controlled by an elected commission. Since the Federal Highway Administration (FHWA) only recognizes one transportation agency in each state, all federal funding must flow from FHWA through MDOT. While OSARC determines how they will use their Recovery Act funds and then administers the funding, the agency must seek MDOT's approval for each of their projects. After awarding contracts for federal projects, OSARC pays all contractor bills and then submits a request for reimbursement to MDOT.

Mississippi Was Prepared to Have Recovery Act Funds Obligated Quickly and Has Awarded Numerous Contracts below Cost Estimates

As we previously reported, \$355 million was apportioned to Mississippi in March 2009 for highway infrastructure and other eligible projects. As of June 25, 2009, \$276 million had been obligated. The U.S. Department of Transportation has interpreted "obligation of funds" to mean the federal government's contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement and the project agreement is executed. As of June 25, 2009, about \$8 million has been reimbursed by FHWA. A state requests reimbursement from FHWA as the state makes payments to contractors working on approved projects.

As we reported in our April 2009 report, Mississippi began planning for federal highway infrastructure investment under potential stimulus legislation before the Recovery Act was passed. MDOT hired a contractor to conduct an economic impact analysis of projects MDOT had preselected to receive Recovery Act funding. According to one of the contractor's staff, these projects were preselected on the basis that they were "shovel ready" during the first 90 days of the state receiving stimulus funds. With the assistance of this study, MDOT and OSARC chose to use Recovery Act funding for a wide range of "shovel ready" projects including highway resurfacing and bridge improvement projects as shown in table 1. MDOT's plan also includes new construction projects, one of which will build an interchange near the Mississippi-Alabama border in Lauderdale County.¹⁷ Further, 6 of the 12 OSARC Recovery Act projects are bridge

¹⁷With regard to this project, we visited the MDOT Newton Project Office as this is the office responsible for overseeing the construction for the interchange.

replacements, as these projects typically take no longer than a year and a half to complete.

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

Dollars in millions

	Pavement projects			Bridge projects			Other ^a	Total
	New construction	Pavement improvement	Pavement widening	New construction	Replacement	Improvement		
	\$25	\$150	\$42	\$0	\$24	\$24	\$11	\$276
Percent of total obligations	9.2	54.3	15.2	0	8.6	8.7	4	100.0

Source: GAO analysis of Federal Highway Administration data.

Note: Data includes both MDOT and OSARC projects.

^aIncludes 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.

As of June 25, 2009, MDOT had awarded 36 contracts representing \$201.2 million and OSARC had awarded 8 contracts representing \$7.2 million. Of the total 44 contracts awarded, 25 contracts are under way. MDOT completed its first Recovery Act project on May 6, 2009. The project was completed in less than half the time allotted and the project was completed under budget.¹⁸

The 36 MDOT contracts were awarded for \$27 million less than estimated, while the 8 OSARC contracts were awarded for \$708,000 less than estimated. MDOT and OSARC believe that bids are coming in under estimated costs because the price of liquid asphalt has fallen as a result of decreasing fuel prices. We also spoke with two in-state contractor representatives who cited not only lower prices for fuel purchased to make liquid asphalt, but also the economy and increased competition as reasons for bids coming in lower than state estimates. FHWA can use these excess funds to approve new projects.

Meeting Recovery Act Requirements May Present Challenges

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

¹⁸With regard to this project, we visited the MDOT District Six Office as well as the MDOT Laurel Project Office because these two offices oversaw the project's completion.

- 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 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, 2010.¹⁹

As of June 25, 2009, 86.9 percent of the approximately \$248 million of Mississippi's Recovery Act funds subject to the 50 percent rule for the 120-day redistribution had been obligated. To give priority to projects that can be completed within 3 years, FHWA worked with both MDOT and OSARC. MDOT tasked a selection committee to identify "shovel ready" projects—projects with developed plans, right-of-way clearances, and environmental clearances. OSARC also identified "shovel ready" projects, concentrating on bridge replacements, road widening, and resurfacing projects. Both MDOT and OSARC confirmed that all Recovery Act projects would be completed within 3 years as stipulated by the act.

As of June 25, 2009, Mississippi had reported to FHWA that 90 percent of the funds obligated to date had been obligated for projects located in areas

¹⁹States 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 the each state to have their apportioned funds obligated by the end of the federal fiscal year (September 30) and adjusts the limitation on obligations for federal-aid highway and highway safety construction programs by reducing for some states the available authority to obligate funds and increasing the authority of other states.

classified as economically distressed. MDOT and OSARC used the FHWA map, which is based on definitions set forth by section 301 of the Public Works and Economic Development Act of 1965, to identify economically distressed areas. FHWA cites 75 of 82 counties as economically distressed, and all but 5 of the 44 MDOT and OSARC projects awarded to date are located in these 75 counties.

On March 16, 2009, Mississippi submitted an “explanatory” certification guaranteeing that the state would maintain its planned level of state expenditures for fiscal years 2009 and 2010 transportation projects. Mississippi’s certification was considered “explanatory” because it intended to explain why the state’s planned level of expenditures excluded expenditures for bonded projects.²⁰ On April 22, 2009, the U.S. Secretary 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, 2009. Mississippi resubmitted the state’s certification on April 28, 2009 and included state expenditures on bonded projects, which increased the dollar amount of the state’s planned level of expenditures. DOT 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.

For the period February 17, 2009, through September 30, 2010, MDOT committed to expend \$280 million and OSARC committed to expend \$51.1 million in state funding for a total of planned state expenditures of \$331.1 million. MDOT calculated its planned level of expenditures by determining state funds available to be expended in the construction program for fiscal year 2010, which runs from July 1, 2009, through June 30, 2010. This included both state funds used for federal match and state-funded projects. MDOT then projected these expenditures over the 18-½-month timeframe. Additionally, MDOT included estimated construction expenditures for bonded projects during the same time period. OSARC calculated its planned level of expenditures by using a two-part formula including the 5-year averages of OSARC program construction expenditures and roadway mileage. The result of this formula was then added to all expenditures included in the Local System Bridge Program to

²⁰Bonded projects allow MDOT to fund projects by paying debt service with future Federal-Aid Highway Program apportionments.

calculate an annual expenditure average.²¹ This annual expenditure average was multiplied by 1.5 to arrive at the 18-month total planned level of expenditures.

According to MDOT's Budget Director, if MDOT's budget is reduced in 2010, the agency will try to absorb the cuts and maintain the state's level of effort by reducing the MDOT administrative budget. OSARC officials said that their maintenance of effort could be affected, depending on the size of the budget cut.

Mississippi Local Educational Agencies and Institutions of Higher Education Have Not Yet Received Funding from the State Fiscal Stabilization Fund

The Recovery Act created SFSF to be administered by the U.S. Department of Education (Education). 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.

As of June 2009, Mississippi has received \$321.1 million of its total \$479.3 million allocation for SFSF. Of that amount, \$262.7 million is for education stabilization and \$58.4 million is for government services. Based

²¹The Local System Bridge Program is a bridge program administered by OSARC.

on the state's approved application, the state will allocate 38 percent of the education stabilization funds to local educational agencies (LEAs) and 10 percent to IHEs, and how the remaining 52 percent would be allocated had not been determined. The state plans to revise its application and change the allocation of funds to LEAs and IHEs. As of June 30, 2009, Mississippi had not made any of the funds available to LEAs and IHEs.²² The state's application provided assurance that the state will meet maintenance of effort requirements.

On June 30, the state enacted budgets for fiscal year 2010 for most state agencies, including Education. The Governor will allocate the SFSF funds to the state oversight boards for education. The Mississippi Department of Education is the oversight board for K-12 public education in Mississippi. The Institutions of Higher Learning oversees the 4-year colleges and universities. The State Board for Community and Junior Colleges is the coordinating board for the state's 2-year institutions. Once the funds are allocated to the state boards, they will be made available to the individual LEAs and IHEs. For the LEAs, allocations will be made using the Mississippi Adequate Education Program formula. The Adequate Education Program formula is used to establish funding levels for each school district. The formula considers the average per pupil cost at efficient school districts and applies an equity factor that reduces funding for districts with higher-than-average property values. For the IHEs, the funds will be allocated using a formula based on the schools' total credit hours, the normal formula used by the state boards to distribute state allocations.

