United States Government Accountability Office

GAO

Report to the Congress

September 2010

RECOVERY ACT

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

GAO-10-1000SP

Appendix XV: Ohio

Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009[1] (Recovery Act) spending in Ohio. The full report on all of our work, which covers 16 states and the District of Columbia, is available at http://www.gao.gov/recovery.

What We Did

To continue our ongoing analysis of the use of the Recovery Act funds in Ohio, we updated information on the U.S. Department of Transportation's Highway Infrastructure Investment Program and the U.S. Department of Energy's Home Weatherization Assistance Program. We also continued our review of two programs that provide capital investments in low income housing tax credit projects—the Tax Credit Assistance Program administered by the U.S. Department of Housing and Urban Development (HUD) and the Section 1602 Tax Credit Exchange Program administered by the U.S. Department of the Treasury, that we previously reviewed in our May 2010 report. We also collected information on one program that we have not covered in the past, the Early Head Start Program, administered by the U.S. Department of Health and Human Services (HHS). For descriptions and requirements of the programs we covered, see appendix XVIII of GAO-10-1000SP.

We continued to gather information about the state's economic condition and met with officials from one local government —the City of Cincinnati —that we had visited for our December 2009 report. We also contacted officials from oversight entities in Ohio responsible for monitoring Recovery Act funds to discuss their most recent, ongoing, and planned audit results; as well as Ohio's participation in the Office of Management and Budget's (OMB) Single Audit pilot program.

What We Found

Following are highlights of our review:

- **Early Head Start Program.** The Recovery Act provided funding for the expansion of Early Head Start programs that afford comprehensive early childhood development services to low-income children from birth to 3 years old. The Office of Head Start awarded approximately $22.7 million in Recovery Act funds to grantees in the state of Ohio to

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

provide services to an additional 2,158 children. We visited three program grantees to see how the Recovery Act funds are being used and found that some grantees have encountered challenges, such as obtaining facility space, recruiting income-eligible families into the program, and concerns with service delivery, as they get their programs up and running.

- **Low Income Housing Tax Credit programs.** Ohio received about $83.5 million in Tax Credit Assistance Program funds and approximately $118.1 million in Section 1602 Tax Credit Exchange Program funds. As of July 26, 2010, the state had committed all but $1.6 million of the funding from the two programs. OHFA has disbursed $39.5 million (about 20 percent) for 80 projects to support the construction of nearly 4,000 tax credit units. The state plans to commit the remainder of its funds during August 2010 and expects to meet the Recovery Act deadlines for disbursement of the funds during the next 2 years.

- **State and local government use of Recovery Act funds.** In Ohio, the state and City of Cincinnati continue to feel the effects of the economic downturn and reduced revenues. Ohio has received about $7.9 billion in Recovery Act funds as of August 1, 2010, but the state still faces budget challenges as state tax revenues remain significantly below fiscal year 2008 levels. We visited the City of Cincinnati again and found they continue to use Recovery Act funds to provide additional services and save jobs, but will need to address a $50.4 million structural budget deficit during the next fiscal year. Recent Recovery Act awards will allow the city to build and rehabilitate rental housing, invest in energy-efficiency initiatives, improve services, and save nursing jobs.

- **Accountability.** There are a number of state entities identified as having responsibility for monitoring Recovery Act-funded projects in Ohio, namely the State Audit Committee, the Office of Internal Audit, the Auditor of State, and the state-appointed Deputy Inspector General for Recovery Act funds. As previously reported, these entities work in conjunction with one another to monitor Recovery Act-funded projects. In addition, Ohio participated in OMB's Single Audit pilot program and according to state officials will be participating in the next phase of the pilot program.

- **Highway Infrastructure Investment Program.** As of August 24, 2010, the Ohio Department of Transportation (ODOT) had awarded contracts worth an estimated $930 million for 385 out of 426 Recovery

Act funded projects. As previously reported, Ohio continues to award contracts an average of 10 percent below original cost estimates and as a result, has been able to fund 89 more projects than originally planned. ODOT officials also said the state anticipates meeting the Recovery Act's maintenance-of-effort requirement to maintain the level of spending for the types of transportation projects funded by the Recovery Act that it had planned to spend the day the Recovery Act was enacted.

- **Home Weatherization Assistance Program.** In our December 2009 report, we reviewed three grantees and raised a number of concerns about how Recovery Act funds were being used to weatherize homes and concluded that real-time monitoring and early assessments of grantees' activities could help ensure program success. In response, the Ohio Department of Development (ODOD) hired additional staff and developed a monitoring program designed to ensure that its grantees were in compliance with program requirements set forth in the state plan. ODOD officials said that the reviews completed as part of this monitoring program helped keep the state's program on track and ensure its grantees adhered to the program requirements.

- **State Fiscal Stabilization Fund.** In our May 2010 report, we identified weaknesses in how the Ohio Board of Regents (BOR) monitored State Fiscal Stabilization Fund (SFSF) monies allocated to institutions of higher education (IHE). In response to our findings, BOR submitted an amended monitoring plan to the U.S. Department of Education. The revised monitoring plan requires IHEs to identify quarterly and cumulative SFSF receipts and expenditures and attest that their institution used SFSF funds only for allowable educational and general expenditures. According to the plan, if BOR discovers any indications of noncompliance, it will follow up with additional reviews, which may include site visits to the IHEs.

Despite Some Challenges, Early Head Start Grantees Are Beginning to Provide Services Funded by the Recovery Act

The Early Head Start program, administered by the Office of Head Start (OHS), part of the Administration for Children and Families within HHS, provides comprehensive early childhood development services to low-income children from birth to 3 years old, including educational, health, nutritional, social, and other services, intended to promote the school readiness of low-income children. Services can be provided either through center-based care or through home-based care, or a combination of both. In home-based care, children and families receive weekly visits from a home visitor. Home visits are required to last a minimum of 90 minutes, and home visitors must complete a minimum of 48 visits a year.[2] In addition, pregnant women are eligible to receive Early Head Start services.

The Recovery Act provided an additional $2.1 billion in funding for Head Start, including almost $1.2 billion for the expansion of Early Head Start programs.[3] Federal Head Start funds are provided directly to local grantees, rather than through states. OHS awarded $22,722,446 in Recovery Act funds to grantees in Ohio, to provide services to an additional 2,158 children.

To see how Recovery Act funds are being used to support Early Head Start expansion efforts in Ohio, we visited three grantees in the state. We selected these grantees, in part, based on the size of the grant award, whether the grantee planned to use grant funds to purchase or renovate facilities for Early Head Start expansion, and whether the grantee served a rural or urban population. Table 1 provides details on Early Head Start grantees included in our review.

Table 1: Grantees Included in Our Review

Grantee	Funds designated for expansion (dollars)	Facility purchase or renovation	Population served	Number of children served
Miami Valley Child Development Centers, Inc.	$5,644,519	n/a	Urban and rural	286
Child Development Council of Franklin County	2,230,342	Purchase and major renovation	Urban	60
Pickaway County Community Action Organization, Inc.	1,537,378	Minor renovation	Rural	72

Source: GAO analysis of Office of Head Start and Ohio Department of Development data.

Note: n/a = not applicable.

