

December 2009

RECOVERY ACT

Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Massachusetts)



GAO

Accountability * Integrity * Reliability

Appendix IX: Massachusetts

Overview

This appendix summarizes GAO's work on the fourth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Massachusetts. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

What We Did

GAO's work in Massachusetts for this reporting period focused on three specific programs funded under the Recovery Act—Highway Infrastructure Investment, Public Housing Capital Fund (formula and competitive grants), and the Weatherization Assistance Program. We selected these programs because all three have significant funds being obligated at this point. The highway program in Massachusetts has a major obligation deadline approaching in March 2010 and was behind other states in getting these funds obligated and reimbursements for projects previously obligated. Competitive grants for the housing program were recently awarded, and the formula grant projects are under way. Lastly, the Massachusetts weatherization program has begun spending its Recovery Act funds following a delay while the U.S. Department of Labor set weatherization wage rates. Our work focused on the status of the programs' funding, how funds are being used based on issues specific to each program (including procedures for procurement of goods and services), and how results were being reported and assessed. As part of our review of public housing, we revisited two agencies, the Boston and Revere public housing agencies, that we reported on earlier in 2009. We also visited two recipients of weatherization funds—community action agencies in Chelsea and Gloucester. In addition, we are including updated funding information and results of our national survey on three Recovery Act education programs with significant funds being disbursed. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-232SP](#).

To gain an understanding of the state's experience in meeting Recovery Act reporting requirements, we examined documents prepared by, and held discussions with, the Massachusetts Department of Transportation (MassDOT) and its predecessor, the Massachusetts Executive Office of Transportation (EOT) and met with two highway general contractors.¹ In

¹As of November 1, 2009, Massachusetts reorganized its transportation agencies and authorities into a new Massachusetts Department of Transportation (MassDOT).

Massachusetts, state agencies that are prime recipients of Recovery Act funds report through the commonwealth on a number of measures, including the use of funds and estimates of the number of jobs created and retained. The first quarterly reports were due in October 2009. We focused our work on MassDOT's methodology for collecting data, particularly job creation and sustainment data, and on MassDOT's experience in preparing the October report.

Finally, we continued to track the use of Recovery Act funds on state fiscal stabilization, and also visited two Massachusetts cities to determine the Recovery Act funds each is receiving from federal agencies and how those funds are being used as they deal with their difficult fiscal situations. We chose to visit the cities of Boston and Springfield, the largest and third-largest cities in population in Massachusetts, respectively. Both are receiving Recovery Act funds under several programs. They have unemployment rates of 9.2 percent and 12.8 percent, respectively, thus providing an example of cities with unemployment rates above and below the commonwealth's unemployment rate of 9.3 percent.

What We Found

- **Highway Infrastructure Investment.** As of October 31, 2009, the U.S. Department of Transportation (DOT) Federal Highway Administration (FHWA) has obligated \$253 million of the \$438 million of Recovery Act funds apportioned to Massachusetts. Although still behind other states, the commonwealth has made progress in having funds obligated for highway projects, including those in metropolitan areas. Upcoming projects for which Massachusetts will seek approval will strike a balance between projects that can be obligated quickly and projects that support the state's long-term economic development plans. Bids for highway projects continue to come in below state cost estimates, as competition continues among contractors for these projects. According to FHWA officials, Massachusetts has been meeting its maintenance of effort spending goals, but the commonwealth will need to recertify to higher spending levels because of errors in their original calculation and additional guidance that state highway aid to local governments must be included.
- **Public Housing Capital Fund.** Public housing agencies in Massachusetts were allocated about \$82 million in Public Housing Capital Fund formula grants under the Recovery Act. As of November 14, 2009, they had obligated about \$31 million of these funds and drawn down about \$12 million. These funds flow directly to the public housing agencies. The two public housing agencies we visited—Boston and Revere—both said they are using their formula funds primarily to

accelerate capital improvement projects that were already on their long-term plans. The Boston Housing Authority has faced some challenges to awarding contracts and starting construction work quickly, but has taken steps to meet the March 2010 deadline for obligating all formula funds. The Revere Housing Authority expects the construction work on its one formula project to be completed by the end of December 2009. In addition, Boston received about \$40 million in competitive grant funds for specific purposes, while Revere did not apply for any competitive grants.

- **Weatherization Assistance Program.** Massachusetts was allocated \$122.1 million in Recovery Act Weatherization Assistance Program funds in March 2009 for improving the energy efficiency of low-income families' homes.² As of November 17, 2009, the commonwealth reported overall Recovery Act weatherization expenditures of \$16.4 million primarily for advance payments to subgrantees and estimated the completion of over 500 units with Recovery Act funding, with an additional 1,100 units in process. The commonwealth opted to use these funds once the U.S. Department of Labor set prevailing wage rates for Massachusetts weatherization workers. To handle the increased funds, local community action agencies that implement the weatherization program identified potential new contractors. Those new to weatherization receive special training and agencies report doing more oversight and inspections of these contractors' work.
- **Updated funding information on education programs.** Massachusetts has been awarded Recovery Act education funds through three major programs. The commonwealth has been awarded \$726 million in State Fiscal Stabilization Fund money, designed in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services. As of November 6, 2009, the commonwealth has drawn down about \$423 million. Actual and planned recipients include local educational agencies (LEA) (which have expended \$412 million), institutions of higher education (IHE), fire departments, and the state police. Massachusetts was also awarded \$164 million in Recovery Act funds through Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended, which helps educate disadvantaged youth, and as of November 6, 2009, the commonwealth had drawn down almost \$7 million. In addition, under Part B of the

²On September 22, 2009, the U.S. Department of Energy obligated all the funds allocated to the states, but it has limited the states' access to 50 percent of these funds.

