

September 2010

RECOVERY ACT

Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds (Illinois)



GAO

Accountability * Integrity * Reliability

Appendix VII: Illinois

Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Illinois.¹ The full report covering all of GAO's work in the 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

What We Did

We conducted work on one of the programs in Illinois that was funded under the Recovery Act—the Public Housing Capital Fund—to follow up on issues that we had reported on in previous bimonthly reviews. For this program, we conducted interviews and examined relevant program documents. Additionally, we met with state-level auditors to determine what steps they were taking to oversee state agencies' implementation of the Recovery Act. We also met with officials from the Illinois Governor's Office to discuss the state's ongoing role in reviewing the quarterly recipient reports that state agencies receiving Recovery Act funds must submit to federal agencies through the FederalReporting.gov Web site.² Finally, we monitored the state's fiscal condition and spoke to officials from two rural communities—Chrisman and the Village of Steward—to discuss their use of Recovery Act funds and the effect of these funds on their budgets. (For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-1000SP](#).)

What We Found

- **Public Housing Capital Fund.** Six public housing agencies in Illinois collectively received \$83.7 million in Public Housing Capital Fund competitive grant funds under the Recovery Act.³ As of August 7, 2010, five of the recipient public housing agencies had obligated \$53.5 million of the \$83.7 million and had drawn down a cumulative total of \$23.8 million, or

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

²Under section 1512 of the Recovery Act, recipients of Recovery Act funds must submit quarterly reports that include employment and other data to the federal agencies through the FederalReporting.gov Web site. These reports are due on the 10th day of the month following the end of the reporting period and are available to the public on the Recovery.gov Web site.

³The U.S. Department of Housing and Urban Development's (HUD) Illinois State Office of Public Housing monitors all Illinois housing agencies for compliance with Recovery Act requirements, including obligation and expenditure deadlines.

44.4 percent of the obligated funds.⁴ Similarly, 99 public housing agencies in Illinois collectively received \$221.5 million in Public Housing Capital Fund formula grants under the Recovery Act. As of August 7, 2010, the recipient agencies had obligated all of the \$221.5 million and drawn down a cumulative total of \$143.6 million, or 64.8 percent of the obligated funds. For this report we visited the Chicago Housing Authority (CHA), which continues to make progress on its Recovery Act competitive and formula grant projects. For example, as of July 1, 2010, CHA had expended 52 percent of its Recovery Act formula funds and completed work on 5 of 12 projects funded by the Recovery Act.

- **Oversight Activities.** Auditing responsibility within the state passed from the Illinois Office of Internal Audit (IOIA) within the Governor's Office to state agencies effective July 1, 2010.⁵ Officials said that IOIA staff will finish the 20 audits the office planned or started prior to July 1. State officials expect that the Office of Accountability, also within the Governor's Office, will follow up on the implementation of IOIA audit recommendations as part of its existing role assisting agencies in implementing corrective action plans to address audit findings. In addition, the Office of the Auditor General issued the fiscal year 2009 statewide Single Audit, and the Inspectors General of the U.S. Departments of Education and Energy are currently conducting audits of

⁴As of August 7, 2010, one housing agency had not obligated any of its competitive grant funds.

⁵According to Illinois officials, Illinois Executive Order 2003-10, *Executive Order to Consolidate Facilities Management, Internal Auditing and Staff Legal Functions*, consolidated the state's internal audit function under the Illinois Department of Central Management Services within the Governor's Office. 27 Ill. Reg. 6401 (Apr. 11, 2003). State officials further explained that Illinois Public Act 096-0795 mandated the return of the internal audit function to state agencies and the dissolution of IOIA, as the function would again reside at the agencies.

state programs that received larger amounts of Recovery Act funds.⁶ We spoke to state and federal auditors about these audits for this review.