While the state is planning to amend its application for SFSF funds, the original completed application indicated that the Governor intended to use about 34 percent of the government services funds for public IHEs. A small portion, about 10 percent, would go toward Medicaid. And 56.4 percent of these funds would be used to restore budget cuts in fiscal year 2009 and for Recovery Act accountability and transparency purposes. In his Executive Budget Recommendation, the Governor indicated that a portion of the dollars in the latter category would go toward the Department of Finance and Administration to be used for Recovery Act accountability.

²²In commenting on a draft of this assessment, officials from the Governor's office stated that the application would be revised in accordance with Recovery Act guidelines once the budget negotiations are concluded. They further noted the Governor's flexibility in determining the timing of the release of the Recovery Act funds.

Mississippi Localities Request More Guidance from State Oversight Boards

The education oversight boards at the state level are still in the process of developing guidance on proper use of Recovery Act funds and reporting requirements for subrecipients, including the two LEAs (Holmes County School and Jackson Public School Districts) and three IHEs (Northwest Mississippi Community College, the University of Mississippi, and Jackson State University) that we visited.²³ The local officials at these institutions would like to obtain more information from their state oversight boards, including estimates of the funding they will receive and more guidance on reporting requirements. The state-level officials are expecting to receive additional guidance on reporting requirements from Education. They will share this with the LEAs when received. At the state level, concerns were also raised about the lack of guidance from the federal level regarding the application process for the LEAs to receive Recovery Act funds.²⁴ In addition to a lack of guidance, the state legislature's delay in passing the fiscal year 2010 budget and releasing the initial allocation of SFSF funds has prevented school officials from hiring teachers or making extensive plans for the coming school year. Even without allocation estimates and clear guidance, the LEAs and IHEs are making preliminary plans for how they would like to spend the funds, such as for filling vacancies, increasing services to students, and providing professional development for instructors, but no definite plans have been made.

Preliminary Plans for Two Mississippi LEAs Use of Education Stabilization Funds Include Saving and Creating Jobs

We visited two LEAs that expect to receive Recovery Act funds, the Holmes County School District and the Jackson Public School District. Both want to hire more teachers because declining budgets caused the LEAs to slow or freeze hiring over the last couple of years. Several schools in Holmes County currently do not have assistant principals, and the Superintendent would like to use Recovery Act funds to correct this. Holmes County schools also do not have enough math teachers. Jackson schools have been unable to fill several administrative position vacancies

²³We selected Holmes County School and Jackson Public School Districts because both had a number of schools categorized as "Needs Improvement," and because Holmes County is considered rural. We selected Northwest Mississippi Community College and the University of Mississippi because they are among the largest 2- and 4-year institutions, respectively, in the state. We selected Jackson State University because it is a historically black university.

²⁴The Office of Management and Budget (OMB) is providing additional guidance to recipients of Recovery Act funds that address concerns the state Department of Education expressed regarding Recovery Act reporting requirements. On June 22, OMB provided implementing guidance for carrying out the reporting requirements included in section 1512 of the Recovery Act.

because of a lack of funds. School officials also said that with the SFSF funds, they will be able to retain staff they may have otherwise lost.

Several of Mississippi's IHEs Will Use SFSF Funds to Avoid Layoffs and Mitigate Tuition Increases

We visited three IHEs that expect to receive Recovery Act funds. All plan to use these funds to avoid tuition increases and layoffs. The full extent to which jobs will be saved or created or tuition increases mitigated is currently unknown, but without Recovery Act funds, layoffs and tuition increases are extremely likely. In addition to preserving jobs and mitigating tuition increases, Recovery Act funds are expected to allow institutions to increase services to students. For example, Northwest Mississippi Community College would like to use some of the funds to increase its e-learning capacity to serve its rapidly increasing number of students. Jackson State University and the University of Mississippi would like to use some of the funds to strengthen the institutions' information technology infrastructures.

Mississippi Plans for Use of Title I (Part A) Recovery Act Funds Include Professional Development for Teachers and Improved Student Services

The Recovery Act provides \$10 billion to help local educational agencies (LEA) educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A, of ESEA. The Recovery Act requires these additional funds to be distributed through states to school districts using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, local educational agencies are required to comply with current statutory and regulatory requirements and must obligate 85 percent of its fiscal year 2009 funds (including Recovery Act funds) by September 30, 2010.²⁵ Education is advising LEAs to use the funds in ways that will build their long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. Education made the first half of states' Title I, Part A funding available on April 1, 2009, with Mississippi receiving \$66.4 million, of its approximately \$132.9 million total allocation.

The Mississippi Department of Education has made determinations regarding the ESEA Title I, Part A, allocations for the individual LEAs and on June 25, 2009, released this information along with an application for

²⁵LEAs 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.

the funds that the LEAs must complete. The department is currently developing training that will be provided to the LEAs as they complete their applications. In the completed applications, LEAs will be required to describe how they plan to use the Recovery Act funds and the measures they intend to use for accountability and transparency.

The two LEAs that we visited are making preliminary plans and have many potential uses for these funds lined up. For example, the Superintendent of the Holmes County School District told us they hope to use the funds to seek professional development for teachers and purchase additional computers for classrooms. In the city of Jackson, school officials with the Jackson Public School District told us that they would like to use the funds to pursue professional development for teachers, develop an automatic parent notification system for absent students to decrease dropouts and increase attendance, fund student incentives to reward good behavior and academics, and purchase supplemental science and math programs for struggling students.

Mississippi Making Preliminary Plans for IDEA (Part B & C) Recovery Act Funds

The Recovery Act provided supplemental funding for programs authorized by Parts B and C of IDEA, the major federal statute that supports special education and related services for infants, toddlers, children, and youth with disabilities. Part B includes programs that ensure that preschool and school-aged children with disabilities have access to a free and appropriate public education, and Part C programs provide early intervention and related services for infants and toddlers with disabilities or at risk of developing disabilities and their families. IDEA funds are authorized to states through three grants—Part B preschool-age, Part B school-age, and Part C grants for infants and families. States were not required to submit applications to Education in order to receive the initial Recovery Act funding for IDEA, Part B & C (50 percent of the total IDEA funding provided in the Recovery Act). States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements. All IDEA Recovery Act funds must be used in accordance with IDEA statutory and regulatory requirements. Education allocated the first half of states' IDEA allocations on April 1, 2009, with Mississippi receiving a total of \$63.4 million for all IDEA programs. The largest share of IDEA funding is for the Part B school-aged program for children and youth. The state's initial allocation was

- \$2.3 million for Part B preschool grants,

- \$58.9 million for Part B grants to states for school-aged children and youth, and
- \$2.1 million for Part C grants for infants and families for early intervention services.

The Mississippi Department of Education has made determinations regarding the IDEA Part B allocations for the individual LEAs and planned to release this information along with an application for the funds by early July. The department is currently developing training that will be provided to the LEAs as they complete their applications. In the completed applications, LEAs will be required to describe how they plan to use the Recovery Act funds and the measures they intend to use for accountability and transparency. IDEA, Part C, funds will be administered separately by the Mississippi Department of Health. A Department of Health official told us that the agency is planning to use the Recovery Act funds for purchasing new equipment and contracting to provide comprehensive personnel development; statewide training; and direct services for children, such as speech and physical therapy.