Individuals with Disabilities Education Act (IDEA), as amended, which supports special education services, the commonwealth has been awarded \$291 million. As of November 6, 2009, the commonwealth had drawn down almost \$20 million in IDEA, Part B Recovery Act funds for LEAs. In addition, we found that LEAs in Massachusetts are generally not planning to use more than half of their Recovery Act funds for staff retention, and that the commonwealth's current plans for monitoring LEAs' use of State Fiscal Stabilization Fund monies include an up-front review of LEAs' funding applications and the Single Audit.

- **Recipient reporting.** Massachusetts developed a centralized system to collect award-level data from prime recipients that supplements data from the commonwealth's financial management system with employment data collected by state agencies from their vendors and subrecipients. The commonwealth took steps to ensure the quality of recipient reports that included the centralized calculation of full-time equivalent positions (FTE) based on hours worked and the requirement that each prime recipient validate data before submission to www.federalreporting.gov (FederalReporting.gov). While some nonstate entities we visited were largely successful with quarterly report submission, other entities we visited that did not report through the commonwealth's centralized data system faced challenges.
- **Cities' use of Recovery Act funds.** Boston and Springfield have received Recovery Act funds directly from federal agencies and indirectly through state government. The cities' plans for the funds include using education and public safety dollars to help retain jobs in schools and police departments.

Massachusetts Makes Further Progress in Having Highway Funds Obligated but May Face Challenges with Additional Maintenance of Effort Requirements

Massachusetts has recently made progress in having more funds obligated for federal aid highway projects, including those in metropolitan areas (see table 1).³ States are required to suballocate 30 percent of their apportionment to metropolitan and other areas of the state, and as of October 31, 2009, 46 projects in Massachusetts have been approved overall, with 14 in suballocated areas. According to the Economic Stimulus Coordinator at the Massachusetts Executive Office of Transportation (EOT), the upcoming round of projects for which Massachusetts will seek approval will strike a balance between projects that can be obligated quickly to create jobs immediately and more complex projects that will yield additional jobs over the long-term and are part of the commonwealth’s economic development plans.

Table 1: Massachusetts Recovery Act Federal Aid Highway Amounts as of October 31, 2009

Dollars in millions			
Category	Total	Amount obligated ^a	Amount reimbursed
Funds suballocated to metropolitan areas (30 percent)	\$131	\$41	\$0
Funds for state-wide use (70 percent)	307	211	20
Total Massachusetts apportionment	438	253	20

Source: GAO analysis of FHWA data.

Notes: Amounts may not add up to totals due to rounding.

^aThis does not include obligations associated with \$12.8 million of apportioned funds that were transferred from FHWA to the Federal Transit Administration (FTA) for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

Massachusetts has increased its reimbursement rate from 2.4 percent on September 1, 2009, to 8.1 percent on October 31, 2009, for all Recovery Act highway projects. However, compared to the national average of 18.4 percent, the commonwealth has a low reimbursement rate for these projects. The EOT Economic Stimulus Coordinator and the Federal Highway Administration (FHWA) Region I Director of Project Delivery identified several reasons for a low reimbursement rate on Recovery Act projects. These include (1) lag time between when the contractor submits his certified payroll and other contract expenses and their actual reimbursement, (2) the time needed for the Massachusetts Highway

³The U.S. Department of Transportation has interpreted the term “obligation of funds” to mean the federal government’s commitment to pay for the federal share of the project. This commitment occurs at the time the federal government approves a project and a project agreement is executed.

Department (MassHighway) to review and approve contractor expenses, and (3) the longer time required for design and permitting for more complicated and expensive projects.⁴ The FHWA Region I Director of Project Delivery stated that it can take up to 2 months from when a contractor performs highway work and completes the appropriate paperwork until it receives payment from the commonwealth and the commonwealth seeks reimbursement from FHWA. Additionally, highway contractors said that the frequent rain in May and June contributed to slower progress on paving projects, which made up a large portion of Massachusetts's initial round of projects.

Bid Amounts for Advertised Highway Projects Have Been Coming in Below MassHighway Cost Estimates

Data obtained from MassHighway on bids received for advertised highway projects indicate that bids continue to come in under their cost estimates. In our review of all Recovery Act highway project bid amounts, 28 out of 35 projects came in below MassHighway cost estimates, and on average, these projects came in at 13 percent below the state cost estimates.^{5,6} According to the EOT Economic Stimulus Coordinator, there continues to be significant competition among contractors for these projects. The FHWA Region I Division Administrator and highway contractors said that contractors are reducing their profit margins to keep people working. Massachusetts will request to have the excess project funds deobligated and to obligate the savings to other Recovery Act highway projects. According to the FHWA Region I Financial Manager, by early October, they had deobligated approximately \$10 million in Massachusetts Recovery Act highway funds. According to the EOT Economic Stimulus Coordinator, the deobligated funds have already been used to cover contingencies, such as when bids come in over the state cost estimates, or they may be obligated to other Recovery Act projects in fiscal year 2010.

