

September 2009

RECOVERY ACT

Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Illinois)



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Contents

Appendix VII	Illinois	1
	Overview	1
	As Illinois Begins Fiscal Year 2010 Facing Fiscal Stress, Recovery Act Funds Continue to Provide Financial Relief	4
	State Fiscal Stabilization Fund Largest Disbursement of Recovery Act Education Funds	7
	Illinois Is Managing Highway Projects and Will Be Asked to Review Its Determinations of Economically Distressed Areas	11
	Most Illinois Transit Agency Urbanized Area Formula Program Funds Have Been Obligated	19
	Illinois Expects to Meet Its Participation and Expenditure Targets for Youth Placed in WIA Summer Employment Activities and Has Begun to Monitor Use of Recovery Act Funds	24
	Illinois Public Housing Agencies Continue to Obligate and Draw Down Recovery Act Formula Grants	32
	State and Local Agencies We Met with Varied in Their Approaches to, and Understanding of, Recipient Reporting Requirements	34
	State Comments on This Summary	37
	GAO Contacts	37
	Staff Acknowledgments	37

Tables

Table 1: State of Illinois Revenue Summary for Fiscal Years 2008, 2009 and 2010 (in billions of dollars)	4
Table 2: Awards and Disbursements of IDEA- Part B, SFSF, and ESEA Title I- Part A Recovery Act Funds	9
Table 3: Illinois's Highway Funds Allocated, Obligated, and Unobligated	12
Table 4: Summary of Contract Information for State Administered Contract	17
Table 5: Summary of Contract Information for Locally Administered Contract	18
Table 6: Age of Illinois Youth Placed in Summer Employment Activities, as of August 31, 2009	28

Figures

Figure 1: Highway Obligations for Illinois by Project Improvement Type as of September 1, 2009	13
Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD that Have Been Obligated and Drawn Down in Illinois, as of September 5, 2009	33

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Appendix VII: Illinois

Overview

The following summarizes GAO's work on the third of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)¹ spending in Illinois. 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/>.

GAO's work in Illinois updated funding information on three education and one public housing program, and focused on three other programs funded under the Recovery Act—Highway Infrastructure Investment, the Transit Capital Assistance Program, and the Workforce Investment Act (WIA) Youth Program. The three programs we focused on were selected for different reasons:

- Illinois developed its own criteria to define economically distressed areas for projects to be funded with Highway Infrastructure Investment funds. We followed up to determine if Illinois reassigned any of its transportation projects in light of any feedback from federal or state officials pertaining to the state's criteria in identifying distressed areas. In addition, highway contracts have been underway in Illinois and provided an opportunity to review oversight procedures for use of Recovery Act funds.
- The deadline for obligating a portion of Transit Capital Assistance funds was September 1, 2009, and, further, this program provided an opportunity to review non-state entities that receive Recovery Act funds.
- The Recovery Act provided funding for WIA Youth Program activities including summer employment and, therefore, provided an opportunity to review a program that was well underway in Illinois.

For these three programs in Illinois, GAO focused on how funds were being used; how safeguards were being implemented, including those related to procurement of goods and services; and how results were being assessed. Consistent with the purposes of the Recovery Act, funds from the programs we reviewed are being directed to help Illinois and local governments stabilize their budgets, stimulate infrastructure development and expand existing programs.

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

- **Three education programs under the Recovery Act.** The U.S. Department of Education (Education) has awarded Illinois approximately \$1.5 billion in **U.S. Department of Education State Fiscal Stabilization Fund (SFSF)** funds. These funds have helped the state restore its school districts' funding shortages. As of September 1, 2009, local educational agencies (LEAs) have drawn down \$1.2 billion. Additionally, Education has awarded Illinois \$210 million in Recovery Act funds under **Title I, Part A, of the Elementary and Secondary Education Act (ESEA) of 1965**. These funds are to be used to help educate disadvantaged youth; for example, through providing professional development to teachers on how to relate to this special population. Based on information available as of September 1, 2009, LEAs have drawn down \$431,500. Education has also awarded Illinois \$253 million of its Recovery Act funds under the **Individuals with Disabilities Education Act (IDEA), Part B**. These funds are to be used to support special education and related services for infants, toddlers, children, and youth with disabilities. Illinois LEAs have drawn down \$1.4 million in IDEA funds as of September 1, 2009. While the first half were available as of April 1, 2009, Education announced on September 4, 2009 that the second half of Title I and IDEA Recovery Act funds were available.
- **Highway Infrastructure Investment.** The U.S. Department of Transportation's (DOT) Federal Highway Administration (FHWA) apportioned \$936 million in Recovery Act funds to Illinois for highway infrastructure projects. As of September 1, 2009, \$736 million had been obligated and \$200 million, the most of any state in the country, had been reimbursed by the federal government.
- **Transit Capital Assistance Program.** The U.S. Department of Transportation's Federal Transit Administration (FTA) apportioned \$375.5 million in Recovery Act funds to Illinois and urbanized areas located in the state. Of this amount, \$354.3 million was for urbanized areas, and \$21.2 million was for non-urbanized areas. As of September 1, 2009, the federal government's obligation for Illinois and urbanized areas located in Illinois was \$360.9 million.
- **Workforce Investment Act Youth Program.** The U.S. Department of Labor (Labor) allotted about \$62 million to Illinois in Workforce Investment Act Youth Program Recovery Act funds. The state has allocated about \$53 million to local workforce investment boards, and as of September 1, 2009, expended about \$22 million. As of the end of August, almost 13,000 youth had been placed in summer employment activities across the state. Illinois expects to meet its target for youth

summer employment activities of 15,000 youth, and the local workforce area in the state receiving the most funds—the Chicago local workforce area—has met its target of 7,300 youth. We found that the type of summer employment opportunities varied across the two workforce areas we visited and included positions such as office assistants, teacher’s aides, camp counselor assistants, and clerical aides.

- **Public Housing Capital Fund.** Illinois has 99 public housing agencies that, in total, have received \$221 million in Recovery Act-funded, Public Housing Capital Fund formula grants. As of September 5, 2009, 83 of these public housing agencies have obligated a total of \$76 million and 56 have drawn down a total \$6 million.

Recipient Reporting: States and localities are among those receiving Recovery Act funds directly from federal agencies that are expected to report quarterly on a number of measures—including use of the funds, an estimate of the number of jobs created and the number of jobs retained. In preparation for these reporting requirements, Illinois issued guidance since our last report requiring state agencies to develop procedures for collecting, entering, reviewing and reconciling these data elements. The state is also in the process of conducting a trial run of the reporting process for state agencies required to report on the impact of the act. In reviewing plans for complying with recipient reporting, we found that state and local agencies varied in their approach to, and understanding of, reporting requirements. For example, the Illinois State Board of Education is currently working on a collection tool that will be used by LEAs in reporting Recovery Act required data elements to the Board, while officials from transit agencies told us that they largely had existing systems in place to report required information. Local workforce board officials told us that while they are tracking required information for reporting, they were unclear on how to report potential jobs created or retained through the WIA program’s summer youth component.

As Illinois Begins Fiscal Year 2010 Facing Fiscal Stress, Recovery Act Funds Continue to Provide Financial Relief

Large decreases in Illinois' state revenues in fiscal year 2009 contributed to an anticipated shortfall of \$3.7 billion that will be carried into fiscal year 2010, which began on July 1, 2009. The budget for fiscal year 2010 was passed in July 2009, appropriating \$26.1 billion against \$29.3 billion in estimated revenues and transfers in as well as \$2.8 billion in statutory transfers out, such as debt payments. The appropriation for fiscal year 2010 is over \$4 billion less than that of fiscal year 2009, although the fiscal year 2010 appropriation does not include funds to pay down the estimated \$3.9 billion backlog in unpaid bills from fiscal year 2009. The state borrowed \$1.250 billion in August 2009 to assist in paying down this backlog of bills. The \$29.3 billion in revenue budgeted for fiscal year 2010 is about \$150 million more than estimated fiscal year 2009 revenues. However, state revenue sources have declined significantly since fiscal year 2008. See Table 1. Budgeted state revenue sources in fiscal year 2010 are nearly \$3 billion less than those earned in fiscal year 2008. Federal revenue sources increased substantially over the same time period, from \$4.815 billion in fiscal year 2008 to a budgeted \$7.131 billion in fiscal year 2010.

Table 1: State of Illinois Revenue Summary for Fiscal Years 2008, 2009 and 2010 (in billions of dollars)

	Fiscal Year 2008 Actual	Fiscal Year 2009 Estimated as of 9/9/09	Fiscal Year 2010 Budget as of 7/15/09
Total Revenues	27.759	27.551	27.078
State Sources	22.944	20.984	19.947
Federal Sources	4.815	6.567	7.131
Statutory Transfers In	1.900	1.593	2.221
Total Operating Revenues Plus Transfers In	29.659	29.144	29.299

Source: Illinois Governor's Office data.