Although grantees were awarded expansion funds for 2 years, the amount awarded differs in each program year. In the first program year, OHS awarded funds to grantees for start-up costs, operations, and training and technical assistance (T/TA). Because funds were not made available to grantees until late November or December 2009, OHS adjusted the amount

[2] 45 C.F.R. § 1306.33(a)(1). The regulation specifies a minimum of 32 home visits based on a part-year Head Start program. Because Early Head Start is a 12-month program, the number of home visits should increase accordingly to a minimum of 48 visits.

[3] Recovery Act, div. A, title XIII, 123 Stat. 178.

of funds awarded to grantees for operations to account for a shortened program year.[4] In the second program year, the grantees will receive funds for operations and T/TA only. The operating funds will cover the entire 12-month period. Table 2 shows the amount of funding awarded, by category, in each program year for the grantees included in our review.

Table 2: Funding Details for Grantees in Review

Grantee	Start-up funding	First-year training and technical assistance (T/TA) funding	First-year operations funding	Second-year training and technical assistance (T/TA) funding	Second-year operations funding	Total Recovery Act funding awarded
Miami Valley Child Development Centers, Inc.	$119,409	$174,336	$2,333,677	$143,671	$2,873,426	**$5,644,519**
Child Development Council of Franklin County	593,000	36,674	666,945	44,463	889,260	**2,230,342**
Pickaway County Community Action Organization, Inc.	143,454	53,037	520,733	39,055	781,099	**1,537,378**

Source: GAO presentation of OHS data.

Note: The shaded area represents funds that have not yet been awarded and are subject to OHS review.

Grantees We Visited Are Reaching Full Enrollment but Providing Certain Services Remains a Challenge

All three grantees we visited have reached full enrollment. However, they did not document, in some cases, that certain services had been delivered. To determine whether certain Early Head Start services are being provided to children enrolled in the program, we reviewed a random sample[5] of files at each grantee, interviewed Early Head Start staff at each grantee, visited center-based facilities, and interviewed staff who conduct home visits. During our review, we checked to see if all necessary enrollment forms were included in the file as well as reviewed attendance records of children in center-based care and home visitors' logs for children in home-based care. We also reviewed the files to see if children are receiving medical and dental screenings, as required by Head Start

[4]The first program year goes from December 1, 2009, to September 29, 2010. The second program year goes from September 30, 2010, to September 29, 2011.

[5]Our sample included children enrolled in center-based care and home-based care.

regulations.[6] In addition, we reviewed the policies for ensuring families met Early Head Start income-eligibility requirements and verified, during our file reviews, that income documentation had been reviewed.

In almost all cases—69 of 71 files we reviewed—we found that the files contained the necessary paperwork to document whether children were enrolled in Early Head Start. At the time of our file review, all 71 children had entered the program, defined as either being in attendance at a center (for the center-based option) or having received the first visit from a home visitor (for the home-based option). However, we found that the files did not always document that children had received their required hearing, vision, developmental, and motor screenings. We found that screenings exceeded the 45-day time frame in 29 of the files we reviewed.[7] In addition, we found that of the 32 files of children who had entered Early Head Start at least 90 days prior to our review, 8 were missing the required documentation to show that the child was up-to-date on a schedule of primary and preventative care. Officials at two grantees we visited told us that staff are required to monitor whether children have received the required screenings and track the number of days that have passed from enrollment so that they do not exceed the required time frames.

Almost all of the files we reviewed contained the appropriate income-eligibility documentation; however, verifying income eligibility remains a challenge. Specifically, grantee officials said they lacked guidance from OHS on how, or whether, to confirm eligibility when a family declares no income. We found that in 9 of the 71 files we reviewed, the family declared no income for the previous 12 months. Grantee officials and some of the home visitors said they have to rely on the families to provide documentation for all their income. One home visitor told us that she has encountered situations where families are initially reluctant to provide income information.

Home visitors from all three grantees described other challenges they face in providing services to children enrolled in home-based care. For

[6] 45 C.F.R. § 1304.20(a)(ii). Grantees are required to document that children are up-to-date on a schedule of preventative and primary health care within 90 days of entry into the Early Head Start program. Moreover, grantees are required to ensure that within 45 days of entry, children have received hearing, vision, developmental, and motor screenings. Finally, grantees are required to obtain follow-up treatment for children with known dental problems.

[7] Fifty-nine of the 71 children had entered the program at least 45 days prior to our review.

example, home visitors attributed difficulty in completing home visits to parents' appointment cancellations. One home visitor told us that some parents canceled appointments because visits weren't convenient to their schedule. Another home visitor told us that cancellations occur because the family is involved with other programs that have a home visit component and are feeling overwhelmed by the number of home visits they are receiving. Similarly, home visitors told us that attendance at socialization activities is low, despite numerous attempts to increase attendance.[8] Lastly, grantee officials told us that they face difficulties in getting oral exams completed for the children. Grantee officials told us that many physicians will not do an oral screening as part of a child's physical and that some dentists will refuse to see an infant because they do not yet have teeth.

Grantees We Visited Encountered Some Challenges at Startup That Will Require Continued Monitoring

The three grantees we visited encountered some challenges getting their expansion programs started. Before they could begin serving children, one of the grantees needed to procure and renovate facilities for classrooms or administrative offices and another struggled to recruit income-eligible families to participate in the program. In addition, one grantee has identified problems with one of the contractors that provide its home-based services that raise concerns about the delivery of services.

At one grantee, officials have encountered challenges obtaining facility space for the expansion of its Early Head Start program. Although this grantee had planned to provide center-based care, it could not provide those services until it purchased and renovated a new facility and renovated existing facilities. As a result of delays in providing OHS with the certification required to approve the purchase of this building, grantee officials did not have access to facilities on the planned schedule. Grantee officials spent the month of May (6 months after their grant was approved), enrolling children in a home-based program and began providing those services on June 1, 2010. Grantee officials said they will move those children to center-based care as soon as their new facility is ready.

At another grantee, officials told us that recruiting income-eligible families for home-based services had been a challenge. Although officials told us

[8] As part of home-based care, grantees are required to provide two socialization activities per month. 45 C.F.R. § 1306(a)(2).

its community assessment identified a need for Early Head Start in their service area, staff with this grantee said that recruitment had been a challenge. Specifically, staff told us that in addition to recruiting at other social service agencies in the community, they had to spend time at grocery stores, thrift stores, and laundry facilities recruiting eligible families for the program. In one case, one of the children enrolled in the program is the daughter of a home visitor. In addition, this grantee has also enrolled the maximum number of over-income families, in order to reach full enrollment.[9]

Moreover, in order to fill potential vacancies, Head Start grantees are required to maintain a waiting list.[10] However, the Early Head Start Director at this grantee told us that its waiting list did not actually reflect children waiting to receive center-based Early Head Start services. Of the five families on its waiting list, as of June 22, 2010, three had been enrolled but left the program. This official told us that the families had not been in contact with the grantee, but if they were to come back for services they would be already on the waiting list.

Finally, in order to get its program started as quickly as possible, one grantee awarded contracts to three different organizations in its service area to operate its home-based program. The three organizations had experience providing services for a state-funded home visit program—the Help Me Grow program. Grantee officials told us that in addition to allowing them to get their program up and running quickly, awarding contracts for these services with these organizations helped to preserve services to children and preserve jobs in the community as the state had planned budget cuts. However, the grantee has identified problems with its contactor-based home visit program.