⁴MassHighway, formerly overseen by Massachusetts EOT, is now part of the Massachusetts Department of Transportation.

⁵MassHighway has advertised 46 projects, but as of October 31, 2009, only 35 have had bid openings.

⁶The data provided included projects that had been awarded contracts and projects where contracts had not yet been awarded. Our analysis included projects that had engineers' estimates and the contract award amount. Therefore, only projects that had positive values for the estimate and award amounts were included in our analysis. Although we examined the data for obvious discrepancies, the data we collected are self-reported by individual states. Therefore, the data may not be complete and we consider the reliability of these data undetermined. Because of this, we are only reporting ranges, percentages, and other description statistics.

Massachusetts Faces Additional Challenges with Maintenance of Effort Requirements

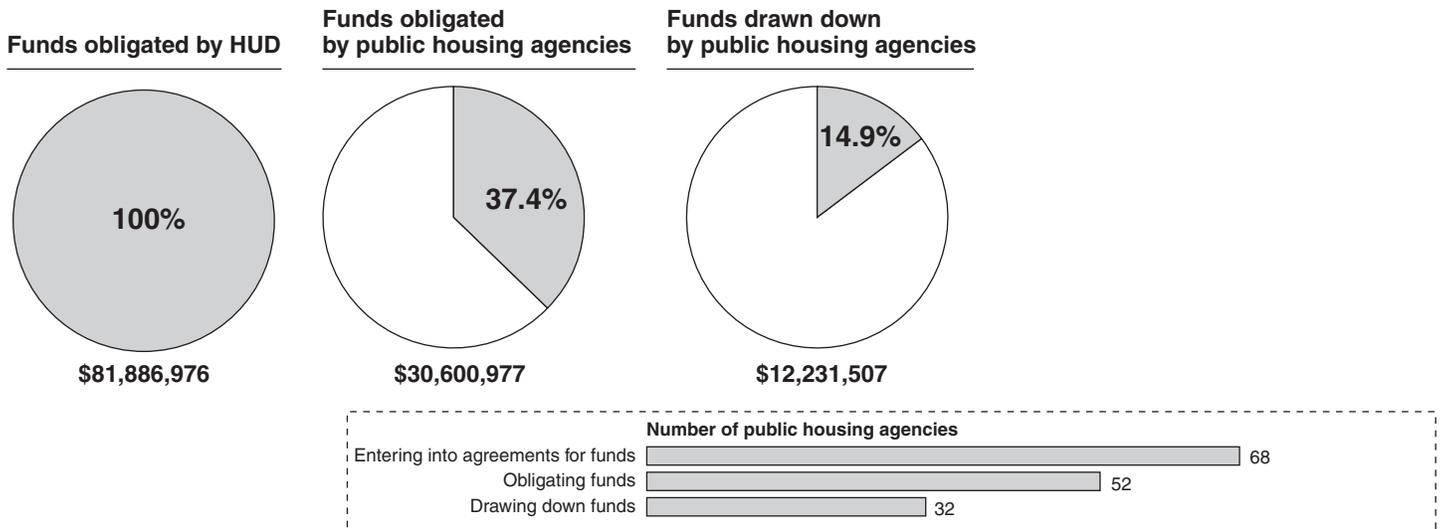
Massachusetts will need to recertify to include approximately \$150 million more in spending than originally calculated to satisfy its maintenance of effort (MOE) requirement.⁷ The FHWA Region I Financial Manager stated that an FHWA analysis of Massachusetts's initial MOE calculation and additional guidance requiring states to include highway aid to localities in their MOE necessitates that the commonwealth commit to higher spending levels. State officials told us they plan to meet the MOE requirements. According to the EOT Economic Stimulus Coordinator and the FHWA Region I Director of Program Development, on average, Massachusetts has been on track for meeting its MOE spending goals.

Local Housing Agencies Are Starting to Implement Formula Funded Projects, and Some Have Been Awarded Competitive Grants

Sixty-eight of the 253 public housing agencies in Massachusetts have been allocated Public Housing Capital Fund formula grants, which are provided directly to housing agencies by the Department of Housing and Urban Development (HUD) and are intended to improve the physical condition of and modernize housing units, as well as improve management. In total, these agencies have been awarded \$81,886,976 in formula grant funds. As of November 14, 2009, 52 of these public housing agencies have obligated \$30,600,977, and 32 have drawn down \$12,231,507 (see fig. 1). On average, housing agencies in Massachusetts are obligating funds slower than housing agencies nationally.

⁷States were required to certify that they will maintain the level of spending that they had planned on February 17, 2009.

Figure 1: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in Massachusetts as of November 14, 2009



Source: GAO analysis of HUD data.

The Boston and Revere housing agencies we visited are using their formula funds primarily to speed up the completion of previously planned capital improvement projects. The Boston Housing Authority received \$33,329,733 in formula funds, and the Revere Housing Authority received \$324,072. Ten of Boston’s 14 planned formula-funded projects and Revere’s 1 formula-funded project were already on their 5-year plans. The Boston Housing Authority originally planned to use its formula funds for 15 projects; it has dropped one project in part because the need will be addressed through a Recovery Act competitive grant. These 14 projects include, for example, bathroom renovations and wall and foundation repairs. Revere is using its funds for a window replacement project at one housing development. Both agencies said their projects most likely will not involve the rehabilitation of vacant housing units.

