RECOVERY ACT

Opportunities to Improve Management and Strengthen Accountability over States’ and Localities’ Uses of Funds

What GAO Found

As of September 3, 2010, about $154.8 billion of the approximately $282 billion of total funds made available by the Recovery Act in 2009 for programs administered by states and localities had been paid out by the federal government. Of that amount, over 65 percent—$101.9 billion—had been paid out since the start of federal fiscal year 2010 on October 1, 2009.

Federal Medical Assistance Percentage (FMAP)

As of July 31, 2010, the 16 states and the District had drawn down $43.9 billion in increased FMAP funds. If current spending patterns continue, GAO estimates that these states and the District will draw down $56.2 billion by December 31, 2010—about 95 percent of their initial estimated allocation. Most states reported that, without the increased FMAP funds, they could not have continued to support the substantial Medicaid enrollment growth they have experienced, most of which was attributable to children. Several states also reported that the increased FMAP funds freed up states’ funds which helped finance other needs. States and the District remained concerned about the sustainability of their programs without these funds, and most have already reduced or frozen certain provider payment rates or imposed new provider taxes. Congress recently passed legislation to extend the increased FMAP through June 2011, although at lower rates than provided by the Recovery Act. For future program adjustments, states and the District will also need to consider the Patient Protection and Affordable Care Act, which prohibits federal Medicaid reimbursement through 2014 if they apply more restrictive eligibility standards, methods, or procedures.

Education

As of August 27, 2010, the District and states covered in GAO’s review had drawn down 72 percent ($18.2 billion) of their awarded State Fiscal Stabilization Fund (SFSF) education stabilization funds; 46 percent ($3.0 billion) for Elementary and Secondary Education Act, Title I, Part A; and 45 percent ($3.4 billion) for Individuals with Disabilities Education Act, Part B. In the spring of 2010, GAO surveyed a nationally representative sample of local educational agencies (LEA) and found that job retention was the primary use of education Recovery Act funds in school year 2009-2010, with an estimated 87 percent of LEAs reporting that Recovery Act funds allowed them to retain or create jobs. Even with Recovery Act funds, one-third of LEAs reported experiencing budget cuts in school year 2009-2010 and nearly 1 in 4 reported losing jobs overall. Because of their budget situations, relatively few LEAs reported making significant progress in advancing the four core education reform areas states are required to address as a condition of receiving SFSF funding. In August 2010, the Education Jobs Fund was created to provide $10 billion to retain and create education jobs nationwide.

Highway Infrastructure Investment and Public Transportation Funding

Nationwide, the Federal Highway Administration (FHWA) obligated $25.6 billion in Recovery Act funds for over 12,300 highway projects, and...
reimbursed $11.1 billion as of August 2, 2010. The Federal Transit Administration obligated $8.76 billion of Recovery Act funds for about 1,055 grants, and reimbursed $3.6 billion as of August 5, 2010. Highway funds were used primarily for pavement improvement projects, and public transportation funds were used primarily for upgrading transit facilities and improving bus fleets. With emphasis placed on the Recovery Act, many states were slower in obligating regular federal-aid highway funds; FHWA expects all regular funds to be obligated by the end of the fiscal year. Publicly available data likely overstates the number and amount of contracts awarded. GAO recommends that DOT improve the accuracy of these data. DOT has also not corrected previous public information overstating the amount of funds directed to economically distressed areas. GAO recommends that DOT make revised information publicly available. DOT expects to be able to report on Recovery Act outputs, but did not commit to assessing whether transportation investments produced long-term benefits as we recommended in May 2010. GAO believes that understanding the impact of Recovery Act investments continues to be important, plans to continue to monitor DOT’s actions, and encourages it to report on long-term benefits.

**Energy Efficiency and Conservation Block Grant (EECBG), State Energy Program (SEP), and Weatherization Assistance**

The EECBG program provides about $3.2 billion in grants to implement projects that improve energy efficiency; of this amount, approximately $2.8 billion has been allocated directly to recipients. As of August 2010, DOE has obligated about 99 percent of the $2.8 billion in direct formula grants to recipients, who have in turn, obligated about half to subrecipients. The majority of EECBG funds have been obligated for three purposes: energy efficiency retrofits to existing facilities, financial incentive programs, and buildings and facilities. The Recovery Act also provided $3.1 billion to the SEP, which provides funds through formula grants to achieve national energy goals such as increasing energy efficiency and decreasing energy costs. SEP recipients are obligating funds, monitoring, and reporting on project outcomes. The Recovery Act also appropriated $5 billion for the Weatherization Assistance Program. During 2009, DOE obligated about $4.73 billion of the Recovery Act’s weatherization funding, while retaining about 5 percent of funds to cover the department’s expenses. According to DOE officials, as of June 30, 2010, about 166,000 homes have been weatherized nationwide, or about 29 percent of the 570,000 homes currently planned for weatherization. In May 2010, GAO made several recommendations to DOE, expressing concerns about whether program requirements were being met. DOE generally agreed and has begun to take steps in response to GAO’s previous recommendations.

Public Housing Capital Fund, Tax Credit Assistance Program (TCAP), and the Section 1602 Program

As of August 7, 2010, housing agencies had obligated about 46 percent of the nearly $1 billion in Recovery Act Public Housing Capital Fund competitive grants allocated to them for projects such as installing energy-efficient heating and cooling systems in housing units. HUD officials anticipate that some housing agencies may not meet the September 2010 obligation deadline, resulting in those funds being recaptured. GAO believes HUD should continue to closely monitor agencies’ progress in obligating remaining funds. As of July 31, 2010, HUD had obligated about $733 million (32.6 percent) of TCAP funds and Treasury had obligated about $1.4 billion (25.5 percent) of Section 1602 Program funds. Some state Housing Finance Agencies (HFA) and projects may face challenges meeting upcoming deadlines, including that projects spend 30 percent of Section 1602 Program project costs by December 2010. GAO recommends that Treasury provide guidance to HFAs and plan to deal with the possibility that projects could miss the spending deadline. Treasury said it will monitor project spending and provide additional guidance, if needed. GAO also found that for some TCAP projects, enhanced HUD oversight may be needed. GAO recommends that HUD develop a plan that recognizes the level of oversight others, including HFAs and investors, provide. HUD agrees these projects need additional monitoring.

**Accountability and Recipient Reporting**

OMB’s Single Audit Internal Control Project highlighted areas where significant improvements in the Single Audit process are needed. Most federal awarding agencies did not exercise timely follow-up on action plans to correct internal control deficiencies identified in the project’s reports. Since awarding agencies are to approve corrective action plans, untimely follow-up could delay efforts to implement corrective actions. In addition, the Single Audit process timeframes are not conducive to the timely identification and correction of internal control deficiencies. Further, OMB’s Single Audit guidance has not been timely, causing inefficiencies related to Single Audits. GAO recommends that the Director of OMB take actions to strengthen the Single Audit and federal follow-up as oversight mechanisms. OMB concurred.

Many recipients reported greater ease in meeting their reporting requirements. GAO’s analysis of the data in Recovery.gov shows some improvement, but data quality issues remain, such as the ability to link reports across quarters to follow project progress. OMB, HUD, and Education have implemented all of GAO’s earlier recommendations on recipient reporting, including those intended to improve subrecipient reporting. GAO will continue to monitor efforts to improve the quality of reporting.