The fiscal year 2010 budget included \$3.4 billion in borrowing to cover required pension costs, which would make additional funds available for other needs. The General Assembly granted the Governor discretion over these additional funds by allocating \$2.2 billion to human services programs and \$1.2 billion to undesignated programs in lump sums, as opposed to specific line items, requiring the Governor to make the final decision as to which programs to fund.

Governor Quinn also signed a 6-year, \$31 billion capital budget in July 2009, funded by bonds from the state in addition to federal and local matching funds. State officials expect over \$3.7 billion in Recovery Act funding for projects included in the capital budget, depending upon the

extent to which the state obtains additional grant money available through the Act. The state's anticipated contribution to the overall plan is \$13 billion. The capital plan calls for increases in a variety of motorist fees, in addition to the September 1, 2009 increases to sales taxes on candy, alcoholic beverages and other products to support the bonds. State officials also anticipated a new revenue stream of \$300 million annually from video gaming terminals to support the bonds, although revenues from the terminals were expected to be limited in fiscal year 2010 while the new program was implemented.

Recovery Act funds continued to assist the state in stabilizing its distressed financial condition. According to the Commission on Government Forecasting and Accountability, the receipt of Recovery Act funds allowed Illinois to avoid its largest ever 1-year decrease in revenue in fiscal year 2009. State officials expected the receipt of Recovery Act funding to allow the state to include an additional \$1.965 billion in services in the fiscal year 2010 budget. This includes \$1.016 billion from SFSF and \$949 million made available as a result of the increased FMAP, compared to \$1.039 billion from SFSF and \$1.145 billion² made available as a result of the increased FMAP in fiscal year 2009. State officials said that the state did not have any reserve funds available from prior years.

An official from the Illinois Office of Management and Budget said that the state is likely to seek an increase in tax revenues later in fiscal year 2010 and expected to see enhanced revenues as a result of an economic recovery from the recession over the next two fiscal years. This official anticipated that the revenue increases would provide the support necessary to transition into fiscal year 2011 when SFSF from the Recovery Act are not expected to be available. This state official also acknowledged that the state is likely to maintain a balance of approximately \$3.7 billion in unpaid bills at the end of fiscal year 2010. While this is a decrease from the expected balance of \$3.9 billion in unpaid bills at the end of fiscal year 2009, any balance at the end of fiscal year 2010 will still affect the budget for fiscal year 2011. The state has also formed a Pension Modernization Task Force to consider options for pension reform, as its pension plans contended with over \$54 billion in unfunded liabilities as of the state's most recently published calculation at the end of fiscal year 2008.

²Of the \$1.145 billion made available as a result of the increased FMAP in fiscal year 2009, \$527 million was made available by the increased FMAP and \$618 million was made available to assist in decreasing the state's Medicaid payment cycle to 30 days.

Following the federal Office of Management and Budget's (OMB) guidance on central administrative costs, an official from the Illinois Governor's Office said that Illinois had not determined the method by which to submit reimbursement requests³. However, this official noted that the state was leaning towards the billed services option because of the fluidity remaining in the fiscal year 2010 budget. The alternate option would rely on budgeted or estimated costs instead of actual costs, which would present a challenge for Illinois while its budget was still undergoing changes. The decision as to which method to use in claiming reimbursement for administrative costs was being delayed upon advice from the state's contractor for Statewide Cost Allocation Plan issues, who suggested that further legislation may be required in order for the state to comply with OMB's guidance. According to the official, the contractor advised the state that applying for reimbursement of administrative costs would be premature before the passage of H.R. 2182, currently under consideration in Congress⁴. The state sought clarification from the U.S. Department of Health and Human Services to address this concern, but as of September 10, 2009 had not received a response. The official confirmed that the state has identified programs for which it could eventually receive reimbursement for administrative costs and believed that the costs would fall within OMB's defined limit of 0.5 percent of Recovery Act funds received. This official further stated that Illinois may have been better positioned to monitor Recovery Act activities more aggressively and proactively if the funding for the administrative costs of doing so were more readily available.

³OMB Memorandum, M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Activities*, provides two alternatives for states to recoup costs for central administrative services, such as oversight and reporting. Alternative 1, Use of Estimated Costs for Centralized Services, authorizes the state to use budgeted or estimated costs in the submission of Statewide Cost Allocation Plans (SWCAP). Alternative 2, Billed Services, allows a state to submit the methodology for identifying, recording and charging administrative costs.

⁴H.R. 2182, 111th Cong. (2009). H.R. 2182 passed in the House of Representatives on May 19, 2009, but, as of September 8, 2009, had not passed the Senate. As passed by the House, H.R. 2182 would allow state and local governments to set aside 0.5 percent of Recovery Act funds, in addition to funds already allocated to administrative expenditures, to conduct planning and oversight to prevent and detect waste, frauds, and abuse.

State Fiscal Stabilization Fund Largest Disbursement of Recovery Act Education Funds

SFSF

The Recovery Act created a State Fiscal Stabilization Fund (SFSF) in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services, such as public safety. Stabilization funds for education distributed under the Recovery Act must be used to alleviate shortfalls in state support for education to school districts and public institutions of higher education (IHE). The initial award of SFSF funding required each state to submit an application to the U.S. Department of Education that provides several assurances, including 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, such as increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and improving the quality of state academic standards and assessments. In addition, states were required to make assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. States must allocate 81.8 percent of their SFSF funds to support education (these funds are referred to as education stabilization funds), and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as 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 IHEs. When distributing these funds to school districts, states must use their primary education funding formula, but they can determine how to allocate funds 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.

ESEA Title I

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 the Elementary and Secondary Education Act (ESEA) of 1965. The Recovery Act requires

these additional funds to be distributed through states to LEAs 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, LEAs are required to comply with current statutory and regulatory requirements and must obligate 85 percent of these funds by September 30, 2010.⁵ The U.S. Department of Education is advising LEAs to use the funds in ways that will build the agencies' long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. The U.S. Department of Education made the first half of states' Recovery Act ESEA Title I, Part A funding available on April 1, 2009 and announced on September 4, 2009 that it had made the second half available.

IDEA

The Recovery Act provided supplemental funding for programs authorized by Part B of the Individuals with Disabilities Education Act (IDEA), the major federal statute that supports the provisions of early intervention and special education and related services for infants, toddlers, children, and youth with disabilities. Part B funds programs that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education and is divided into two separate grants—Part B grants to states (for school-age children) and Part B preschool grants (section 619). The U.S. Department of Education made the first half of states' Recovery Act IDEA funding available to state agencies on April 1, 2009 and announced on September 4, 2009 that it had made the second half available.

Illinois' Allocation of Recovery Act Funds from the Department of Education

As of September 1, 2009, Illinois had been awarded \$1.5 billion, \$210 million, and \$253 million in SFSSF; ESEA Title I, Part A; and IDEA, Part B Recovery Act funds, respectively. Of these amounts, approximately \$1.2 billion in SFSSF; \$431,500 in Title I, Part A; and \$1.4 million in IDEA, Part B funds have been disbursed to LEAs. Illinois did not use any SFSSF funds to restore funding to public institutions of higher education (IHEs) for fiscal year 2009.

⁵LEAs 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 must obligate all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

In fiscal year 2010, both LEAs and IHEs will receive SFSF funds to offset cuts in state education funding. SFSF distributions in 2010 are estimated to represent about 13 percent of the state’s spending of \$7.3 billion in general funds on K-12 education. The state’s total fiscal year 2010 budget for K-12 education is projected to be approximately \$11 billion, of which about \$2.3 billion represents non-Recovery Act federal spending. In fiscal year 2010, the Governor plans to also use all SFSF government services funds for education. Eighty-six percent of government services funds will be used to fund LEAs and 14 percent will be used for public higher education. Table 2 below shows how funds were awarded and disbursed for three Education programs in Illinois.

Table 2: Awards and Disbursements of IDEA- Part B, SFSF, and ESEA Title I- Part A Recovery Act Funds

Program Name—2009 Funding	Amount Awarded to State	Amount State Disbursed to LEAs
IDEA—Part B	\$253 million	\$1.4 million
SFSF	1.5 billion	1.2 billion
ESEA Title I—Part A	\$210 million	\$431,500

Source: GAO analysis of U.S. Department of Education data and Illinois State Board of Education data.

There was little Recovery Act activity related to the ESEA Title I and IDEA programs in Illinois in fiscal year 2009. Only four LEAs applied for 2009 ESEA Title I Recovery Act funds, and 11 LEAs applied for 2009 IDEA Recovery Act funds. Local officials said that they did not apply for these funds in 2009 because of a burdensome application process over a relatively short time span, in addition to the fact that the funds available in fiscal year 2009 would still be available in fiscal year 2010.

OIG Reviewing Illinois Education Recovery Act Internal Controls

The U.S. Department of Education’s Office of the Inspector General (OIG), Chicago/Kansas City/Dallas Region, is currently reviewing the internal controls used by entities in Illinois—such as LEAs—that are responsible for handling Recovery Act funds. This review will be performed in two phases. Phase I determines whether entities charged with responsibility for overseeing Recovery Act funds have designed internal control systems that are sufficient to provide reasonable assurance of compliance with the Recovery Act, program regulations, and guidance. During Phase II, reviewers will test controls to determine whether they are effective, and determine whether the entity is complying with applicable laws and regulations.