Both agencies said they are on track to meet the March 17, 2010, deadline for obligating 100 percent of their formula funds, but the Boston Housing Authority has experienced more challenges in awarding contracts and getting projects started quickly. Boston awarded design contracts for two of its projects within 120 days of receiving formula funds. As of October 20, 2009, it had put just over half of its contracts for formula projects out to solicit bids, and expected to put the remaining contracts out to solicit bids by December 1, 2009. Boston officials cited the time required to design improvements in existing buildings, the requirements of the

competitive bidding process, and the city of Boston permitting process as factors that affect how quickly contracts can be put in place. But Boston officials said they are making special efforts to meet the obligation deadline. For example, the Boston Housing Authority has tried to speed up the contracting process by no longer allowing successful bidders to negotiate contract terms after they have been selected to receive the contract; this procedural change will be continued after all Recovery Act funds have been exhausted. The Boston Housing Authority also hired additional staff to manage its formula-funded projects. The Revere Housing Authority, meanwhile, has made faster progress on its one formula grant project. It started the actual work on its project in October and expects the work to be completed by the end of December 2009. Revere officials said they were able to get work started quickly because environmental regulations are less extensive in a smaller city and their window replacement project is relatively straightforward.

Competitive Grants Have Presented New Opportunities for Some Local Housing Agencies

In addition to the Capital Fund formula grants, HUD awarded 15 competitive grants to housing agencies in Massachusetts. Housing agencies across the country could apply for these funds to support specific priority investments in four categories. The housing agencies we visited had different experiences with the competitive grant application process. The Boston Housing Authority applied for seven competitive grants (worth \$60,211,241 total) and was awarded four grants (worth \$40,211,241 total). Boston officials reported that the availability of competitive grants for specific purposes spurred them to plan projects they otherwise would not have undertaken. For example, Boston received \$22,196,000 to reconstruct part of an older development as a model energy-efficient community. It received \$4,062,717 to create a comprehensive services center for frail elderly individuals. Boston officials found the competitive application process more streamlined than other HUD funding competitions, because it required less narrative and allowed applicants to self-certify that they met certain requirements rather than submit extensive documentation.

The Revere Housing Authority, on the other hand, did not apply for any competitive grants, although Revere officials considered applying for a grant. Officials said the application process was cumbersome, and that, with their limited staff, they could not complete the application by HUD's deadline. Revere officials said they would still be interested in seeking any additional competitive grant funds that become available, in order to take advantage of a Recovery Act provision allowing local housing agencies to use Recovery Act funds for improvements to state-funded housing units and then continue to support these units with regular federal capital and

operating funds in the future. Massachusetts has encouraged local housing agencies to take advantage of this provision.⁸

Recovery Act Has Required Some Changes in Contracting Procedures

Local housing agencies in Massachusetts typically award Capital Fund contracts according to state procurement law, but HUD requires them to follow federal procurement policies when awarding contracts funded exclusively by the Recovery Act.⁹ Officials at the Boston Housing Authority stated they have modified their contracts for projects funded by the Recovery Act. For these projects, Boston officials have eliminated an extra step that they say is required by Massachusetts but not by federal procurement policy—obtaining sub-bids for specific categories of the project before obtaining bids from the general contractor that manages the whole project.

For this report we reviewed two specific contracts that were supported in part by Recovery Act funds. We reviewed a contract awarded by the Boston Housing Authority for design of bathroom renovations at one housing development, which was modified to add \$328,000 in Recovery Act funds for the design of renovations to additional units. The contract was modified on June 23, 2009. According to housing authority officials, the contract amendment does not specify a deadline for completion of the Recovery Act-supported work, but requires each successive phase of the work to be completed within a certain number of days after the Boston Housing Authority has approved the contractor to move on to that phase. Housing authority officials also said that although a deadline is not explicitly included in the contract, the contract requires the contractor to complete the work within the time frame specified in the Recovery Act. We also reviewed a contract in the amount of \$421,400 awarded by the

⁸The federal government subsidizes the operating and capital improvement costs of public housing units throughout the nation. Massachusetts and some other states also use some state funds to subsidize public housing units. The majority of the units managed by the Revere Housing Authority, in fact, are subsidized by state funds. However, the Massachusetts State Auditor has reported that the operating subsidies provided by the state have not been sufficient to maintain in good condition the state-aided units in Massachusetts.

⁹However, according to guidance developed by the Massachusetts Office of the Inspector General and the Massachusetts Office of the Attorney General, based on discussions with HUD's Boston Field Office, public housing agencies may use their own state and local procurement laws and regulations if their use is not contrary to the purposes of the Recovery Act, one of which is to expedite or facilitate the use of Public Housing Capital Funds.

Revere Housing Authority for window replacement work at one housing development. This contract was awarded on August 20, 2009, and is expected to be completed by December 31, 2009.

Boston and Revere officials largely followed similar procedures in awarding these contracts. We noted, and Boston officials confirmed, that the Boston Housing Authority awarded its contract competitively, used a fixed-price contract, and obtained self-certifications from bidders that they are not on the state's debarment list. Revere Housing Authority officials also told us they awarded their contract competitively, used a fixed-price contract, and checked to make sure the bidders were not on the state debarment list. Boston and Revere officials said they have procedures for monitoring their contractors' work. Boston officials said a project manager reviews the reports and design submissions provided by the contractor during each phase of the project, and if necessary, makes comments that the contractor must address. Revere officials said their contractor is monitored regularly by an on-site Clerk of the Works and by the architecture firm that designed the window replacement work.

