United States Government Accountability Office

GAO

Report to Congressional Committees

September 2009

RECOVERY ACT

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

GAO

Accountability * Integrity * Reliability

GAO-09-1017SP

Contents

Appendix XIV: North Carolina

Overview

The following summarizes GAO's work for the third of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)[1] spending in North Carolina. The full report covering all of our work in 16 states and the District of Columbia is available at http://www.gao.gov/recovery/.

Our work in North Carolina focused on three programs funded under the Recovery Act—the State Fiscal Stabilization Fund (SFSF) administered by the U.S. Department of Education (Education), Highway Infrastructure Investment funds administered by the U.S. Department of Transportation's Federal Highway Administration (FHWA), and the Weatherization Assistance Program administered by the U.S. Department of Energy (DOE). Because SFSF is a new program and the state has disbursed funds to localities, we reviewed the SFSF to determine how the state was managing the allocation and distribution of funds. We also reviewed selected localities' planned expenditures and contracting procedures for education Recovery Act funds, including those that expanded existing funding under Title I, Part A of the Elementary and Secondary Education Act (ESEA) and Part B of the Individuals with Disabilities Education Act (IDEA). In addition, we reviewed contracts for highway projects using Highway Infrastructure Investment funds that have been underway in North Carolina for several months, including oversight of these contracts. As we have done in our previous reports, we reviewed the Weatherization Assistance Program because it is considered a high-risk area because it will receive significantly more funds than in prior years. For each program, we reviewed the planning and preparation efforts in place for the October 2009 Recovery Act recipient reporting requirement. In addition to these programs, we also reviewed challenges that rural small localities have faced in accessing Recovery Act funds because several state officials have told us that this is an area of risk in the state. We also reviewed and analyzed preliminary data collected by the North Carolina League of Municipalities (NCLM) on municipalities' efforts to pursue Recovery Act funds. We determined this information to be reliable for our purposes. Also, we updated information on North Carolina's budget situation and how the Recovery Act funds will be used to stabilize the budget.

Recovery Act funds are being directed to helping North Carolina stabilize its budget and support local governments, and to stimulate infrastructure

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

development and expand existing programs that will provide needed services and potential jobs.

Budget

- On August 7, 2009, the Governor of North Carolina signed the budget bill (SB 202) into law, after the state used continuing resolutions to keep the government operating from June 30—the end of the prior fiscal year—until the budget was signed.

- To close the state's $4.8 billion shortfall, the state is using $1.4 billion of Recovery Act funds, making $2 billion in cuts to the state budget, and closing the remaining gap with $1.4 billion in tax and fee increases.

- Beginning in October 2008 and continuing through May 2009, the North Carolina Division of Medical Assistance (DMA) overbilled the federal Centers for Medicare & Medicaid Services (CMS) and received $291 million for federal reimbursement for Qualified Public Hospital medical claims under Medicaid. The overbilling occurred because a DMA employee, who was new to this area of responsibility, erroneously requested federal reimbursement for this program rather than state funding. However, according to state officials, none of the $291 million in overbillings involved Recovery Act funds. Nevertheless, this will impact the state's 2010 budget. To begin repaying the overbillings, the North Carolina Department of Health and Human Services (NCDHHS) requested $160 million less in federal reimbursement than actual Medicaid expenditures incurred by the state for the period covered by the July 31, 2009 reimbursement. The NCDHHS anticipates paying the balance in quarterly installments over the remainder of fiscal year 2010 by reducing the federal reimbursement for its actual expenditures.

U.S. Department of Education State Fiscal Stabilization Fund; ESEA Title I, Part A; and IDEA, Part B Funds

- Education had approved North Carolina's application for the state's SFSF award and released $1 billion to the state as of August 19, 2009.

- The state approved 115 applications from local educational agencies (LEA) and 96 applications from charter schools,[2] which are also LEAs, for SFSF funds and released the funds in August 2009.

[2] A charter school LEA must receive SFSF funding on the same basis as other LEAs in the state. State law determines whether a charter school is an LEA or a school within an LEA.

- As of September 1, 2009, the state had allocated $129 million in ESEA Title I, Part A and $130 million in IDEA, Part B funds awarded under the Recovery Act to LEAs. The state reported that as of August 31, 2009, LEAs had expended about $9.6 million and $27 million, respectively, for these two programs.

- LEAs GAO visited reported using Recovery Act funds to save jobs of school personnel.

- State officials report that after receiving guidance from Education they are developing a comprehensive plan for monitoring SFSF use at the local level.

Highway Infrastructure Investment

- FHWA apportioned $736 million in Recovery Act funds to North Carolina. As of September 1, 2009, the federal government had obligated $452.9 million for North Carolina and $38 million had been reimbursed by the federal government.

- As of September 1, 2009, the North Carolina Department of Transportation (NCDOT) had advertised for bids for 101 proposed contracts representing a total value of $386 million in estimated Recovery Act funding. Of the 101 proposed contracts, 88 contracts had been awarded for $348 million, and work has begun on 77 of these contracts representing a total value of about $330 million. Many of these contracts involve road paving.

- Based on the high-profile nature of the Recovery Act, the FHWA—NC Division has increased oversight for Recovery Act highway projects.

- NCDOT is using its established process for awarding and overseeing contracts for Recovery Act highway projects.

- NCDOT anticipates meeting the October 2009 recipient reporting requirements for Section 1512 (c) of the Recovery Act.

Weatherization Assistance Program

- Of the $132 million in Recovery Act weatherization funding North Carolina is expected to receive, DOE has provided $66 million. State weatherization officials are in the process of disbursing approximately $13 million of the Recovery Act weatherization funds to local weatherization agencies to fund start up activities such as buying equipment and vehicles and funding public awareness campaigns.

- State weatherization officials do not have any concerns associated with incorporating the Recovery Act weatherization requirements, such as compliance with the Davis-Bacon Act, or with monitoring the use of funds.

- State weatherization officials plan to follow both the normal and Recovery Act reporting requirements, which include programmatic quarterly reports, monthly financial status reports, and Office of Management and Budget (OMB) Section 1512 reporting requirements. Officials do not anticipate having any challenges with respect to complying with these reporting requirements in a timely manner.

Rural Issues

- North Carolina includes approximately 550 municipalities and 100 counties, many of which are small or rural. According to U.S. Department of Agriculture 2008 estimates, about one-third of the state's residents lived in nonmetropolitan counties, and these counties had higher poverty rates and lower income than the statewide averages.

- North Carolina municipalities rely on a variety of sources in obtaining information about the Recovery Act that include federal, state, and nonprofit sectors. Officials from North Carolina's Office of Economic Recovery and Investment (OERI) told us that they have held a series of informational workshops across the state since April 2009 designed to provide a question and answer forum for local officials and the general public. Still, officials in three of the municipalities we visited reported a variety of challenges identifying information about Recovery Act funding opportunities, such as navigating a "maze" of funding opportunities and having staff-capacity issues.

- Several North Carolina state officials told us that many of the state's small towns and cities have been historically understaffed and may lack the expertise to apply for and administer federal grants. Local officials we interviewed expressed concerns about their capacity to apply for and administer Recovery Act funding. For example, officials in two localities told us that they lack funds to meet the federal matching requirements or other up-front costs needed for some Recovery Act programs.

Recipient Reporting

- OERI has undertaken initiatives to help ensure state agency Section 1512 Recovery Act Recipient Reports are complete, accurate, and submitted on time.

- Based on the results of an assessment, the OERI official in charge of reporting issues told us that he has a high level of confidence that North Carolina state agencies will be ready to submit the required reports in October.
- As of September 4, 2009, none of the respondents to a state survey on subrecipient delegation and data quality requirements reported they were planning to delegate reporting responsibility to subrecipients.
- Some state officials indicated concerns with the methodology to be used for measuring jobs created or retained.

North Carolina Used Recovery Act Funds to Mitigate State's Budget Shortfall

On August 7, 2009, the Governor of North Carolina signed the biennial budget bill (SB 202) into law, after the state used continuing resolutions to keep the government operating from June 30—the end of the prior fiscal year. The biennial budget includes about $19 billion in appropriations for fiscal year 2010 and $19.5 billion in appropriations for fiscal year 2011. In developing the budget, the North Carolina Legislature faced a $4.8 billion budget shortfall in fiscal year 2010. To close this shortfall, the state is using $1.4 billion of Recovery Act funds, making $2 billion in cuts to the state budget, and closing the remaining gap with $1.4 billion in tax and fee increases, according to state officials. Although the legislature cut many state agency budgets, certain areas of the budget received proportionately smaller cuts. For example, state budget officials told us that the state Department of Public Instruction (DPI) took a relatively small funding cut relative to the size of the agency's budget. Although agencies will be operating at 95 percent of their budgets for several months, officials from the Office of State Budget and Management (OSBM) said they plan to ease restrictions on agencies' discretionary spending put in place for the 2009 state fiscal year. According to state officials, regarding tax increases, the budget included increased income and sales tax rates.

In order to better track the flow of Recovery Act funds in North Carolina, OSBM continues to develop an electronic data collection system. The new system will serve as the state's Recovery Act tracking tool and will pull data from several state accounting and procurement systems in order to present a more comprehensive accounting of Recovery Act funds. OSBM officials noted that it is their goal to have this system available by February 2010.

North Carolina Overbilled Medicaid, Which Will Reduce State Fiscal Year 2010 Federal Medicaid Reimbursements

According to officials with the North Carolina Department of Health and Human Services (NCDHHS) and the North Carolina Office of the State Auditor, beginning in October 2008 and continuing through May 2009, the North Carolina Division of Medical Assistance (DMA) overbilled the federal Centers for Medicare & Medicaid Services (CMS) and received $291 million for federal reimbursement for Qualified Public Hospital medical claims under Medicaid. The overbilling occurred because a DMA employee, who was new to this area of responsibility, erroneously requested federal reimbursement for this program rather than state funding. According to the officials, none of the $291 million in overbillings involved Recovery Act funds.