The two LEAs we visited, Holmes County School District and Jackson Public School District, are making preliminary plans and have identified many potential uses for their IDEA, Part B, funds. For example, in Holmes County, the superintendent told us that the school district hopes to use the funds to purchase communication devices for students with cerebral palsy and hire and provide training for special education teachers. In Jackson, school officials told us that they would like to purchase computers and printers for special education teachers and classrooms; assistive devices targeted to the individual needs of disabled students; adaptive physical education training programs, material, and equipment; supplemental language and reading program material; after school programs; and a data warehouse system. Jackson Public School officials also want to hire tutors to assist students with passing their state exams and instructors for freshman seminar classes. Some of these positions could be filled with retired teachers on a part-time basis. These hires may not be retainable when the funds are depleted; however, the Superintendent's staff said that the hires are necessary and the money would be well used in this way, even if they are not retained in the long term.

Department of Energy Recovery Act Weatherization Assistance Program

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, administered by the Department of Energy (DOE) through each of the states and the District of Columbia.²⁶ This funding is a significant addition to the annual appropriations for the program that have been about \$225 million per year in recent years. The program is designed to reduce the utility bills of low-income households by making long-term energy efficiency improvements to homes by, for example, installing insulation, sealing leaks around doors and windows, or modernizing heating and air conditioning equipment. During the past 32 years, the Weatherization 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, using a formula based on low-income households, climate conditions, and residential energy expenditures by low-income households. DOE required each state to submit an application as a basis for providing the first 10 percent of the Recovery Act allocation. DOE will provide the next 40 percent of funds to a state once the department has approved its State Program Plan, which outlines, among other things, its strategy for using the weatherization funds, metrics for measuring performance, and its risk mitigation strategies. The release of the final 50 percent of the funding to the states will occur in the future based on DOE progress reviews examining each state's performance in spending its first 50 percent of the funds.

Mississippi Receiving Large Increase in Weatherization Funding

DOE has allocated to Mississippi \$49.4 million in Recovery Act funding for the Weatherization Assistance Program for a 3-year period. Over the past 5 years, DOE has allocated to Mississippi from \$1.5 million to \$2 million for this program. The Mississippi Department of Human Services (MDHS) is responsible for administering the program. MDHS contracts with 10 local weatherization agencies across the state to provide services. MDHS received a Funding Opportunity Announcement on March 12 and subsequently received additional guidance via phone, e-mail, and regional conference calls. On March 18, 2009, MDHS submitted a preliminary plan

²⁶DOE also allocates funds to Indian tribes and U.S. territories (American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands).

to DOE. On April 3, 2009, MDHS received a 10 percent allocation (\$4.9 million) from DOE. MDHS has used these funds to cover administrative costs, such as hiring and training new staff.

On May 11, 2009, MDHS submitted a comprehensive plan and certification to DOE. On June 5, 2009, DOE provided another 40 percent (\$19.7 million), bringing the total allocation to 50 percent (\$24.7 million). MDHS has obligated all of these funds. In the approved plan, MDHS plans on reducing energy usage by 17,000 Mbtu²⁷ across 5,468 homes. Of the total \$49 million the state will receive, MDHS plans to spend about \$45.9 million on contracted services (for home assessments and improvements) and \$3.1 million on administrative costs.

Mississippi Is Leveraging Recovery Act Dollars to Expand Summer Youth Services

The Recovery Act provides an additional \$1.2 billion in funds nationwide for the Workforce Investment Act (WIA) Youth Program to facilitate the employment and training of youth. The WIA Youth Program is designed to provide low-income in-school and out-of-school youth ages 14 to 21, who have additional barriers to success, with services that lead to educational achievement and successful employment. 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 within federal agency guidance, local areas may determine the methodology for measuring work readiness gains. The program is administered by the U.S. Department of Labor, and funds are distributed to states based upon a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving up to 15 percent for statewide activities. The local areas, through their local workforce investment boards, have flexibility in deciding how they will use these funds to provide required services. In the conference report accompanying the bill that became the Recovery Act, the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth. Summer employment opportunities may include any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and

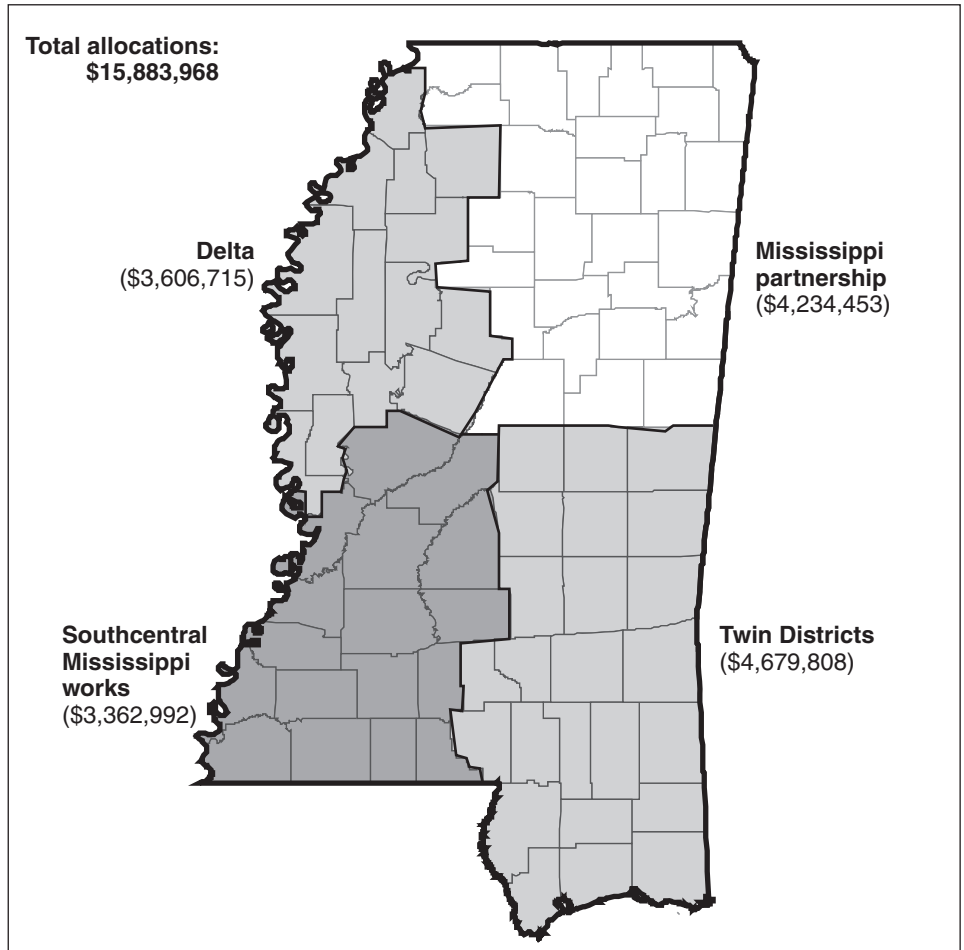
²⁷The Btu is a precise measure of the heat content of fuels. It is the quantity of heat required to raise the temperature of 1 pound of liquid water by 1 degree Fahrenheit at the temperature that water has its greatest density (approximately 39 degrees Fahrenheit). An Mbtu is equal to 1,000 Btus.

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.²⁸

The Mississippi Department of Employment Security (MDES) received about \$18.7 million in additional WIA Youth funding from the U.S. Department of Labor. MDES plans to use \$2.8 million to administer the program at the state level and has allocated about \$15.9 million by formula to the state's four local workforce investment areas (see fig. 5).

²⁸Current federal wage law specifies a minimum wage of \$6.55 per hour until July 24, 2009, when it becomes \$7.25 per hour.

Figure 5: Allocations Made to Local Workforce Areas in Mississippi for Providing Summer Employment Opportunities for Youth



Sources: Mississippi Department of Employment Security; MapInfo (map).

During our review, we met with officials for each of the state’s local workforce investment areas. Each area plans to provide summer employment opportunities to youth using additional WIA Youth funding. For example, an official from the Southcentral Mississippi Works local workforce area told us that their program will run from June 1 through July 31. In addition, an official from the Delta local workforce area told us that their program will start in late May and end on July 31.