Massachusetts Accelerates Funding for Weatherization

In March 2009, the U.S. Department of Energy (DOE) allocated Massachusetts \$122.1 million in Recovery Act funds for its Weatherization Assistance Program to improve the energy efficiency of low-income families' homes. However, because the U.S. Department of Labor had not yet established a Davis-Bacon prevailing wage for weatherization workers for Massachusetts, the commonwealth opted to use funding from other sources, including its regular (non-Recovery Act) funding under the program for weatherization work and for training of new contractors until the wage rate was set.¹⁰ The process of contracting for the weatherization of individual housing units using Recovery Act money then began on September 1, 2009. In Massachusetts, 11 community action agencies (CAA) and one nonprofit housing agency function as subgrantees for DOE weatherization funding; they do not do weatherization with their own staff

¹⁰According to state officials, the rates established for Massachusetts counties, and provided to them in August 2009, are consistent with what has generally been paid for this work.

but rather utilize private sector contractors.¹¹ In describing attempts to accelerate weatherization spending, state officials said they advised Recovery Act subgrantees to consider using a standard contract developed by CAPLAW, a Boston-based national organization that provides technical assistance to CAAs. State officials estimated that subgrantees saved a month in time by using this contract because it simplified the task of contract development.

Training and Quality Control Practices Focus on Requirements of New Contractors

In order to handle a dramatic increase in weatherization funding, the number of contractors statewide increased from 55 to 77. The two CAAs we visited, Action, Inc. in Gloucester and CAPIC, Inc. in Chelsea, both described efforts to actively recruit more contractors. They acknowledged, however, that some new contractors do not have experience in weatherizing homes, which requires knowledge of various technologies and materials. To assure accountability for work done by companies new to weatherization, officials described initiatives to provide additional training and engage in quality control efforts. Massachusetts recommends that new contractors attend courses such as a weatherization “boot camp” funded by gas and electric utility companies and designed for new weatherization contractors, as well as attend training on installation of cellulose materials. Massachusetts officials also described various quality control practices. At least 50 percent of work is inspected while in progress and 100 percent at completion by energy auditors working for CAAs in the weatherization network.¹² We observed energy auditors demonstrating the use of specialized equipment, an infrared sensor, to ensure that a contractor was meeting quality standards. Contractors are paid only when work is completed and judged to have met such standards. CAA officials told us that they do more oversight and inspections of work by less experienced contractors. Technical assistance and advice is also provided by a weatherization consultant, paid for by utility companies. State energy officials reported their plans to inspect 10-25 percent of all finished work and that they are hiring two new staff to strengthen program

¹¹Private sector contractors are generally chosen from a precertified list established every 2 years. CAAs have also recruited new contractors to handle the increase in weatherization funding due to the Recovery Act and screen them by criteria such as quality of prior work. Depending on the needs of each home, the cost of weatherization varies; a standard price list for materials and weatherization activities is established statewide and used by each contractor.

¹²State energy officials report having trained and certified 35 new energy auditors statewide with certification of others expected.

and fiscal monitoring. Several other oversight entities are also reviewing or plan to review Massachusetts Recovery Act weatherization spending, including the state Inspector General and the Office of the State Auditor.

Of the \$122.1 million allocated by DOE, Massachusetts has obligated \$92 million to be spent over three fiscal years. As of November 17, 2009, the commonwealth reported overall Recovery Act expenditures of \$16.4 million primarily for advance payments to subgrantees and estimated the completion of over 500 units with Recovery Act funding with an additional 1,100 units in process.¹³ Because utility companies in Massachusetts also support weatherization activities, officials told us that the Recovery Act funding allowed additional leveraging of funding. For example, an official at CAPIC, Inc. told us they could combine support from utilities with Recovery Act funds to both insulate a home and replace an inefficient furnace. Contractors also described the benefits of funding in terms of helping them diversify their business in a difficult economic climate. One contractor we spoke with had specialized in high-end renovations but noted that with new Recovery Act funding for weatherization, he has decided to establish weatherization as an ongoing activity at his company.

Recovery Act Education Funds Continue to Help Address State Funding Shortfalls, and Massachusetts Will Use the Single Audit to Monitor SFSF Spending

Massachusetts has been awarded Recovery Act education funds through three major programs:

- State Fiscal Stabilization Fund (SFSF), which is designed in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services;
- Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended, which helps educate disadvantaged youth; and
- Parts B and C of the Individuals with Disabilities Education Act (IDEA), as amended, which supports special education and related services.

SFSF. The commonwealth has been awarded \$726 million in SFSF funds, out of its total allotment of \$994 million. This award includes \$545 million in education stabilization funds (Phase I of the commonwealth's education stabilization funds) and \$181 million in government services funds (all of the commonwealth's government services funds). As of November 6, 2009, the commonwealth has drawn down about \$423 million of its SFSF funds.

¹³Other activities listed in the state plan include weatherization of state public housing and establishment of a training institute; however, these initiatives are planned to begin in 2010.