Although the overbillings did not involve Recovery Act funds, this will impact the state 2010 budget. After the Medicaid billing error was discovered, the Secretary of NCDHHS met with CMS officials on July 22, 2009, to self-report the overbillings and to discuss how to repay the $291 million. CMS and NCDHHS officials agreed that North Carolina would make its first repayment of the funds in the amount of $160 million on July 31, 2009. This repayment was done by requesting $160 million less in federal reimbursement than actual expenditures incurred by the state for the period covered by the July 31, 2009 reimbursement. The NCDHHS anticipates paying the balance in quarterly installments over the remainder of state fiscal year 2010 by reducing the federal reimbursement for its actual expenditures.

Recovery Act Funds for Education

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 (IHEs). 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.

The Recovery Act provides $10 billion to help local educational agencies (LEAs) 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.[3] 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.

The Recovery Act provided supplemental funding for programs authorized by Parts B and C 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). Part C funds programs that provide early intervention and

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

related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families. 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.

State Fiscal Stabilization Funds Help North Carolina Address Large Budget Shortages

In its May 2009 SFSF application, North Carolina cited an "extreme and historic revenue shortfall" that resulted in the state ordering most of its agencies to return 11 percent of their state funding to the state. The state also reported it had adopted several budget restrictions, including freezing purchases of goods and services, limiting travel, and prohibiting the filling of most vacant positions. Also, the state cited an urgent need for funding to meet personnel costs, specifically requesting $127 million in SFSF funds to cover May and June payroll for state IHEs. The state made required assurances, including that it would meet Recovery Act maintenance-of-effort requirements by maintaining state support for education at no less than fiscal year 2006 levels of $7.0 billion for elementary and secondary education and $2.6 billion for public IHEs. The state also indicated it would not use SFSF funds to restore state funding to elementary and secondary education in fiscal year 2009, but would use $127 million cited above for IHEs in fiscal year 2009. For 2010, the state projected using $721 million for elementary and secondary education, but that it would not use SFSF funds for IHEs. Education approved North Carolina's application and, as of August 19, 2009, had released to the state $1.0 billion of its $1.4 billion total allocation.

An official from the state budget office told us the state is in the process of amending its SFSF application and now plans to use approximately $3.9 million of its governments services fund award to support North Carolina Virtual Public School (NCVPS) program courses. NCVPS provides online courses to high school students throughout the state. The government services fund monies would support a portion of the instructional costs of providing the courses in Spring semester 2010.

North Carolina's Department of Public Instruction (DPI) required LEAs to apply for education stabilization funds by June 30, 2009. A North Carolina education official told us they modeled the LEA application for SFSF funds after the applications from a number of states, including California. The application required LEAs to make several assurances concerning the use and reporting of SFSF funds. For example, LEAs must assure they will administer SFSF funds in accordance with federal laws, including specific provisions of the Recovery Act, federal regulations, and state requirements for school facility construction. Although North Carolina was required to assure that it would make progress toward educational reforms as a condition of receiving SFSF funds, the state did not require LEAs to certify that they would make such progress. While the state cannot tell LEAs how they must use SFSF funds, Education's guidance for the program specifically notes that a governor "may require an LEA to describe in its local application how the LEA will assist the state in advancing essential reforms in the four areas for which the state provides assurances in its application for Stabilization funds."[4] According to a state Department of Public Instruction official, the department did not require the education reform assurances in the LEA applications, but they directed LEAs to Education's guidance on the SFSF program. Further, the state official with responsibility for overseeing SFSF emphasized that they were committed to making progress toward education reforms, and said that they have accountability measures in place to monitor progress.

DPI officials report that all 115 of North Carolina's LEAs, and the state's 96 charter schools, which are also LEAs, applied for education stabilization funds. State officials said they reviewed and approved applications as they were received, and as of August 25, 2009, all applications had been approved. DPI notified North Carolina's LEAs of their allocation amounts and made the funds available to LEAs on August 19, 2009. As of that date, the state had allocated $380 million of education stabilization funds to LEAs. In addition to education stabilization funds, North Carolina had allocated, as of September 1, 2009, $129 million in ESEA Title I, Part A funds and $130 million in IDEA Part B funds. As of August 31, 2009, the state reported that LEAs have expended $14.3 million in SFSF funding, $9.6 million in ESEA Title I, Part A funds, and $27 million in IDEA, Part B funds.

[4]The four areas of education reform from the Recovery Act as described by Education are: (1) making improvements in teacher effectiveness and addressing inequities in the distribution of highly qualified teachers, (2) making progress toward rigorous college and career-ready standards and assessments that are valid and reliable for all students, (3) providing targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring, and (4) establishing a pre-K-through-college data system to track student progress and foster improvement.

North Carolina Developing Plans to Monitor Local Use of Education Stabilization Funds

State officials told us they have not yet developed specific plans to monitor local use of SFSF funds, but are now doing so in response to guidance Education issued on August 27, 2009. Specifically, the guidance—issued as a letter to state officials via Education's listserv for SFSF grantees—references statutory and regulatory requirements with which SFSF grant recipients must comply and advises recipients that they must have a comprehensive SFSF monitoring plan in place that includes a monitoring schedule, monitoring policies and procedures, data-collection instruments, monitoring reports and feedback to subrecipients, and processes for verification of implementation of corrective actions at the subrecipient level.

DPI officials told us they planned to rely on existing procedures for monitoring LEAs' uses of funds. The existing procedures, according to the DPI official responsible for overseeing SFSF, include reviews of LEAs budgets and expenditures to ensure that expenditures comply with state-approved budgets. The official also said they trained certified public accounting firms in monitoring the spending of federal funds, and then review the firms' annual financial statement audits of LEAs.

Also, a DPI official told us they are modifying the state's data collection system to capture additional data elements required to meet recipient reporting requirements of the Recovery Act. Specifically, the state official reported that they currently capture a majority of required data elements, but that they would need to put procedures in place to capture elements they do not collect, such as jobs created. The state official said that the information that DPI reported for the October quarterly report required under the Recovery Act would only capture expenditures by LEAs through the end of August. The official also said that they would not be able to report data through the end of September because that would not give them sufficient time to ensure the accuracy and completeness of the data.

Rural LEAs Visited

GAO visited two LEAs in North Carolina to better understand the issues facing rural LEAs and to review contracting practices when Recovery Act funds are used. We chose Lincoln County Schools and Perquimans County Schools because they are located in rural counties and information we obtained from the state DPI indicated both counties had used Recovery Act funds to contract for services. Lincoln County Schools had a total school year 2007-2008 budget of about $100 million. The LEA's 24 schools served 12,193 students and employed 1,810 persons in school year 2007-2008. Perquimans County serves 1,800 students through four schools and employs about 150 licensed personnel. The Perquimans school superintendent told us that the LEA's student population has been decreasing annually, which, in turn, has led to a decrease in funds from state and federal sources. Officials in both LEAs told us they were facing budget shortages.

Rural LEAs Reported Recovery Act Funds Help Address State Budget Cuts and Will Be Used to Save Jobs

Officials in both LEAs told us they are using Recovery Act funds to offset budget reductions. Lincoln County's school superintendent told us the LEA had two overarching goals for its use of Recovery Act funds: first, to save jobs, and second, to preserve the integrity of classroom instruction by minimizing class-size increases. Lincoln officials also expressed concern that budget cuts will prevent the LEA from continuing some of the educational reforms it had already put in place.

Lincoln County school officials reported they were able to use Recovery Act ESEA Title I funds to save teaching jobs, and SFSF funds to save support positions. A Lincoln official told us they plan to use the LEA's $2.8 million in SFSF funds primarily to save 119 custodial and clerical positions, which were cut as a result of state budget cuts. He also told us they will use Title I funds to save the jobs of 24 teacher assistants and that IDEA funds will help save the jobs of 9 teachers and 11 teacher assistants. Under both IDEA and Title I, a Lincoln official said the district took steps when retaining positions to ensure they did not violate federal "supplement, not supplant" requirements. The supplement, not supplant requirements of ESEA and IDEA generally require that federal funds must only supplement the funds that would, in the absence of federal funds, be made available from non-federal sources (for Title I) or state, local or other federal funds (for IDEA).

While federal funds have helped to save jobs, Lincoln officials still anticipate decreasing teaching positions, and, as a result, class sizes will increase. While committed to maintaining class size at current levels in kindergarten through grade 3, officials said they anticipate increasing class size by one student in grades 4 through 12, but may have to increase class size by two students in high schools. Also, officials said that they will reduce the number of hours some clerical staff work and leave some vacant positions unfilled. Officials said that Recovery Act IDEA funds would allow them to expand services for exceptional children. For example, Lincoln has hired two "interventionists" who will work with regular classroom teachers modeling effective instructional interventions in reading and mathematics. These two positions are funded for the two years the LEA will receive Recovery Act funds. Lincoln officials also said that additional IDEA funds will help address the needs resulting from an increase in the population of exceptional children they serve, particularly children with hearing impairments and autism.

The Perquimans County School district is facing a similar fiscal situation to that of Lincoln County and has also prioritized saving jobs. The school superintendent said the LEA relies heavily on state funding, but the state budget lowered funding for the LEA every year. He also said the LEA began planning for budget cuts last year and has been successful in bringing in additional funding from grants for which it applied. The school superintendent told us Recovery Act funding will get the LEA through this school year, but once Recovery Act funds are expended, the LEA is likely to face a “funding cliff” that will result in the LEA being in the same fiscal position it is now. Perquimans officials said they had ideas for innovative practices they would have liked to implement with education stabilization funds, but with the continued deterioration of the state funding to education, the LEA must use all funds available to it to save jobs. Perquimans officials said they will use the Title I funds to save jobs in extended day and preschool programs as well as IDEA funds to save jobs. One Perquimans official told us they are working with a state university to provide telespeech services for 23 students and plan to use Recovery Act IDEA funds to pay for these services. That official told us this effort has the potential of saving the LEA money.