Officials from each of the four local workforce areas told us that youth selected for summer employment will be expected to work from 30 to 40

hours per week and will earn at least minimum wage. For instance, in the Southcentral Mississippi Works local workforce area, youth will work 32 hours per week and will receive a wage of \$7.25 per hour.

As of May 20, 2009, three of the state's four local workforce areas were accepting applications from youth from ages 14 to 24. Two of the areas initiated advertisement campaigns to make youth aware of the program. For example, both the Mississippi Partnership and Delta local workforce areas developed television advertisements to highlight the summer opportunities available for youth. As a result, officials from these areas noted that the demand for the available positions was high. An official from the Mississippi Partnership local workforce area told us that they had received over 10,000 applications for 1,500 positions. In addition, an official from the Delta local workforce area told us that they had received over 4,000 applications for 1,500 positions. MDES officials estimate that the state will provide summer employment opportunities for about 6,000 youth as a result of the additional Recovery Act funding. In previous years, Mississippi did not operate a summer youth program.

Officials from each of the four local workforce areas told us that many of the youths selected for summer employment will work at public institutions, including schools, libraries, and camps where they will provide manual labor, clerical help, and research assistance. Some jobs will focus on improving the environment. In Desoto County, the Mississippi Partnership local workforce area will use youth to clean the Coldwater River and open it to the Mississippi River. Local officials noted that this project will provide new recreational opportunities and will improve the area's ecology.

MDES officials do not anticipate significant challenges in providing oversight and reporting on the additional funding that will provide summer employment opportunities for youth. The officials noted that the state follows strict procurement policies and reporting requirements issued by the U.S. Department of Labor. They also noted that they will be able to separately track and account for each dollar spent on the program. Specifically, each dollar Mississippi receives from the Recovery Act for the WIA Youth program will have a unique accounting symbol that can be used to track funds. To assess outcomes, the workforce areas will conduct a pretest, midpoint evaluation, and post-test of youth enrolled in the programs that focus on youth's worker readiness and skill development. The preliminary and postassessments will be in a written format while the midpoint assessment will be an interview conducted by an employment advisor. Local workforce areas do not plan on setting aside summer youth

employment funds to cover administrative costs. State officials noted that the state is providing funds that will cover the expected costs of conducting the program.

State Using Increase in Justice Assistance Grants to Fund Additional Law Enforcement Programs

The Edward Byrne Memorial Justice Assistance Grants (JAG) program within the U.S. 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 is 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.²⁹ The total JAG allocation for Mississippi state and local governments under the Recovery Act is about \$18.4 million, a significant increase from the previous fiscal year 2008 allocation of about \$1.4 million.

As of June 30, 2009, Mississippi has received its full state award of about \$11.2 million.³⁰ The Mississippi Department of Public Safety Office of Justice Programs, the state administering agency, plans to allocate JAG funds to the state and local programs within the state. JAG funds coming directly to state programs will total approximately \$4.3 million, while Mississippi cities and towns will receive about \$5.8 million in funds as a result of the formula-based share that states must allocate to local governments. The remainder of the funds (approximately \$1.0 million) will be used for state JAG administration. Of the \$4.3 million JAG funds coming to state programs, \$2.2 million will be used for planning, evaluation, and technology programs, which includes the Mississippi Crime Laboratory Enhancement Program. This program is to equip the Gulf Coast Crime Laboratory with the necessary instruments and staff to conduct

²⁹We 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.

³⁰Due to rounding, this number may not exactly equal 60 percent of the total JAG award.

clandestine laboratory analysis.³¹ The remainder of these state funds is to be used for a variety of programs, including law enforcement programs, such as the State Narcotics Enforcement Initiative and the Unsolved Cold Case Initiative, and prevention and education programs, such as the Law Enforcement Standards and Training Program. Of the \$5.8 million JAG funds being passed through to Mississippi cities and towns, nearly \$2.0 million is planned to be used to fund local drug treatment and enforcement through adult, family, and juvenile drug courts. Other local programs to be funded include law enforcement programs, such as multijurisdictional narcotics task forces and local street sales drug enforcement, as well as community corrections programs that provide an alternative to juvenile detention. Currently, the Mississippi Department of Public Safety Office of Justice Programs has not completed the request for proposal to be filled out by state and local agencies competing for funding, but they are working with consultants to finish this task. They plan to have a final request for proposal done in time to make awards by August 1, 2009.

Public Housing Agencies Have Started to Obligate and Expend Capital Formula Grants

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies for improving the physical condition of properties; the development, financing, and modernization of public housing developments; and management improvements.³² The Recovery Act requires the U.S. Department of Housing and Urban Development (HUD) to allocate \$3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. Recovery Act requirements specify that public housing agencies must obligate funds within 1 year of the date they are made available to them for obligation, expend at least 60 percent of funds within 2 years of that date, and expend 100 percent of the funds within 3 years of that date. Public housing agencies are expected to give priority to projects that can award contracts based on bids within 120 days from the date the funds are made available, as well as capital projects that rehabilitate vacant units, or those already under way or included in the required 5-year capital fund plans. HUD is also required to award \$1 billion to housing agencies based on competition for priority investments,

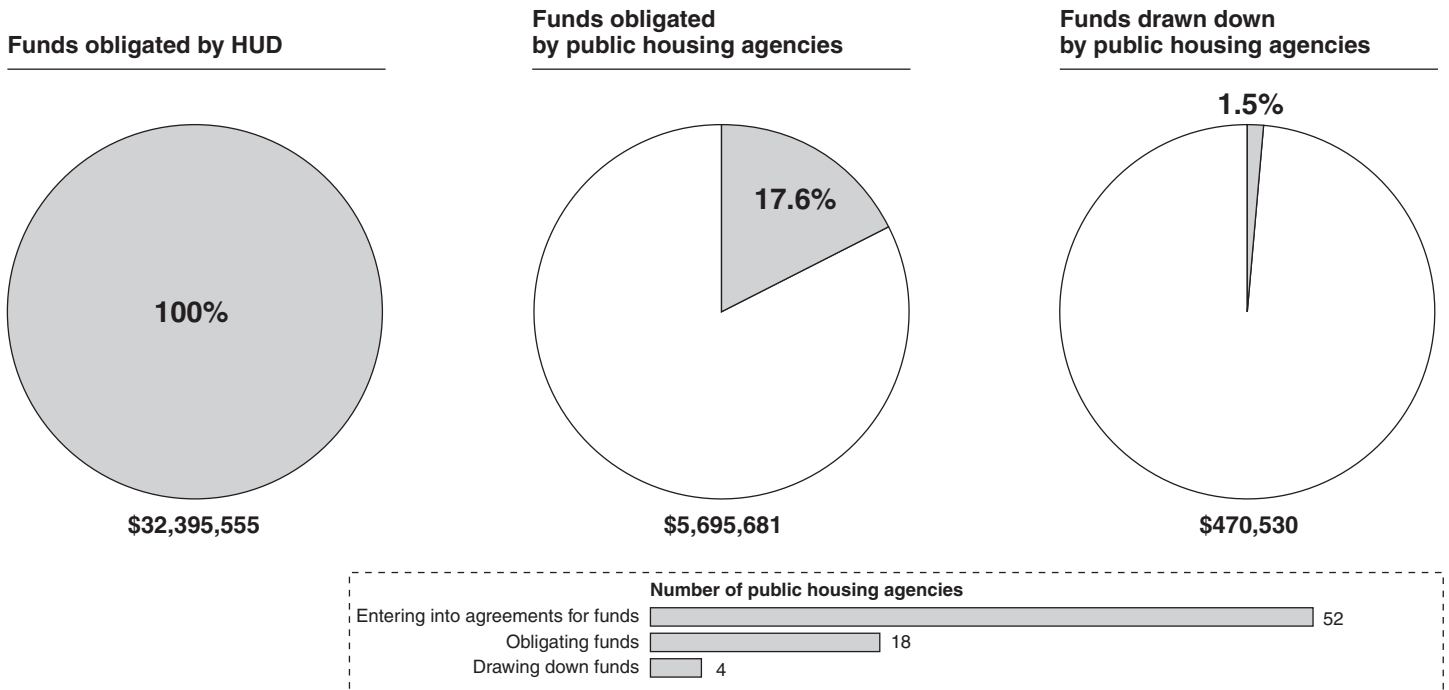
³¹Clandestine laboratories identify not only drugs and precursors but all chemicals involved in the drug-making process.

