

September 2011

# RECOVERY ACT EDUCATION PROGRAMS

Funding Retained  
Teachers, but  
Education Could More  
Consistently  
Communicate  
Stabilization  
Monitoring Issues

U.S. Government Accountability Office

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ACCOUNTABILITY ★ INTEGRITY ★ RELIABILITY

## Why GAO Did This Study

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided \$70.3 billion for three education programs—the State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act (Title I); and Individuals with Disabilities Education Act (IDEA), Part B. One goal of the Recovery Act was to save and create jobs, and SFSF also requires states to report information expected to increase transparency and advance educational reform.

This report responds to two ongoing GAO mandates under the Recovery Act. It examines (1) how selected states and local recipients used the funds; (2) what plans the Department of Education (Education) and selected states have to assess the impact of the funds; (3) what approaches are being used to ensure accountability of the funds; and (4) how Education and states ensure the accuracy of recipient reported data.

To conduct this review, GAO gathered information from 14 states and the District of Columbia, conducted a nationally representative survey of local educational agencies (LEA), interviewed Education officials, examined recipient reports, and reviewed relevant policy documents.

## What GAO Recommends

GAO recommends that the Secretary of Education establish mechanisms to improve the consistency of communicating SFSF monitoring feedback to states. Education agreed with our recommendation.

To view the e-supplement online click on <http://www.gao.gov/products/GAO-11-885SP>. View [GAO-11-804](#) or key components. For more information, contact George A.Scott at (202) 512-7215 or [scottg@gao.gov](mailto:scottg@gao.gov).

# RECOVERY ACT EDUCATION PROGRAMS

## Funding Retained Teachers, but Education Could More Consistently Communicate Stabilization Monitoring Issues

### What GAO Found

As of September 9, 2011, in the 50 states and the District of Columbia, about 4 percent of the obligated Recovery Act funds remain available for expenditure. Teacher retention was the primary use of Recovery Act education funds according to GAO's nationally representative survey of LEAs. The funds also allowed recipients to restore state budget shortfalls and maintain or increase services. However, the expiration of funds and state budget decreases may cause LEAs to decrease services, such as laying off teachers. We also found that nearly a quarter of LEAs reported lowering their local spending on special education, as allowed for under IDEA provisions that provide eligible LEAs the flexibility to reduce local spending on students with disabilities by up to half of the amount of any increase in federal IDEA funding from the prior year. However, even with this flexibility, many LEAs reported having difficulty maintaining required levels of local special education spending. In addition, two states have not been able to meet required state spending levels for IDEA or obtain a federal waiver from these requirements. States whose waivers were denied and cannot make up the shortfall in the fiscal year in question face a reduction in their IDEA funding equal to the shortfall, which may be long-lasting.

Education plans to conduct two types of systematic program assessments to gauge the results of Recovery Act-funded programs that focus on educational reform: program evaluation and performance measurement. In the coming years, Education plans to produce an evaluation that will provide an in-depth examination of various Recovery Act programs' performance in addressing educational reform. In addition, for the SFSF program, Education plans to measure states' ability to collect and publicly report data on preestablished indicators and descriptors of educational reform, and it plans to provide a national view of states' progress. Education intends for this reporting to be a means for improving accountability to the public in the shorter term. Further, Education officials plan to use states' progress to determine whether a state is qualified to receive funds under other future reform-oriented grant competitions.

Numerous entities help ensure accountability of Recovery Act funds through monitoring, audits, and other means, which have helped identify areas for improvement. Given the short time frame for spending these funds, Education's new SFSF monitoring approach prioritized helping states resolve monitoring issues and allowed Education to target technical assistance to some states. However, some states did not receive monitoring feedback promptly and this feedback was not communicated consistently because Education's monitoring protocol lacked internal time frames for following up with states.

Education and state officials reported using a variety of methods to ensure recipient reported data are accurate. They also use recipient reported data to enhance their oversight and monitoring efforts. According to [Recovery.gov](#), the Recovery Act funded approximately 286,000 full-time equivalents (FTE) during the eighth round of reporting, which ended June 30, 2011, for the education programs GAO reviewed. Despite the limitations associated with FTE data, Education found these data to be useful in assessing the impact of grant programs on saving and creating jobs.