Both LEAs reported they have received guidance from the state on the use of education stabilization funds. Perquimans officials told us most of the information they have received on Recovery Act education programs came from the state, but they sometimes have sought information directly from Education or other federal sources. Likewise, a Lincoln County official said they had received preliminary guidance from state officials and that the state’s guidance to LEAs has improved as Education has released more guidance. Lincoln County officials also told us they shared all guidance they have received with teachers and other employees.

LEAs Cite Challenges in Procurement

Officials in both LEAs told us they face challenges in finding qualified contractors. Perquimans officials said their LEA relies heavily on contractors to provide needed services for exceptional students because it is difficult to find the specialized staff exceptional children need, and in some cases, they need to solicit contractors from as far away as Virginia. Perquimans officials told us they had received some guidance from DPI on contracting with Recovery Act funds, and reported using Recovery Act funds to pay for contracted services. Due to the shortage of qualified contractors locally, Perquimans officials reported they plan on issuing a sole-source contract for these services. A Perquimans official reported to us that they often need to research and solicit contractors individually in order to find a qualified person to meet their needs. The same Perquimans official said that they often contact surrounding LEAs to identify qualified contractors with which those districts have worked. One official also reported that contracts usually set a maximum payment to contractors based on a set wage rate and estimated number of hours to be spent on contract activities. They told us that contracts are generally for one school year. Lincoln officials also said they often consult with other LEAs that have needs similar to their own in order to identify qualified contractors. A Lincoln official also reported that the typical period of contract performance is for the duration of the school year and generally contracts are fixed price, based on a per student cost. However, Lincoln officials told us they do not anticipate using Recovery Act funds for contracting.[5] Nonetheless, according to a Lincoln official responsible for contracting, their procurement policies and procedures are based on those of DPI and require a formal process for all contract solicitations over $90,000. The official stated for contract solicitations with an estimated value between $30,000 and $90,000 the LEA would use a less-formal process that includes a letter of interest to potential bidders and the solicitation of at least three bids. The procurement official stated that all procurements over $100,000 must be approved by the local Board of Education.

Transportation: Highway Infrastructure Investments

The Recovery Act provides funding to 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 states through federal-aid highway program mechanisms, and states must follow 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

[5]We selected Lincoln County for review based on information from DPI that indicated that Lincoln County had contracted for IDEA services with Recovery Act funds. However, during our site visit, Lincoln County officials informed us that what had been reported as contracted services was actually a reclassification of costs from the LEA's state funding account to the federal Recovery Act account due to reversions in state aid.

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.

The Federal Highway Administration—North Carolina (FHWA—NC) Division is one of the 52 operating federal-aid Division Offices of the federal Highway Administration (FHWA) and is located in Raleigh, North Carolina. The FHWA—NC Division is responsible for administrating the federal-aid highway program to help maintain the integrity and safety of North Carolina's roads and bridges. The staff has technical expertise and other resources, and provides oversight and coordination of the federal-aid program in North Carolina. The North Carolina Department of Transportation (NCDOT) is the primary recipient of all federal-aid highway funds in North Carolina. The NCDOT is responsible for building, repairing, and operating highways, bridges, and other modes of transportation, including ferries, in North Carolina.

Overview

The U.S. Department of Transportation's FHWA apportioned $736 million to North Carolina in March 2009 for highway infrastructure and other eligible projects. As of September 1, 2009, $452.9 million[6] has been obligated for mainly pavement improvement projects. Also, funds have been obligated for 101 contracts either begun or advertised for bids. Based on the high-profile nature of the Recovery Act, the FHWA—NC Division has increased oversight for Recovery Act highway projects. According to agency officials, the NCDOT is using its established process for awarding and overseeing contracts for Recovery Act highway projects. Moreover, the NCDOT anticipates meeting the October 2009 recipient reporting requirements for Section 1512 (c) of the Recovery Act.

[6]This does not include obligations associated with $4.9 million of apportioned funds that were transferred from the FHWA to the Federal Transit Administration (FTA) for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

Recovery Act Funds Have Been Obligated for NCDOT and Expended Mainly for Pavement Improvements Projects

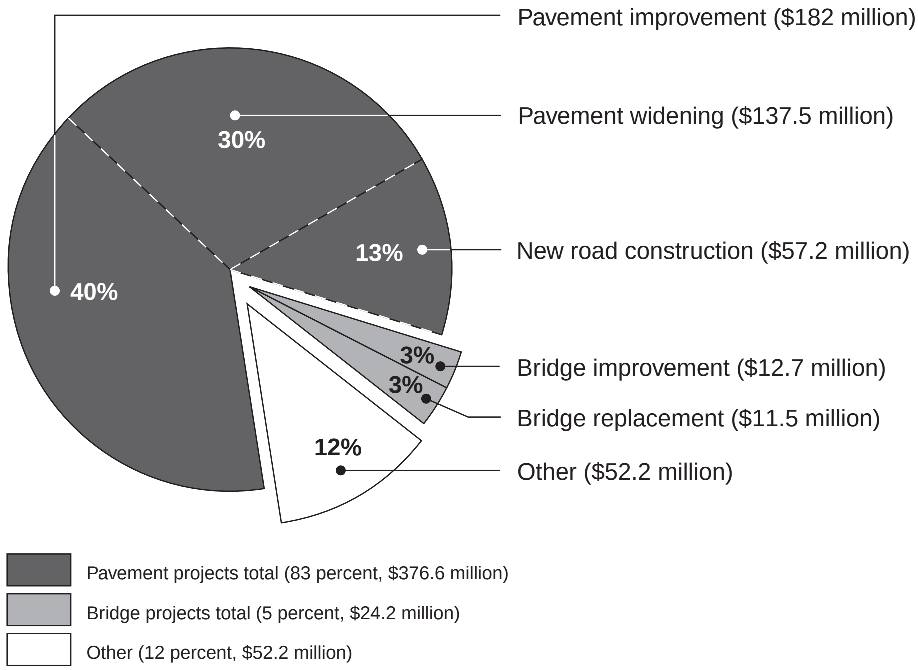
As we reported in July 2009, $736 million was apportioned to North Carolina in March 2009 for highway infrastructure and other eligible projects. As of September 1, 2009, $452.9 million had been obligated.[7] As of September 1, 2009, $38 million had been reimbursed by FHWA.[8]

Almost 83 percent of Recovery Act highway obligations for North Carolina have been for pavement projects. Specifically, $376.6 million of the $ 452.9 million obligated as of September 1, 2009, is being used for pavement projects. As reported in our April 2009 report, NCDOT officials told us that they identified these projects based on Recovery Act direction that priority is to be given to projects that are anticipated to be completed within a 3-year time frame, and that are located in economically distressed areas. Figure 1 shows obligations by the types of road and bridge improvements being made.

[7]For the Highway Infrastructure Investment 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.

[8]States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

Figure 1: Highway Obligations for North Carolina 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.

According to the NCDOT, as of September 1, 2009, the Department had publicized contract opportunities for 101 proposed contracts representing a total value of $386 million in estimated Recovery Act funding. According to officials, of the 101 proposed contracts, 88 contracts had been awarded for $348 million, and work has begun on 77 of these contracts representing a total value of about $330 million. According to an NCDOT official, approximately 40 of the 101 proposed contracts that had been solicited, representing $82 million, are anticipated to be complete by December 1, 2009.

FHWA—NC Division Oversight Increased for Recovery Act Projects

According to the FHWA—NC Division officials, the division will provide oversight of all Recovery Act highway projects based on the high-profile nature of the Recovery Act and its Risk Management Plan for the Recovery Act. These officials stated that prior to the Recovery Act, the FHWA—NC

Division typically provided full oversight of federal-aid projects only when the projects were on the National Highway System (NHS)[9] or if the project would be added to the Interstate Highway System. FHWA—NC Division's full oversight of projects includes coordination, review, and approval of several steps in the planning and project-development phase and in the design and construction phase. Normally, for those federal-aid projects not subject to the FHWA—NC Division's full oversight, the division, after approval of the environmental decision document, delegated authority to the NCDOT for the remaining design and construction steps without project review by the FHWA—NC Division.

The FHWA—NC Division increased its oversight for Recovery Act projects based on a Risk Management Plan, completed on March 27, 2009, for such projects. The Risk Management Plan identified six major risk areas that needed to be managed for the successful implementation of Recovery Act projects:

- quality of plans, specifications, and the engineering cost estimate;
- conformance to federal-aid regulations by projects administered by local governmental agencies;
- adherence to civil rights provisions;
- construction monitoring and quality assurance in materials;
- fiscal oversight and eligibility of costs; and
- achievement of Recovery Act program goals.

The FHWA—NC Division will provide oversight of all Recovery Act projects. For all Recovery Act projects that affect the NHS, the FHWA—NC Division will continue its traditional full oversight of these projects. For all other Recovery Act projects, the FHWA—NC Division will provide more limited oversight. This oversight will include reviewing each project in regard to the first five risk areas cited above and monitoring NCDOT reporting of Recovery Act data for the program goal achievement risk area. Also, the FHWA—NC Division will check whether (1) the project is

[9]The NHS includes the Interstate Highway System as well as other roads important to the nation's economy, defense, and mobility. The NHS was developed by the Department of Transportation (DOT) in cooperation with the states, local officials, and metropolitan planning organizations (MPO). According to an FHWA—NC Division official, the NHS for North Carolina includes about 1,000 miles of interstate and about 5,400 miles of other designated highways.

on the State Transportation Improvement Plan,[10] (2) environmental and right-of-way documentation is included, and (3) plans, specifications, and the engineering cost estimate are included. Additionally, the FHWA—NC Division conducts project preconstruction scoping reviews during the design stage on several Recovery Act projects. During construction of the Recovery Act projects, the FHWA—NC Division plans to conduct at least one construction inspection on each Recovery Act project.

