



Highlights of [GAO-10-604](#), a report to the Congress

## Why GAO Did This Study

This report responds to two ongoing GAO mandates under the American Recovery and Reinvestment Act of 2009 (Recovery Act). It is the latest in a series of reports on the uses of and accountability for Recovery Act funds in 16 selected states, certain localities in those jurisdictions, and the District of Columbia (District). These jurisdictions are estimated to receive about two-thirds of the intergovernmental assistance available through the Recovery Act. This report also responds to GAO's mandate to comment on the jobs estimated in recipient reports. GAO collected and analyzed documents and interviewed state and local officials and other Recovery Act award recipients. GAO also analyzed federal agency guidance and spoke with individual federal officials.

## What GAO Recommends

GAO updates the status of agencies' efforts to implement previous GAO recommendations and makes 24 new recommendations to improve management and strengthen accountability to the Departments of Education, Transportation (DOT), Energy (DOE), Housing and Urban Development (HUD), Treasury, Labor, and Health and Human Services, and to the Environmental Protection Agency (EPA), and to the Office of Management and Budget (OMB), and their responses are shown on the following pages. GAO also proposes a matter for congressional consideration described on the following page.

View [GAO-10-604](#) or [key components](#). For state summaries, see [GAO-10-605SP](#). For more information, contact J. Christopher Mihm at (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov).

## RECOVERY ACT

### States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability

#### What GAO Found

As of May 7, 2010, approximately \$114.8 billion, or 41 percent of the approximately \$282 billion of total Recovery Act funds for programs administered by states and localities, had been paid out by the federal government. Most outlays to date have been for health and education and training, but, increasingly, investments in transportation, community development, energy, and the environment will characterize new spending.

#### Education

As of April 16, 2010, the 16 states and the District had drawn down about \$14.3 billion (64 percent) of their State Fiscal Stabilization Fund (SFSF) for education stabilization; \$3.2 billion (56 percent) SFSF for government services; \$1.8 billion (28 percent) for Elementary and Secondary Education Act (ESEA) Title I, Part A; and \$2.1 billion (29 percent) for Individuals with Disabilities Education Act (IDEA), Part B. Much of the Recovery Act education funds have been used to pay teachers and other education staff. Education is continuing to award SFSF funds and taking actions to ensure monitoring of funds. To address concerns GAO raised, Education required states to submit plans to monitor their subrecipients' use of SFSF funds and will be following up with states.

#### Highway Infrastructure Investment and Public Transportation Funding

Nationwide, the Federal Highway Administration obligated \$26.2 billion for over 12,000 projects, and the Federal Transit Administration obligated \$8.7 billion for about 1,000 grants. Highway funds were used primarily for pavement improvement projects, and public transportation funds were used primarily for upgrading transit facilities and improving bus fleets. GAO recommends that DOT determine the types of data, performance measures, and authority needed to collect data and report on whether these investments produced long-term benefits. Publicly available data overstates the amount of Recovery Act funds benefiting economically distressed areas. GAO recommends that DOT advise states to correct their reporting on distressed area designations to reflect current DOT decisions. DOT is considering GAO's recommendations. DOT concurred in part with GAO's March 2010 recommendation that it gather and report more timely information on the progress states are making in meeting the maintenance-of-effort requirements; GAO plans to continue to monitor DOT's actions.

#### Weatherization Assistance Program

The Recovery Act provides \$5 billion for weatherization funding nationwide. As of March 31, 2010 (the most recent data available), recipients had spent about \$659 million to weatherize about 80,000 homes; this represents about 13 percent of the 593,000 homes originally planned for weatherization. GAO makes several recommendations to DOE to develop and clarify program guidance in such areas as training and certification of workers. DOE generally agrees with all of GAO's recommendations.

Federal Medical Assistance Percentage (FMAP)

As of March 31, 2010, the 16 states and the District have drawn down about \$12.7 billion in increased FMAP funds for the first two quarters of fiscal year 2010, representing over 92 percent of the total grant award available for this time period. The increased FMAP continues to help states cover their increased caseloads and frees up states' funds, which help finance other needs. Medicaid enrollment continued to grow, and the increase remains primarily attributable to children. States and the District remain concerned about the sustainability of their programs without these funds and most have already reduced or frozen certain provider payment rates or imposed new provider taxes. For other program changes, states will need to consider how maintenance of eligibility requirements within the Patient Protection and Affordable Care Act, passed in 2010, could affect the financing of their Medicaid programs.