- **Recipient Reports.** The Governor's Office requires state agencies to submit employment and other data to the Illinois Federal Reporting Test site for review and verification before they submit these data to their respective federal agencies through the FederalReporting.gov Web site. IOIA used to be responsible for reviewing these reports; however, with the statutorily-mandated transfer of audit responsibility to state agencies, and the corresponding dissolution of IOIA, the Illinois Office of Accountability has taken responsibility for reviewing and verifying most state agencies' reports.
- **Illinois's Fiscal Condition.** Representatives of the Governor's Office emphasized the important role that Recovery Act funds have played in aiding the state's fiscal situation over the previous 2 fiscal years. However, Illinois's fiscal year 2011 budget does not include Recovery Act State Fiscal Stabilization Fund (SFSF) monies, which provided more than \$2 billion toward education in the state over the past 2 fiscal years. The Governor's Office had planned to address the phasing out of SFSF monies in fiscal year 2011 with a tax increase, but the Illinois General Assembly did not pass such an increase. Facing a balance of between \$5 billion and \$6 billion in unpaid bills from prior fiscal years, the state passed legislation that provides the governor with expanded authority to address the budget deficit, according to state officials.⁷
- **Rural Communities' Use of Recovery Act Funds.** Although the communities we spoke to applied for and were awarded Recovery Act funds, they ultimately delayed use of the funds. For example, an official

⁶Single Audits are prepared to meet the requirements of the Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507) and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit requires that states, local governments, and nonprofit organizations expending more than \$500,000 in federal awards in a year obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and opinion on compliance with applicable program requirements for certain federal programs. See also Office of Management and Budget (OMB) Circular A-133 (revised June 27, 2003, and June 26, 2007).

⁷Ill. Pub. Act 096-0958, art. 1 (July 1, 2010).

from the Village of Steward, Illinois, told us that the village applied for \$2.5 million in Recovery Act funding through the U.S. Department of Agriculture's (USDA) Rural Development Water and Waste Program to establish a sewer system, but had to put the project on hold because residents were unwilling to pay costs associated with the project.

Housing Agencies in Illinois Continue to Make Progress on Recovery Act Projects as HUD Monitors Their Use of Funds

As previously highlighted, six public housing agencies in Illinois collectively received \$83.7 million in Public Housing Capital Fund competitive grant funds under the Recovery Act. HUD provided these funds to the agencies to improve the physical condition of their properties. As of August 7, 2010, five of the recipient public housing agencies had obligated \$53.5 million of the \$83.7 million and had drawn down a cumulative total of \$23.8 million, or 44.4 percent, of the obligated funds. Similarly, 99 public housing agencies in Illinois collectively received \$221.5 million in Public Housing Capital Fund formula grants under the Recovery Act. HUD also provided these funds to the agencies to improve the physical condition of their properties. As of August 7, 2010, the recipient agencies had obligated all of the \$221.5 million and had drawn down a cumulative total of \$143.6 million, or 64.8 percent, of the obligated funds.

The Chicago Housing Authority Continues to Make Progress on Recovery Act Projects

For this report we visited CHA to determine the status of both its competitive and formula grants under the Recovery Act. HUD awarded CHA a total of 27 competitive grants, 23 for energy-efficiency improvements (which CHA used to replace boilers and hot water heaters in several properties) and 4 for redevelopment (including the Ogden North project, described below). As of July 1, 2010, CHA had obligated approximately 38 percent of its total competitive grant funds. The housing agency expects to obligate 100 percent of its competitive grant funds by September 2010, as required under the Recovery Act. CHA had expended 32 percent of its total competitive grant funds as of July 1, 2010, including 50 percent or more of the funds for 20 projects. The housing agency expects to expend 60 percent of its competitive grant funds by September 2011, as required under the Recovery Act.

HUD awarded CHA a \$9.9 million competitive grant for the redevelopment of the housing agency's Ogden North property (see fig. 1).⁸ CHA will use

⁸Our fourth bimonthly report also contains an overview of the Ogden North project. See GAO, *Recovery Act: Status of States' and Localities' Uses of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

the grant in combination with other public and private funds to develop 60 new replacement public housing units and 77 non-public housing rental units, 123 for-sale homes, a community space, and a management and maintenance facility. CHA initiated the project in July 2010. As of July 1, 2010, CHA had obligated approximately 11 percent and expended approximately 5 percent of the grant funds, primarily for predevelopment work (including legal and site preparation work).