Established NCDOT Process for Awarding and Overseeing Contracts for Highway Projects Will Remain the Same under the Recovery Act

According to NCDOT, its process for awarding and overseeing contracts for highway projects funded under the Recovery Act has not changed except for processes to collect data for the new reporting requirements under the Recovery Act. According to NCDOT officials, the NCDOT uses the same overall process for awarding contracts involving Recovery Act projects as it does for other federal-aid highway projects. Contracts valued over $1.2 million are awarded by the NCDOT headquarters in Raleigh, North Carolina and contracts valued at or below $1.2 million may be awarded by NCDOT's 14 divisions[11] or the NCDOT headquarters.

According to NCDOT officials, prior to July 1, 2009, contractors bidding on projects through the 14 highway divisions that were at or below $1.2 million were not required to be prequalified. However, after July 1, 2009, all contractors, regardless of the contract amount, are required to be prequalified as responsible contractors by NCDOT to be eligible for contract award. According to NCDOT officials, this change did not occur as a result of the Recovery Act but was a process improvement to make the prequalification requirements the same for all contractors. NCDOT officials told us that their prequalification process includes a review of the company's financial position, the number and skill sets of its labor force, its equipment, and its safety record. Specifically, officials told us that NCDOT examines the company's prior year's audited financial statements and documentation on (1) a surety company's willingness to issue performance and payment bonds for its work, (2) the company's safety citations including those for any safety-related injuries, (3) the company's labor workforce including its skill certifications, (4) the condition and

[10] The State Transportation Improvement Plan is a 7-year outline of the state's transportation priorities and needs identified through the development of the comprehensive transportation plan prioritized by each local planning organization and presented to the North Carolina Board of Transportation for programming.

[11] NCDOT has 14 highway divisions and each division represents a number of counties.

maintenance of its equipment, and (5) the capacity of the company to perform the type of work required. Also, included in the prequalification process is an examination of the contractor's Non-Collusion Affidavit[12] and Debarment Certification[13] covering the prior 3 years (from the date of the contractor's application for prequalification) which are submitted with the contractor's application for prequalification. NCDOT's prequalification of a contractor generally covers a three-year period, with annual updates for any changes in officers or safety record and annual affidavits regarding noncollusion. According to NCDOT officials, a contractor involved in nonperformance of a contract will be removed from NCDOT's list of prequalified contractors and not allowed to bid on future contracts.

According to officials, after authorization of the project by the FHWA—NC Division, NCDOT, using its normal process for federal-aid projects, solicits bids by mailings to established contractors, placing legal notices in newspapers with statewide circulation, and posting the invitation for bids on NCDOT's official Website. Further, any bids received that are 10 percent above or 15 percent below the NCDOT engineering project cost estimate are specifically reviewed by the bid review committee to examine whether the bid proposal includes omissions or errors in material quantities. Also, a FHWA—NC Division official said that a FHWA—NC Division representative attends the deliberations of the NCDOT bid review committees as a nonvoting member for federal-aid projects (including Recovery Act projects) over $1.2 million. FHWA—NC Division officials said that the nonvoting observer role of its representative in these deliberations is designed to avoid problems in awarding the contract. For NCDOT Highway Division-awarded contracts (valued at $1.2 million or less), the FHWA—NC Division conducts a postaward review of selected contracts to assess whether the NCDOT Highway Division has followed NCDOT policies and procedures.

[12] The Non-Collusion Affidavit states "The person executing the bid, on behalf of the Bidder, being duly sworn, solemnly swears (or affirms) that neither he, nor any official, agent, or employee of the bidder has entered into any agreement, participated in any collusion, or otherwise taken any action which is in restraint of free competitive bidding in connection with this bid, and that the Bidder intends to do the work with its own bonafide employees or subcontractors and is not bidding for the benefit of another contractor."

[13] According to a March 16, 2009, invitation to bid on a contract, Debarment Certification essentially requires the bidder to certify that it and its principals are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency as well as other certifications regarding criminal convictions and judgments.

To protect North Carolina and the federal government against prime contractor nonperformance, NCDOT officials said that contract performance and payment bonds[14] covering 100 percent of the project's contract amount are required for all highway projects (including Recovery Act projects) valued over $300,000. An official with a bonding company told us that his company exercises much due diligence in examining companies before deciding to issue performance and payment bonds for a contractor. This official further explained that his bonding company investigates the financial position of the company, the integrity and honesty of the officers, and capacity of the contractor to perform the work before issuing performance and payment bonds.

According to NCDOT officials, Recovery Act highway projects receive the same level of monitoring and inspection received by other federal-aid highway projects to ensure that quality goods and services are received. Each project is assigned a resident engineer as well as other on-site personnel who monitor and inspect the contractor's performance under the contract.

We selected two Recovery Act highway improvement project contracts to discuss in greater depth with NCDOT officials. One contract was centrally awarded by NCDOT but is administered by NCDOT Highway Division 4. The other contract was awarded and administrated by NCDOT Highway Division 1.

NCDOT Centrally-Awarded Contract

According to state officials, the NCDOT centrally awarded this contract to conduct work utilizing Recovery Act Highway Infrastructure Investment funds. This contract was awarded on April 29, 2009, for a total value of $14.3 million with a project start date of June 1, 2009, and a projected completion date of December 31, 2011. The contract was awarded to construct a 2.3 mile extension of Booker Dairy Road in Smithfield, North Carolina, from State Road 1003 to U.S. 70. This road, which is not located in an economically distressed area, is considered a major urban thoroughfare and will provide an alternate east-west route improving access to residential, commercial, industrial, and recreational areas.

[14] According to an NCDOT publication, a contract performance bond is a bond furnished by the contractor and its corporate surety guaranteeing the performance of the contract. A contract payment bond is a bond furnished by the contractor and its corporate surety securing the payment of those furnishing labor, materials, and supplies for the construction of the project.

According to NCDOT officials, the fixed unit price contract was awarded competitively, with nine contractors submitting bids. The successful contractor's price was 20.6 percent lower than the NCDOT official engineering estimate.

NCDOT Highway Division-Awarded Contract

The NCDOT Highway Division 1 awarded this contract to conduct work utilizing Recovery Act Highway Infrastructure Investment funds. This contract was awarded on April 23, 2009, at a total value of $494,000 with a project start date of May 11, 2009, and a projected completion date of October 30, 2009. The contract was awarded to resurface a 4.1 mile section of U.S. 13 from Modlin Hatchery Road (State Road 1130) to N.C. 461 in Hertford County, North Carolina. This project, which is located in an economically distressed area, is intended to improve the ride quality of this stretch of U.S. 13 and extend the life of the pavement. According to NCDOT officials, the fixed unit price contract was awarded competitively, with three contractors submitting bids. The successful contractor's price was 24 percent lower than the NCDOT official engineering estimate.

According to NCDOT officials, both selected contracts require the prime contractors to assist the state in complying with Recovery Act monthly reporting requirements under Section 1512 (c) of the Recovery Act for both the prime contractor's Recovery Act work and for its subcontractors. According to NCDOT officials, contractors for both selected contracts will receive the same level of monitoring and inspection of the contractors' work that the NCDOT provides to contractors for other federal-aid highway projects. This monitoring includes a resident engineer and on-site personnel to provide day-to-day monitoring of construction, as well as other engineers to oversee roadway and structures construction, to make sure that the work is done according to the contract specifications.

As described above, several mechanisms used by the FHWA—NC Division and the NCDOT in contracting for Recovery Act projects could mitigate some of the risks associated with contracting, if they are implemented as intended. These quality-assurance mechanisms, based on our discussions with FHWA—NC Division and NCDOT officials, include

- increased review and inspection of Recovery Act projects by the FHWA—NC Division,
- the FHWA—NC Division's nonvoting participation in the deliberations of the NCDOT bid review committees prior to contract awards,

- NCDOT's current requirement that every NCDOT contractor be prequalified by NCDOT to help ensure that contracts are awarded only to responsible contractors,
- a requirement that all contractors selected for award of contracts valued over $300,000 post contract performance and payment bonds covering the full cost of the contract in the event of contractor nonperformance,
- a requirement that contractors provide noncollusion and debarment affidavits before they are awarded contracts, and
- use of an established process of review and inspection of construction by skilled NCDOT personnel to ensure that work meets contract specifications and requirements.

NCDOT Anticipates Meeting Recovery Act Recipient Reporting Requirements

The NCDOT official serving as the focal point for collecting and submitting the recipient reports to the Office of Management and Budget (OMB), told us that NCDOT will be prepared to meet the requirements for recipient reporting to OMB in October 2009. As defined under OMB's guidance in memorandum M-09-21[15] for the Recovery Act, according to a NCDOT official, the NCDOT is classified as a prime recipient, and the prime contractor for a Recovery Act-funded highway project is classified as a vendor. According to a NCDOT official, the prime contractor is responsible for reporting information to NCDOT required by Section 1512(c)[16] of the Recovery Act for all of its subcontractors. As we previously reported in July 2009, the North Carolina Office of Economic Recovery and Investment requested prime recipients to address their readiness to meet the Recovery Act reporting requirements in October 2009 by conducting a trial run. According to the NCDOT official serving as the focal point for this reporting, NCDOT's trial run went well.