³²Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

including investments that leverage private sector funding/financing for renovations and energy conservation retrofit investments. On May 7, 2009, HUD issued its Notice of Funding Availability that describes the competitive process, criteria for applications, and time frames for submitting applications.³³ Mississippi has 52 public housing agencies that have received Recovery Act formula grant awards. These public housing agencies received about \$32.4 million from the Public Housing Capital Fund formula grant awards. As of June 20, 2009, these 52 public housing agencies had obligated about \$5.7 million and expended \$470,530 (see fig. 6). We visited the Mississippi Regional Housing Authority No. VIII (MRHA-VIII) in Gulfport and the City of Picayune Housing Authority in Mississippi for site visits related to their use of Capital Fund formula grants totaling \$4,480,981. We selected MRHA-VIII because it received the largest capital fund grant allocation in Mississippi and selected the Picayune Housing Authority because of its geographic proximity to MRHA-VIII.

³³HUD released a revised Notice of Funding Availability for competitive awards on June 3, 2009. The revision included changes and clarifications to the criteria and time frames for application and to funding limits.

Figure 6: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in Mississippi



Source: GAO analysis of HUD data.

Use of Funds

The two public housing agencies we visited in Mississippi received Capital Fund formula grants totaling about \$4.5 million. As of June 20, 2009, the Picayune Housing Authority had obligated \$433,370 or 62 percent of its \$697,630 Capital Fund formula grant, and drawn down \$293,027 or 42 percent of its grant. MRHA-VIII officials told us that they had not obligated or drawn down any of their \$3,783,351 Capital Fund formula grant because they had not awarded contracts for the work that will be completed using the grant.

The Picayune Housing Authority is using its Capital Fund formula grant to complete a substantial modernization of 22 rental units at two public housing developments. According to the Executive Director, the bathroom and kitchen areas will be modernized in each unit, including the cabinetry, fixtures, and flooring. In addition, other flooring, plumbing, and entrance doors will be replaced in each unit. The Picayune Housing Authority initiated work on this project in March 2009, and the work is scheduled for

completion in November 2009. Figure 7 shows a rental unit that will be modernized using Recovery Act funds and a partially renovated rental unit that has already been funded using Recovery Act dollars. The Picayune Housing Authority also will use its Capital Fund formula grant to replace the original central heat and air conditioning units in a public housing development that houses elderly residents. It expects to complete work on this project during calendar year 2009.

Figure 7: Rental Unit Scheduled for Renovation and Partially Renovated Rental Unit Funded with Recovery Act Dollars in Picayune, Mississippi



Housing unit with bathroom scheduled for renovation (left) and housing unit with partially renovated bathroom (right).



Housing unit with front door scheduled for replacement (left) and housing unit with front door replaced (right).

Source: GAO.

MRHA-VIII plans to use its Capital Fund formula grant to complete interior and exterior renovations on a total of 140 rental units at two public housing developments. For example, MRHA-VIII plans to complete interior renovations on 68 rental units at one development, and the renovated units will include new kitchen cabinetry and completely remodeled bathroom

areas. In addition, MRHA-VIII will complete exterior renovations on 140 rental units at two developments, including the installation of new roofing, siding, and numbering. MRHA-VIII also plans to use its grant to complete renovations on 4 first-floor rental units at one public housing development so these units will comply with the accessibility requirements as defined in Section 504 of the Rehabilitation Act of 1973, as amended.³⁴ Finally, MRHA-VIII plans to use its Capital Fund formula grant to complete interior and exterior office renovations at one public housing development. MRHA-VIII plans to initiate work on all of its Recovery Act–funded projects from July through August 2009 and complete work on all projects by August 2010.

Officials from the two public housing agencies we visited told us that they selected projects to fund that were consistent with the Recovery Act requirements as previously discussed. For example, Picayune Housing Authority officials told us that they initiated work on their project to substantially modernize rental units at two public housing developments, and they expect to award the contract for their other project to replace the original central heat and air conditioning units in an elderly public housing development within 120 days of when the Recovery Act funds were made available. MRHA-VIII officials also told us that they planned to award contracts for the projects selected for Recovery Act funding within this time frame. In addition, officials from both public housing agencies told us that they awarded Recovery Act funds to projects already under way or included in their 5-year Capital Fund plans—for instance, the Picayune Housing Authority is using these funds to substantially modernize rental units at two public housing developments where modernization efforts were already under way. According to the Executive Director, the Recovery Act funds will enable the public housing agency to complete a substantial modernization of all of its rental units that had not been previously rehabilitated, except for one apartment complex that was scheduled for demolition.

Officials from the two public housing agencies we visited also told us that they did not anticipate challenges in accessing their Capital Fund formula grant or meeting the accelerated time frames of the Recovery Act. For example, Picayune Housing Authority officials told us that they did not experience any challenges in drawing down Recovery Act funds from HUD’s Electronic Line of Credit and Control System compared with its

³⁴29 U.S.C. § 794.

regular Capital Fund grants. In addition, officials from both public housing agencies told us that they did not expect to encounter challenges in meeting the accelerated time frames for obligating and expending funds under the Recovery Act. Picayune Housing Authority officials told us that they expect all projects funded with Recovery Act dollars to be completed in 2009, while MRHA-VIII officials told us that all of their Recovery Act-funded projects will be completed by August 2010.

Public Housing Agencies we visited in Mississippi have established processes to track Recovery Act funds. For example, MRHA-VIII officials told us that they plan to track these funds separately using existing processes. In addition, they plan to maintain a separate general ledger for their Recovery Act funds. Similarly, Picayune Housing Authority officials told us that they were tracking Recovery Act funds separately and ensuring that the accounting and project planning for these funds was maintained separately. Regarding internal controls, officials from both public housing agencies we visited told us that their existing controls were sufficient to manage the additional infusion of Recovery Act funds and the accelerated timeframes for obligating and expending these funds.

State Is Tracking Recovery Act Funds

To provide transparency in the use of Recovery Act funds flowing into Mississippi through the state treasury and the state central accounting system, the state's Department of Finance and Administration (DFA) has required agencies to establish reporting categories within the accounting system using a specified format. This will allow the state to separately track and report on the uses of Recovery Act funds. The new categories enable DFA to track the receipt, obligation, and expenditure of Recovery Act funds. Agencies began adding Recovery Act reporting category codes in March 2009 and, as of May 18, 2009, had established 35 codes for education, rehabilitation services, health, Medicaid, wildlife, fisheries and parks, human services, employment security, and transportation programs. According to DFA officials, the state will add other codes as it receives funds for other uses.

The use of reporting categories does not currently allow DFA to tie individual obligations or expenditures to the contract for which they were incurred. However, DFA is in the process of making modifications to the state central accounting system that will allow the system to do so. Once completed, these changes will provide greater transparency of Recovery Act fund usage. For example, the changes will allow the public to view online Recovery Act contracts and expenditures for specific contracts. In addition, the changes will add further system controls, such as the ability

to deny the obligation of funds until a state agency has posted the contract that supports the obligation.