Grantee officials told us they recently had to develop an action plan for service improvement with one of the contractors after they found that the contractor was not ensuring that home visitors were documenting health screenings. Grantee officials told us that some home visitors from this contractor were struggling with how to be an Early Head Start home visitor. For example, officials told us that some home visitors have had a hard time adjusting to how to document the services provided during the

[9]No more than 10 percent of children enrolled by a Head Start grantee may be from over-income families. 45 C.F.R. § 1305.4(b)(1) and (2).

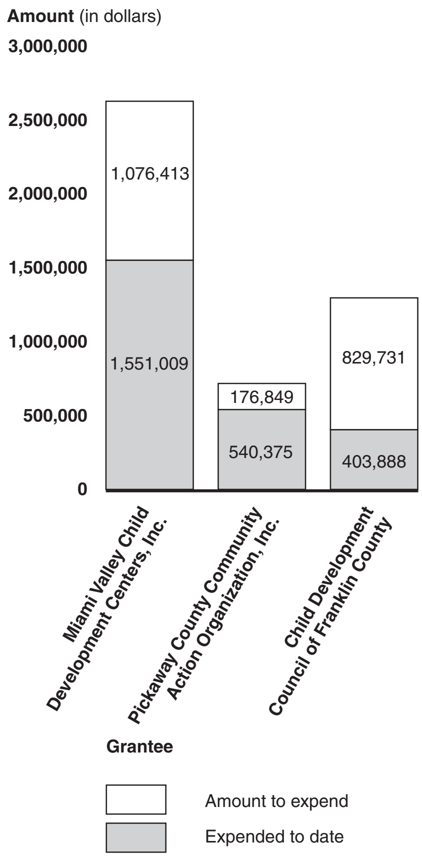
[10]45 C.F.R. § 1305.6(d).

home visit. Home visitors agreed that they had trouble filling out the paperwork, telling us that although their prior experience with the Help Me Grow program provided them with the ability to connect with families during home visits, they were unsure how to comply with the paperwork requirements of Early Head Start, even after receiving training from the grantee. Moreover, at this contractor, some children are being identified as dual enrolled in both Early Head Start and Help Me Grow programs. Officials noted that some children must be dual-enrolled, but an official from this grantee acknowledge that this dual enrollment could make it difficult to determine which program is paying for which services. Home visitors from this contractor stated that when providing services for these children, they are unable to distinguish if they are meeting the requirements for Early Head Start or Help Me Grow. Officials from this grantee told us that they have not had similar concerns with services being provided by the other two contractors, and attribute this to the contractors no longer being involved with the Help Me Grow program. Officials told us that home visitors at the other contractors could focus on being only Early Head Start home visitors. Grantee officials told us they were in negotiations for the contracts spanning the next program year to require a separation of services to ensure that a true Early Head Start model is being implemented.

Grantees We Visited Face Challenges in Meeting Obligation Deadline

OHS officials told us that grantees will forfeit first-year program funds they have not obligated by September 29, 2010, unless grantees obtain OHS approval to carry over funds into the next program year. Officials at the three grantees we visited told us that they will face challenges meeting this deadline. At two of the grantees, officials told us that they do not expect to obligate 100 percent of funds by September 29 although one grantee noted that they plan to have less than 3 percent of the allocated funding remaining at the end of fiscal year 2010. Officials at the other grantee told us that although they anticipate meeting this deadline, some of the funds it obligates will not be spent until the next grant year. OHS has not yet decided if grantees will be able to apply for a waiver to carry-over funds from the first program year into the second-program year. Figure 1 shows the amount of first year funds each grantee has left to expend as of July 31, 2010.

Figure 1: Amount of Funds Expended, as of July 31, 2010, by Grantee



Source: GAO presentation of grantee data.

Officials at two of the grantees said that delays in receiving the grant awards from OHS resulted in challenges in obligating their first-year funds. OHS regional office officials told us that OHS anticipated making funding decisions in the fall of 2009 but those decisions were not made until December. Even though the awards were adjusted to account for a 10-month program year, grantee officials said they would have liked more time to plan for spending first-year program funds. Officials with one grantee said they would purchase more-expensive playground equipment so that all its funds are obligated before the deadline. This grantee also expressed concerns that it might not obligate all its T/TA funds by September 29, 2010. Specifically, officials told us that they planned to obligate $16,000 for eight persons to attend an Early Head Start conference in October 2010. However, they were told by OHS regional office staff that they could not do so unless the conference's registration deadline was before September 29, 2010. Because the registration deadline was after September 29, they would have to use second-year T/TA funds to pay the October 2010 conference fees.

Grantees We Visited Acknowledge Errors in Recipient Reporting but Plan to Issue Corrections

Officials from all three grantees expressed some concerns with the recipient-reporting process but said they could reach out to program staff in OHS' regional office for assistance. A common concern voiced by officials was that the guidance was initially confusing and they had trouble determining what data to put into the federal reporting system. For example, none of the grantees reported hours worked by contractors that were funded with Recovery Act funds and were not aware that they needed to do so. In response to our questions, grantee officials contacted their regional program representatives and confirmed they needed to do so. Grantee officials told us that they would make corrections to their first-quarter of calendar year 2010 recipient report to include those hours worked by contract employees and would include those hours in future recipient reports.

Ohio Has Allocated and Drawn Down Recovery Act–Provided Funds for a Variety of Affordable Housing Projects

The Recovery Act established two funding programs that provide capital investments in Low-income Housing Tax Credit (LIHTC) projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Section 1602 Tax Credit Exchange Program (Section 1602 Program) administered by the U.S. Department of Treasury (Treasury).[11] Before the credit market was disrupted in 2008, the LIHTC program provided substantial financing in the form of third-party equity (tax credit equity) for affordable rental housing units (tax credit unit).[12] As the demand for tax credits declined, so did the prices private investors were willing to pay for them, which created funding gaps in projects that had received tax credit allocations in 2007 and 2008. TCAP and the Section 1602 Program were designed to fill financing gaps in planned LIHTC projects and jump-start stalled projects. Ohio was allocated approximately $201.6 million for

[11]State housing finance agencies award low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low-income tenants. Once awarded tax credits, project owners sell them to investors to obtain funding for their projects. Investors receive tax credits for 10 years if the property continues to comply with program requirements.

[12]Many affordable-housing tax credit projects rely on LIHTCs together with other forms of subsidies like HOME Investment Partnerships Program funds (HOME), Community Development Block Grant (CDBG), and state funds.

these two programs with the Ohio Housing Finance Agency (OHFA) responsible for administering the funding.