To address the reporting requirement under the Recovery Act, NCDOT has designated the Director of its Programs Management Office as the focal point for receiving recipient reports from its 14 highway divisions, according to a NCDOT official. Also, each division is responsible for

[15] OMB Memorandum, M-09-21, *Implementing Guidance for Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 2009).

[16] OMB Memorandum,M-09-21, at p.6, guidance implementing Section 1512 (c) of the Recovery Act requires recipient reports to include, among other things: (1) total amount of funds received and of that total, the amount spent on projects and activities; (2) a list of those projects and activities funded by name to include descriptions, completion status, and estimates on jobs created or retained, and (3) details on sub-awards and other payments.

obtaining required reports from the prime contractors within the division's area of responsibility. According to the NCDOT Director of Programs Management, the NCDOT requires all first-time prime contractors for Recovery Act projects to attend a training session shortly after award of the contract at which NCDOT provides an introduction to the Recovery Act and the act's reporting and record-keeping requirements under Section 1512(c). This official also told us that some contractors are surprised upon learning of the extensive Recovery Act reporting requirements. In addition, NCDOT Highway Division officials said that division personnel discuss the contract reporting requirements for Recovery Act projects during the preconstruction meetings with prime contractors (even if the current contract is not their first involving a Recovery Act project). Division officials told us that they review the overall reasonableness of Section 1512(c) recipient reports submitted by the prime contractors based on their on-site observations of how many contractor personnel are on the job. In August 2009, FHWA—NC Division officials told us they are not, at this time, planning to review the accuracy of NCDOT's recipient reporting under Section 1512(c) of the Recovery Act.

U.S. Department of Energy Recovery Act Weatherization Assistance Program

The Recovery Act appropriated $5 billion over a 3-year period for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) administers through each of the states, the District of Columbia, and seven territories and Indian tribes. The program enables low-income families to reduce their utility bills by making long-term energy efficiency improvements to their homes by, for example, installing insulation, sealing leaks, and modernizing heating equipment, air circulation fans, or air conditioning equipment. Over the past 32 years, DOE's Weatherization Assistance Program has assisted more than 6.2 million low-income families. By reducing the energy bills of low-income families, the program allows these households to spend their money on other needs, according to DOE. The $5 billion provided to the Weatherization Assistance Program in the Recovery Act represents a significant increase for a program that has received about $225 million per year in recent years.

As of September 14, 2009, DOE had approved all but two of the weatherization plans of the states, the District of Columbia, the territories, and Indian tribes—including all 16 states and the District of Columbia in our review. DOE had provided to the states $2.3 billion of the $5 billion in weatherization funding under the Recovery Act. Use of the Recovery Act weatherization funds is subject to Section 1606 of the act, which requires all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wage, including fringe benefits, as determined under the Davis-Bacon Act.[17] Because the Davis-Bacon Act had not previously applied to weatherization, the Department of Labor (Labor) had not established prevailing wage rates for weatherization work. In July 2009, DOE and Labor issued a joint memorandum to Weatherization Assistance Program grantees authorizing them to begin weatherizing homes using Recovery Act funds, provided they pay construction workers at least Labor's wage rates for residential construction, or an appropriate alternative category, and compensate workers for any differences if Labor establishes a higher local prevailing wage rate for weatherization activities. Labor then surveyed five types of "interested parties" about labor rates for weatherization work.[18] The department completed establishing prevailing wage rates in all of the 50 states and the District of Columbia by September 3, 2009.

Incorporating Recovery Act Requirements into North Carolina's Existing Weatherization Procurement Process Is Not Expected to Cause Any Difficulties

DOE approved North Carolina's weatherization plan on June 18, 2009, and provided North Carolina 50 percent (approximately $66 million) of its 3-year Recovery Act weatherization allocation. As of August 25, 2009, North Carolina had distributed approximately $13 million to local weatherization agencies. The Office of Economic Opportunity (OEO) within NCDHHS is responsible for administering the weatherization program, and the program is administered locally through subgrantees, generally community action agencies, which serve all 100 of the state's counties. However, according to state weatherization officials, the state will be transferring the weatherization program from OEO to the State Energy Office within North Carolina's Department of Commerce so that the program is located with all of the other state energy programs. According to state weatherization officials, the first 10 percent of the Recovery Act weatherization funding is being disbursed to local weatherization agencies to fund start-up activities such as buying equipment and vehicles and funding public awareness campaigns. State weatherization officials are planning to disburse an additional 40 percent of the Recovery Act weatherization funds to the local weatherization agencies in September 2009. State weatherization officials plan to use Recovery Act funds to weatherize approximately 24,224 units.

[17]Program funds made available through annual appropriations are not subject to the Davis-Bacon Act.

[18] The five types of "interested parties" are state weatherization agencies, local community action agencies, unions, contractors, and congressional offices.

While wages paid to weatherization laborers and mechanics were not previously subject to the Davis-Bacon Act, weatherization expenditures made using Recovery Act funds must comply with the prevailing wage requirements as determined under the act. To help determine the prevailing wage for the Davis-Bacon Act, a Labor survey was sent out to each state; however, North Carolina state weatherization officials said they never received this survey and several local weatherization agencies had reported not receiving it as well. State weatherization officials said they obtained the survey and survey instructions from Labor's Web site and provided this information to the local weatherization agencies for them to directly submit their responses to Labor. Even though the survey was not received directly from Labor, state weatherization officials do not have any concerns about the effect of the Davis-Bacon Act on the use of Recovery Act weatherization funds. They said they obtained the information pertaining to Davis-Bacon Act requirements they needed by attending the National Weatherization Conference where Labor held several training sessions on the Davis-Bacon Act. State weatherization officials said that the prevailing wages established by Labor were similar to wages that were already being paid by local weatherization agencies. State weatherization officials plan to continue issuing contracts to spend Recovery Act funding that will include the wage-rate provision.

In addition to receiving training on the Davis-Bacon Act, state weatherization officials also received training at the National Weatherization Conference on the contract award requirements applicable to weatherization projects funded by the Recovery Act. State weatherization officials plan to follow their existing procurement process, which includes following the Recovery Act requirements for awarding contracts, and issue guidance on the process to the local weatherization agencies. According to state documents, weatherization contracts will contain a list of Recovery Act requirements that must be followed, including registering on the Central Contractor Registration (CCR) system; obtaining a Data Universal Numbering System (DUNS) number; supporting section 1512 reporting requirements; and using iron, steel, and manufactured goods that are produced in the United States in certain circumstances. State weatherization officials said they review local weatherization agencies' procurement processes to make sure they are following proper procedures. Based on their recent review of the local weatherization agencies' procurement processes, state weatherization officials do not have any concerns about these processes.

According to state weatherization officials, the weatherization program does not have centralized procurement or established prices and suppliers of weatherizing materials; procurement is delegated to the local weatherization agencies that are required to develop a fair-market price list. Annually, the state weatherization office monitors each local weatherization agency's fair-market price list and issues guidance on price-list requirements; however, the guidance does not spell out the process for developing the fair-market price and it is left up to the local agency to determine how best to do this. State weatherization officials also said they sometimes provide assistance to local weatherization agencies to help them develop the fair-market price list, but officials said most local agencies do Internet price comparisons in order to develop the list.

North Carolina Weatherization Officials Have a Variety of Accountability Approaches to Monitor the Use of Recovery Act Funds

State weatherization officials plan to use existing processes to monitor the disbursement of Recovery Act funds through monthly reviews of the local weatherization agencies' financial status reports and through programmatic and financial monitoring visits. They said that, for the monthly financial status report reviews, they receive signed hard copies of the financial status reports the weatherization agencies generate from the Accountable Results for Community Action system. These reports show the funding status and a list of homes that have been completely weatherized. According to state weatherization officials, the on-site monitoring is done annually as required by DOE. They explained that the on-site monitoring of each weatherization agency contains three parts: (1) a preassessment questionnaire is sent to the agency to gather initial administrative and programmatic information and is reviewed by the state weatherization officials to determine if there are any issues; (2) an entrance meeting is held at the start of the on-site visit, and officials conduct a file review, equipment verification, and an invoice review; and (3) state weatherization officials use a monitoring tool to conduct on-site field inspections of weatherized homes. State weatherization officials said DOE requires that at least 5 percent of weatherized homes be inspected. They also said that this usually equates to inspecting 6 to 8 weatherized homes per local weatherization agency annually. State weatherization officials told us that during these inspections they compare the information reported in the preassessment questionnaire with their on-site observations. If an issue is identified, a meeting is held on site to describe the issues that were found, an assessment report of the visit is discussed, and corrective actions are prescribed. After the on-site visit, a formal report is issued to the local weatherization agency. Local weatherization agencies must provide a plan to meet the prescribed corrective actions along with proof that the actions were taken before the state weatherization office will close out a finding. However, state weatherization officials said most weatherization agencies will have taken the necessary corrective action during the on-site visit or immediately thereafter. State weatherization officials said that if a weatherization agency is having problems they may make additional site visits during the year to get the agency back on track.

State weatherization officials acknowledged that the Recovery Act funding for the weatherization program will significantly increase the local weatherization agencies' workload. They said that in order to meet the on-site monitoring requirements, they plan to hire an external group to assist with these activities. With the increased workload due to the Recovery Act funds, state weatherization officials anticipate having to conduct 3 to 4 on-site visits a year to each local weatherization agency rather than 1 on-site visit a year in order to continue meeting DOE's annual 5 percent inspection requirement and to meet North Carolina's newly established policy that requires an average of 20 percent of weatherized homes be inspected.

