RECOVERY ACT
States’ and Localities’ Current and Planned Uses of Funds While Facing Fiscal Stresses

What GAO Found
Across the United States, as of August 28, 2009, Treasury had outlayed about $45 billion of the estimated $49 billion in Recovery Act funds projected for use in states and localities in fiscal year 2009. More than three-quarters of the federal outlays have been provided through the increased Medicaid Federal Medical Assistance Percentage (FMAP) and the State Fiscal Stabilization Fund (SFSF) administered by the Department of Education.

GAO’s work focused on nine federal programs that are estimated to account for approximately 87 percent of federal Recovery Act outlays in fiscal year 2009 for programs administered by states and localities. The following figure shows the distribution by program of anticipated federal Recovery Act spending in fiscal year 2009 for the nine programs discussed in the July report.

<table>
<thead>
<tr>
<th>Program</th>
<th>Percent of Recovery Act Outlays</th>
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</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>63%</td>
</tr>
<tr>
<td>State Fiscal Stabilization Fund</td>
<td>13%</td>
</tr>
<tr>
<td>Highways</td>
<td>8%</td>
</tr>
<tr>
<td>Other selected programs</td>
<td>5%</td>
</tr>
<tr>
<td>Other programs not in study</td>
<td>13%</td>
</tr>
<tr>
<td>IDEA, Parts B and C</td>
<td>1%</td>
</tr>
<tr>
<td>WIA Youth Programs</td>
<td>1%</td>
</tr>
<tr>
<td>ESEA, Title 1 Part A</td>
<td>Less than 1%</td>
</tr>
</tbody>
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Source: GAO analysis of data from CBP and Federal Funds Information for States.

Increased Medicaid FMAP Funding
All 16 states and the District have drawn down increased Medicaid FMAP grant awards of just over $19.6 billion for October 1, 2008, through September 4, 2009, which amounted to almost 84 percent of such funds available to them. All states and the District experienced enrollment growth in this period.

Several states noted that the increased FMAP funds were critical in their efforts to maintain coverage at current levels. States and the District reported they are planning to use the increased federal funds to cover their increased Medicaid caseload and to maintain current benefits and eligibility levels. Due to the increased federal share of Medicaid funding, most state officials also said they would use freed-up state funds to help cope with fiscal stresses.

Highway Infrastructure Investment
As of September 1, the Department of Transportation (DOT) had obligated approximately $11 billion for almost 3,800 highway infrastructure and other eligible projects in the 16 states and the District and had reimbursed these 17 jurisdictions about $604 million. Across the nation, almost half of the obligations have been for pavement improvement projects because they did not require extensive environmental clearances, were quick to design, obligate and bid on, could employ people quickly, and could be completed within 3 years. Officials from most states considered project readiness, including the 3-year completion requirement, when making project selections and only later identified to what extent these projects fulfilled the economically distressed area requirement. We found substantial variation in how states identified economically distressed areas and how they prioritized project selection for...
these areas. Therefore, GAO recommended that the Secretary of Transportation develop clear guidance on identifying and giving priority to economically distressed areas and more consistent procedures for the Federal Highway Administration (FHWA) to use in reviewing and approving states’ criteria. FHWA issued clarifying guidance to address our recommendation in August 2009.

State Fiscal Stabilization Fund
As of September 1, 2009, the District and 15 of the 16 states covered by our review had received approval from Education for their initial SFSF funding applications. Pennsylvania had submitted an application to Education, but it had not yet been approved. As of August 28, 2009, Education has made $21 billion in SFSF grants for Education available to the 15 states and the District—of which over $7.7 billion had been drawn down as of August 28, 2009. School districts said they would use SFSF funds to maintain current levels of education funding, particularly for retaining staff and current education programs. They also told us that SFSF funds would help offset state budget cuts. Overall, states reported using Recovery Act funds to stabilize state budgets and to cope with fiscal stresses. The funds helped them maintain staffing for existing programs and minimize or avoid tax increases as well as reductions in services.

Accountability
States have implemented various internal control programs; however, federal Single Audit guidance and reporting does not fully address Recovery Act risk. The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies noted in Recovery Act programs. Moreover, current guidance does not achieve the level of accountability needed to effectively respond to Recovery Act risks. Finally, state auditors need additional flexibility and funding to undertake the added Single Audit responsibilities under the Recovery Act. OMB is vetting a pilot program for early written communication of internal control deficiencies for Recovery Act programs that, if properly scoped to achieve sufficient coverage of Recovery Act programs, could address our concerns about the timeliness of single audit reporting.

Impact
Direct recipients of Recovery Act funds, including states and localities, are expected to report quarterly on a number of measures, including the use of funds and estimates of the number of jobs created and retained. The first of these reports is due in October 2009. OMB—in consultation with a range of stakeholders—issued additional implementing guidance for recipient reporting on June 22, 2009, that clarifies some requirements and establishes a central reporting framework.

In addition to employment-related reporting, OMB requires reporting on the use of funds by recipients and nonfederal subrecipients receiving Recovery Act funds. The tracking of funds is consistent with the Federal Funding Accountability and Transparency Act (FFATA). Like the Recovery Act, FFATA requires a publicly available Web site—www.USAspending.gov—to report financial information about entities awarded federal funds. Yet, significant questions have been raised about the reliability of the data on www.USAspending.gov, primarily because what is reported by the prime recipients is dependent on the unknown data quality and reporting capabilities of subrecipients.

GAO's Recommendations
Accountability and Transparency: To leverage Single Audits as an effective oversight tool for Recovery Act programs, the Director of OMB should

- develop requirements for reporting on internal controls during 2009 before significant Recovery Act expenditures occur, as well as for ongoing reporting after the initial report;
- provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with high risk have audit coverage in the area of internal controls and compliance;
- evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act;
- develop mechanisms to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs; and
- take steps to achieve sufficient participation and coverage in the single audit pilot program that provides for early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

Matter for Congressional Consideration: Congress should consider a mechanism to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs.

Reporting on Impact: The Director of OMB should work with federal agencies to provide recipients with examples of the application of OMB’s guidance on recipient reporting of jobs created and retained. In addition, the Director of OMB should work with agencies to clarify what new or existing program performance measures are needed to assess the impact of Recovery Act funding.

Communications and Guidance: To strengthen the effort to track funds and their uses, the Director of OMB should continue efforts to ensure more direct communication with key state officials, and in addition, (1) provide a long range time line on issuing federal guidance, (2) clarify what constitutes appropriate quality control and reconciliation by prime recipients, and (3) specify who should best provide formal certification and approval of the data reported.