Also as of November 6, 2009, LEAs have expended \$412 million, including \$322 million in education stabilization funds and \$90 million in government services funds, and IHEs have expended \$14 million in education stabilization funds.¹⁴ Of the remaining Phase I education stabilization funds, the commonwealth plans to distribute almost all to IHEs. Of the remaining government services funds, the commonwealth plans to distribute about \$20 million to fire departments and \$3 million to the state police to replace staff or maintain staffing levels. The commonwealth expects to be awarded its remaining \$268 million in Phase II education stabilization funds in 2010. When Massachusetts is awarded these funds, it plans to distribute more than half to LEAs through its primary funding formula, primarily to address a shortfall in local education funding. It also anticipates distributing a substantial portion to IHEs, to make up for fiscal year 2010 budget cuts and restore the IHEs to their fiscal year 2009 funding levels.

ESEA, Title I. The commonwealth has been awarded \$164 million through Title I, Part A of ESEA. The commonwealth required LEAs that were allocated funds through this program to submit applications to and have them approved by the commonwealth prior to receiving these funds, as it does with all sub-grants of federal funds. As of November 23, 2009, about 82 percent of the state's LEAs that were allocated ESEA Title I Recovery Act funds had submitted and had approved by state officials their program applications. As of November 6, 2009, the commonwealth had drawn down almost \$7 million in ESEA Title I Recovery Act funds for these LEAs.

IDEA. The commonwealth has been awarded \$291 million in IDEA, Part B funds. The commonwealth also requires LEAs to submit applications before receiving these funds. As of November 23, 2009, about 88 percent of the LEAs that were allocated IDEA, Part B funds had submitted and had approved by state officials their program applications. As of November 6, 2009, the commonwealth had drawn down almost \$20 million in IDEA, Part B Recovery Act funds for these LEAs.

¹⁴Actual expenditures by LEAs may be higher than the amount drawn down by the state. In Massachusetts, according to state officials, the state draws down funds according to its agreement with the U.S. Department of the Treasury, and it is not unusual for drawdowns to lag behind expenditures.

Massachusetts LEAs Generally Plan to Use Some Recovery Act Funds to Retain Jobs

Looking more specifically at how LEAs in Massachusetts are using their Recovery Act funds, we found that they generally plan to use less than half of these funds for job retention. From August to October of 2009 we surveyed a representative sample of LEAs nationally and in Massachusetts about their planned uses of Recovery Act funds. Based on our survey, for example, we estimate that 37 percent of LEAs in Massachusetts plan to use more than half of their SFSF funds to retain staff (see table 2). State officials told us that LEAs in Massachusetts have historically had a disincentive to use federal grant funds for payroll costs because of some additional costs associated with using federal grants—as opposed to LEAs’ own funds—for payroll costs. According to the state educational agency, in June 2009 the commonwealth enacted legislation exempting SFSF funds—but not Recovery Act Title I or IDEA funds—from these additional costs. State officials said this change came too late to affect LEAs’ fiscal year 2009 SFSF spending. They said they are now starting to receive LEAs’ plans for using Phase II SFSF funds, and expect that a higher proportion of these Phase II SFSF funds will be used for payroll costs. Based on our survey, we also estimate that a minority of LEAs in the commonwealth expect job losses or experienced a funding cut of 5 percent or more since the prior school year.

Table 2: Selected Results from GAO Survey of LEAs

Responses from GAO survey	Estimated percentages of LEAs in Massachusetts
Plan to use more than 50 percent of Recovery Act funds to retain staff	IDEA funds 8%
	Title I funds 10
	SFSF funds 37
Anticipate job losses, even with SFSF funds	28
Reported total funding decrease of 5 percent or more since school year 2008-2009	12

Source: GAO survey of LEAs.

Note: Percentage estimates for Massachusetts have margins of error, at the 95 percent confidence level, of plus or minus 16 percentage points or less.

Massachusetts Plans to Rely Primarily on the Single Audit to Monitor LEAs' SFSF Spending, and Currently Lacks Plan for Ongoing Monitoring

The Massachusetts Executive Office of Education (EOE) plans to use the Single Audit¹⁵ to monitor SFSF expenditures, along with some additional steps, but it currently lacks a plan for ongoing monitoring of the funds throughout the year. EOE officials told us that given the wide range of allowable uses of the SFSF funds, the Single Audit process generally will be sufficient to monitor these funds. They said they are taking some additional steps to supplement the Single Audit. The commonwealth reviews LEAs' SFSF applications to determine if they plan to use the funds for allowable purposes. It has issued guidance to LEAs that reminds them of uses that are prohibited by the Recovery Act, and encourages them to be especially cautious in using the funds for certain purposes—such as construction and repairs—that are associated with more extensive regulations and therefore more susceptible to misuse. The commonwealth has also modified the annual financial report that LEAs must submit to the commonwealth, to request a detailed breakdown of how LEAs have actually spent their SFSF funds, and will compare these end-of-year reports to the LEAs' planned uses of the funds. The U.S. Dept. of Education (Education) has issued guidance directing states to have a comprehensive plan for monitoring LEAs' use of SFSF funds, and Education officials said that relying exclusively on the Single Audit is not sufficient. Massachusetts officials told us they believe their approach is comprehensive and satisfies the federal requirement. However, while their approach includes up-front actions to guide LEAs' use of funds and postexpenditure actions to ensure funds were used properly, it does not currently include any ongoing monitoring of LEAs' expenditures during the fiscal year. The Massachusetts Recovery and Reinvestment Office conducted a training session for all state agencies in November 2009 on strategies for monitoring waste, fraud, and abuse in Recovery Act programs; EOE officials participated in this training but have not yet developed a plan for using these strategies to monitor SFSF spending.