In addition to these accountability approaches, state weatherization officials have an existing risk-assessment process they use to review local weatherization agencies' staff, goals, funding, and annual audits. Based on the annual assessment, each weatherization agency is assigned either a high or low level of risk. However, this year's annual risk-assessment review will include a medium risk classification which will help identify local weatherization agencies that may need additional help so that they do not become high risk in the future. If a local weatherization agency is identified as a high risk, state weatherization officials may increase the amount of monitoring for that agency in order to address any issues the agency is having. Based on last year's risk assessment, officials said of the 30 local weatherization agencies, there were two agencies that were identified as a high risk. According to state weatherization officials, these local weatherization agencies will not receive any Recovery Act funding based on prior findings of noncompliance with laws and regulations. For example, instances were found in which internal control policies and procedures were not applied consistently, the agency charged unallowable expenditures, and the agency's Board of Directors failed to provide consistent oversight of operations. In addition to the state weatherization office's annual risk-assessment process, OERI has hired independent auditors to perform capacity audits; which include pre- and post performance audit inspections, on all local weatherization agencies that are participating in the weatherization program. Specifically, OERI plans to have these auditors assess the capabilities of local agencies before or shortly after Recovery Act funding is awarded and to monitor the performance of agencies awarded grants during the course of the grant projects.

North Carolina Weatherization Officials Plan to Follow Recovery Act Reporting Requirements; However, Additional Guidance Is Needed

According to state weatherization officials, both the normal and Recovery Act reporting requirements, which include programmatic quarterly reports, monthly financial status reports, and section 1512 reporting requirements, will be followed. State weatherization officials do not anticipate having any challenges with respect to complying with these reporting requirements in a timely manner. In order to meet the section 1512 reporting deadlines, the state weatherization office, which is the prime recipient,[19] plans to create templates based on the reporting requirements to collect information from local weatherization agencies and then have them ready for OERI and OMB by the 10th day of the following month for quarterly reporting. The state weatherization agency has issued guidance in order to assist local subrecipients in understanding reporting requirements and to collect their financial information in a timely manner.

OMB provided guidance on measuring jobs saved and jobs created, which state weatherization officials plan to use for calculating and reporting this information. State weatherization officials said that they understand the general framework of OMB's guidance, but the information for calculating jobs saved and jobs created is unclear. For example, state officials consider OMB's guidance to lack information on who should be included in the calculation as a vendor. Specifically, state weatherization officials are not sure if a subcontractor should be counted as a vendor. State weatherization officials have asked DOE for help, and DOE stated that technical briefs would be sent out to address these issues.

[19]The prime recipients are nonfederal entities other than individuals that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government.

North Carolina's Small Rural Localities Face Challenges Accessing Recovery Act Funds

According to the North Carolina League of Municipalities (NCLM), North Carolina's cities, towns, and villages are incorporated municipalities that have been granted a charter by the North Carolina General Assembly authorizing the establishment of a government and outlining its powers, authorities, and responsibilities. Municipalities provide a variety of services, including access to water and sewer systems and police and fire protection, according to NCLM. Under North Carolina law, all municipalities must balance their budgets.[20] Within North Carolina's Treasury Department, the Local Government Commission (LGC) has responsibility for monitoring fiscal, accounting, and debt-management practices of local governments, as well as for providing assistance and guidance on these matters.

North Carolina includes approximately 550 municipalities and 100 counties, many of which are small or rural. Specifically, according to 2008 Census estimates, 430 municipalities had a population of under 5,000 people. In addition, based on 2000 Census data, 60 of North Carolina's counties were considered rural, and 21 of these counties were completely rural, or had an urban population of less than 2,500.[21] According to 2008 U.S. Department of Agriculture estimates, about one-third of the state's residents lived in nonmetropolitan counties in 2008, and these counties had higher poverty rates and lower income than the statewide averages in 2007.

While there are several sources of information and assistance available, state officials, rural community leaders, and others have told us about challenges rural areas have in accessing and administering Recovery Act funding programs. According to state officials, rural areas face a number of challenges affecting their financial and administrative capacity, including diminishing budgets, staffing shortages, and a lack of expertise and skill sets in key areas. For example, the State Auditor identified small rural localities as risk areas with respect to Recovery Act funds, due to staffing shortages coupled with the additional reporting requirements of the Recovery Act. Local officials we interviewed also cited some of these

[20]Each local government and public authority in North Carolina must operate under an annual balanced budget ordinance adopted and administered according to North Carolina law. A budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations. N.C. Gen. Stat. § 159-8(a).

[21]Using Census data, OMB defines urban and rural counties based on population size and the extent to which outlying counties are economically tied to core counties as measured by work commuting.

challenges and expressed concerns about their capacity to apply for and administer Recovery Act funds.

Based on our prior Recovery Act work in North Carolina and the state's significant rural sector, we decided to focus part of this report on the experiences of selected rural towns in North Carolina in accessing and administering Recovery Act programs. Specifically, we selected the towns of Bethel, Williamston, Woodfin, and the City of Hendersonville based on their size and geographic dispersion. The populations in these towns ranged from 1,743 to 12,005 according to the Census 2008 population survey. We interviewed officials in these towns to obtain their perspectives on the Recovery Act. We also interviewed officials from the U.S. Department of Agriculture's North Carolina Rural Development office, OERI, NCLM, and the North Carolina Rural Economic Development Center (Rural Center). During our interview with Rural Center officials, we also met officials from the municipalities of Elkin and Pinetops.

Opportunities Exist for Municipalities to Benefit from Various Recovery Act Programs

Under the Recovery Act, North Carolina localities can apply for funding for a variety of federal programs either from state agencies or directly from federal agencies. The Recovery Act contains many programs that provide funding opportunities to municipalities, including the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF), the Community Oriented Policing Services (COPS) program, the Edward Byrne Memorial Justice Assistance Grant (JAG) program, the Federal-Aid Highway Surface Transportation program, the Broadband Initiatives Program, the Broadband Technology Opportunities Program (BTOP), and the Rural Community Facilities Loans and Grants program. (See table 1 for information on available funds and awards made under these programs.) Several of these programs are targeted specifically at small or rural communities. To increase the speed with which Recovery Act funds are spent, the act added requirements or priorities to several programs to focus on projects that could be completed quickly.

Table 1: Selected Recovery Act Funding Opportunities for North Carolina Municipalities

Dollars in millions

Program	Funds available to localities from North Carolina agencies[a]	Funds awarded by North Carolina agencies to localities	Competitive funds available to localities directly from federal agencies, (national totals)	Formula funds available to North Carolina localities directly from federal agencies	Funds awarded by federal agencies directly to North Carolina localities
Clean Water State Revolving Fund[b]	$71	$67	n.a.	n.a.	n.a.
Drinking Water State Revolving Fund[b]	$66	$64	n.a.	n.a.	n.a.
COPS Hiring Recovery Program	n.a.	n.a.	$1,000	n.a.	$31
Edward Byrne Formula and Competitive Grants	$34.5[c]	No awards made[c]	$225	$21.9	$21.2
Federal-Aid Highway Surface Transportation	$736[d]	n.a.	n.a.	n.a.	n.a.
Broadband Initiatives Program	n.a.	n.a.	$2.5	n.a.	No awards made[e]
Broadband Technology Opportunities Program	n.a.	n.a.	$4.7	n.a.	No awards made[e]
Community Facilities Loans and Grants Program	n.a.	n.a.	$1,161[f]	n.a.	$11.7[f]
Total	$907.5	$131	$2,393.2	$21.9	$63.9

Source: Federal and state agencies

n.a.: Not applicable

[a]This column captures funds apportioned, allotted, allocated, awarded or otherwise made available by federal agencies to North Carolina state agencies to be awarded or allocated to North Carolina localities.

[b]Funding under these two programs is split evenly between principal forgiveness and interest-free loans.

[c]$34.5 million was awarded to the state, of which about $13.2 million must be passed on to localities. No awards had been made to localities as of August 11, 2009.

[d]While these funds will be administered by NCDOT, the projects will impact some rural areas.

[e]Applications for first of three rounds of grants were due by August 24, 2009.

[f]Nationally $1.1 billion is available in loans and $61 million is available in grants. In North Carolina, 11.7 million has been awarded to localities, of which about $9.8 million was in loans and $1.8 million was in grants. Totals do not add up to $11.7 million due to rounding.

Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) Capitalization Grants

The total funding available for water and drinking water grants and loans in North Carolina includes about $71 million for the CWSRF and about $66 million for the DWSRF. The CWSRF assists in the funding of the construction of publicly owned wastewater treatment facilities, the implementation and management of non-point source pollution[22] control programs, and the development and implementation of estuary conservation and management plans. Under the Recovery Act, states are to give priority to projects that are ready to proceed with construction within 12 months of enactment of the act. The North Carolina Department of Environment and Natural Resources (DENR) will administer this program for North Carolina. DENR will award half of the funds in the form of principal forgiveness,[23] and the other half in the form of interest-free loans, as required. There is a cap of $3 million for each project award, and awards will not be increased for bids that come in higher than the project award amount. As of July 20, 2009, the state had announced awards totaling about $67 million for projects in 48 localities.

The DWSRF assists public water systems in complying with the national primary drinking water regulations. Assistance cannot go to a public water system[24] that does not have the technical, managerial, and financial capability to ensure compliance with federal Safe Drinking Water Act (SDWA).[25] Eligible uses include replacement of aging infrastructure, planning studies, consolidation of water systems, and source water rehabilitation. Ineligible uses include dams or rehabilitation of dams, operation and maintenance costs, projects mainly for fire protection, or projects primarily to accommodate future growth. As with CWSRF, the main criteria for Recovery Act awards for DWSRF will be how quickly a project can issue a contract and proceed with construction. The Public Water Supply Section (PWSS) of DENR will administer this program. PWSS will award half of grant funds in the form of principal forgiveness, and the other half in the form of an interest-free loan, with up to a 20-year payback period, as required. There is a cap of $3 million for each project

[22]Non-point source pollution comes from diffuse sources. It is generally caused by rainfall or snowmelt moving over and through the ground. Non-point source pollutants could include excess fertilizers, herbicides, and insecticides from agricultural lands and residential areas; oil or grease from urban runoff; sediment from improperly managed construction sites and forests; and bacteria and nutrients from livestock.