Figure 1: Site of CHA’s Ogden North Development Project



Source: GAO.

As of July 1, 2010, CHA had expended 52 percent of its Recovery Act formula funds and completed work on 5 of 12 Recovery Act funded projects. For the two projects we reviewed as part of this and prior bimonthly reports—Dearborn Homes and Kenmore Senior Apartments—CHA had expended 33 percent of the \$28.9 million and 34 percent of the \$16.8 million obligated to those projects, respectively. As of July 1, 2010, the Dearborn Homes project was 46 percent complete and on schedule to be fully completed by November 2010 (see fig. 2). Four of the eight floors in the Kenmore Senior Apartments building were past 50 percent complete as of July 1, 2010, and also on schedule to be fully completed by November 2010.⁹

⁹Our fourth bimonthly report of December 2009 contains an overview of the Dearborn Homes and Kenmore Senior Apartments projects. See [GAO-10-232SP](#).

Figure 2: Completed and In-progress Exterior Views of CHA's Dearborn Homes Development


Source: GAO.

CHA reported a total of 271.95 full-time equivalent (FTE) positions for its formula grants and 5.47 FTEs for its competitive grants for the quarter ending June 30, 2010. With respect to the three projects we reviewed, CHA reported 107.30 FTEs for Dearborn Homes, 38.09 FTEs for Kenmore Senior Apartments, and 2.12 FTEs for Ogden North.¹⁰ On June 14, 2010, CHA reopened its waiting list for public housing units after more than a decade, in part as a result of funding available through the Recovery Act. Through a lottery process, CHA will select 40,000 families for the waiting list and those families will be placed in rental units as they become available.

Finally, as we reported in our May 2010 report, CHA officials said that Recovery Act related activities had not had an effect on the agency's ability to administer its regular Capital Fund program.¹¹ According to HUD data, CHA had obligated 100 percent of its 2008 regular capital funds by April 30, 2010, ahead of the June 2010 deadline. As of the same date, CHA

¹⁰These data are as of June 30, 2010.

¹¹See GAO, *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Appendixes)*, [GAO-10-605SP](#) (Washington, D.C.: May 26, 2010).

had obligated 21 percent of its 2009 regular capital funds. The deadline for obligating 100 percent of these funds is September 2011.

HUD Field Office Officials Cited Monitoring of Recovery Act Funds as One of HUD's Top Priorities

According to officials from HUD's Illinois State Office of Public Housing, Recovery Act work is one of the agency's top priorities. In describing the types of activities staff engage in to oversee Recovery Act funds, field office officials told us that they had developed tracking sheets for all the competitive and formula grants awarded to housing agencies in the state. Field office officials contact each housing agency on a weekly basis by means of telephone, e-mail, and, when necessary, correspondence. The tracking sheets are updated and reviewed regularly to ensure all housing agencies meet Recovery Act deadlines, such as the September 2010 deadline for obligating competitive grant funds. In addition, under HUD's Formula Grant Monitoring Strategy, the field office was required to review the obligations of housing agencies that had obligated less than 90 percent of their Recovery Act formula funds by February 26, 2010. As of June 1, 2010, field office officials completed reviews of all nine Illinois public housing agencies that had not met this obligation goal. Although officials found no deficiencies, they said that their reviews raised questions at some housing agencies. For example, field office officials noted that it appeared that one housing agency had not demonstrated compliance with the Buy American provision in its original contract.¹² According to these officials, when the field office followed up on this finding, the housing agency was able to provide documentation demonstrating compliance. At another housing authority, field office officials questioned the award of seven contracts to only one contractor. According to these officials, the housing agency provided evidence showing that it had complied with competitive

¹²Section 1605 of the Recovery Act required that "none of the funds appropriated or otherwise made available by [the] Act may be used for the construction, alteration, maintenance, or repair of a public building or a public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States." Federal agencies may, under certain circumstances, waive the Buy American requirement and the requirement is to be applied in a manner consistent with the United States obligations under international agreements. For more information, see HUD, *PIH Implementation Guidance for the Buy American Requirement of the American Recovery and Reinvestment Act of 2009 including Process for Applying for Exceptions*, PIH-2009-31 (HA) (Washington, D.C., Aug. 21, 2009).

bidding requirements for these contracts.¹³ Officials stated that HUD did not deobligate or recapture any formula grant funds due to deficiencies.