Most of the state's central accounting and reporting systems are undergoing some changes. DFA is making significant changes to the Statewide Automated Accounting System, which tracks purchasing, accounts payable, revenues, and accounts receivable and includes the state's general ledger. It is making minimal changes to the Statewide Payroll and Human Resource System that contains payroll, employment, travel, and personal services contract information. DFA is significantly enhancing the Mississippi Executive Resource Library and Information Network (MERLIN), an administrative data warehouse. Once DFA completes the MERLIN enhancements in the June to August 2009 time frame, the data warehouse will include a document depository to collect Recovery Act contract documents, grant/subgrant award documents, reporting data required by section 1512 of the Recovery Act that is not captured in the Statewide Automated Accounting System, as well as provide a means to perform such tasks as tracking payments to a specific contract and reporting Recovery Act revenues and expenditures. Detailed information on the use of Recovery Act funds, including the total amount of Recovery Act funds received, the amount of funds obligated or expended for grants, a detailed list of all grants and activities (including projects under those grants), and the number of jobs created or sustained, will flow from MERLIN to the State of Mississippi Web site. The office of Management and Budget (OMB) issued reporting guidance on June 22, which identified three methods that a state can use to report this information to the federal government for inclusion on the Recovery Act federal Web site, Recovery.gov. Two of the methods require some manual input, while the third method transmits the information via electronic file. According to the Deputy Executive Director, DFA has not yet decided which method it will use.

DFA estimates that the cost of manpower and software changes will be at least \$1 million. DFA had discussed making some of these software changes for some time, but had deferred such implementation because of the cost and the risk of making changes to an aging system. However, DFA's Deputy Executive Director told us that with the inflow of Recovery Act funds into the state, it was no longer possible to defer the changes.

Department officials also questioned whether the state is responsible for tracking all funds flowing into the state. The state can track funds that flow through the state treasury or are reported through the state's central accounting system, but it cannot track funds provided directly to other

state recipients. For example, the state cannot track funds that HUD provides to public housing agencies, funds that the National Science Foundation provides directly to universities, or funds that federal agencies provide directly to not-for-profit organizations.

State Begins to Actively Examine Internal Controls

DFA is taking steps to assist state agencies in spending Recovery Act funds responsibly and to put controls in place to mitigate the effects of fraud, waste, and abuse. With the issuance of Statement on Auditing Standards 112, *Communicating Internal Control Related Matters Identified in an Audit*, in May 2006, the state began to update the internal control section of its Mississippi Agency Accounting Policies and Procedures Manual (MAAPP Manual). In addition, DFA brought in an expert to conduct a training session on Statement on Auditing Standards 112 and on internal controls. DFA followed up by activating an Internal Control and Risk Management Office and began plans to have all state agency executive directors and internal control officers certify that their agencies have evaluated internal controls, including assessing risks, in accordance with guidelines established by the MAAPP Manual. On February 4, 2009, the DFA Executive Director issued the letter requiring a documented internal control plan, an internal control certification, and risk assessments. Although DFA's Internal Control and Risk Management Office planned to review the State Auditor's 2008 Single Audit report and begin monitoring agencies that the report identified as having deficiencies, it is now focusing on agencies receiving Recovery Act funds.

Internal Control Assessments Are Under Way

In his February 4, 2009, letter, DFA's Executive Director, in accordance with Mississippi law, required each state agency to certify in writing that it conducted an evaluation of internal controls and that the findings of the evaluation provide reasonable assurance that the assets of the agency have been preserved, the duties have been segregated by function, and transactions are executed in accordance with laws of the State of Mississippi.³⁵ The Executive Director noted that sound internal controls

³⁵Mississippi law requires the Chief of the Fiscal Management Division to require each state agency, through its governing board or executive head, to maintain continuous internal audit over agency activities affecting revenue and expenditures and an adequate internal system of preauditing claims, demands, and accounts against such agency as to adequately ensure that only valid claims, demands, and accounts will be paid, and to verify compliance with the applicable regulations of the State Personal Service Contract Review Board regarding the execution of any personal service or professional service contracts. Miss. Code 7-7-3(6)(d).

require that an agency reassess its internal control structure periodically because of staff turnover and a variety of other reasons that cause internal controls to change over time. Further, the Executive Director required that agencies perform and document a comprehensive assessment of their internal controls on an annual basis; develop a written internal control plan; and maintain adequate written documentation for risk assessments, internal control reviews, and follow-up actions. In conjunction with the preparation of internal control plans, the Executive Director also required agencies to develop and document procedures for performing assessments of their internal control structures, which should include

- a comprehensive review of the agency’s internal control structure to determine if it is functioning properly and in accordance with the agency’s internal control plan;
- whether the internal control structure has been updated to address operational or procedural changes made during the period under review to processes, program areas, or functions;
- any internal control weaknesses;
- actions to ensure that control weaknesses discovered during the period under review, and in prior periods, have been adequately addressed; and
- immediate attention to all internal control–related findings and recommendations reported by auditors during the year.

The assessments directed by DFA evaluate areas of internal control that the Committee of Sponsoring Organizations (COSO) and GAO consider to be the framework of an internal control system.³⁶ Table 2 provides the five interrelated components that compose COSO’s internal control framework.

³⁶COSO of the Treadway Commission is a national commission that in 1992 issued its *Internal Control — Integrated Framework* to help businesses and other entities assess and enhance their internal control as well as establish a common definition of internal control. Many organizations use the concepts developed in the COSO report as the framework for evaluating internal control. The Securities and Exchange Commission guidance and Public Company Accounting Oversight Board Auditing Standard No. 4, “An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements,” cite the COSO principles as providing a suitable framework for purposes of compliance with section 404 of the Sarbanes-Oxley Act of 2002.

Table 2: Components of Internal Control as Defined by COSO

Internal control component	Component description
Control environment	The integrity and ethical values of the company, including its code of conduct, involvement of the Board of Directors, and other actions that set the tone of the organization.
Risk assessment	Management’s process of identifying potential risks that could result in the organization’s failure to achieve specified objectives.
Control activities	Activities usually thought of as “the internal controls.” They include such things as authorizations, analytical reviews, verifications, and reviews of operating performance that are established to see that compliance requirements and risk responses selected by management are effectively carried out.
Information and communication	The organization’s internal and external reporting process and its technology environment.
Monitoring	Procedures used to assess the quality of a company’s internal control and the company’s actions to ensure that it continues to address the risks of the organization.

Source: GAO analysis of Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Each state agency is in the process of preparing its internal control assessment and certification, which agencies were to submit to DFA by June 1, 2009. However, the Director of Fiscal Management told us that because of the amount of work required to accurately assess an internal control system, many agencies have asked for extensions. According to the Director responsible for the Internal Control and Risk Management Office, DFA has granted the extensions because it prefers that the agencies prepare proper assessments. DFA officials told us that by granting extensions they believe that agency assessments will be more accurate and comprehensive.

In addition to the certification required of all state agencies, DFA is requiring another certification of agencies receiving Recovery Act funds. Agencies must certify that they accept responsibility for spending the funds as responsibly and effectively as possible while maintaining the appropriate controls and reporting mechanisms to ensure accountability and transparency in compliance with the Recovery Act. The certifications also include an agency’s guarantee that program risks are, or will be, identified and that the agency has, or will, implement internal controls sufficient to mitigate the risk of waste, fraud, and abuse.

MAAPP Manual Includes Assessment Tools

In its update of the MAAPP Manual, DFA included tools to assist state agencies in performing their internal control assessments. The tools, which are essentially questionnaires, allow the assessors to gauge all aspects of the agency’s internal control environment and determine if weaknesses are present that need correction. Tools are available to assess

subjects such as management's internal control philosophy, commitment to professional and technical competence, the assignment of authority and responsibility, procedures used to analyze program risks, and control activities applicable to agency processes. According to DFA officials, the tools were developed using the Commonwealth of Virginia *Agency Risk Management and Internal Control Standards* as a model.³⁷ Figure 8 illustrates one of the many assessment tools available to Mississippi state agencies.