[23]Principal forgiveness means that half of each loan will not need to be repaid. The other half of the money will need to be repaid at a zero percent interest rate. If a project's actual cost is lower than originally projected or the scope of the project is reduced, the same 50-50 split will be maintained.

[24]A public water system can be any local unit responsible for the collection, treatment, storage, and distribution of drinkable water from a source to a consumer.

[25]Pub. L. No. 93-523, 88 Stat. 1660 (1974) (codified as amended at 42 U.S.C. §§ 300f through 300j-25).

award, and awards will not be increased for bids that come in higher than the project award amount. As of July 20, 2009, the state has announced awards totaling about $64 million to 63 localities.

COPS Hiring Recovery Program (CHRP)

The Recovery Act provides $1 billion for the CHRP program, administered by the Office of Community Oriented Policing Services within the U.S. Department of Justice (Justice), to provide funds directly to law enforcement agencies to be used to hire and/or rehire career law enforcement officers. CHRP grants provide 100 percent funding for 3 years for approved entry-level salaries and benefits for newly-hired, full-time sworn officer positions or for rehired officers who have been laid off, or are scheduled to be laid off. On July 28, 2009, Justice announced that it had awarded $1 billion in CHRP funds, including nearly $31 million to 50 North Carolina local agencies to fund a total of 202 officers, including 183 new officers. In total, 216 North Carolina local agencies applied to Justice for CHRP funds.

Edward Byrne Formula and Competitive Grants

The Edward Byrne Memorial Justice Assistance Grant (JAG) program, administered by the Bureau of Justice Assistance within Justice, provides federal formula grants to state and local governments for law enforcement and other criminal-justice activities, such as crime prevention and domestic-violence programs, corrections, justice information-sharing initiatives, and victims' services. Under the Recovery Act, an additional $2 billion in grants are available to state and local governments under the JAG program. JAG funds are allocated to states on the basis of a formula that includes population size and violent-crime statistics, in combination with a minimum allocation to ensure that each state receives an appropriate share of funding. Using this formula, 60 percent of the allocation is awarded to state governments, which must in turn award a specified percentage to local governments, and the remaining 40 percent is awarded by Justice directly to local governments. The total JAG allocation for North Carolina state and local governments under the Recovery Act is about $56.3 million, of which, the localities will receive about $13.2 million from the state and about $21.9 million from Justice. Applications from localities for funding were due to the state by June 17, 2009, but funds had not been awarded as of August 11, 2009. Applications from localities for JAG funding to be awarded directly by Justice were due to Justice by June 17, 2009, and as of September 8, 2009, Justice has awarded about $21.2 million to North Carolina localities. In addition to the $56.3 million in JAG grant funds, $225 million in Recovery Act funds are also available nationally under the Edward Byrne Competitive Grant Program to state, local, and tribal governments, and to national, regional, and local nonprofit organizations awarded directly by Justice. These competitive grants are to prevent crime, improve the administration of justice, provide services to victims of crime, support critical nurturing and mentoring of at-risk children and youth, and for other similar activities. Applications for the competitive Byrne grants were due by April 27, 2009, and Justice is in the process of awarding these grants and plans to finish awarding them by September 30, 2009. Based on information available as of September 4, 2009, no Byrne competitive grant awards have been announced for North Carolina.

Federal-Aid Highway Surface Transportation Program

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 administered by the Federal Highway Administration (FHWA) in the U.S. Department of Transportation. North Carolina is expected to receive $736 million under the Recovery Act for highway and bridge improvements. Under the Federal-Aid Highway Surface Transportation Program, funds are apportioned annually to each state department of transportation (or equivalent agency) to construct and maintain roadways and bridges on the federal-aid highway system. North Carolina Department of Transportation officials told us that they identified highway projects based on Recovery Act direction that priority is to be given to projects that are anticipated to be completed within a 3-year time frame and that are located in economically distressed areas. Also, the department collaborated with metropolitan and rural planning organizations[26] to select projects that are located across the state. Projects were also evaluated based on several criteria, including alignment with long-range investment plans and considerations about geographical diversity and economic impact.[27] As of September 1, 2009, the state had awarded $348 million in highway contracts.

Broadband Access

The Recovery Act appropriated $7.2 billion to expand broadband access in the United States. Specifically, the U.S. Department of Agriculture (Agriculture) Rural Utility Service (RUS) was appropriated $2.5 billion to extend loans, grants, and loan/grant combinations to facilitate broadband development in rural areas.[28] The U.S. Department of Commerce

[26]Metropolitan and rural planning organizations work cooperatively with North Carolina Department of Transportation to plan transportation systems in urban and rural areas.

[27]Projects selected were evaluated based on several other criteria, including a state equity formula (North Carolina G.S. 136-17.2A) that creates a target value for programming future expenditures in various regions of the state.

[28]See, Recovery Act div. A, tit. I, 123 Stat. at 118.

(Commerce) National Telecommunications Information Administration (NTIA) was appropriated $4.7 billion to make available grants for deploying broadband infrastructure in unserved and underserved areas in the United States, enhancing broadband capabilities at public computing centers, and promoting sustainable broadband adoption projects. [29] NTIA and the RUS jointly issued a Notice of Funds Availability (NOFA) and solicitation of applications for the RUS's Broadband Initiative Program and NTIA's Broadband Technology Opportunities program. The agencies are planning three opportunities for eligible entities, including states, local governments, or any agency, subdivision, instrumentality, or political subdivision thereof to apply for these grants. The deadline for the first round was extended from August 14, 2009, until August 24, 2009.[30] The current goal of the agencies is to issue a second NOFA before the end of 2009 and a third in the spring of 2010. No awards have been made under either program.

Community Facilities Loans and Grants Program

The Recovery Act also added more funding to the Community Facilities Loans and Grants program to build or improve essential public facilities in cities and towns with no more than 20,000 in population. Under the Recovery Act, $1.1 billion in loans and $61 million in grants is made available for this program. Some examples of eligible projects include health care facilities such as hospitals and clinics, nursing homes, daycare centers, public safety facilities and equipment such as fire trucks, community buildings, educational facilities such as libraries, and activity centers for disabled persons. Localities apply for the funds directly from the U.S. Department of Agriculture Rural Development Center. In total, $11.7 million in loans and grants have been awarded by the U.S. Department of Agriculture to North Carolina localities for a variety of projects, including police and fire equipment.

[29]See, Recovery Act div. A, tit. II, 123 Stat. at 128; § 6001(b), 123 Stat. at 512-513.

[30]Applicants that had started the electronic application process prior to the original application deadline were given until August 20, 2009 to complete the electronic submission of its applications. 74 Fed. Reg. 41676 (2009). Applicants having difficulties uploading any of the attachments to its application were given the opportunity to submit the core application by August 20, 2009 and subsequently submit any attachments that were not successfully uploaded by August 24, 2009. 74 Fed. Reg. 42644, 42645 (2009).

Municipalities Rely on a Variety of State and Other Resources for Recovery Act Information

North Carolina municipalities rely on a variety of sources in obtaining information about the Recovery Act. According to a survey conducted by NCLM, municipalities sought guidance and technical support from various sources within the state, including OERI, the Rural Center, and NCLM. We also heard from localities we visited that they rely on the School of Government at the University of North Carolina—Chapel Hill and the North Carolina Regional Councils[31] for technical support and guidance on Recovery Act issues.

Along with providing the oversight and monitoring of Recovery Act funds, part of OERI's mission is to develop a communications network to keep the public informed about the status and progress of the recovery effort and funding opportunities. OERI officials told us that they have held a series of informational workshops across the state since April 2009 designed to provide a question and answer forum for local officials and the general public. According to OERI officials, these meetings have been strategically scheduled in geographically diverse sections of the state, including rural areas, in an effort to reach a large portion of the state's population. To assist smaller towns and cities with identifying and applying for Recovery Act funds, OERI officials told us that they have hired a team of new staff to help local officials in 19 rural counties to apply for and manage grants. OERI officials selected the 19 counties based on rural areas with high unemployment rates.

In addition to OERI, there are a number of other organizations in North Carolina that provide assistance to rural communities. One such organization, the Rural Center, provides a variety of services to the state's rural areas. The Rural Center is a private, nonprofit organization, funded by both public and private sources, that serves the state's rural communities, with a special focus on individuals with low to moderate incomes and communities with limited resources. According to Rural Center officials, their office provides a variety of services, including policy research and development, legislative advocacy, topical workshops, technical assistance, leadership and workforce training, and municipal and community capacity building strategies. For example, in September 2009, the Rural Center, as part of its efforts to reach out to minority populations, provided a forum for a group of African-American-led community-development organizations to discuss the Recovery Act.

[31]North Carolina Regional Councils are multicounty planning and development agencies serving different areas of the state.

NCLM, another source of information for North Carolina's rural areas, is a nonpartisan association of municipalities in North Carolina that provides member services that strengthen and support municipal governments, including those in rural communities. According to an NCLM official, the organization has compiled and posted to its Web site guidance, including a listing of Recovery Act programs with funds still available, aimed at helping municipalities in their pursuit of federal Recovery Act funding. The official said that the guidance will be updated regularly. Further, NCLM also prepared guidance regarding how municipalities can increase their chances of obtaining federal funding. In June 2009, NCLM initiated a statewide survey of the 551 municipalities in an effort to obtain information about their experiences with the Recovery Act, and received a 91 percent response rate. According to NCLM officials, a main reason they conducted the survey was because the state did not have a centralized source of information on which local governments in the state were pursuing Recovery Act funding or what type of funding they were pursuing.