Field office officials told us that staff were assigned to Recovery Act monitoring duties based on the relative workload of other projects assigned at the time. The field office has not received additional resources or staff to assist with Recovery Act monitoring. The risks HUD considers in determining how resources are allocated to Recovery Act monitoring have been based on identified management issues, audit findings, or other concerns related to performance that were identified through on-site and desk reviews. Field office officials said that HUD headquarters has emphasized the importance of focusing resources on overseeing housing agencies implementation of the Recovery Act. Despite this focus, field office officials said that Recovery Act responsibilities had not negatively affected their ability to monitor and oversee the regular capital fund and other programs. Officials told us that they had been able to successfully assign or reassign duties among all field office staff to meet the needs of the monitoring and reporting of Recovery Act grants.

Auditors Are Finalizing Audits on Recovery Act Funded Programs as Illinois's Auditing Responsibilities Return to State Agencies

According to state officials, recent legislation transferred auditing responsibility within the state from IOIA to state agencies effective July 1, 2010. The legislation gave the Illinois Department of Central Management Services (CMS) within the Governor's Office audit responsibility for those agencies that do not have an internal audit function. However, state officials noted that it was not yet clear how CMS would execute this responsibility, as it does not have authority to audit state agencies without their consent. According to state officials, only two agencies that received Recovery Act funds do not have their own internal audit functions—the Illinois Arts Council and the Illinois Criminal Justice Information Authority (ICJIA). The Illinois Arts Council received a \$361,600 Recovery Act grant through the National Endowment for the Arts, while ICJIA was the recipient of a \$50.2 million Edward Byrne Memorial Justice Assistance Grant (JAG) from the U.S. Department of Justice.¹⁴ State officials said that

¹³Our May 2010 report includes a discussion of the difficulties this housing authority faced in soliciting bids and awarding contracts for Recovery Act funds. See [GAO-10-605SP](#).

¹⁴The Illinois Arts Council used the Recovery Act grant to fund the Illinois Arts Job Preservation Grant Program. According to state officials, all the funds have been expended. The JAG Program provides federal grants for state and local law enforcement and criminal justice assistance.

the Office of Accountability will continue to review ICJIA's quarterly recipient reports; however, it is unclear whether the agency will request an audit of its Recovery Act JAG program from CMS.¹⁵

Officials from the Governor's Office said that despite the statutorily-mandated transfer of audit responsibility to state agencies, IOIA is scheduled to complete work on 20 planned or ongoing audits (16 in state fiscal year 2010 and 4 in state fiscal year 2011). According to state officials, the audited programs include two of the largest Recovery Act funded programs in the state—the Unemployment Insurance Program and the Highway Planning and Construction Program.¹⁶ Our review of completed IOIA audits as of July 1, 2010, showed that they were generally designed to evaluate the adequacy of the programs' internal accounting and administrative controls.¹⁷ Some of the audits we reviewed had findings related to Recovery Act funds, including cash-management issues (for example, failure to minimize the time between drawdowns of federal funds and expenditure of those funds and to charge hours worked to the correct grant) and recipient reporting issues (for example, incorrect calculation of jobs funded with Recovery Act funds and lack of review of recipient reports). The audits also found some instances of insufficient internal controls for ensuring compliance with Recovery Act and other federal program requirements. For example, one agency did not have procedures in place to ensure that subrecipients separately record and account for Recovery Act activities, and another agency did not have processes in place to ensure the eligibility of program participants. IOIA issued several recommendations based on its findings. State officials expect that, as part of its existing role in assisting agencies with corrective action plans to address audit findings, the Office of Accountability will

¹⁵In April 2009, the Department of Justice's Office of the Inspector General issued a report on the allocation of Recovery Act JAG funds in Illinois. See Department of Justice, Office of the Inspector General, *Edward Byrne Memorial Justice Assistance Grant Allocation of Recovery Act Funds to Local Municipalities in the State of Illinois* (Apr. 9, 2009).