OHFA Has Committed Nearly All TCAP and Section 1602 Program Funds and Expects to Meet HUD and Treasury Disbursement Deadlines

According to information provided by OHFA, as of July 26, 2010, the agency has committed all its available TCAP funding (approximately $83.5 million) and $116.6 million (out of $118.1 million available) in Section 1602 Program funds to support the construction of 80 LIHTC projects. An OHFA official said they will commit the remaining $1.5 million in Section 1602 Program funding to one additional project during August 2010. These projects are expected to produce nearly 4,000 tax credit units that will benefit seniors, families, and special-needs populations. Ohio officials provided documentation showing that as of July 2010, construction had begun on 45 of the projects, and owners for 31 of the projects have begun drawing down Recovery Act funding. According to data from HUD and Treasury, as of July 31, 2010, OHFA had disbursed $15.6 million in TCAP funds and $23.9 million in Section 1602 Program funds to these projects. While less than half of the projects have begun drawing down funds and more than 25 have not begun construction, OHFA officials stated that they believe all projects where they awarded Recovery Act funds will meet the TCAP and Section 1602 Program deadlines for committing and spending this funding.[13]

We interviewed officials from OHFA and the Ohio Capital Corporation for Housing (OCCH), a leading syndicator of LIHTC projects in Ohio.[14] We reviewed documentation on five projects that are being provided TCAP and Section 1602 Program funding by OHFA, met with officials from three

[13]Under TCAP, housing finance authorities (HFA) must disburse 75 percent of the funds by February 2011, and project owners must spend all remaining TCAP funds by February 2012. Any funding not disbursed or spent by the respective deadlines must be returned to HUD. Under Section 1602 Program rules, HFAs must commit the funding to projects by December 2010 and can continue to disburse funds to awarded projects through December 31, 2011, provided that the project owners spend at least 30 percent of the eligible project costs by December 31, 2010. HFAs must disburse all Section 1602 Program funds by December 2011, or the funds the HFAs have not disbursed must be returned to Treasury.

[14]Project owners sell LIHTC to private investors to generate tax credit equity to finance their LIHTC projects. Some project owners sell the LIHTCs to an investor that will invest directly in the LIHTC project while others use a syndicator, which assembles a group of investors and pools funds that are then invested in the LIHTC project. We met with OCCH officials, the syndicator for two of the projects we selected for our review where there was private investor participation—Heart of Ohio Homes and East End Twin Towers Crossing.

of the projects,[15] and conducted site visits at these three project locations as well. See table 3 for information on each of these projects and figure 2 for pictures of the three project locations visited. The project owners of the three projects that we visited have various amounts of LIHTC program experience and as a group reported completing more than 60 different LIHTC projects during the past 20 years.

Table 3: Selected TCAP and Section 1602 Program Projects in Ohio

Project name, location	Type of funding	Recovery Act funds committed	Percentage of Recovery Act funds disbursed	Recovery Act funds as percent of total project costs	Number of housing units (tax credit units/ total units)	Project description	Expected placed in service date[a]
Mount Vernon Senior Village, Mt Vernon, Ohio	Section 1602 Program	$3,046,522	3%	76%	28/28	Rural, new construction, housing for seniors	July 2011[b]
Heart of Ohio Homes, Centerburg, Ohio	TCAP, Section 1602 Program	2,000,000 1,567,928	34	71	25/25	Rural, new construction, housing for families	December 2010
East End Twin Towers Crossing Dayton, Ohio	Section 1602 Program	2,688,178	100	31	40/40	Urban, new construction, housing for families	June 2010
Honeybrook Greene Utica, Ohio	TCAP	1,449,170	68	19	36/36	Rural, new construction, housing for families	December 2010
Barnett Plaza, Columbus, Ohio	Section 1602 Program	927,792	46	14	50/50	Urban, rehabilitation, housing for seniors	December 2010

Source: GAO analysis of OHFA data.

[a]The placed in service date for a new or existing building used as residential rental property is the date on which the building is certified as being suitable for occupancy in accordance with state or local law.

[b]An official with the project owner for Mount Vernon Senior Village stated that the project will be placed in service during February 2011, a few months earlier than the estimate provided by OHFA.

[15]We met with project owners for the Mount Vernon Senior Village, Heart of Ohio Homes, and East End Twin Towers Crossing affordable housing projects. We selected Mount Vernon Senior Housing because it was a Section 1602 Program funded project with no private investor participation. We selected Heart of Ohio Homes because it was a rural project that was receiving both TCAP and Section 1602 Program funding. We selected East End Twin Towers Crossing because it was an urban project that was a Section 1602 Program funded project with private investor participation.

A diverse mix of TCAP and Section 1602 Program funding was used to fill financing gaps on the projects we reviewed, with the funding representing 14 to 76 percent of the financing for these five projects. For example, the TCAP funding committed to Heart of Ohio Homes is being used as an interest free bridge loan that will be repaid by the private investor in 2017. This structure improves the private investor's return on investment and made it more willing to invest in the project. OHFA used this type of TCAP loan structure on 31 projects to keep private investor participation in those projects. They expect more than $68 million in TCAP funds to be repaid by equity investors, which then becomes program income that can be used to support LIHTC housing in the future.[16] Four of the projects we reviewed had private investor financing in the development but the fifth, Mt Vernon Senior Village, was unable to sell any tax credits to generate this type of financing. It is one of only seven projects without private investor participation being funded by OHFA.

[16]Pursuant to 24 CFR 85.25(h), HUD has established requirements for the disposition of program income earned after the TCAP grant is closed.

Figure 2: Construction of Various Affordable Housing Projects with TCAP and Section 1602 Program Funding

Single-family housing units under construction at Heart of Ohio Homes project

Single-family housing units at East End Twin Towers Crossing project

Building foundation under construction at Mount Vernon Senior Village project

Source: GAO; Oberer Residential Construction, and Buckeye Community Hope Foundation (clockwise from upper left corner).

OHFA Assumes New Responsibilities under TCAP and Section 1602 Program

The project oversight role required of state housing finance agencies (HFA) under the Recovery Act–funded TCAP and Section 1602 Program is greater than under the standard LIHTC program.[17] Specifically, under the Recovery Act programs HFAs must monitor the disbursement and use of funds throughout the construction period. Also, HFAs must perform long-term asset-management activities to ensure the long-term viability of the projects, including (1) monitoring current financial and physical aspects of project operations, (2) approving a project's operating budget, (3) analyzing cash-flow trends and reserve accounts, and (4) conducting physical inspections. Asset-management activities also include examining long-term issues related to plans for addressing a project's capital needs, changes in market conditions, and the recommendation and implementation of plans to correct troubled projects. HFAs are also responsible for returning TCAP and Section 1602 Program funds to HUD and Treasury, respectively, if a project fails to comply with LIHTC requirements.[18]

With respect to construction oversight, OHFA staff conduct one or more site visits to conventional LIHTC projects during the construction phase, but they plan to increase construction monitoring of the TCAP and Section 1602 Program–funded projects to ensure projects meet Recovery Act deadlines. OHFA officials said that OHFA is developing specific policies on construction site inspections and they plan to leverage the construction oversight and project reporting that is done by other interested parties.

With respect to asset-management, OHFA officials said that the agency has not previously engaged in asset management under the conventional LIHTC program. However, we found that OHFA structured its administration of the TCAP and Section 1602 Program to address oversight concerns. First, OHFA maintained private investor participation in the

[17]Under the LIHTC program, HFAs are required to review LIHTC projects at least annually to determine project owner compliance with tenant qualifications and rent and income limits. Additionally, the HFA must conduct on-site inspections at least once every three years of all buildings in each LIHTC project and inspect at least 20 percent of the LIHTC units and resident files associated with those units.