Public Housing Capital Fund, Tax Credit Assistance Program (TCAP), and the Recovery Act Section 1602 Program (Section 1602 Program)

Housing agencies met the March 17, 2010, deadline to obligate, reject, or return a portion of the \$3 billion in formula grants. As of May 1, 2010, agencies had drawn down about \$1 billion of these funds for projects such as replacing roofs or windows. HUD is reviewing obligations made just before the deadline to determine if any should be recaptured. HUD plans to redistribute any recaptured or returned funds this summer. As of April 30, 2010, HUD had obligated \$2.25 billion for TCAP and Treasury had obligated \$5.45 billion for the Section 1602 Program to develop or rehabilitate units. State Housing Finance Agencies (HFA) reported concerns about their responsibility to recapture program funds from noncompliant projects and restrictions on using interest-bearing repayable loans. GAO recommends that Treasury define the actions HFAs must take to recapture funds—Treasury agrees—and that Congress consider directing Treasury to permit HFAs to disburse funds as interest-bearing repayable loans.

Other Selected Recovery Act Programs***Workforce Investment Act (WIA) Dislocated***

***Workers Program:*** As of March 31, 2010, at least \$426.6 million (about 34 percent) of funds allotted to states had been drawn down, according to Labor estimates. States reported training considerably more participants than they did during the same time period in the previous year; half the states reported at least doubling the number of participants in training. However, Labor's data on spending is limited by state reporting inconsistencies. GAO recommends that Labor assess and monitor whether states are reporting financial information that adheres to Labor's requirements. Labor agrees. ***Clean Water and Drinking Water State Revolving Funds:*** The

Recovery Act appropriated \$4 billion for the Environmental Protection Agency's (EPA) Clean Water State Revolving Fund (SRF) and \$2 billion for the Drinking Water SRF. Nationwide, these funds are being used to support over 3,000 projects. Although EPA and states have expanded their oversight, current procedures, such as site inspections, may not be adequate. GAO recommends that EPA work with the states to implement specific oversight procedures to monitor and ensure subrecipients' compliance with Recovery Act provisions. EPA neither agrees nor disagrees. ***Head Start and Early Head Start Programs:*** As of March 16, 2010, the Office of Head Start (OHS) had committed 93 percent of the \$1.5 billion in Recovery Act funds designated for expansion. As of March 31, 2010, grantees had drawn down 10 percent of the first-year awards. OHS had awarded 832 grants intended to expand programs to an additional 59,000 children. However, some grantees faced start-up challenges, and incomplete data and management information hinder OHS's oversight. GAO recommends that OHS take steps to address specific management information needs. OHS disagrees; GAO continues to believe OHS should do so. ***Justice Assistance Grants (JAG) and Community Oriented Policing Services Hiring Recovery Program (CHRP):*** JAG recipients generally funded law enforcement and other personnel and purchased police equipment. CHRP recipients hired new officers or retained positions.

State and Local Fiscal Issues

One of the purposes of the Recovery Act is to stabilize state and local government budgets. Recovery Act funds were used by states and localities to fund a range of programs and services and thereby helped to partially address budget gaps. However, officials reported that they continued to take actions to further address existing budget shortfalls. Several states' budget documents assumed that Congress will enact an extension of the increased Medicaid FMAP.

Accountability and Recipient Reporting

OMB met some objectives in its Single Audit Internal Control Project to encourage earlier reporting of internal control deficiencies and corrective actions, but further efforts are needed. GAO recommends OMB issue more timely Single Audit guidance and help ensure federal agencies provide more timely management decisions on corrective action plans. OMB agrees. Progress continues to be realized in improving completeness and quality of recipient data; however, errors and reporting inconsistencies remain. GAO makes recommendations to Education, HUD, and OMB for improving reporting guidance. Education and OMB agree; HUD agrees to take action on one recommendation but not on another. GAO continues to believe that further guidance from HUD on reporting subcontractor jobs is needed.