¹⁵Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

Without ongoing monitoring, Massachusetts lacks the opportunity to correct any potential misuses of the funds before the end of the fiscal year.

Massachusetts Used Centralized Reporting for State Agencies, but Some Nonstate Entities Faced Challenges Reporting Directly to FederalReporting.gov

Massachusetts developed a centralized system to collect award-level data from prime recipients as required under section 1512 of the Recovery Act.¹⁶ The Massachusetts Recovery and Reinvestment Office (MRRO) developed the Stimulus Reporting database, which supplements data from the commonwealth's financial management system—MMARS—with employment data collected by state agencies from their vendors and subrecipients. MMARS data include many of the award-level data elements required, such as award expenditures and vendor information. However, MRRO requested that state agencies submit data not included in the MMARS system separately, primarily jobs numbers and some narrative elements. MRRO was able to generate state employee job information centrally from the commonwealth's payroll system, but state agencies had to collect jobs numbers directly from vendors and subrecipients. Some state agencies were able to provide this information through their certified payroll systems or other systems established for Recovery Act reporting, but the majority relied on reporting templates provided by MRRO. EOT used its civil rights reporting system to provide employment data for the state Stimulus Reporting database. EOT officials, as well as contractors working on Recovery Act funded projects, told us that the ability to use this system for Recovery Act reporting required little additional effort and helped ensure the quality of the data submitted because data could be uploaded directly. Other agencies completed templates provided by MRRO to submit employment data. For example, Massachusetts's Department of Housing and Community Development used these templates to collect data from local community action agencies administering weatherization grants.

¹⁶Data required under section 1512 of the Recovery Act include the total amount of recovery funds received, and expended or obligated, a detailed list of all projects or activities, an estimate of the number of jobs created and retained by the projects and activities, and certain detailed information on any subcontracts or subgrants awarded by the recipient.

Massachusetts Implemented Steps to Ensure the Quality of Recipient Reports

Massachusetts took several steps to ensure the completeness and accuracy of data submitted by state agencies and other prime recipients. MRRO issued instructions to all state agencies on the U.S. Office of Management and Budget's prescribed method for calculating FTE positions. However, MRRO approved EOE's use of an alternative method for estimating the jobs retained as a result of SFSF funds distributed to LEAs at the end of the state fiscal year 2009.¹⁷ The commonwealth also issued detailed guidance that included instructions for validating data and a checklist for ensuring the quality of data submitted to FederalReporting.gov. Individual agencies also took steps to ensure the integrity of data they collected from subrecipients. EOT compared data that contractors submitted with their certified payroll records, while the Massachusetts's Department of Housing and Community Development used a consultant to oversee the data collection process.

State Officials Had Some Concerns about the Reporting Process

State officials raised concerns that reporting FTEs may understate the impact of federal stimulus spending on employment. MRRO officials noted that the way FTEs are calculated does not show the full number of workers involved with Recovery Act projects. For instance, according to the EOT Economic Stimulus Coordinator, the commonwealth reported 139 FTEs for transportation projects for the quarter ending September 30, 2009, but this number is made up of 1,362 individuals who worked on such projects. State officials also noted that some technical features of FederalReporting.gov made the process cumbersome, particularly data validation and error processing. MRRO officials told us that they compiled a list of these technical difficulties that they provided to the Recovery Accountability and Transparency Board. Despite these technical challenges, state officials noted that the statewide reporting process was largely successful. They credited several features of the federal reporting system, including the batch processing capability and the technical staff's responsiveness.

¹⁷Because the fiscal year 2009 Recovery Act SFSF grants were primarily recorded as general revenues for each school district, EOE officials were unable to distinguish funds used to retain specific employees. Instead, EOE asked school districts to provide a line-by-line accounting of their non-salary expenditures during that time period. They then divided the remainder by each school district's average teacher salary to derive an estimated number of jobs retained.

Nonstate Entities Successfully Submitted Reports, but Some Faced Challenges

Some prime recipients that did not submit reports through the commonwealth's central reporting platform successfully submitted data directly to FederalReporting.gov, but other entities that reported directly to FederalReporting.gov faced challenges. The city of Boston used its human resource management system to generate data for its quarterly report. Despite minor difficulties locating federal reporting numbers, the city was able to compile data and submit its quarterly report without much difficulty. Similarly, the Boston Housing Authority, another agency that submitted reports directly to FederalReporting.gov, reported that they relied on HUD guidance and reporting templates to compile data from vendors working on 14 Recovery Act projects. However, other entities had difficulties submitting reports directly to FederalReporting.gov. Revere Housing Authority officials told us that they had difficulty locating guidance and thus did not report jobs created for an architectural firm providing design services for a Recovery Act window replacement project. In addition, the Springfield Police Department reported problems obtaining agency codes and other data required to complete their report, and the Springfield Office of Housing encountered technical challenges submitting their report through FederalReporting.gov.

Recovery Act Funds Help Two Selected Localities' Budgets

We visited the cities of Boston and Springfield (see table 3) to review their use of Recovery Act funds, as discussed below.¹⁸

¹⁸City Recovery Act funds referred to in this section cover funds which are administered by city government and not the full scope of Recovery Act funds that benefit city residents such as unemployment insurance and Medicaid. This section features sources of Recovery Act funds which substitute for declines in city operating revenues. Other city-administered Recovery Act funds provide expanded services and include funds for community development, homelessness, and energy efficiency.