[18]In contrast, under the conventional LIHTC program, HFAs are not liable for recapturing funds if a project owner fails to comply with LIHTC requirements. Rather, their obligation is to report any noncompliance to the IRS, and the IRS takes any further actions with respect to recapture. GAO reported previously on the risks and responsibilities of recapture for HFAs under the TCAP and Section 1602 programs. See GAO, *States' and Localities Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, GAO-10-604 (Washington, D.C.: May 26, 2010).

majority of its Recovery Act-funded TCAP and Section 1602 Program projects. Of the 80 projects to which OHFA awarded Recovery Act funds, 74 projects include private investments. OHFA officials emphasized that private investors have an incentive to protect their investments by performing asset management services which complement the compliance monitoring that OHFA is required to provide. Second, OHFA officials said that their agency has experience working with LIHTC projects where they must consider the project's financial feasibility, and a number of OHFA staff have a background in asset management. Moreover, before the Recovery Act was even enacted, OHFA officials said they had been planning to increase the reporting requirements for conventional LIHTC program to better predict the performance of such projects.

While OHFA obtained private investor participation in 74 of the 80 projects where they have committed Recovery Act funds, they awarded a contract to Ohio Capital Corporation for Housing (OCCH), a leading syndicator of LIHTC projects in Ohio, to oversee the asset management of the other seven projects. While OCCH and OHFA have worked with each other in the past on the conventional LIHTC program, OCCH officials said they plan to treat OHFA as they would any other investor for whom they provide asset-management services.

Ohio LIHTC Market Is Stabilizing but Uncertainties Remain

We discussed investor involvement and financing trends in Ohio for LIHTCs available under the LIHTC program with officials from OHFA, several project owners, and OCCH—the syndicator for many of the Recovery Act–funded affordable housing projects in the state of Ohio. Officials from OHFA and OCCH stated that prior to the TCAP and Section 1602 Program, tax credit equity accounted for about 50 percent or more of the project financing and that mortgage debt represented an important source of financing as well. In comparison, documentation provided by OHFA showed and comments made by OCCH support that tax credit equity dropped only slightly for the 74 Recovery Act projects with private investor participation and now represents about 45 percent of the financing on these projects. OHFA officials noted and a GAO analysis of OHFA provided information showed that their use of Section 1602 Program funds as gap financing, especially in combination with TCAP funds made projects attractive to private investors and enabled project owners to maintain a considerable amount of tax credit equity in the Recovery Act funded projects. For example, OHFA committed Section 1602 Program funds as gap financing to 64 projects that maintained tax credit equity and used it in combination with TCAP funds on about half of these projects. However, OHFA and OCCH officials told us that there is little to no mortgage debt in most of the Recovery Act—funded projects, which has been replaced to a large extent by TCAP and Section 1602 Program funds and soft debt in the form of HOME funds[19] and other grant funding sources.

OHFA and some project officials we met with expressed an interest in seeing an extension of the Section 1602 Program. For example, OHFA officials said that an extension of the Section 1602 Program would help the LIHTC market in Ohio because it would provide gap funding for projects. Officials from two of the projects we visited also said that extending the program would be helpful in case tax credit prices are too low in future years and leave project financing gaps that need to be filled. One project owner said they would likely participate in the Section 1602 Program again. Another project owner added that the program could serve as a reserve account from year to year to fill financing gaps when LIHTC prices fall below 80 cents on the dollar.

OHFA and Project Owners Undertake Recovery Act Recipient-Reporting Activities

Recovery Act recipient-reporting requirements for TCAP and the Section 1602 Program are different. For TCAP, state HFA must collect information from subrecipients and use OMB's FederalReporting.gov Web site to report on the nature of projects and numbers of jobs funded by the Recovery Act on a quarterly basis for each quarter that the HFA receives Recovery Act funds directly from the federal government. In contrast, the Recovery Act does not require recipients of Section 1602 Program funds to report information to the FederalReporting.gov Web site.[20] Instead, Treasury requires HFAs to submit quarterly performance reports—including job estimates—for all projects that are awarded funding during the quarter. Specifically, HFAs are required to make only one report at the start of each project on the number of FTE jobs to be created or retained by the entire project. The TCAP job count is based on OMB guidance that calculates hours worked to arrive at the number of full-time equivalent

[19]The HOME program managed by HUD provides formula grants to states and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.

[20]Section 1512 of the Recovery Act describes recipient-reporting requirements, including that of estimated jobs created and retained. Section 1512 and the recipient-reporting requirements apply only to programs under division A of the Recovery Act, which includes TCAP. The Section 1602 Program is under division B of the Recovery Act, and therefore, not subject to section 1512 requirements.

jobs (FTE) funded by the Recovery Act. In contrast, the Section 1602 Program job count is an estimate of FTEs created or retained. Except for requiring the use of FTEs, Treasury has not issued detailed guidance specifying job estimation methodology under the Section 1602 Program. Therefore, these two estimates cannot be used to compare job creation between the programs.

For TCAP, OHFA said it made changes to its quarterly jobs reporting tool used to collect information from its subrecipients to incorporate the changes from OMB's December 2009 guidance.[21] In addition, based on OMB guidance, OHFA said it prorates the number of FTEs reported by its subrecipients based on the percentage of TCAP funds being used as a share of total project cost. OHFA officials said they do not conduct a systematic review of the information being provided by their subrecipients—the project owners; instead OHFA relies on signed statements from the project owners attesting to the accuracy of the jobs estimates. For the quarter ended June, 30, 2010, OHFA reported that approximately 186 FTEs were funded by TCAP in Ohio.[22] Similarly, for the Section 1602 Program, OHFA officials said they receive a onetime estimate from project owners of all jobs being created or retained that is used in the report they submit to Treasury. As of July 30, they have reported on all but two projects where Section 1602 Program funds are being committed with none of the job estimates prorated for the amount of Recovery Act funding involved as is being done for the quarterly recipient-reporting on the TCAP funding. Since the start of the program OHFA officials said they reported 4,883.3 jobs to Treasury that projects funded by the Section 1602 Program in Ohio have or will create or retain.

We discussed the recipient-reporting requirements for TCAP and the Section 1602 Program with officials associated with the three projects including the project owners—or subrecipients. One of the project owners received both TCAP and Section 1602 Program funds and has completed the recipient-reporting required under both programs. For TCAP recipient-reporting, staff from this project owner said they complete OHFA's quarterly jobs reporting tool using an estimate of the hours worked provided by the general contractor for both general contractor and

[21] OMB Memorandum, M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* (Dec. 18, 2009).

[22] GAO extracted this FTE estimate from Recovery.gov on August 9, 2010.

subcontractor employees who are working on the project. Project owner staff also said that they perform a review of these jobs estimate figures against costs being charged to the project to ensure their accuracy. In contrast, the other two project owners received only Section 1602 Program funding and officials with these two projects reported completing the jobs estimate required at the start of the project. Officials with both projects said that the jobs estimate they provided identified the total number of employees who are expected to be working on the project and not the actual employment effect directly attributable to the Recovery Act funding.