The scope of the review will be limited to controls over data quality, cash management, sub-recipient monitoring, and use of Recovery Act funds for the SFSF, ESEA Title I, and IDEA programs. The OIG has selected a small, medium, and large LEA for its detailed fieldwork. It will also include the Illinois State Board of Education's (ISBE's) role in distributing these funds in the scope of its review. The OIG plans to release its Phase I report on September 30, 2009.

Funds Distribution, Cash Management, and Reporting

ISBE is using the SFSF stabilization education funds to fill budget shortfalls in its General State Aid payments to LEAs. Therefore, ISBE officials explained, ISBE is required by state law to distribute these funds on a predetermined schedule of payments—semi-monthly, in equal installments on the 10th and 20th of each month. However, SFSF funds are federal funds governed by the applicable federal cash management rules.⁶ In general, these rules require executive agencies implementing federal assistance programs and states participating in them to minimize the time elapsing between the transfer of federal funds to a state and the disbursement of those funds by the state and the time elapsing between a state's disbursement of federal funds to subgrantees, such as LEAs, and the disbursement of those funds by subgrantees.⁷

ISBE has used SFSF funds for its semi-monthly payments to LEAs since April 2009, but has not documented cash needs for these payments as required prior to making the semi-monthly disbursements. State officials explained that ISBE does not have the ability to identify specific cash

⁶The Cash Management Improvement Act of 1990, as amended, requires the Secretary of the Treasury, along with the states, to establish equitable funds transfer procedures so that federal financial assistance is paid to states in a timely manner and funds are not withdrawn from Treasury earlier than they are needed by the states for grant program purposes. The act requires that states pay interest to the federal government if they draw down funds in advance of need and requires the federal government to pay interest to states if federal program agencies do not make program payments in a timely manner. The Department of the Treasury promulgates regulations to implement these requirements. 31 C.F.R. pt. 205. However, cash management by subgrantees, such as LEAs, is subject to Department of Education grant administration regulations, which may require subgrantees to remit to the U.S. government interest earned on excess balances. *See* 34 C.F.R. §§ 74.22, 80.21.

⁷For the Department of Education, see 34 C.F.R. § 80.21(b). The specific requirements can vary depending on whether the program (1) is listed in the Catalogue of Federal Domestic Assistance, (2) meets the threshold for a major federal assistance program, and (3) is covered by an agreement between the U.S. Treasury Department and the state, among other circumstances.

needs from LEAs prior to distributing SFSF. Failure to adequately manage cash needs could result in two possible adverse effects on the federal government. First, ISBE may draw down SFSF funds unnecessarily by not minimizing the time elapsing between its drawdown and its payments to LEAs, effectively borrowing money from the federal government contrary to the general cash management rules. Second, the federal government may be subsidizing excess cash balances by LEAs if ISBE makes unnecessary payments to the LEAs and the LEAs do not then remit interest on the balances to the federal government.

ISBE, as part of its quarterly expenditure reporting process, completes a Cash Summary report designed to identify excess cash balances maintained by LEAs. According to state officials, LEAs are considered to be maintaining excess cash balances when they do not expend the funds they receive within the established timeframe. Cash management by ISBE and LEAs in Illinois is an issue we intend to continue addressing in future reports. The OIG is also currently evaluating Illinois' timeliness in monitoring excess cash among LEAs.

Illinois Is Managing Highway Projects and Will Be Asked to Review Its Determinations of Economically Distressed Areas

The Recovery Act provides funding to the states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to the states through federal-aid highway program mechanisms and states must follow the existing program requirements, which include ensuring the project meets all environmental requirements associated with the National Environmental Policy Act (NEPA), paying a prevailing wage in accordance with federal Davis-Bacon Act requirements, complying with goals to ensure disadvantaged businesses are not discriminated against in the awarding of construction contracts, and using American-made iron and steel in accordance with Buy America program requirements. While the maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent, under the Recovery Act, it is 100 percent.

Illinois was apportioned \$936 million in March 2009 for highway infrastructure and other eligible projects. As of September 1, 2009, \$736 million has been obligated. For the Highway Infrastructure Program, the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's contractual commitment to pay

for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement. As of September 1, 2009, \$200 million has been reimbursed by FHWA, the highest amount for any state in the country. States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

The majority of Highway Infrastructure Investment funds apportioned to Illinois under the Recovery Act have been obligated, but some funds remain unobligated at both the state and local levels. At the state level, about \$38 million in funds available for highways have not been obligated largely because contractors' bids came in below estimated costs. At the local level, less than half of the funds available for highway projects have been obligated. As of September 1, 2009, a total of \$736 million had been obligated in Illinois, resulting in 423 highway projects. See Table 3 for data on the amount of allocated, obligated, and unobligated funds.

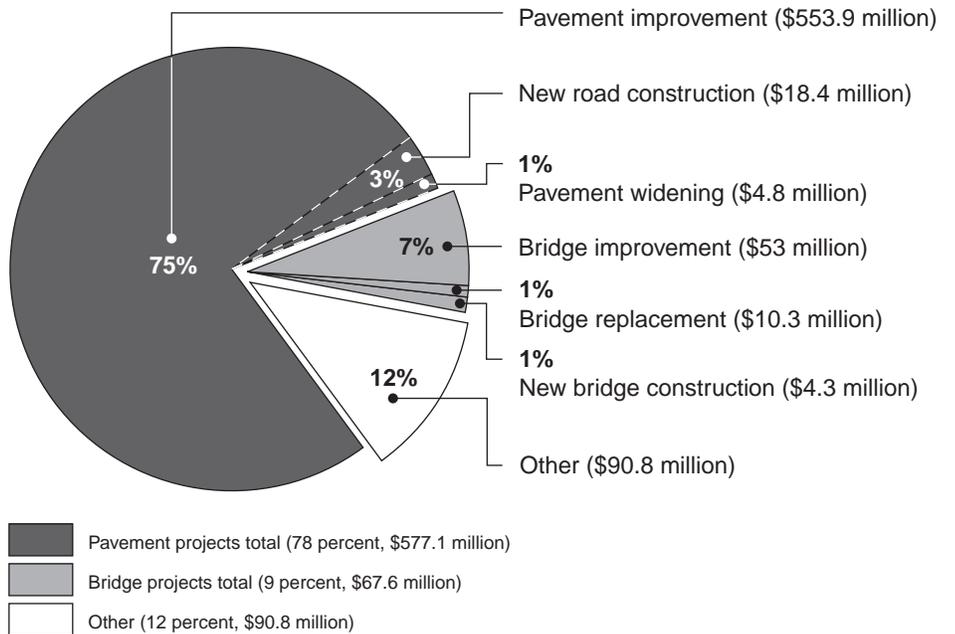
Table 3: Illinois's Highway Funds Allocated, Obligated, and Unobligated

	Allocated	Obligated	Unobligated
70 percent for use on state highways	\$654,914,893	\$616,685,395	\$ 38,229,498
30 percent of apportioned funds suballocated for metropolitan, regional and local use	280,677,811	118,825,790	161,852,021
Total	\$935,592,704	\$735,511,185	\$200,081,519

Source: GAO analysis of FHWA data.

About 78 percent of Recovery Act highway obligations are for Illinois's highway pavement projects, compared with 9 percent for bridges and 12 percent for other projects. Specifically, \$577 million of the \$736 million obligated for Illinois state highway projects as of September 1, 2009, is being used for highway pavement projects. This includes \$554 million for pavement improvements, such as resurfacing. State officials told us they selected pavement improvement projects because these types of projects can be completed quickly and can create jobs immediately. Figure 1 shows obligations by the types of road and bridge improvements being made.

Figure 1: Highway Obligations for Illinois by Project Improvement Type as of September 1, 2009



Source: GAO analysis of FHWA data.

Note: Totals may not add due to rounding. "Other" includes safety projects, such as improving safety at railroad grade crossings, and transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

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

- Ensure that 50 percent of apportioned Recovery Act funds were obligated within 120 days of apportionment (before June 30, 2009). 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. In addition, states are required to ensure that all apportioned funds—including suballocated funds—are obligated within 1 year. The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames.⁸

⁸Pub. L. No. 111-5, 123 Stat. 115, 206 (Feb. 17, 2009).