Table 3: Characteristics of Selected Local Governments

Locality name	Population	Locality type	Unemployment rate	Fiscal year 2010 operating budget	FTE employees
Boston	609,023	City	9.2 %	\$2.39 billion	16,500
Springfield	150,640	City	12.8%	529 million	5,125

Sources: U.S. Census Bureau, U.S. Department of Labor, and Boston and Springfield budget documents.

Notes: Population data are from July 1, 2008. Unemployment rates are preliminary estimates for September 2009 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

City of Boston

Recovery Act funds have saved jobs in education and public safety.

According to Boston city officials, Recovery Act funds for city schools (\$23.3 million in SFSF, \$20.8 million in ESEA Title I, and \$10.3 million in IDEA) will be used to retain 200 FTEs. In public safety, the competitive COPS Hiring Recovery Program (CHRP) grant (\$11.8 million over 3 years) will fund 50 police officer positions, and the Edward Byrne Memorial Justice Assistance Grant (JAG) Program (\$3.9 million for 1 year) will pay for 50 police officers.

State aid reductions lead revenue losses in Boston. Prior to producing a balanced budget for fiscal year 2010, city officials noted that reductions in state aid were responsible for a significant portion (\$94.8 million reduction from the previous year’s levels) of the city’s \$213 million budget gap during fiscal year 2010 budget development. Other revenue losses contributing to the difficult budget environment include city licenses and permits, excise taxes, and interest income (\$21.8 million reduction). On the other hand, property tax receipts, the city’s largest source of funds, are expected to increase by \$60.4 million during fiscal year 2010. According to city finance officials, in general, property taxes may increase by 2.5 percent per year as long as total receipts fall under a specified limit.

Preparing for end of Recovery Act funds. City finance officials said that although Recovery Act funds have been very helpful in closing the fiscal year 2010 budget gap, these funds comprised only about 1 percent of city revenues. To prepare for future fiscal years, city officials said they are containing spending growth through fiscal controls including layoffs, position elimination, and concessions from unions. In addition, for fiscal year 2010, the city plans to moderate its pension fund payment schedule and use reserve funds to supplement declining revenue. Potential cost

pressures include personnel expenses such as wage increases related to collective bargaining agreements and rising employee health insurance costs. In addition, payments to support employee pensions are likely to continue to rise.

City of Springfield

Recovery Act funds have saved jobs in education and public safety.

According to Springfield officials, Recovery Act funds (\$14.9 million in SFSF, \$8.6 million in ESEA Title I, and \$4.4 million in IDEA funds) will be used to help retain 451 FTEs for city schools. In public safety, city officials reported they did not apply for a CHRP grant, since it provides funding for 3 years and Recovery Act funding would end just as new officers became proficient. In addition, CHRP grants require that recipients retain their funded officer positions for at least an additional 12 months using state or local funds and sustaining these jobs was viewed as unaffordable at the time the grant was offered. The city, however, later applied for an Edward Byrne Memorial Justice Assistance Grant (competitive) to hire 10 police officers. These positions were believed to be affordable, since training costs will be minimal (newly trained officers were available because a nearby city had paid to train them but could not afford to hire them), and will eventually replace officers who retire or leave the workforce.

Recovery Act funds cushioned reductions in state aid. State aid to Springfield (60 percent of the city's revenue base) has been reduced over fiscal years 2009 and 2010, although officials acknowledged that reductions likely would have been more severe had the commonwealth not received Recovery Act funds aimed at state budget stabilization, such as increased Federal Medical Assistance Percentage funds and SFSF. Officials noted that Recovery Act funds helped to cushion state aid reductions but, nevertheless, comprise a small portion of total city revenues. Property tax collections (31 percent of city revenues) have not declined due to rate adjustments that offset lower property values and some growth in the city's tax base.

Preparing for end of Recovery Act funds. Given constraints in obtaining additional revenue, city officials reported focusing on cost-cutting strategies to prepare for the absence of Recovery Act funds. Strategies include examining procurement costs, controlling hiring (e.g., carefully reviewing any new hires), and re-examining business practices (e.g., outsourcing transportation services). Potential spending pressures include pay increases in new collective bargaining agreements for teachers, increased funding for the city's large special education population, and employee pension costs.

State Comments on This Summary

We provided a draft of this appendix to the Governor of Massachusetts, the Massachusetts State Auditor's Office, the Massachusetts Office of the Inspector General, the Chair of the Massachusetts House Committee on Federal Stimulus Oversight, and the Chair of the Massachusetts Senate Committee on Post Audit and Oversight, and provided excerpts of the draft to other entities including cities and housing agencies we visited. The Governor's Office, in general, agreed with our draft report. The Governor's Office and other officials provided clarifying and technical comments, which we incorporated as appropriate.

GAO Contacts

Stanley J. Czerwinski, (202) 512-6806 or czerwinskis@gao.gov

Laurie E. Ekstrand, (202) 512-6806 or ekstrandl@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Carol L. Patey, Assistant Director; Lorin M. Obler, analyst-in-charge; Nancy J. Donovan; Kathleen M. Drennan; Keith C. O'Brien; Salvatore F. Sorbello Jr.; and Robert D. Yetvin made major contributions to this report.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.