Recovery Act Funds Continue to Provide Some Needed Support to Ohio and City of Cincinnati

In Ohio, the state and City of Cincinnati continue to feel the effects of the economic downturn and reduced revenues, and Recovery Act funds are providing some needed support. As of August 1, 2010, Ohio has received about $7.9 billion in Recovery Act funds. As we have previously reported, Ohio's 2010-2011 biennial budget, passed in July 2009, appropriated about $7.6 billion in Recovery Act funds for use by state agencies. The state closed out its fiscal year 2010 (July 1, 2009-June 30, 2010) having spent almost $3.4 billion in Recovery Act funds, which represented about 13 percent of its $25.5 billion in general fund disbursements.[23] According to a senior state budget official, the state expects to spend about $3.4 billion in Recovery Act funds in fiscal year 2011, including about $550 million originally appropriated for fiscal year 2010.[24]

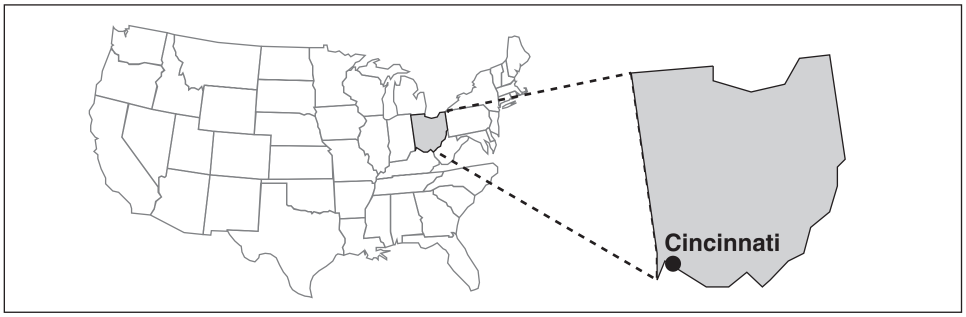
Ohio's 2010-2011 biennial budget assumes a significant reduction in revenues, and the state's monthly financial reports indicate that revenue collections were lower than estimated for fiscal year 2010. Despite lower than forecast revenue projections, Ohio controlled spending to keep its budget balanced for fiscal year 2010. In fiscal year 2011, state officials expect general fund tax revenues to increase slightly from fiscal year 2010 levels, but still be significantly below fiscal year 2008 levels. The state does not expect to make any revisions to the budget for the remainder of the biennium.

[23]Ohio spent about $807 million in Recovery Act funds in fiscal year 2009 (July 1, 2008-June 30, 2009).

[24]This state official also told us the state may expend less than the $7.6 billion in Recovery Act funds it appropriated for 2010-2011 because some programs, including Medicaid, have experienced less growth than projected.

We visited the City of Cincinnati again and found it continues to face fiscal challenges as well. According to city officials, while Recovery Act funds have helped the city save jobs and provide additional services, Cincinnati will need to address a structural budget deficit[25] of $50.4 million next year. Table 4 highlights Cincinnati's population and unemployment rate.

Figure 3: Map of Ohio



Source: Art Explosion.

Table 4: Demographics for Cincinnati, Ohio

Population	Locality type	Unemployment rate
333,013	City	10.6%

Source: U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS).

Notes: The BLS data are from Local Area Unemployment Statistics (LAUS). Population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for June 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

Cincinnati Is Using Recovery Act Funds to Provide Additional Services and Save Jobs

As of July 8, 2010, the City of Cincinnati has been awarded over $44 million in Recovery Act grants and continues to use these funds to provide additional services and save jobs in public safety, community development and social services, and infrastructure and equipment. Since we last reported on Cincinnati in December 2009,[26] the city received $10.2 million in Recovery Act awards, which it will use to build and rehabilitate rental

[25]According to the City of Cincinnati, a structural budget deficit occurs when operating expenditures are projected to grow at a faster rate than revenues.

[26]GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Ohio)*, GAO-10-232SP (Washington, D.C.: December 2009).

housing, invest in energy-efficiency initiatives, improve services, and save nursing jobs. See table 5 for more information on Recovery Act funding received by the City of Cincinnati since December 1, 2009.

Table 5: Sources of Recovery Act Funding Awarded to Cincinnati City Government since December 2009

Area for funding	Source of funding	Amount approved (dollars)
Community development	Neighborhood Stabilization Program 2 (NSP2)	$8,139,879
Infrastructure	State Energy Program	1,480,020
Social services	Health Resources and Services Administration (HRSA) Capital Improvement Program	303,975
	HRSA Increased Demand for Services	180,993
Equipment	Clean Cities Program	122,000

Source: Hamilton County, Ohio; Recovery.gov; and City of Cincinnati officials.

Below is a discussion of Cincinnati's Recovery Act funds received to date.

- *Public safety*: Cincinnati continues to use its $13.6 million COPS Hiring Recovery Program (CHRP) grant, as we reported in December 2009, to save the jobs of 50 police officers. The CHRP grant will allow the city to retain these jobs through fiscal year 2012. City officials told us they hope that the city will have enough revenue to continue to keep the officers employed by the time the CHRP funding runs out.

- *Community development and social services*: As we reported in December 2009, Cincinnati received $8.8 million in community development and social services funding from Community Development Block Grant-Recovery Act Funds (CDBG-R) and Homelessness Prevention and Rapid Re-Housing Program (HPRP) grants. Over $700,000 of the CDBG-R funding was used to prevent the elimination of a private lot abatement initiative and nine other human service initiatives, such as drug addiction treatment and homelessness prevention. All of these initiatives have been completed or almost completed except for the private lot abatement, for which the contract was finalized in June 2010. Cincinnati is using the remaining $8.1 million in CDBG-R and HPRP funding for eight new initiatives and administration. In February 2010, the city was awarded $8.1 million in NSP2 funds as part of a coalition with Hamilton County, the Cincinnati Metropolitan Housing Authority, and a nonprofit housing developer. Cincinnati officials told us they will use funding to acquire foreclosed, abandoned, and vacant property and either build or rehabilitate existing rental housing. In addition, the two recent HRSA grants totaling about $485,000 will enable the city to build capacity for keeping electronic records at a city-run health center and retain the jobs of two nurses.

- *Infrastructure and equipment*: According to Cincinnati officials, the city has used part of its $3.5 million Energy Efficiency and Conservation Block Grant (EECBG) funding to complete energy-efficiency upgrades at two fire stations and to perform energy audits at 88 city buildings. Cincinnati also reported that it has begun environmental assessments on two hike and bike trail projects with EECBG funds and worked on both transportation projects with $4.5 million in highway funds. These transportation projects include a multiuse hike and bike trail along the north bank of the Ohio River and replacing and expanding a computerized traffic control system. In addition, Cincinnati will use two recent grants from the U.S. Department of Energy to install solar panels on the roofs of city buildings and to purchase hybrid and propane-fueled vehicles for use by the city.

City of Cincinnati Continues to Face Fiscal Challenges

The City of Cincinnati continues to feel the effects of the economic downturn and reduced revenues. To balance its budget of $359.4 million for its fiscal year 2010 (January 1, 2010-December 31, 2010), the city took several actions that included laying off and furloughing employees, cutting services, drawing down funds from onetime revenue sources, and making onetime spending cuts. Cincinnati officials said they will have to address a $50.4 million structural budget deficit in fiscal year 2011. While Recovery Act funds helped offset $2.8 million in expenditures in the current year, other onetime revenue sources and spending cuts made in fiscal year 2010 will no longer be available. In addition, the costs of health care for city employees, fuel, and other budget items are projected to increase. Because the city projects revenues will continue at about fiscal year 2010 levels, Cincinnati is considering multiple options to reduce expenditures in its 2011-2012 biennial budget (January 1, 2011-December 31, 2012), including salary freezes, program eliminations, and program reductions. For example, funding for police and fire departments represent about 65 percent of city expenditures; city officials said that cuts in those two departments will be necessary to address its structural deficit.