³⁷To ensure fiscal accountability and to safeguard assets, the Office of the Comptroller, Commonwealth of Virginia, in November 2006 issued *Agency Risk Management and Internal Control Standards*. This document contains tools to assess the various aspects of a state's internal control program.

Figure 8: MAAPP Manual Ethics Tool

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency's Code of Ethics and other policies regarding acceptable business practice, conflicts of interest, and expected standards of ethical and moral behavior are comprehensive and relevant and address matters of significance.	<div style="border: 1px solid black; padding: 5px;"> 5 - Strongly agree 4 - Agree 3 - Somewhat agree 2 - Somewhat disagree 1 - Strongly disagree N/A - Control does not/cannot exist </div>	
2. Employees fully and clearly understand what behavior is acceptable and unacceptable under the agency's Code of Ethics and know what to do when they encounter improper behavior.		
3. Management demonstrates a commitment to integrity and ethical behavior by example in their day-to-day activities.		
4. Management frequently and clearly communicates the importance of integrity and ethical behavior during staff meetings, one-on-one discussions, training and periodic written statements of compliance from key employees.		
5. Employees are generally inclined to do the "right thing" when faced with pressures to cut corners with regard to policies and procedures.		
6. Management addresses and resolves violations of behavioral and ethical standards consistently, timely, and equitably in accordance with the provisions of the agency's Code of Ethics.		
7. The existence of the agency's Code of Ethics and the consequences of its breach are an effective deterrent to unethical behavior.		
8. Management strictly prohibits circumvention of established policies and procedures, except where specific guidance has been provided, and demonstrates commitment to this principle.		
9. Performance targets are reasonable and realistic and do not create undue pressure on achievement of short-term results.		
10. Ethics are woven into criteria used to evaluate individual or division's performance.		
11. Management reacts appropriately when receiving bad news from subordinates and divisions.		
12. Agency has obtained adequate fidelity/surety bond coverage for: a) Key administrative and accounting personnel b) Other employees c) Positions for which coverage is required by state statute		
13. Agency identifies related employees and asserts that no conflict of interest exists. Related employees have job assignments that minimize opportunities for collusion.		
14. Agency has a process to identify and prevent significant related-party transactions.		
Conclusions Reached and Actions Needed:		

Source: Mississippi Agency Accounting Policies and Procedures Manual.

State Internal Control Office and Some Agency Internal Control Offices Are in Place

In 2007, as DFA planned its Internal Control and Risk Assessment Office, it intended to staff the office with six people, but it currently has only three staff members. DFA has requested three additional staff in its fiscal year 2010 budget. However, the office has already developed a work plan that for the first time includes monitoring state agencies' internal control plans and assessments. In addition, staff members are reviewing the findings and corrective action plans noted in the 2007 and 2008 Single Audit report prepared by the Office of the State Auditor to determine if the audits identify agencies receiving Recovery Act funds as having deficiencies. The analysis will inform monitoring efforts. The office's concentration will be on agencies that are prime recipients of Recovery Act funds. DFA expects to contract with certified public accounting firms to perform some monitoring so that it can ensure that state agencies receiving Recovery Act funds are adequately monitored. The monitoring activities should begin in the August to September 2009 time frame. As time and money allow, the office also expects to conduct internal control training for state agencies.

According to the Executive Director of the Joint Legislative Committee on Performance Evaluation and Expenditure Review, 13 of the 19 state agencies required by statute to establish internal control offices had the offices in place by December 2008. For example, DFA's Deputy Executive Director told us that the Mississippi education and transportation departments have set up internal control offices to comply with a bill passed by the state legislature requiring their establishment. DFA's Deputy Executive Director also told us that because the legislature did not appropriate funds for such offices, many smaller agencies have never established them. According to an official with MDOT internal review office, six people are responsible for auditing each project's transactions from documentation to disbursement. The official told us that because the Recovery Act projects are additions to the state's normal transportation work, the office will likely feel some stress in meeting its audit responsibilities. The official also told us that each project's construction engineer and the engineer's on-site staff are responsible for ensuring that documentation is valid and accurate. For example, on-site supervisors collect weight tickets for each truck bringing asphalt to a project. An automated system weighs each truck and produces a computerized weight ticket at the contractor's facility. A state engineer calibrates this system every 6 months to help ensure its reliability. In addition, on-site supervisors check the reasonableness of a project's daily asphalt usage using a calculation that predicts the amount of asphalt required based on length, width, and thickness. Construction engineers told us that they have sufficient staff to oversee their normal workload as well as the additional Recovery Act projects.

The Joint Legislative Committee on Performance Evaluation and Expenditure Review noted limitations in the internal audit functions of some state agencies—for instance, the committee reviewed the internal audit functions of eight agencies and found that most focused on reviewing agency programs rather than testing internal controls. In addition, the committee found that the executive directors for these agencies reviewed and approved the plans for their internal audit functions, but this could limit the internal auditor’s freedom to determine the internal controls tested and programs reviewed.

State Auditor Begins Preliminary Recovery Act Work

Mississippi law authorizes the state auditor to preaudit or postaudit; conduct performance audits and reviews; and investigate projects and entities’ use of Recovery Act funds provided to the state, its agency or subdivisions, or nonprofit organizations.³⁸ The Office of the State Auditor began preliminary evaluations in May 2009 of all state agencies, boards, and commissions that are expected to receive Recovery Act funds. Currently, the Office of the State Auditor, Performance Audit Division is examining each agency’s staffing levels, goals and objectives for Recovery Act funds, and the policies and procedures in place to mitigate the effects of fraud, waste, and abuse. The impetus for the survey is the State Auditor’s recognition that (1) Recovery Act funds will significantly expand the scope and number of federal programs carried out by many state agencies, (2) many agencies will welcome an independent assessment of agency activities, especially of new or small federal programs, and (3) the surveys will provide the Performance Audit Division with the insight to determine risk levels that will enable the Division to prioritize future Recovery Act related performance audit work. If additional Recovery Act funding is made available, the Office of the State Auditor plans to contract with one or more firms to conduct “real-time” performance audits based on Recovery Act goals, rules, and guidelines. If no additional Recovery Act related funding becomes available to conduct pre-audit or investigative work, then the Office of the State Auditor will prioritize agency programs and conduct “real time audits” based on available funding and resources.

In addition to the evaluations, the Office of the State Auditor is taking other steps to ensure that state agencies comply with the Recovery Act. The office’s Technical Assistance Division plans to expand its monthly

³⁸Section 22 of Senate Bill 3052, which was signed into law on April 15, 2009, created a new section of the Mississippi Code of 1974 granting this authority to the State Auditor.

newsletter to include Recovery Act information and updates. This publication will complement the Recovery Act training that the Division will make available to school districts, institutions of higher learning, planning and development districts, state agencies, municipalities, and counties.

Single Audit as a Risk Assessment and Monitoring Tool

Each year, in compliance with OMB Circular No. A-133, *Audits of States, Non-Profits, and Local Organizations*, the Office of the State Auditor produces a Single Audit report.³⁹ Congress established the requirement of the Single Audit report to improve state and local governments' financial management of federal financial assistance programs; promote the efficient and effective use of audit resources; and ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use audit work.

DFA's Office of Internal Control and Risk Management expects to use the Single Audit report to assess program risk and to determine the extent to which it should monitor state agencies. As discussed above, agency risk assessments and the Single Audit report will be key to determining which agencies receiving Recovery Act funds should be given attention first. The office will also use the Single Audit report as a tool to identify state agencies that are not properly monitoring their subrecipients (entities that receive Recovery Act funds from a state agency) or that have not collected and reviewed any required audits of their subrecipients in the required time frame.