Also, University of North Carolina-Chapel Hill's School of Government, in an effort to help smaller cities, towns and counties to research, apply for, and acquire Recovery Act funds, created the Carolina Economic Recovery Corps (CERC). The CERC is made up of eight graduate students from UNC who spent 10 weeks over the summer working full time as interns with councils of governments (COG).[32] Among other forms of support, the eight interns helped communities with Recovery Act compliance, grant writing, and reporting requirements.

Further, 17 North Carolina Regional Councils serve regions that share similar economic, physical, and social characteristics. Their function is to aid, assist, and improve the capabilities of local governments in administration, planning, fiscal management, and development, and all of them are involved in providing technical assistance to their members. In particular, the councils provide information on state and federal programs of concern to local governments.

[32]Councils of governments are regional bodies that exist throughout the United States. Generally, councils of governments serve an area of several counties, and address issues such as regional and municipal planning, economic and community development, transportation, and emergency planning.

Two Municipalities That Received Recovery Act Funds Reported They Will Help Address Needs

Two of the municipalities we visited reported their applications for JAG Recovery Act funds had been approved and that these awards would help them address needs. For example, Williamston officials told us they had been approved for a $35,157 JAG grant, which will be used to upgrade its communications system for its police department. According to Williamston officials, this system will enhance its communications ability to conform with state recommendations. Officials from the City of Hendersonville told us that their police department also received JAG funds. The Hendersonville Police Department received $72,956 and reported they had drawn down approximately $50,000 of the funds at the time of our interview. The city plans to use the funds on concealment devices for microphones and to support the work of its undercover investigations. Neither Bethel nor Woodfin officials had been awarded Recovery Act funds.

State Officials and Others Expressed Concerns over the Capacity of Small Towns to Access and Administer Recovery Act Funds

Several North Carolina state officials told us that many of the state's small towns and cities have been historically understaffed and may lack the expertise to apply for and administer federal grants. For example, one state official indicated that these challenges can sometimes serve as barriers to some small towns and cities in seeking federal recovery assistance. Additionally, officials at the Rural Center told us that many municipalities have expressed concerns about applying for Recovery Act funds. Specifically, they said that municipalities are wary of spending their limited funds to develop initiatives for competitive grants when it is not certain that they would receive an award. Rural Center officials said that the Recovery Act's "quick implementation" requirements for some programs can be a barrier for smaller municipalities because they lack resources to quickly develop proposals. Further, many other municipalities face capacity challenges as they lack a town manager or administrator. Specifically, according to Rural Center officials, more than 200 North Carolina municipalities do not have a town manager or administrator. As a result, many management responsibilities are assumed by a clerk or unpaid mayors and council members.

Many small municipalities do not plan to apply for Recovery Act funds, according to the results of the NCLM 2009 survey that obtained responses from North Carolina's municipalities on their plans to pursue Recovery Act funds. Specifically, 207 municipalities with a population of less than 5,000 people reported they were not planning to apply for Recovery Act funds. This represents 41 percent of the communities that responded to the survey, a figure that is significantly smaller than the 3 percent of larger municipalities that indicated they would not apply. According to our analysis of the NCLM 2009 survey information, 13 municipalities with a population over 5,000 reported they were not planning to apply for these funds. Furthermore, of the 173 small municipalities with populations less than 5,000 that reported they plan to apply for Recovery Act funds, 94, or 54 percent, indicated that they need technical assistance with the applications.

Local officials we interviewed expressed concerns about their capacity to apply for and administer Recovery Act funding. For example, officials from the Town of Woodfin told us that their ability to identify and apply for Recovery Act funds was limited by their current level of staff. The town has three staff—the town administrator, a town clerk, and a code enforcement officer. The town administrator told us that he has multiple duties, such as planning director, finance officer, and head of town operations and that serving in these multiple roles constrains his ability to pursue available Recovery Act funds. Officials in two localities told us that they lack funds to meet the federal matching requirements or other up-front costs needed for some Recovery Act programs. Some local officials also told us that the shovel-ready requirements of some Recovery Act programs made it difficult for them to apply for funds because they would need to commit funds to develop projects that were shovel-ready.[33] The officials said that smaller municipalities are disadvantaged by this provision because larger municipalities tend to be in a better position to meet the quick-spending objective of the Recovery Act.

However, officials were mixed in their views about their ability to manage Recovery Act funds. Officials from both Bethel and Hendersonville felt that they would be able to comply with reporting and tracking requirements for Recovery Act funds. But, officials from Williamston expressed concerns over their ability to hire additional qualified staff, if necessary, to meet the reporting requirements under the Recovery Act.

Municipalities Reported Challenges Identifying Information about Recovery Act Programs

Officials in three of the municipalities we met with reported a variety of challenges identifying information about Recovery Act funding opportunities. In particular, officials in the two municipalities that had not received Recovery Act funding—Bethel and Woodfin—cited challenges in identifying information about funding possibilities. Bethel officials said

[33]The term “shovel-ready” means the projects could be started and completed expeditiously, in accordance with applicable Recovery Act requirements.

that they attempted to identify funding opportunities by conducting research on the Internet and contacting state agencies and congressional offices. The City Manager characterized their efforts as attempting to "navigate a maze" of funding opportunities. As of August 11, 2009, Bethel has not identified any programs that it would be eligible for or for which it has the means to develop a proposal. For example, according to Bethel officials they were advised they were not eligible for JAG funding due to having a crime rate that is too low. Woodfin officials said that they had received a lot of information, but that this information was not well organized and that they were not aware of what funding opportunities still remain. One representative of a Regional Council told us that the Council has received a number of calls from localities that are under pressure to obtain Recovery Act funds but do not know how to access information about the programs.

Hendersonville officials told us that they began planning for the Recovery Act early and were able to identify and apply for several programs, including the JAG program, for which they received an award. However, they said that the information and guidance they received from state agencies for water and sewer programs and highway funding was not always clear or timely. For example, they told us that the state issued guidance on water and sewer projects after they had already submitted their application. Hendersonville officials said that it would have been helpful to have had more information when they applied for funding.

While local officials did mention difficulties obtaining information, they also noted some sources of information that were useful. For example, Hendersonville officials mentioned that they relied on several sources for information about the Recovery Act, including NCLM and OERI. Woodfin officials told us that they rely heavily on their contacts at the Land of Sky Regional Council for information pertaining to the Recovery Act.

OERI Is Taking Steps to Help Ensure the Complete, Accurate, and Timely Submission by State Agencies of Section 1512 Recovery Act Quarterly Recipient Reports to OMB

Beginning October 10, 2009, each state is required to submit a quarterly report to OMB to meet the reporting requirements of Section 1512 of the Recovery Act. Under Section 1512, recipients (also known as prime recipients) and subrecipients of Recovery Act funds are required to report a number of data elements, including jobs created with Recovery Act funds. In North Carolina, each state agency that receives Recovery Act funds is responsible for the completion and submission of Section 1512 Recovery Act quarterly recipient reports to OMB via a Web site—FederalReporting.gov. OMB's June 22, 2009, reporting guidance (M-09-21) gave prime recipients the option to delegate certain reporting elements to their subrecipients.

OERI has undertaken several initiatives to help ensure state agency Section 1512 Recovery Act recipient reports are complete, accurate, and submitted on time. For example, OERI conducted a prime-recipient readiness assessment to evaluate how prepared state agencies are to provide recipient reports. Based on the results of the readiness assessment, an OERI official in charge of reporting issues told us that he has a high level of confidence that North Carolina state agencies will be ready to submit the required reports in October.

On August 11, 2009, OERI sent the 16 state agencies that will be submitting the Recovery Act recipient reports a survey to determine, among other things, whether they (1) had delegated reporting responsibility to subrecipients, (2) had put controls in place to ensure accurate, complete, and timely reporting, and (3) had coordinated responsibilities within the agency to avoid double reporting. As of September 4, 2009, none of the 8 agencies that responded reported they were planning to delegate reporting responsibility to subrecipients. Most of the agencies reported they either had or planned to have internal control systems. However, based on state agencies' responses, it remains uncertain whether some of the state agencies considered their controls adequate, at that time, to ensure the submission of accurate, complete, and timely Recovery Act Section 1512 reports in October.

OERI also began, on August 27, 2009, to hold regularly planned roundtable discussions with state agency officials responsible for Recovery Act reporting. OERI plans to continue these roundtable discussions until the October 10 reporting deadline. According to an OERI representative, the roundtable discussions are being held to share information among recipients by having agencies (1) share any plans for delegating reporting responsibilities to subrecipients, (2) identify a single point of contact for each agency to avoid double reporting, (3) discuss the data systems each agency will use for quarterly reporting to FederalReporting.gov, and (4) develop expectations for quality assurance common to all North Carolina state agencies that will be reporting.

At the August 27 session, some state officials reported concerns about the methodology to be used for measuring jobs created or retained. The OERI representative urged state agency officials to ask cognizant federal agencies for any specific guidance on measuring jobs created or retained that the federal agency may have issued in addition to OMB's reporting guidance. Also, agency officials at this session expressed concerns over the availability of data by the September 30, 2009, cutoff date for recipient reporting.

State Comments on This Summary

We provided the Governor of North Carolina with a draft of this appendix on September 14, 2009. The Director of OERI responded for the Governor on September 16, 2009. In general, the comments were either technical or were status updated. These were incorporated as appropriate.

GAO Contacts

Cornelia Ashby, (202) 512-8403 or ashbyc@gao.gov

Terrell Dorn, (202) 512-6923 or dornt@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Bryon Gordon, Assistant Director; Sandra Baxter; Carleen Bennett; Bonnie Derby; Steve Fox; Fred Harrison; Leslie Locke; Stephanie Moriarty; Anthony Patterson, and Scott Spicer made major contributions to this report.