¹⁶According to state documents, as of March 31, 2010, these programs were expected to receive \$3.8 billion and \$934.3 million in Recovery Act awards, respectively.

¹⁷We reviewed 12 of the 13 audits IOIA had completed as of July 1, 2010. We did not review 1 completed IOIA audit on the Women, Infants and Children (WIC) Special Supplemental Nutrition Program—Contingency. State officials indicated that the audit had no findings.

follow up these recommendations to determine whether they have been implemented.¹⁸

As we reported in our May 2010 report, the Illinois Office of the Auditor General conducts an annual audit (the Single Audit) of the state's financial statements and expenditures from federal awards, including Recovery Act awards.¹⁹ According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Illinois's Single Audit reporting package for the year ending June 30, 2009, on August 12, 2010. This was over 4 months after the deadline specified by the Single Audit Act and over a year after the period the audit covered. The State Auditor General finalized this audit on July 28, 2010, and this was the first Single Audit for Illinois that included Recovery Act programs. It identified 92 significant internal control deficiencies related to compliance with Federal Program requirements, of which 50 were classified as material weaknesses. Two of these material weaknesses and significant deficiencies were directly related to agencies' use of Recovery Act funds. Specifically, state auditors found that the Illinois Department of Children and Family Services (DCFS) failed to separately identify and report Recovery Act expenditures for its Foster Care and Adoption Assistance programs to the Illinois Office of the Comptroller.²⁰ According to the report, DCFS agreed with the finding, and state audit officials said that the agency provided the necessary corrections to the Comptroller's Office. In addition, the Illinois Department of Commerce and Economic Opportunity (DCEO) failed to communicate Recovery Act information and requirements to subrecipients of Workforce Investment Act of 1998 grants, which could potentially result in inadequate administration of the funds

¹⁸According to state officials, the Office of Accountability is also responsible for, among other things, obtaining clarifications to federal guidance related to the Recovery Act; establishing standardized policies and procedures for state agencies for tracking, reporting on, and monitoring Recovery Act funds; and providing technical assistance to state agencies on Recovery Act reporting requirements to ensure accurate and timely reporting. The Governor's Office expects to dissolve the Office of Accountability in February 2011.

¹⁹See [GAO-10-605SP](#).

²⁰According to the 2009 Single Audit report, subrecipients of Recovery Act awards must (1) maintain records that identify the source and application of their awards and (2) provide identification of Recovery Act awards in their Schedule of Expenditures of Federal Awards (SEFA) and data collection forms. The Illinois Office of the Comptroller compiles and reviews the financial forms required for the SEFA before forwarding SEFA data to the Office of the Auditor General. The Office of the Auditor General uses data from the SEFA in scoping and conducting the state's Single Audit. See State of Illinois, Office of the Auditor General, *Single Audit Report For the Year Ended June 30, 2009* (July 28, 2010).

and misreporting among subrecipients.²¹ According to the report, DCEO agreed with the recommendation and revised its procedures to include information on Recovery Act disbursements and reporting requirements to subrecipients.

In addition to the state auditing activities, federal Inspectors General are also reviewing the use of some Recovery Act funds in Illinois. The audits include reviews of programs discussed in our previous reports of April 2009, July 2009, September 2009, and May 2010, such as the \$2.1 billion in SFSF monies administered by the Illinois State Board of Education (ISBE), and the \$242.5 million Home Weatherization Assistance Program administered by DCEO.²² An official from the Office of Inspector General within the U.S. Department of Education stated that staff have conducted interviews with officials from ISBE, the Illinois Board of Higher Education (IBHE), the Illinois Community College Board (ICCB), the Governor's Office, a university, and multiple local educational agencies (mostly school districts). The audit work is expected to be completed in the fall of 2010 and reporting dates are yet to be determined. The Office of the Inspector General within the U.S. Department of Energy is also currently determining the extent to which DCEO and one of its local agencies are effectively and efficiently administering the Weatherization Assistance Program in Illinois. This review is focusing on the Illinois Community and Economic Development Association (CEDA), the largest subrecipient of weatherization funds in Illinois (and one of the largest local agencies nationwide). CEDA received \$81 million to weatherize an estimated 12,500 homes throughout the state. A report is currently being drafted and is expected to be issued in the fall of 2010.