Not only does the state expect to use the Single Audit report to monitor state agencies, officials representing two state agencies and one federal district agency told us that they already use the report to monitor their activities. MDOT monitors Single Audit report results and uses them to determine if policies and procedures need improvement, staff require additional training, and to identify processes that need to be more closely monitored. MDOT officials told us that they review each Single Audit report and immediately implement corrective action on any findings identified by the Office of the State Auditor. If the audit finds policies and

³⁹The Single Audit Act requires states, local governments, and nonprofit organizations expending more than \$500,000 of federal awards in a given year to obtain an audit in accordance with the requirements set forth in the Single Audit Act. OMB Circular No. A-133 is the implementing guidance of the Single Audit Act. This includes both primary recipients and subrecipients that meet the \$500,000 threshold.

procedures that need to be developed or improved, MDOT adds to or modifies them to document the correct processes and communicates the corrections to staff responsible for their implementation. If staff are not properly implementing policies and procedures, MDOT provides training as well as additional oversight, including periodic reviews that monitor the implementation of the policies and procedures. MDOT's operational management is involved in developing corrective action plans for all audit findings, and MDOT keeps the State Transportation Commission informed of audit findings and corrective actions. Similarly, an official in the Mississippi Division of the U.S. Federal Highway Administration told us that the division's Financial Management Team immediately brings any Single Audit report findings related to the Federal-Aid Highway Program to the attention of division leadership and others as appropriate. Members of the team also work with MDOT to develop a satisfactory corrective action plan and monitor MDOT's implementation of plans to ensure that MDOT is taking the steps necessary to resolve findings.

OSARC, which receives federal funding through MDOT and is responsible for county road projects, also told us that it uses the Single Audit report as a tool to evaluate the risk of providing federal dollars to subrecipient counties. According to the OSARC Director of Finance and Accounting, if the report contains a finding for a county, OSARC examines the response/corrective action that the county submitted to the Office of the State Auditor. Based on the finding and corrective action plan, OSARC determines if the county should receive federal funds in the future.

The state education department's Internal Accountability Office also uses the Single Audit report to identify processes or procedures requiring correction. The office then works with LEAs to put corrective action plans in place. It also informs the accrediting agency for schools of any "material weaknesses" and reports the weaknesses and their corrective action plans in the office's annual report. Corrective action plans range from a telephone call that directs an LEA to implement a specific action to having the LEA develop, and the Internal Accountability Office review, written policies and procedures that address the problem. An official with the State IDEA program told us that if a weakness is significant enough, the accrediting agency could reduce the level of a school's accreditation.

Table 3 provides information on Single Audit report findings included in the State Auditor's 2008 report for the transportation and education departments. The significant deficiencies shown in the table are those matters coming to the State Auditor's attention that relate to a deficiency in the design or operation of the program's internal control over

compliance. In the State Auditor’s judgment the deficiency could adversely affect the state’s ability to administer a major federal program. In addition, there is more than a remote likelihood that the deficiency, if uncorrected, will result in noncompliance with a consequential requirement. The “other” deficiency shown in the table was not considered to be a significant deficiency and was reported in a letter to management. However, the State Auditor noted that the deficiency required the attention of management.

Table 3: 2008 Single Audit Findings for Mississippi Departments of Transportation and Education

Agency affected	Type of deficiency	Description of deficiency	Potential effect	Resolution
Transportation-State-Aid Road	Significant	State-Aid Road failed to obtain and review audit reports for 10 subrecipients within the required time frame.	State-Aid Road could fail to ensure that its subrecipients take appropriate and timely corrective action on audit findings.	Audits will be requested from counties and if not provided will be pulled from the State Auditor's Web site. All findings will require a corrective action plan from the audited counties.
Transportation-State-Aid Road	Other	State-Aid Road failed to appropriately segregate the review approval function for disbursements and journal entries to the Statewide Automated Accounting System.	The potential exists for unauthorized transactions or erroneous transactions to be recorded in the Statewide Automated Accounting System.	State-Aid Roads is reviewing the approval levels of employees to determine if the agency should make changes based on the specific job duties of the employee.
Education-Title I Grants to Local Educational Agencies	Significant	The state education agency failed to provide adequate control over maintenance of effort calculations. The agency incorrectly calculated the percentage of change relating to per pupil expenditures by school district for the 2005-2006 school year.	This deficiency could result in failure to identify school districts that fail to meet maintenance of effort requirements. ^a	Controls have been strengthened to ensure that data are correctly calculated and independently reviewed.
Education-Title I Grants to LEAs	Significant	LEAs failed to allocate 20 percent of allocated funds to choice-related transportation and supplemental educational services as required and did not have documentation to support that less than 20 percent of the allocation satisfied all requests.	Failure to monitor LEAs for compliance with the earmarking of funds could result in noncompliance with federal regulations and jeopardize continued funding under Title I.	The state Department of Education is requiring LEAs to provide specific information on choice-related transportation and supplemental educational services allocations and to provide explanations for allocating less than the 20 percent set-aside. The state will also take greater care to ensure that explanations for allocating less than the 20 percent are adequate and properly documented.

Source: GAO analysis of the State of Mississippi Single Audit report for the fiscal year ended June 30, 2008.

^aRecalculations showed that the school districts that failed to meet maintenance of effort agreements had properly obtained a waiver from the U.S. Department of Education.

State and Local Officials Continue to Express Concern regarding the Lack of Guidance for Assessing the Effects of Recovery Act Spending

Under the Recovery Act, state and local recipients are expected to report on a number of performance measures, including the use of funds, the amount expended or obligated, and the estimated number of jobs created and retained. In addition to reporting on jobs created and retained, OMB guidance directs federal agencies to collect performance information from entities that receive funding “to the extent possible.” The guidance also requires agencies to instruct recipients to collect and report performance information as part of their quarterly submissions that is consistent with the agency’s program performance measure.⁴⁰

In our April 2009 bimonthly report, we noted that state officials recommended that the federal government provide specific guidance for reporting on the use of Recovery Act funds to support job creation or retention because the reliability of such estimates depends critically on using a solid methodology.⁴¹ State and local agencies continue to express concern about the lack of clear federal guidance on assessing the results of Recovery Act spending. For example, officials at the two LEAs and three IHEs we visited told us that they plan to use Recovery Act funds to avoid layoffs and hire new staff. These officials noted that they would like more guidance on specific reporting requirements—including how to track jobs created and sustained—from their state oversight boards. In addition, officials from the state oversight boards told us that they were expecting to receive additional guidance on reporting requirements from Education and OMB and would share this guidance with their LEAs and IHEs. Officials from the two public housing agencies we visited in Mississippi told us that they have not received specific guidance from HUD regarding how to assess the effects of Recovery Act spending, such as the number of jobs created or retained. However, both public housing agencies have made plans to assess the effects of Recovery Act spending. For example, Picayune Housing Authority officials told us that they plan to conduct a tenant survey to obtain feedback from households placed in modernized rental units. In addition, they plan to conduct energy audits on those rental units where the central heat and air conditioning units will be replaced. MRHA-VIII officials told us that they plan to update the physical needs assessment after completing Recovery Act–funded projects at MRHA-VIII’s

⁴⁰Peter R. Orszag, Memorandum for the Heads of Departments and Agencies, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009 (Apr. 3, 2009). This guidance supplements, amends, and clarifies the initial guidance issued by OMB on February 18, 2009.

⁴¹[GAO-09-580](#).

public housing developments. In terms of gathering data regarding jobs created or retained, Picayune Housing Authority officials told us that the contractor currently performing work being funded by Recovery Act dollars is preparing separate payrolls to account for these dollars. As of May 20, 2009, this contractor noted that it had hired three new employees to complete the work. Finally, officials from the state's four local workforce investment areas told us that they plan to assess the impact of the summer employment opportunities provided to youth using a work readiness indicator per the Recovery Act requirements.

State Comments on This Summary

We provided the Governor of Mississippi with a draft of this appendix on June 18, 2009. The Director of Federal Policy, who serves as the stimulus coordinator, responded for the Governor on June 23, 2009. The official provided technical suggestions that were incorporated, as appropriate.

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