- Give priority to projects that can be completed within 3 years and to projects that are located in economically distressed areas. Distressed areas are defined by the Public Works and Economic Development Act of 1965, as amended.⁹ According to this act, to qualify as economically distressed, the area must (1) have a per capita income of 80 percent or less of the national average; (2) have an unemployment rate that is, for the most recent 24-month period for which data are available, at least 1 percent greater than the national average unemployment rate; or (3) be an area the Secretary of Commerce determines has experienced or is about to experience a special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short- or long-term changes in economic conditions.¹⁰
- 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 plans to expend from state sources from February 17, 2009, through September 30, 2010.¹¹

FHWA Will Ask Illinois to Review Its Economically Distressed Areas

As of September 1, 2009, Illinois DOT had contracts for 197 of its 223 Recovery Act highway construction projects, or 88 percent, in the 85 counties that the state classified as economically distressed. These were the same projects the state had reported in June 2009, except for three new projects in distressed counties that previously had projects. To determine which counties would be considered economically distressed, Illinois developed its own criteria, based on the Recovery Act provision that a distressed area can be one that has experienced a special need arising from severe unemployment or economic adjustment problems arising from severe changes in economic conditions, as determined by the Secretary of Commerce. Illinois's criteria reflected the most current data available to the state based on changes in unemployment for each of the

⁹42 U.S.C. § 3161

¹⁰42 U.S.C. § 3161(a). Eligibility must be supported using the most recent federal data available or, in the absence of recent federal data, by the most recent data available through the government of the state in which the area is located. Federal data that may be used include data reported by the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Census Bureau, the Bureau of Indian Affairs, or any other federal source determined by the Secretary of Commerce to be appropriate (42 U.S.C. § 3161(d)).

¹¹Pub. L. No. 111-5, § 1201, 123 Stat. 115, 212 (Feb. 17, 2009).

state's 102 counties.¹² Use of these criteria allowed the state to focus its Recovery Act projects on areas that were most severely affected by the recent economic downturn, according to Illinois Department of Transportation (IDOT) officials. The state could have used the original criteria described by FHWA and supported by maps of each county on FHWA's website. Using those criteria, Illinois would have had 87 of its 223 Recovery Act projects, or 39 percent, in the 74 counties that FHWA classified as economically distressed. FHWA has since issued additional guidance which clarifies the special need criteria, changing the locations that can be classified as economically distressed.

Use of Illinois's criteria led the state to identify several distressed areas in more populous areas of the state that were not originally identified as economically distressed under FHWA's criteria. By FHWA's criteria, 12 of the 15 most populous counties in the state were not economically distressed. These included the Chicago area (Cook County and its five collar counties) where IDOT put 95 projects, plus several other counties with smaller population centers, such as Champaign-Urbana, Bloomington, Peoria, Rock Island-Moline, and Springfield. While most of the available funds are already obligated, IDOT officials said they would consider placing projects in the 35 distressed counties, according to Illinois criteria, that have no projects.

We recommended in our July report that the Secretary of Transportation, in consultation with the Secretary of Commerce, develop (1) clear guidance on identifying and giving priority to economically distressed areas, and (2) more consistent procedures for FHWA to use in reviewing and approving states' criteria for designating distressed areas. In response to the recommendation, FHWA, in consultation with the Department of Commerce, developed guidance that addresses our recommendation. In particular, FHWA's August 2009 guidance directs states to give priority to projects that are located in an economically distressed area and can be completed within the 3-year timeframe over other projects. In the guidance, FHWA also directs states to maintain information as to how they identified, vetted, examined, and selected projects located in economically distressed areas. In addition, FHWA's guidance sets out criteria that states may use to identify economically distressed areas based on "special need."

¹²IDOT classified counties as economically distressed based on (1) whether the 2008 year-end unemployment rate was at or above the statewide average, (2) whether the change in the unemployment rate between 2007 and 2008 was at or above the statewide average, or (3) whether the number of unemployed persons for 2008 had grown by 500 or more.

The criteria aligns closely with criteria used by the Department of Commerce's Economic Development Administration (EDA) in designating special needs areas in its own grant programs, including factors such as actual or threatened business closures (including job loss thresholds), military base closures, and natural disasters or emergencies. According to EDA, while the agency traditionally approves special needs designations on a case-by-case basis for its own grant program, it does not have the resources to do so for the purpose of Recovery Act highway funding.¹³ Rather, in supplemental guidance issued August 24, 2009, FHWA required states to document their reliance on "special need" criteria and provide the documentation to FHWA Division Offices, thereby making the designation of new "special need" areas for the for Recovery Act highway funding "self executing" by the states, meaning the states will apply the criteria laid out in the guidance to identify these areas. We plan to continue to monitor FHWA's and the states' implementation of the economically distressed area requirement, including the states' application of the special needs criteria, in our future reviews. FHWA Illinois Division Office officials said they notified an Illinois DOT official about release of the new guidance in early September 2009 but had not yet discussed its application with state officials. FHWA Division Office officials said they will ask Illinois DOT officials to reassess their determinations of economically distressed areas in the state.

State Officials Expect to Meet the State's Maintenance-of-Effort Requirement

Illinois state officials were satisfied with the state's ability to maintain spending levels for transportation. Illinois passed a capital plan on July 13, 2009, that should fund transportation infrastructure projects, even if the state has an unexpected revenue shortfall. As such, while DOT is continuing to enforce the Recovery Act requirement that states maintain their February 2009 level of effort, Illinois officials say they expect to meet their maintenance-of-effort requirements.

States are required to certify that the state will maintain the level of spending that it had planned on the day the Recovery Act was enacted. Because the state's initial certification submitted in March 2009 contained extra explanatory language and required an adjustment in an amount computed for the state's maintenance of effort, the state was asked to resubmit its certification with revisions. As we reported in July 2009,

¹³FHWA's guidance specifies that special needs determinations will be solely for Recovery Act highway funding and will not apply to EDA grant programs.

Illinois resubmitted its certification on May 20, 2009, to the DOT and DOT concluded that the form of the Illinois’s resubmitted certification was consistent with its additional guidance. FHWA has gathered data to evaluate Illinois’s method of calculating the amounts it planned to expend for the covered programs to determine if the state’s calculation complies with DOT guidance, but, according to FHWA Illinois Division officials, FHWA has not yet completed its evaluation.

Illinois Is Using Existing Contracting and Oversight Procedures to Oversee Recovery Act Highway Funds

According to state officials, Illinois uses the same contracting procedures for Recovery Act projects as it does for all other highway construction projects. According to officials, the City of Chicago, which awards contracts for its own projects, also follows its normal contracting procedures. A contract in each area is discussed below (see Tables 4 and 5). Both entities use construction performance bonds to assure the work is completed satisfactorily. According to officials, both entities also incorporate the Recovery Act requirements into the written contracts. Illinois DOT has implemented enhanced oversight procedures for Recovery Act highway funds. Specifically, the services of consultants have been retained to assist management with additional oversight activities. Using a risk-based selection approach to oversight, the goal is to conduct additional on-site reviews of 25 percent of state let state projects, 40 percent of state let local projects, and 100 percent of local let local projects, including the City of Chicago. The enhanced oversight includes additional documentation reviews, materials testing and independent weight checks. These activities are being coordinated and overseen by in-house management.

Table 4: Summary of Contract Information for State Administered Contract

Grundy County—11 Miles of Milling and Resurfacing on IL Route 47 from IL Route 113 to Interstate 55

- Cost—\$2,270,771
- Project start—August 2009
- Expected completion—40 working days

Source: Illinois Department of Transportation data.

IDOT awards and manages contracts related to Recovery Act construction projects in Illinois outside of the City of Chicago. According to IDOT officials, to perform the work for this project, the new contract was awarded competitively, using a fixed-price contract. The contract was reviewed by FHWA before the award to ensure it met Recovery Act requirements. Agency officials stated that IDOT construction

requirements, which are located in the IDOT Construction Manual, were followed when the contract was awarded. The officials also stated that the federal suspension and debarment list maintained by the General Services Administration (GSA) is not checked prior to contract award; however, contractors and subcontractors are required to certify that they have not been disbarred or suspended. According to officials, DOT regulations state that participants in the program are not required to make the check, but are encouraged to develop a procedure to verify eligibility. Illinois DOT is developing a procedure to verify whether or not contractors are on the GSA “Excluded Parties List System” (EPLS) prior to contract award and will check all Recovery Act contractors (including Aeronautics) against the EPLS to ensure no contracts were awarded to debarred/suspended contractors. Additionally, Illinois DOT is exploring the possibility of automating the procedure to verify whether or not contractors are on the GSA EPLS prior to contract award.

According to agency officials, the agency has standard procedures for monitoring construction projects. Inspectors will review the work and check material quantities, and conduct spot interviews with employees to ensure employees are paid the prevailing wage rates.

Table 5: Summary of Contract Information for Locally Administered Contract

Chicago Project—9 miles of Arterial Streets Resurfacing—North Area

- Cost—\$7,985,964
 - Project start—July 2009
 - Expected completion—December 2009
-

Source: Chicago Department of Transportation data.

The Chicago Department of Transportation (CDOT) manages Chicago construction projects. The Chicago Department of Procurement Services awards the contracts, and for the Chicago project we identified, according to officials, a new contract was awarded to perform the project work. According to CDOT officials, the contract was awarded competitively, using a fixed-price contract. Agency officials stated that they followed their usual contracting procedures of conducting pre-bid meetings, and providing the bidders with the terms and conditions for construction contracts, instruction and execution documents, and detailed specifications in the bid books that the bidders receive. CDOT officials stated that they check a city suspension and debarment list, and that contractors and subcontractors are required to certify that they have not been disbarred or suspended. They also stated that IDOT reviews the contracts before they are awarded to ensure they meet the Recovery Act

requirements. According to officials, the contract includes requirements for the contractor to report monthly employment data as required by Section 1512 of the Recovery Act. According to agency officials, the agency

- has standard procedures for monitoring construction projects;
- has job site inspections conducted by resident engineers and the material quantities are reviewed; and
- utilizes compliance officers and IDOT engineers to conduct site visits as well.