²¹According to the 2009 Single Audit report, recipients of Recovery Act awards must (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award Number, the Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (2) require their subrecipients to provide similar identification on their SEFAs and data-collection forms.

²²For past reports discussing SFSF see GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues is Essential* (Appendixes), [GAO-09-580](#) (Washington, D.C.: Apr. 23, 2009); GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses* (Appendixes), [GAO-09-830SP](#) (Washington, D.C.: July 8, 2009); GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed* (Appendixes), [GAO-09-1017SP](#) (Washington, D.C.: Sept. 23, 2009); and [GAO-10-605SP](#). For past reports discussing the Weatherization Assistance Program see [GAO-09-830SP](#) and [GAO-10-605SP](#).

The Governor's Office Has Changed the Way It Monitors Recovery Act Recipient Reports

The Illinois Governor's Office has changed the way it monitors Recovery Act recipient reports in light of the July 1, 2010, transfer of audit responsibility to state agencies. As we described in our December 2009 report, the Governor's Office has required state agencies to submit employment and other data to the Illinois Federal Reporting Test site for review and verification before they submit these data to FederalReporting.gov.²³ IOIA previously monitored these reports, and in its absence the Illinois Office of Accountability has assumed responsibility for reviewing and verifying these reports.²⁴ The Office of Accountability's review does not include recipient reports from three agencies receiving some of largest Recovery Act grants in the state: ISBE, the Illinois Housing Development Agency, and the Illinois Department of Transportation.²⁵ State officials said that these agencies each had an existing internal audit function with the necessary resources to review the reports and noted that not requiring the Office of Accountability to conduct a review would lighten its workload. They also pointed out that the state's tight budget situation and the dissolution of IOIA had resulted in significant reductions in the Office of Accountability's staff.

State officials indicated that they had not identified any major problems with the recipient reports they received from agencies for the quarter ending June 30, 2010. They believed that the reporting process was starting to "become routine," as federal reporting guidelines stayed the same and agencies had been reporting Recovery Act related data for several reporting periods.

²³Illinois is considered a decentralized reporting state because state agencies, not the state, are responsible for uploading their employment and other data into FederalReporting.gov. For a discussion of the role the Governor's Office plays in reviewing state agencies' recipient reports, see [GAO-10-232SP](#).

²⁴State officials said that they anticipate that the Office of Accountability will be disbanded in February 2011.

²⁵Each of these agencies provided the Governor's Office with the following information for the quarter ending June 30, 2010: total Recovery Act expenditures, total number of Recovery Act jobs reported, and an explanation for any major changes in the number of jobs reported from the previous reporting quarter. In our sixth bimonthly report of May 2010, we discussed some of the challenges ISBE has faced in ensuring the accuracy of its recipient reports. See [GAO-10-605SP](#). We did not assess the reports ISBE, the Illinois Housing Development Agency, or the Illinois Department of Transportation submitted for the quarter ending June 30, 2010.

According to State Officials, Recovery Act Funds Have Been Critically Important to the State Budget

Representatives of the Governor's Office emphasized the crucial role that Recovery Act funds had played in helping the state through a difficult financial situation during state fiscal years 2009 and 2010. As we reported in our May 2010 report, the fiscal year 2011 budget does not include Recovery Act SFSF monies, which provided over \$2 billion toward education in fiscal years 2009 and 2010; however, recent federal legislation made additional funds for education available to the states.²⁶ As a result, according to the Governor's Office of Management and Budget, funding levels in fiscal year 2011 for General State Aid, early childhood programs, and special education will be maintained at fiscal year 2010 levels, and overall funding for elementary and secondary education will increase by an estimated \$104 million. However, the fiscal year 2011 budget reduces funds for higher education by \$105 million from the prior year, \$85 million of which is accounted for by Recovery Act funds in fiscal year 2010 that will not be available in 2011. Overall, according to the Governor's Office, the state's fiscal year 2011 budget is \$1.4 billion less than that of fiscal year 2010 and nearly \$3.0 billion less than that of fiscal year 2009.