Cincinnati Is Experiencing Some Challenges with Recipient Reporting

In the second quarter of 2010 (April-June 2010) Cincinnati reported about 100 FTEs funded by the Recovery Act;[27] however, officials experienced some reporting challenges. Specifically, officials told us a nonprofit partner organization performing energy-efficiency audits under the city's EECBG grant reported administrative hours that were classified as program hours by the city causing a reallocation of administrative dollars between the city and the partner. A senior city official said Cincinnati is working with the partner to resolve the issue.[28] In addition, officials told us they were previously confused on the proper way to implement job reporting changes outlined in OMB's December 2009 guidance. However, a senior Cincinnati official said these issues were resolved by the next reporting quarter. Cincinnati plans to use an audit checklist, beginning in fall 2010, to spot check timesheets and other backup records in order to verify jobs data. Officials said they will initially target higher-risk Recovery Act grants for the audits, but eventually plan to cover all grants.

Ohio's Audit Community Continues to Coordinate Recovery Act Oversight Activities

There are a number of oversight entities in Ohio with responsibility for monitoring Recovery Act funded projects, namely the (1) State Audit Committee;[29] (2) Office of Budget and Management (OBM), Office of Internal Audit (OIA); (3) Auditor of State (AOS); and (4) the state-appointed Deputy Inspector General for Recovery Act funds in the Office of Inspector General (OIG). As previously reported, these entities work in conjunction with one another to monitor Recovery Act funded projects.[30] For example, OBM's OIA plans its audit work in collaboration with the Auditor of State to avoid duplication of effort and to maximize Ohio's audit coverage. In addition, Ohio's oversight entities meet every other month to exchange information and discuss Recovery Act–related issues.

[27]FTE data was drawn from the City of Cincinnati's Recovery Act web site on August 10, 2010.

[28]Also, when we reviewed the city's initial recipient reporting submission for EECBG for the second reporting quarter of 2010, we found an inconsistency in the narrative regarding the number of jobs funded. Specifically, two breakouts of jobs created and retained within the narrative did not match each other. A senior Cincinnati official said the city plans to correct the inconsistency in its third quarter 2010 reporting.

[29]Ohio's State Audit Committee assists the Governor and Director of the Office of Budget and Management (OBM) in fulfilling their oversight responsibilities in several areas including audit processes, and compliance with laws, rules and regulations.

[30]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).

We contacted officials from these audit entities to discuss their most recent, ongoing, and planned audits. The State Audit Committee meets quarterly and released on June 15, 2010, the results of its last three audits for its fiscal year 2010. The OIA recently presented to the State Audit Committee its fiscal year 2011[31] audit plan, which will focus on some Recovery Act programs not previously reviewed. Ohio participated in phase I of OMB's Single Audit pilot program and according to state officials will be participating in the next phase of the pilot program.[32]

Ohio Accountability Entities Conducted Numerous Reviews and Identified Some Weaknesses in Recovery Act–Funded Programs

The OIA is responsible for conducting internal audits of state agencies. In state fiscal year 2010, the OIA completed 15 audits related to Recovery Act programs and found weaknesses in several areas including fund management, review of expenditures, vendor and subrecipient monitoring, and validation of Recovery Act reporting data. According to the OIA, it made a decision not to examine four Recovery Act programs (Prevention and Wellness Immunization Fund, Health Information Technology, Department of Administrative Services II Broadband, and Aquaculture) due to limited funding or expenditures. Since we last reported in May 2010, 8 of the 12 comments from prior OIA audits have been addressed and closed. The OIA is anticipating that the remaining open comments concerning the Clean Water and Drinking Water State Revolving Funds Program and the Help Me Grow Program will be addressed by August, 2010. The OIA plans to devote fewer audit hours to Recovery Act programs in fiscal year 2011 due to increased audit coverage by the Auditor of State and an increased focus on monitoring prior audit comments. The OIA is currently scheduling its 2011 audits, which will focus on some Recovery Act programs not previously reviewed, such as Homelessness Prevention, Child Care, State Unemployment Insurance, and the State Energy Phase II program, and following up on remediation of previously issued reports.

[31]The State of Ohio's fiscal year runs from July 1 to June 30 of the next calendar year.

[32]OMB implemented a Single Audit Internal Control Project (project) in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits.

The Auditor of State is responsible for conducting audits of state and local agencies. According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Ohio's Single Audit reporting package for the year ending June 30, 2009, on June 28, 2010.[33] This was almost 3 months after the deadline specified by the Single Audit Act and almost a year after the period the audit covered.[34] This was the first Single Audit for Ohio that includes Recovery Act programs and it identified 25 significant internal control deficiencies related to compliance with federal program requirements, of which 3 were classified as material weaknesses. Some of these significant deficiencies occurred in programs that included Recovery Act funds. Specifically, the AOS reviewed 13 of the 19 programs for which Ohio receives Recovery Act funding and found deficiencies in 8 of the programs.[35] Some deficiencies that were identified included unallowable expenditures, inadequate cash management, and reporting. While there were questioned costs of over $4 million, Auditor of State officials stated that they did not separate Recovery Act funds in their review. The Auditor of State said that many of these findings were repeat findings due to ongoing internal control weaknesses that dated back to fiscal year 2004 or earlier. The granting federal agency is responsible for resolution of the audit findings and works with the grantee to implement and follow up on corrective actions. The Auditor of State is anticipating the release of Ohio's fiscal year 2010 State Single Audit by March 31, 2011. While the preliminary selection of programs for the 2010 audit will be completed in early August, the final selection will occur when the Schedule of Expenditures and Federal Awards is received in October. Auditor of State officials said that SFSF funds will be audited because of the high funding level.

Ohio also participated in phase I of the OMB Single Audit Internal Control Project. Ohio's Auditor of State reported findings for two Recovery Act-funded programs that it examined. The findings for the Unemployment

[33]The State Single Audit includes the review of programs that have received monies from Recovery and non-Recovery Act funding, and a combination of the two.

[34]As reported in May 2010, the Auditor of State's office said they were not able to meet the original reporting date of March 31, 2010, due to not receiving fiscal year 2009 financial statements from management until February 1, 2010.

[35]Recovery Act programs with audit deficiencies are: (1) Food Stamp Cluster, (2) Unemployment Insurance, (3) WIA Cluster, (4) Highway Planning & Construction Cluster, (5) Child Support, (6) Foster Care, (7) Adoption Assistance, and (8) Medicaid Cluster.

Insurance funding were partially corrected with the remainder of the corrections to be completed later this summer. The findings for the highway planning and construction funding were corrected as of February 2010. Ohio will participate in phase 2 of the Single Audit Internal Control Pilot. On August 30, 2010, the AOS finalized its selection of programs to be tested under the Pilot. The four programs selected include: 1) Unemployment Insurance, 2) Highway Planning and Construction Cluster, 3) Title I–Local Education, and 4) Department of Education's Special Education Cluster.