Most Illinois Transit Agency Urbanized Area Formula Program Funds Have Been Obligated

The Recovery Act appropriated \$8.4 billion to fund public transit throughout the country through three existing Federal Transit Administration (FTA) grant programs, including the Transit Capital Assistance Program.¹⁴ The majority of the public transit funds—\$6.9 billion (82 percent)—was apportioned for the Transit Capital Assistance Program, with \$6.0 billion designated for the urbanized area formula grant program and \$766 million designated for the nonurbanized area formula grant program.¹⁵ Under the urbanized area formula grant program, Recovery Act funds were apportioned to urbanized areas—which in some cases include a metropolitan area that spans multiple states—throughout the country according to existing program formulas. Recovery Act funds were also apportioned to states under the nonurbanized area formula grant program using the program’s existing formula. Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Up to 10 percent of apportioned

¹⁴The other two public transit programs receiving Recovery Act funds are the Fixed Guideway Infrastructure Investment program and the Capital Investment Grant program, each of which was apportioned \$750 million. The Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program are formula grant programs, which allocate funds to states or their subdivisions by law. Grant recipients may then be reimbursed for expenditures for specific projects based on program eligibility guidelines. The Capital Investment Grant program is a discretionary grant program, which provides funds to recipients for projects based on eligibility and selection criteria.

¹⁵Urbanized areas are areas encompassing a population of not less than 50,000 people that have been defined and designated in the most recent decennial census as an “urbanized area” by the Secretary of Commerce. Nonurbanized areas are areas encompassing a population of fewer than 50,000 people.

Recovery Act funds may also be used for operating expenses.¹⁶ Under the Recovery Act, the maximum federal fund share for projects under the Transit Capital Assistance Program is 100 percent.¹⁷

As they work through the state and regional transportation planning process, designated recipients of the apportioned funds—typically public transit agencies and metropolitan planning organizations (MPO)—develop a list of transit projects that project sponsors (typically transit agencies) submit to FTA for Recovery Act funding.¹⁸ FTA reviews the project sponsors' grant applications to ensure that projects meet eligibility requirements and then obligates Recovery Act funds by approving the grant application. Project sponsors must follow the requirements of the existing programs, which include ensuring the projects funded meet all regulations and guidance pertaining to the Americans with Disabilities Act (ADA), pay a prevailing wage in accordance with federal Davis-Bacon Act requirements, and comply with goals to ensure disadvantaged businesses are not discriminated against when awarding contracts.

Funds appropriated through the Transit Capital Assistance Program must be used in accordance with Recovery Act requirements, including the following:

- Fifty percent of Recovery Act funds apportioned to urbanized areas or states are to be obligated within 180 days of apportionment (before

¹⁶The 2009 Supplemental Appropriations Act authorizes the use of up to 10 percent of each apportionment for operating expenses. Pub. L. No. 111-32, §1202, 123 Stat. 1859, 1908 (June 24, 2009). In contrast, under the existing program, operating assistance is generally not an eligible expense for transit agencies within urbanized areas with populations of 200,000 or more.

¹⁷The federal share under the existing formula grant program is generally 80 percent.

¹⁸Designated recipients are entities designated by the chief executive officer of a state, responsible local officials, and publicly owned operators of public transportation to receive and apportion amounts that are attributable to transportation management areas. Transportation management areas are areas designated by the Secretary of Transportation as having an urbanized area population of more than 200,000, or upon request from the governor and metropolitan planning organizations designated for the area. Metropolitan planning organizations are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues including major capital investment projects and priorities. To be eligible for Recovery Act funding, projects must be included in the region's TIP and the approved State Transportation Improvement Program (STIP).

Sept 1, 2009) and the remaining apportioned funds are to be obligated within 1 year. The Secretary of Transportation is to withdraw and redistribute to other urbanized areas or states any amount that is not obligated within these time frames.¹⁹

- State governors must certify that the state will maintain the level of state spending for the types of transportation projects, including transit 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 plans to expend from state sources from February 17, 2009, through September 30, 2010.²⁰ This requirement applies only to state funding for transportation projects. The Department of Transportation will treat this maintenance-of-effort requirement through one consolidated certification from the governor, which must identify state funding for all transportation projects.
- Project sponsors must submit periodic reports, as required under the maintenance-of-effort for transportation projects section (§1201(c) of the Recovery Act) on the amount of federal funds appropriated, allocated, obligated and outlayed; the number of projects put out to bid, awarded, or work has begun or completed; project status; and the number of jobs created or sustained. In addition, grantees must report detailed information on any subcontractors or subgrants awarded by the grantee.

The Recovery Act requires that 50 percent of the funds apportioned to urbanized areas or states for the Transit Capital Assistance Program be obligated before September 1, 2009. FTA concluded that, as of September 1, 2009, the 50 percent obligation requirement had been met for Illinois and urbanized areas located in the state. More specifically,

- In March 2009, a total of \$354.3 million in Transit Capital Assistance Recovery Act funds was apportioned to urbanized areas in Illinois. As of September 1, 2009, \$349.4 million, or 99 percent had been obligated by FTA.²¹

¹⁹Pub. L. No. 111-5, 123 Stat. 115, 209 (Feb. 17, 2009).

²⁰Pub. L. No. 111-5, §1201(a), 123 Stat. 115, 212 (Feb. 17, 2009).

²¹For the Transit Capital Assistance Program, the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a grant agreement.

- Over 90 percent of these funds, \$327.6 million, were apportioned to the Chicago region, and within the Chicago region, the Regional Transportation Authority allocated funds among three transit agencies—the Chicago Transit Authority (CTA), Metra (the commuter rail system), and Pace (the suburban bus system)—according to an existing regional formula. As of September 1, 2009, \$325.6 million, or 99 percent of the funds apportioned to the Chicago region, had been obligated.²²
- Other urbanized areas in Illinois also received apportionments. A total of \$26.7 million in urbanized area formula funds was apportioned to other urban areas in, or partially in, Illinois.²³ All of these areas have met the 50 percent obligation requirement.

Large Transit Agencies Have Emphasized Repair and Rehabilitation of Vehicles

A significant portion of Recovery Act Transit Capital Assistance program obligations for the urbanized areas in Illinois have been for the repair and rehabilitation of transit vehicles, including the Chicago Transit Authority's use of \$75.2 million to overhaul and rehabilitate bus and rail fleet cars, and Metra's use of \$71 million to rebuild aging locomotives. Local transit officials told us they selected these projects for a large percentage of funding due to their agency's large maintenance backlogs. Transit agencies will also use the funds for other purposes. Metra, for example, will use funds to repair tracks and structures, upgrade signal systems, rehabilitate several stations, replace air conditioning units on rail cars, and build additional station parking. The agency will apply \$6.8 million to pay most of the cost of the new station and intermodal facility on its Rock Island District at 35th Street in Chicago. The CTA also will use funds to repair track and buy 50 hybrid buses, and expects that all of its Recovery Act capital projects will be completed by the end of 2010.

According to transit agency officials, identifying projects for Recovery Act funds was not difficult. Both the CTA and Metra had future planned projects identified in the regional transportation plan that were not yet funded, but could quickly be implemented. Projects they could quickly

²²Illinois also received a significant amount of Recovery Act transit assistance under the Fixed Guideway program. Specifically, the Chicago Transit Authority (CTA) has received \$48.9 million, and Metra, the Chicago regional commuter railroad, received 46.6 million. Illinois' Fixed Guideway funds are 100 percent obligated.

²³The jurisdiction of some urbanized areas within this state crosses into at least one other state. These urbanized areas are reflected in each state that it is located. Therefore, some urbanized areas are included in multiple state totals.

advance were selected, placed in a revised regional plan, and submitted to FTA for approval. Both agencies have ongoing contracts funded by federal grants and are familiar with federal project requirements, which facilitated the process.

**Illinois Has Met the
Obligation Requirement
for Nonurbanized Areas**

Illinois was apportioned about \$21.2 million in Recovery Act Funds for the nonurbanized area formula grant program. The state of Illinois is the primary recipient of nonurbanized area funds, and small transit agencies will receive Recovery Act funds through IDOT. IDOT has obtained an \$11.5 million grant, primarily to buy 74 new buses and 24 paratransit vehicles for these small agencies, to meet the 50 percent obligation requirement. For the remaining nonurbanized area funds, IDOT is working with small transit providers to identify which additional infrastructure projects are shovel-ready, and plans to submit these in a second proposal.

**Lack of a Capital Transit
Program in Illinois
Eliminates the
Maintenance-of-Effort
Requirement**

The Recovery Act includes provisions for the maintenance-of-effort on the part of states, specifically to continue funding existing programs at the planned level, and not reduce their level of financial effort. In the case of Illinois, the state did not have a capital program for transit for the 5 years prior to the passage of the Recovery Act, and the state was not providing capital funds to transit districts. As a result, Illinois effectively has no maintenance-of-effort threshold to meet. Illinois has not transferred any Recovery Act highway funds into transit programs.