The Governor's Office had planned to address the phasing out of SFSF monies in fiscal year 2011 with a 1-year, \$2.8 billion tax increase; however, the Illinois General Assembly did not approve such an increase. Facing a balance of between \$5 billion and \$6 billion in unpaid bills from prior fiscal years, on July 1, 2010, the state enacted legislation that, among other things, requires the State Treasurer and State Comptroller, at the direction of the Governor, to make transfers to the General Revenue Fund or the Common School Fund on or after July 1, 2010, and through January 9, 2011, out of special funds of the state, to the extent allowed by law.²⁷ Such transfers are expected to help the state manage cash flow deficits and maintain liquidity in the General Revenue Fund and the Common School Fund and are subject to certain restrictions. The same legislation also establishes an entity, the Railsplitter Tobacco Settlement Authority, which was authorized to purchase from the state the right to future revenue from the 1998 tobacco settlement in exchange for the net proceeds of bonds

²⁶See [GAO-10-605SP](#) and Pub. L. No. 111-226, § 101, 124 Stat. 2389 (Aug. 10, 2010). The legislation also provided for an extension of increased Federal Medical Assistance Percentage (FMAP) funding. As of August 13, 2010, Illinois had drawn down its entire share of SFSF Education funds and 99.8 percent of its SFSF Government Services funds.

²⁷30 Ill. Comp. Stat. 105/5h.

issued by the new entity.²⁸ According to the Governor's Office, these two measures are expected to provide \$2 billion that the state can use to address the backlog of unpaid bills.

In addition to reviewing the state's fiscal year 2011 budget, we also met with officials from two rural communities to discuss their use of Recovery Act funds and the effect of these funds on their budgets. Although the communities we spoke to applied for and were awarded Recovery Act funds, they ultimately delayed use of the funds due to local financing concerns. For example, an official from the Village of Steward, Illinois, told us that the village applied for \$2.5 million in Recovery Act funding through the U.S. Department of Agriculture's (USDA) Rural Development Water and Waste Program to establish a sewer system for its residents.²⁹ The official said that the project would facilitate economic development in the area and that the village has been trying to secure funding for the project for nearly 10 years. Although USDA awarded Recovery Act funds to the village—a grant for 40 percent of the project's total cost and a loan for the remaining 60 percent of the cost (to be repaid at 2 percent interest over 48 years)—the official stated that the village has placed the project on hold for a year, as residents have raised concerns about the costs associated with financing the project. The official estimated that each household would spend roughly \$700 per year in the near-term on sewer rates to repay this loan. The town of Chrisman, Illinois, was also awarded a \$1.25 million loan (to be repaid at 2.5 percent interest over 20 years) for a sewer project through USDA's Rural Development Water and Waste Program, but the town also placed the project on hold due to similar concerns. According to officials in both localities, it is uncertain when and if these projects will be completed.

²⁸Ill. Pub. Act 096-0958, art. 3, §§ 3-1 to 3-16 (July 1, 2010). In 1998, 46 states, including Illinois, signed a Master Settlement Agreement as part of a resolution of the states' case against four major tobacco companies to recover smoking-related Medicaid expenses. The agreement stipulated that the tobacco companies pay the states settlement costs over a period of years. To raise revenues in the immediate term, some states have "securitized" these payments, issuing bonds backed by future payments owed to them under the agreement.

²⁹Loans under USDA's Rural Development Water and Waste Program are to be used for the purpose of developing water and waste disposal (including solid waste disposal and storm drainage) systems in rural areas and towns with a population not in excess of 10,000. The funds are available to public entities such as municipalities, counties, special-purpose districts, Indian tribes, and corporations not operated for profit.

**State Comments on
This Summary**

We provided the Office of the Governor of Illinois with a draft of this appendix on August 18, 2010. The Director of Recovery Operations and Reporting responded for the Governor on August 19, 2010. The official provided technical suggestions that were incorporated, as appropriate.

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