During 2010 the Auditor of State for local governments began conducting their audits of local entities with fiscal-year ends December 31, 2009, and June 30, 2010.[36] This work to date includes the review of 21 different Recovery Act programs. AOS is responsible for reviewing 146 local entities receiving Recovery Act funds in Ohio and has completed and released audit reports for 27 of these local entities as of August 19, 2010. These completed AOS audits did not report any findings for the Recovery Act-funded programs included in these reviews. AOS expects to complete and release the remaining 119 audits of local entities during calendar years 2010 and 2011.[37]

The Office of Inspector General (OIG), responsible for investigations of potential criminal activity, recently issued a report involving a complaint of the misuse or waste of Recovery Act funds by the Ohio Department of Natural Resources (ODNR). Although the OIG did not find any misuse or waste of funds, it found that ODNR did not dispose of used equipment in a safe manner, and recommended that ODNR take corrective measures to ensure public safety. There are four ongoing investigations involving Recovery Act funds, two of which are expected to be completed by September 2010. We previously reported[38] that Ohio Environmental Protection Agency (EPA) may not have met the Buy American requirements and recommended that Ohio EPA consult with the U.S. Environmental Protection Agency to review and make a compliance

[36]Local government entities in Ohio generally have a December 31 fiscal-year end while school districts in Ohio generally have a June 30 fiscal year end, with a few exceptions.

[37]AOS estimates that independent public accounting (IPA) firms will be conducting 179 audits of other local entities in Ohio. As of Aug 19, 2010, AOS expects that only 54 of these IPA audits are likely to include the review of Recovery Act-funded programs.

[38]GAO-10-605SP.

determination. In June 2010, the U.S. EPA determined that there was no violation of the Buy American requirements.

Highway Infrastructure Investment

By March, 2010, the U.S. Department of Transportation's Federal Highway Administration (FHWA) obligated Ohio's full apportionment of $936 million in Recovery Act funds to the state for highway infrastructure and other eligible projects. As of August 24, 2010, the Ohio Department of Transportation (ODOT) had awarded contracts worth an estimated $930 million for 385 out of 426 FHWA funded projects. As previously reported, Ohio continues to receive bids averaging 10 percent below the state cost estimates and as a result, has been able to fund 89 more projects than originally planned. As of August 2010, ODOT had $28 million in deobligated funds and has until the end of September 2010[39] to obligate those funds to new projects. According to ODOT officials, the agency plans to adjust its funding mix to also include non-Recovery Act funds (about 10 percent) for new projects and plans to deobligate this funding portion of the projects if the contract awards come in under the state estimates. [40]

Ohio Anticipates Meeting the Maintenance of Efforts Requirement

According to ODOT, Ohio expects to meet the Recovery Act's maintenance-of-effort (MOE) requirement. The Recovery Act's MOE requires the state to maintain the level of spending for the types of transportation projects funded by the Recovery Act that it had planned to spend the day the Recovery Act was enacted. We reported in our May 2010 report that ODOT had concerns about meeting the MOE requirement due to the decline in major sources of state transportation revenue. We also reported a decline in forecasted transit and aviation expenditures. However, ODOT officials recently reported that revenue sources have stabilized and expenditures have generally kept pace. According to ODOT officials, transit expenditures will likely meet the forecasted level but aviation expenditures are currently at about $200,000 less than the forecasted amount. ODOT officials reported that they are working with Ohio's Office of Aviation to process expenses in time to meet the MOE

[39]Per memorandum from the U.S. Department of Transportation's FHWA, dated July 1, 2010, the last day ODOT can obligate funds is September 27, 2010.

[40]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.

requirement. States that are unable to meet the MOE obligation will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011.[41] For the past 3 years, Ohio has received over $40 million annually in redistribution.

Monitoring Plan for Home Weatherization Program Has Been Implemented

In December 2009, we reported that due to the rapid expansion of Ohio Home Weatherization Assistance Program under the Recovery Act, the program was at heightened risk for waste, fraud, and abuse. When we reviewed production files at three grantees we raised a number of concerns ranging from use of Recovery Act funds to weatherize the home of an ineligible recipient to use of Recovery Act funds on homes that were weatherized before the program began. We concluded that real-time monitoring and early assessments of grantees' activities could aid in avoiding those types of problems and help ensure program success. In response, the Ohio Department of Development (ODOD) developed a monitoring program designed to ensure that its grantees were in compliance with program requirements set forth in the state plan. ODOD also hired three new staff to augment those already on line to conduct reviews of its grantees. As of June 30, 2010, ODOD officials said they had conducted reviews at all 34 grantees and a number of delegate agencies. These officials said that the reviews were helpful in ensuring that the state's program stayed on track and its grantees adhered to the program requirements. For example, in a summary analysis of visits through June 11, 2010, ODOD reports that many of the grantees had charged the Recovery Act grant for production begun before the program began. ODOD officials said that they were able to reverse the charges, freeing up Recovery Act funds to weatherize more homes. As of July 31, 2010, ODOD reports that it has inspected 5.7 percent of the homes weatherized in the state (14,077 homes completed) and reviewed the administrative files for 5.2 percent of its production.

[41]As required by statute, FHWA annually adjusts the states' limitations on obligations for federal-aid highway programs.

Ohio Revised SFSF Monitoring Plan to Improve Oversight of Funds

In May 2010, we identified weaknesses in how the Ohio Board of Regents (BOR) monitored SFSF funds allocated to institutions of higher education (IHE). Although Ohio developed a plan for monitoring SFSF funds, quarterly reports submitted by IHEs to BOR during the first and second reporting periods (February through December 2009) did not break out the receipt and use of SFSF funds. This made it difficult for BOR to determine how SFSF funds were spent during those quarters, and therefore, whether the funds were used for allowable expenditures. Moreover, a senior state official told us that there was no mechanism to validate the expenditure information submitted by IHEs. In addition, when we reviewed the Auditor of State's Web site in April 2010, we found that the Ohio State University, the largest SFSF recipient in Ohio, was not reporting receipt of SFSF funds to the site, as directed by Ohio's monitoring plan. Ohio State University finance officials told us that they would report the required information and when we reviewed the Auditor of State's Web site on August 9, 2010, we found the Ohio State University had reported receipt and use of SFSF funds. In addition, in response to our findings, BOR submitted its amended monitoring plan of SFSF funds allocated to IHEs to the U.S. Department of Education on May 28, 2010. The revised monitoring plan requires IHEs to include in their quarterly financial statements a detailed subsection that identifies cumulative SFSF revenues and expenditures. The revised plan also requires IHEs' fiscal officers to submit a form attesting that their institution used SFSF funds only for allowable educational and general expenditures. According to a senior BOR official, these changes were made for the third reporting period and going forward. If BOR discovers any indications of noncompliance from these quarterly statements, it will follow up with additional reviews, which may include site visits to the IHEs, as outlined in the revised plan.

Comments on This Summary

We provided the Governor of Ohio with a draft of this appendix on August 17, 2010, and representatives of the Governor's office responded on August 19, 2010. In general, the state agreed with our draft and provided some clarifying information which we incorporated. We also provided the City of Cincinnati with a statement of facts on August 17, 2010, and city officials responded on August 18, 2010, with technical comments which we incorporated as appropriate.

In addition, we provided a draft of all materials related to Head Start and Early Head Start to OHS and HHS for comment on August 20, 2010, but they did not provide comments in time for us to consider them in the report. We also met with officials from the HHS Office of Head Start, Region V on August 13, 2010, to discuss our findings regarding expansion of the Early Head Start program at selected grantees in Ohio.

GAO Contacts

George A. Scott, (202) 512-7215 or scottg@gao.gov

David C. Trimble, (202) 512-9338 or trimbled@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Bill J. Keller, Assistant Director; Tranchau Nguyen, Assistant Director; Matthew Drerup, analyst-in-charge; Debra Cottrell; Jeffrey G. Miller; Brian Smith; and Myra Watts-Butler made major contributions to this report.