Illinois Expects to Meet Its Participation and Expenditure Targets for Youth Placed in WIA Summer Employment Activities and Has Begun to Monitor Use of Recovery Act Funds

The Recovery Act provides an additional \$1.2 billion in funds for Workforce Investment Act (WIA) Youth Program activities, including summer employment. Administered by the Department of Labor (Labor), the WIA Youth program is designed to provide low-income in-school and out-of-school youth 14 to 21 years old, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. Funds for the program are distributed to states based on a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving as much as 15 percent for statewide activities. The local areas, through their local workforce investment boards, have the flexibility to decide how they will use the funds to provide required services.

While the Recovery Act does not require all funds to be used for summer employment, in the conference report accompanying the bill that became the Recovery Act,²⁴ the conferees stated they were particularly interested in states using these funds to create summer employment opportunities for youth. While the WIA Youth program requires a summer employment component to be included in its year-round program, Labor has issued guidance indicating that local areas have the flexibility to implement stand-alone summer youth employment activities with Recovery Act funds.²⁵ Local areas may design summer employment opportunities to include any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work experience component. A key goal of a summer employment program, according to Labor’s guidance, is to provide participants with the opportunity to (1) experience the rigors, demands, rewards, and sanctions associated with holding a job (2) learn work readiness skills on the job, and (3) acquire measurable communication, interpersonal, decision-making, and learning skills. Labor has also encouraged states and local areas to develop work experiences that introduce youth to opportunities in “green” educational and career pathways. Work experience may be provided at public sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines, as well as federal and state wage laws.²⁶ Labor’s guidance

²⁴H.R. Rep. No. 111-16, at 448 (2009).

²⁵Department of Labor, Training and Employment Guidance Letter No. 14-08 (Mar. 18, 2009).

²⁶Current federal wage law specifies a minimum wage of \$7.25 per hour. Where federal and state laws have different minimum wage rates, the higher rate applies.

requires that each state and local area conduct regular oversight and monitoring of the program to determine compliance with programmatic, accountability, and transparency provisions of the Recovery Act and Labor's guidance. Each state's plan must discuss specific provisions for conducting its monitoring and oversight requirements.

The Recovery Act made several changes to the WIA Youth Program when youth are served using these funds. It extended eligibility through age 24 for youth receiving services funded by the act, and it made changes to the performance measures, requiring that only the measurement of work readiness gains will be required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. Labor's guidance allows states and local areas to determine the methodology for measuring work readiness gains within certain parameters. States are required to report to Labor monthly on the number of youth participating and on the services provided, including the work readiness attainment rate and the summer employment completion rate. States must also meet quarterly performance and financial reporting requirements.

Illinois Expects to Meet Expenditure and Participation Targets

Illinois was awarded a total of about \$62 million in Recovery Act funds for the WIA Youth Program. The Department of Commerce and Economic Opportunity (DCEO), the state's workforce agency, set aside 15 percent of this amount for statewide activities and allocated the remaining funds to the local workforce investment areas. As of September 1, 2009, about \$22 million of the \$62 million had been expended across the state, with \$270,000 of this amount expended from the state's 15 percent set-aside for statewide youth activities. In addition, a total of about \$57 million had been obligated by the state as of that date, including nearly \$4 million from the state's 15 percent set-aside.

State officials told us that they expect to meet participation targets for youth placed in summer employment activities. The state targeted 15,000 youth to be placed in Recovery Act-funded WIA summer youth employment activities. As of August 31, Illinois reported that almost 13,000 participants had been placed in summer employment activities across the state. DCEO officials told us that they expect the state to meet its target of 15,000 youth placed in employment activities as more participant reports come in from local workforce areas. The Chicago local workforce area targeted 7,300 youth to be placed in summer employment activities, and surpassed this target in August. Department of Family and Support Services (DFSS) officials we spoke with told us that they were able to work with a total of 34 contractors to help meet this target. The Grundy-

Livingston-Kankakee local workforce area targeted 205 youth for summer employment activities, and a local workforce board official told us that the area was able to place 75 of the targeted 205 youth for the summer. According to officials, the area was not able to achieve its target largely due to eligibility—either youth that were recruited by contractors not being eligible, or youth that may have been eligible failing to submit the required documentation. However, in addition to the 175 currently enrolled, 130 youth served through the traditional year-round program are having summer employment activities supplemented by Recovery Act funds.

DCEO did not set a spending target for local areas' Recovery Act funding for the WIA Youth Program but the agency issued guidance in May and June advising local workforce investment areas to expend significant Recovery Act funds in the summer of 2009, so long as they have the necessary infrastructure in place to quickly implement programming. The two local workforce areas we visited—Chicago and Grundy-Livingston-Kankakee—had set spending targets for summer youth employment activities in their areas. The Chicago local workforce area, which was allocated about \$17 million in Recovery Act WIA Youth funds, set a target to expend its entire allocation by September 30. According to officials we met with from the Chicago Workforce Investment Board and the Chicago DFSS, they expect to meet this target.²⁷ As of September 10, about 50 percent of the area's allocation had been expended. The Grundy-Livingston-Kankakee local workforce area targeted about \$400,000 of its roughly \$900,000 Recovery Act WIA Youth Program allocation to be expended by September 30. Officials from the local workforce investment board stated that they expect about \$370,000 to be expended by that date. However, this local workforce area also used Recovery Act funds to cover youth from the WIA year-round program who were enrolled in summer employment activities. According to a program official, a total of about \$195,000 in additional Recovery Act funds will be spent for this purpose by September 30.

²⁷The WIA Youth Program in Chicago is implemented by the Chicago Department of Family Support Services in coordination with the Chicago Workforce Investment Board.

Local Workforce Areas Faced Challenges Related to WIA Youth Eligibility and Took Steps to Address Them

Officials from both local workforce areas we visited told us that challenges existed in determining and documenting WIA youth eligibility. Officials told us that they had a limited amount of time to determine whether youth applying for summer employment were eligible, and to obtain the necessary documentation from them. In the Chicago local workforce area, DFSS officials also faced a large number of applications, as a total of about 79,000 youth had applied for summer youth employment opportunities. To address these issues, DFSS officials told us that they provided training to their contractors on WIA eligibility, assigned a liaison to each contractor to provide assistance, and conducted file reviews for youth selected for employment by contractors to ensure that eligibility criteria were met. They also utilized other employees within the department to adequately implement eligibility tasks. A Grundy-Livingston-Kankakee Workforce Board official told us that, for new contractors—those not part of the WIA year-round program—a staff member was assigned to go on-site to assist the contractor in determining eligibility and obtaining proper documentation from youth. Board officials explained that the limited amount of time for youth to provide documentation contributed to the workforce area's inability to meet its target for youth participation. Finally, a contractor for WIA summer youth employment activities in the Grundy-Livingston-Kankakee workforce area also stated that eligibility restrictions—low-income youth without additional employment barriers were not eligible to participate in the program—added another challenge in recruiting and enrolling youth.²⁸

Summer Youth Employment Encompassed Various Demographic Categories and Sectors

WIA summer youth employment activities in Illinois encompassed various demographic categories, such as out-of-school and older youth, and in some cases, incorporated academic or occupational skills training. For example, as of August 31, a little less than half of all youth participants placed in employment activities across the state were out-of-school youth. Further, while about two-thirds of participants statewide were youth 14 to 18 years of age, about 10 percent were older youth—ranging from 22 to 24 years of age. We also found participation by various demographic categories at the local workforce areas we visited. In Chicago, more than half of youth placed in employment activities as of September 1 were out-of-school youth, and a little less than 10 percent were older youth. In the

²⁸One or more of the following barriers to employment must be demonstrated for eligibility: (1) school dropout; (2) basic literacy skills deficiency; (3) homeless, runaway, or foster child; (4) pregnant or a parent; (5) an offender; or (6) needs help completing an educational program or securing and holding a job.

Grundy-Livingston-Kankakee workforce area, a little less than half of the youth were out-of-school youth, and a little over 5 percent were older youth. See Table 6 for data on the age of youth placed in summer employment activities across the state.

Table 6: Age of Illinois Youth Placed in Summer Employment Activities, as of August 31, 2009

Category	Number of youth	Percentage
Youth age 14 to 18	8,152	63
Youth age 19 to 21	3,420	26
Youth age 22 to 24	1,384	11
Total	12,956	100

Source: Illinois Department of Commerce and Economic Opportunity data.

According to officials in both workforce areas, about one-fourth of the youth received academic skills training as part of their summer work employment. In the Chicago local workforce area, DFSS officials also told us that one-fourth to one-half received occupational skills training in areas such as hospitality, marketing, and health and nutrition. Further, one contractor we spoke with in Chicago included a financial literacy component for younger youth to teach them how to manage their finances, and youth spent the first week of their summer experience learning life skills, such as how to prepare for a job and address issues in the workplace. In the Grundy-Livingston-Kankakee workforce area, officials told us that occupational skills training was not required and, instead, was offered informally by contractors. These officials estimated that about one-half of the youth they placed were receiving training of this type.

WIA youth summer program participants were also placed in a range of jobs at the two local workforce areas we visited. In the Chicago local workforce area, contractors had flexibility in designing their own summer program based on the types of jobs they wanted to offer and the youth they wanted to target. Overall, youth were employed in a variety of work sites, such as Chicago Public Schools, City Colleges of Chicago, the Chicago Park District, local museums, retail stores, hotels, and community centers. The jobs included positions such as office assistants, teacher’s aides, data entry positions, and clerical aides, and some included supervisory positions of other summer youth participants. One worksite we visited—the Museum of Science and Industry—enrolled youth as peer educators who facilitated science activities to youth and young children at various locations across the city, such as libraries and schools. The

museum also enrolled some participants as staff who supervised youth presenting science activities at the museum. Another work site we visited employed youth at a retail clothing store, where they assisted with customer service and various retail tasks, such as inventory and cataloging.

In the Grundy-Livingston-Kankakee workforce area, youth were employed in jobs such as office assistants, camp counselor assistants, and groundskeepers at various worksites such as a local park district, community resource center, and community college. At one worksite we visited, older youth were mentoring and tutoring younger youth on basic education skills, such as math and reading. At both local workforce areas, officials stated that some youth were participating in green jobs, such as recycling positions at park districts. One contractor we interviewed in Chicago had about 25 percent of youth employed in green jobs. In the Grundy-Livingston-Kankakee workforce area, about one-fourth of employers had youth enrolled in green jobs. Officials in both local workforce areas did not identify any issues with how to define a green job. However, they primarily defined jobs as green based on their own criteria or criteria they identified as appropriate.

State and Local Efforts to Monitor WIA Youth Summer Employment Focus on File Reviews and Site Visits

The Illinois Department of Commerce and Economic Opportunity indicated that staff has begun to monitor aspects of the Recovery Act-funded summer youth employment activities, such as whether youth have met eligibility requirements of the program, and the extent to which work sites are adhering to workplace safety guidelines and federal/state wage laws. The state will utilize similar procedures for monitoring and oversight of Recovery Act WIA funds as it does for other WIA funds. For example, according to officials, the agency utilizes a file review instrument and samples files from all 26 local workforce areas to check that eligibility requirements are being met. The agency also conducts site visits to the local workforce areas to verify information such as participation and completion rates. However, the fiscal year 2008 Statewide Single Audit contained a finding that the agency did not adequately document supervisory reviews of on-site monitoring procedures for the program, and did not communicate findings to sub-recipients in a timely manner. The agency noted to us that in the process of monitoring summer employment activities thus far, it has encountered some eligibility documentation issues, such as participant files missing signatures or documentation of citizenship status. The agency has notified local workforce areas that they must produce documentation to prove compliance with eligibility, or costs associated with their program participants will not be reimbursed. The

agency is also conducting additional file reviews where eligibility issues have been found to determine the costs that could be disallowed. Further, officials indicated that, as of August 31, programmatic monitoring plans were incorporated into the state's automated system for WIA file reviews.

The two local workforce areas we visited relied primarily on file reviews and site visits to conduct monitoring of Recovery Act-funded summer youth activities. Chicago's DFSS officials explained that, in addition to providing training on WIA eligibility to summer youth contractors, DFSS officials conducted file reviews of youth placed in summer employment activities to confirm that the proper eligibility documents were in place. DFSS officials stated that the department also has an auditing unit that will be conducting file reviews of 20 percent of the applications submitted for summer youth employment. Furthermore, of the two contractors we visited in Chicago, one used a checklist for documenting youth eligibility, and the other required youth to meet with in-house staff members that typically work with youth on the WIA-year-round program, to obtain the necessary documentation. Officials from the latter contractor also told us that they hired eight additional staff to assist with determining eligibility, among other program implementation tasks. As mentioned earlier, officials with the Grundy-Livingston-Kankakee Workforce Board told us that for new contractors—those not part of the WIA year-round program—a staff member was assigned to go on-site to assist the contractor in determining eligibility and obtaining proper documentation from youth, and conducted file reviews to ensure the necessary documents were in place.

Both local workforce areas also utilized site visits to monitor whether youth had meaningful work, and whether worksites met safety requirements. In Chicago, DFSS officials told us that a liaison assigned to the contractor and staff from the monitoring division of the department conduct announced and unannounced site visits to work sites. After a site visit, a report is completed that describes whether youth employment activities correspond to descriptions submitted by the contractor, timesheets are completed on a weekly basis, and the extent to which participants have completed work readiness requirements. According to officials in the Grundy-Livingston-Kankakee workforce area, workforce board staff conducts two site visits to each worksite over the course of the summer and fills out a similar report for each visit. We also found that contractors conduct site visits to their work sites. For example, one contractor that has multiple work sites in Chicago told us that staff conducts weekly site visits to ensure that youth are performing meaningful

work. Similarly, a contractor we interviewed in Kankakee also told us that staff members visit each work site twice throughout the summer.

State and Local Workforce Areas Are Attempting to Measure Program Outcomes

State and local officials we spoke with stated that they are attempting to measure the outcome of Recovery Act-funded summer youth employment activities. The Recovery Act specifies that, of the WIA Youth Program performance measures, only the work readiness measure is required to assess the effectiveness of summer-only employment for youth. Work readiness focuses on personal traits—such as work ethic and professionalism—and communication and interpersonal skills.

In Illinois, local workforce boards are required to utilize the WorkNet system to measure work readiness. The system contains an online portal with a work readiness feature that requires youth to take a pre-test, work through several modules such as interviewing and workplace skills, and then take a post-test to measure work readiness gains. In addition to tracking the work readiness measure, Illinois also plans to rely on existing systems that track measures under the traditional WIA year-round program to track more information on summer employment activities, such as the number of participants enrolled and completion rates, per Labor’s requirements. A DCEO official told us that a few modifications were made to reporting fields based on program features in the Recovery Act. For example, the agency made changes to account for youth ages 22 to 24 since they became eligible for WIA Youth Program activities through funds made available under the Recovery Act. Workforce Investment Board officials from both local areas we visited told us that they will also be tracking work readiness, and participation and completion rates through their existing systems, and will also be attempting to track the extent to which any youth are hired on permanently after their summer employment activities are over. Officials in both workforce areas explained that since the end-date for summer employment activities is September 30, 2009, information on all youth would not be available until after that date.

Illinois Public Housing Agencies Continue to Obligate and Draw Down Recovery Act Formula Grants

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; to develop, finance, and modernize public housing developments; and to improve management.²⁹ 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 on which they are made available to public housing agencies, expend at least 60 percent of funds within 2 years, and expend 100 percent of the funds within 3 years. Public housing agencies are expected to give priority to projects that can award contracts based on bids within 120 days from the date on which the funds are made available, as well as projects that rehabilitate vacant units, or those already under way or included in their current required 5-year capital fund plans.

HUD is also required to award nearly \$1 billion to public housing agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofit investments. In a Notice of Funding Availability published May 7, 2009, and revised June 3, 2009, HUD outlined four categories of funding for which public housing agencies could apply:

- creation of energy-efficient communities (\$600 million),
- gap financing for projects that are stalled due to financing issues (\$200 million),
- public housing transformation (\$100 million), and
- improvements addressing the needs of the elderly or persons with disabilities (\$95 million).

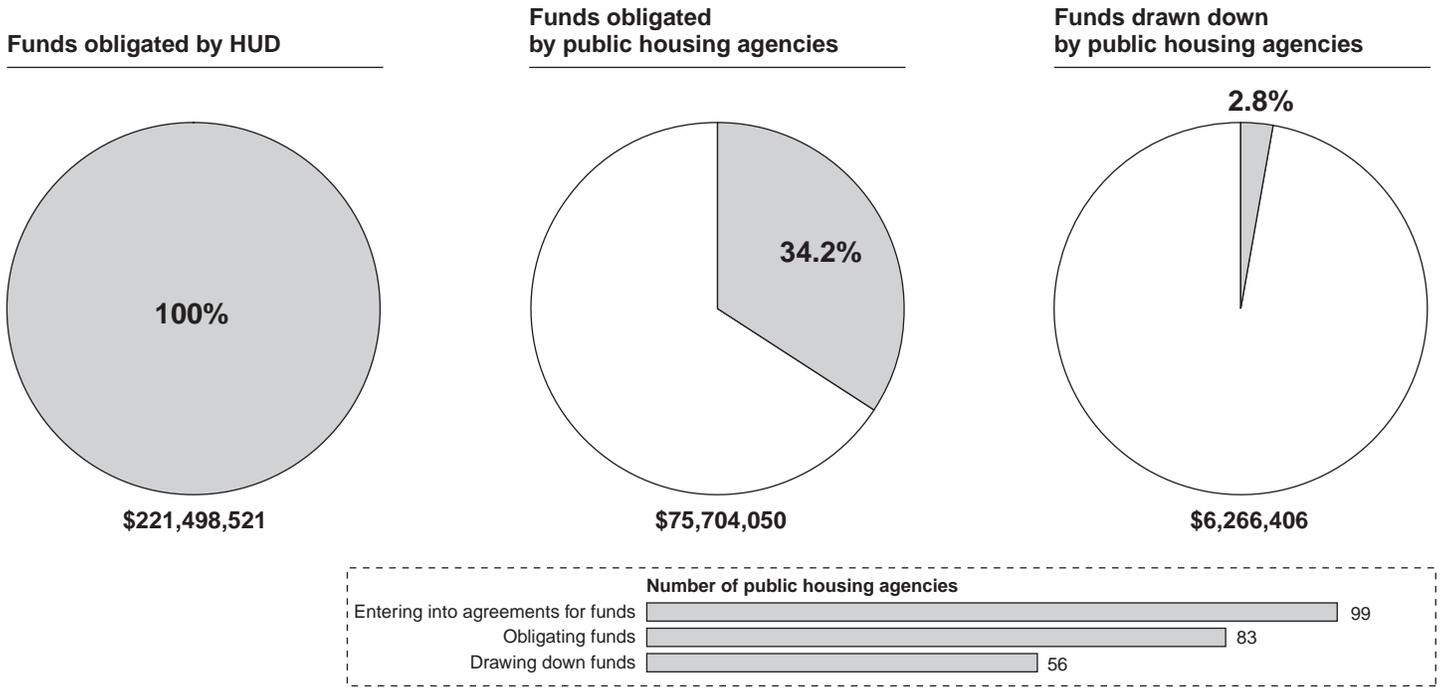
For the creation of energy-efficient communities, applications (which were due July 21, 2009) were to be rated and ranked according to criteria outlined in the Notice of Funding Availability. The last three categories will be threshold based, meaning applications that meet all the threshold requirements will be funded in order of receipt. If funds are available after

²⁹Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

all applications meeting the thresholds have been funded, HUD may begin removing thresholds after August 1, 2009, in order to fund additional applications in the order of receipt until all funds have been awarded. Applications in these three categories were accepted until August 18, 2009.

Illinois has 99 public housing agencies that have received Recovery Act formula grants. In total, these public housing agencies received \$221 million in Public Housing Capital Fund formula grants (see fig. 4). As of September 5, 2009, 83 of these public housing agencies have obligated \$76 million and 56 have drawn down \$6 million. We visited two public housing agencies in Illinois for our July report. They are the Chicago Housing Authority and the Housing Authority for LaSalle County. We will provide updated information on these housing agencies in a future report.

Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD that Have Been Obligated and Drawn Down in Illinois, as of September 5, 2009



Source: GAO analysis of HUD data.

State and Local Agencies We Met with Varied in Their Approaches to, and Understanding of, Recipient Reporting Requirements

States and localities are among those receiving Recovery Act funds directly from federal agencies that are responsible for tracking and reporting on those funds.³⁰ More specifically, they are expected to report quarterly on a number of measures, including the use of funds and an estimate of the number of jobs created and the number of jobs retained. The jobs created and jobs retained numbers are part of the recipient reports required under section 1512(c) of the Recovery Act and will be submitted by recipients starting in October 2009. In preparation for reporting, Illinois has disseminated guidance to state agencies on federal reporting requirements, including preliminary guidance on jobs created and retained. Since our last report, the state's Recovery Act Executive Committee issued a memorandum to state agencies requiring that they develop procedures and reconciliations for the collection of data elements, entry of data, and review of data.³¹ The Executive Committee has also sent a questionnaire to state agencies inquiring about award amounts, number of subrecipients and related contract information, project status documentation, and job creation information to assess the potential timeliness and accuracy of reporting. Further, Illinois is in the process of utilizing the templates made available through federalreporting.gov to conduct a 'test run' by each of the state agencies required to report on the impact of the act on October 10th. According to state officials, the main benefit of conducting the test run is that it will provide additional information for the state to proactively identify areas where reporting and technical questions still exist. It will also allow the state to identify misconceptions or conflicts to previously issued guidance and provide clarifications prior to the October deadline. The reporting deadline for the test run was September 9, 2009. As of September 15th, specific results from the test run had not yet been completely finalized.

Education Programs

The Governor's Office has directed ISBE to perform certain functions related to the administration of Recovery Act SFSF funds, including collection of data and reporting, in meeting the requirements of Section 1512. ISBE is currently working on a collection tool that will be used by LEAs in reporting Recovery Act required data elements to ISBE. The electronic expenditure reports generated will be collected along with

³⁰Pub. L. 111-5, § 1512, 123 Stat. 115, 287 (Feb. 17, 2009).

³¹The Recovery Act Executive Committee is comprised of state executives, including the Deputy Chief of Staff for Economic Recovery, the Chief Internal Auditor, the Budget Director, and the Chief Information Officer

required Recovery Act data on jobs saved, created, and vendor information. ISBE will capture and forward all of these required data to federalreporting.gov. ISBE officials have also met with staff in the Governor's office responsible for Recovery Act reporting to ensure that they are adequately prepared. ISBE has also received guidance from the state on job creation and retention, and officials have attended all OMB Recovery Act reporting online seminars to ensure they are familiar with, and meeting, OMB requirements. Lastly, ISBE is working with a technical assistance team from the U.S. Department of Education Risk Management Service office to resolve questions and issues related to the Recovery Act, including reporting.

Highway Infrastructure Investment

For highway projects, Illinois collects and reports employment data and information related to project implementation and expenditures. Illinois transportation officials stated that they require contractors and subcontractors to submit monthly employment information, including the number of employees, the amount they are paid, and hours worked. According to Illinois Department of Transportation officials, they use a Web application called IDOT American Recovery and Reinvestment Act—Contractor/Consultant Reporting to track the number of jobs created through Recovery Act highway funds. This contractor reporting system was originally developed around FHWA's Recovery Act monthly employment data requirements, but is being modified to capture additional data specified in OMB's recent guidance.³² For any project that receives FHWA Recovery Act funds, the state must require its contractors to report on its own workforce as well as the workforces of any subcontractors that were active for the reporting month, and to report data quarterly to OMB's federalreporting.gov Web site.

Both state and local highway officials were unclear on how to treat one reporting requirement described in OMB's guidance. The requirement calls for recipients and subrecipients to report the names and compensation for each of their five most highly compensated officers for the calendar year in which the award is given. State and local officials stated that while this could apply for contractors, they were uncertain as to how it should be applied to government agencies. IDOT officials said they had asked FHWA for clarification. In September 2009, FHWA provided guidance explaining

³²Recent OMB reporting guidance includes its June 22, 2009, memo and a recipient reporting data model (version 2.0 and version 3.0).

that this reporting requirement only applies to certain recipients—contractors working for a state or local agency do not have to report and state or local governments only have to report if they meet specific reporting thresholds.³³ Illinois governments do not meet those reporting thresholds, according to an Illinois DOT official.

Transit Capital Assistance

The Recovery Act also provides reporting requirements for transit agencies to track funds they receive. Officials from the large transit agencies we visited for this review—the Chicago Transit Authority and Metra—did not consider the reporting requirements to present compliance problems. Officials from both agencies said existing information systems could readily segregate Recovery Act funds and accommodate the reporting requirements. For example, Metra’s existing grants tracking system produces detailed reports on the financial status of all projects by funding source, including Recovery Act funding. Likewise, IDOT officials said that existing systems can be used to collect and report the transit information required under the Recovery Act.

WIA Summer Youth Activities

For WIA summer youth employment activities, officials with the Department of Commerce and Economic Opportunity told us that they are not delegating any Section 1512 reporting to subrecipients, and expect that this will avoid any potential double-counting. Officials told us that they are confident in the agency’s ability to report on the amount of funds spent using the agency’s own system, which tracks information on obligations and expenditures. However, officials told us that specific information regarding vendors of subrecipients—entities that the local workforce boards contract with—may not be readily available or easily verified. They also told us that the agency is working on a system or a Web site to capture this information, but the details of how this information will be collected had not been finalized at the time of our meeting. Officials at both local workforce areas we visited told us that they are tracking jobs created or retained through use of Recovery Act funds either at their local offices or by vendors to support implementation of the program, but are

³³A state or local government would meet the reporting threshold if it received 80 percent or more of its annual gross revenues in the preceding fiscal year from federal awards, and it received \$25 million or more in annual gross revenues in the preceding fiscal year from federal awards, and the public does not have access to the information through Securities and Exchange Commission or Internal Revenue Service filings as specified in the Federal Funding Accountability and Transparency Act of 2006.

not clear on how to report this information due to little guidance they have seen. Further, officials are attempting to track the number of youth hired permanently with employers after their summer employment activities are completed, but are also unsure of how to report this information. They anticipate receiving additional guidance from the Department of Commerce and Economic Opportunity.

State Comments on This Summary

We provided the Office of the Governor of Illinois with a draft of this appendix on September 11, 2009. The Deputy Chief of Staff responded for the Governor on September 14, 2009. The state concurred with our statements and observations. The official also provided technical suggestions that were incorporated, as appropriate.

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