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## Abbreviations

CCD	U.S. Department of Education's Common Core of Data
DATA Act	Digital Accountability and Transparency Act of 2011
Education	U.S. Department of Education
ESEA	Elementary and Secondary Education Act of 1965
FTE	full-time equivalent
IDEA	Individuals with Disabilities Education Act, as amended
IHE	institutions of higher education
LEA	local educational agencies
MOE	maintenance of effort
OIG	Office of Inspector General
SEA	state educational agencies
SFSF	State Fiscal Stabilization Fund

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G A O

Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

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September 22, 2011

Report to Congress

With the most severe recession in decades, states and school governments around the country faced record budget shortfalls that threatened to adversely affect services. In response to the economic crisis facing the nation and the fiscal challenges facing state and local governments, Congress enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act).<sup>1</sup> Among other things, the purposes of the Recovery Act were to preserve and create jobs, promote national economic recovery, and provide long-term economic benefits through infrastructure investments, including education.<sup>2</sup> The Recovery Act provided nearly \$100 billion in fiscal year 2009 for elementary, secondary, and postsecondary education programs—a major responsibility for state and local governments—in an effort to ensure students continue to receive quality educational services.<sup>3</sup> While a key purpose of these funds was to help address short-term fiscal challenges, newly created education programs also promoted progress on educational reform and the U.S. Department of Education encouraged recipients to invest in long-term capacity. We previously reported that school districts have used Recovery Act education funds primarily to fund jobs, but also that they have reported progress in key reform areas and have used funds for one-time investments in equipment and training. The funds are available until September 30, 2011, but the impact of how those funds were spent will not be clear for several more years. However, how school districts used the funds to invest in sustainable reform efforts could affect their ability to mitigate the effects of potential funding reductions.

Our review of states' use of Recovery Act funds covers three programs administered by the U.S. Department of Education (Education)—the State

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115.

<sup>2</sup>Across the United States, as of August 26, 2011, the Department of the Treasury has paid out \$228.7 billion in Recovery Act funds for use in states and localities. Of that amount, \$64 billion has been paid out since the beginning of fiscal year 2011 (Oct. 1, 2010). For updates, see <http://gao.gov/recovery>.

<sup>3</sup>CRS-R40151, *Funding for Education in the American Recovery and Reinvestment Act of 2009* (P.L. 111-5), Washington, D.C., April 14, 2009.

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Fiscal Stabilization Fund (SFSF) (\$48.6 billion); Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA) (\$10 billion); and the Individuals with Disabilities Education Act, as amended (IDEA) Part B (\$11.7 billion).<sup>4</sup> We chose to review these programs because, collectively, funding for these programs accounts for approximately \$70.3 billion of the \$275 billion in Recovery Act funding distributed through contracts, grants, and loans. Although all grants have been awarded, recipients have until September 30, 2011, to obligate the remainder of their funds. Most recipients have obligated the majority of their funds already, but some recipients may continue to spend their funds after September 30, 2011, as they pay off their obligations.

The Recovery Act mandates that GAO conduct bimonthly reviews of the funds used by states and determine whether the act is achieving its stated purposes.<sup>5</sup> The Recovery Act also requires GAO to comment and report quarterly on, among other things, estimates of job creation and retention, counted as full-time equivalent (FTE), as reported by recipients of Recovery Act funds.<sup>6</sup> Consistent with the mandates in the Recovery Act, we determined: (1) how selected states and local educational agencies (LEA) are using Recovery Act SFSF, ESEA Title I, and IDEA, Part B funds; (2) what plans Education and selected states have to assess the effect of the Recovery Act education funds and what is known about the resulting outcomes; (3) what approaches Education, selected states, and LEAs are taking to ensure accountability for Recovery Act education funds; and (4) what procedures Education and states are using to ensure required recipient reports contain accurate FTE information for education programs.

To obtain national-level information on how Recovery Act funds made available by Education under SFSF; ESEA, Title I; and IDEA, Part B,

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<sup>4</sup>There are some Recovery Act education funds that are not included in the scope of this review. For example, we did not review IDEA Part C grants or SFSF government services funds.

<sup>5</sup>Pub. L. No. 111-5, § 901(a)(1), 123 Stat. 115, 191.

<sup>6</sup>Pub. L. No. 111-5 § 1512(e) 123 Stat. 115, 288. FTE data provide insight into the use and impact of the Recovery Act funds, but recipient reports cover only direct jobs funded by the Recovery Act. These reports do not include the employment impact on suppliers (indirect jobs) or on the local community (induced jobs). Both data reported by recipients and other macroeconomic data and methods are necessary to understand the overall employment effects of the Recovery Act.

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were used at the local level, we selected a stratified random sample of LEAs—generally school districts—in all 50 states and the District of Columbia, and administered a Web-based survey.<sup>7</sup> We conducted our survey between March and May 2011, with a 78 percent final weighted response rate at the national level. The results of our sample have a 95 percent confidence interval, with a margin of error of plus or minus 7 percentage points or less, unless otherwise noted. We stratified the population into strata based on size, urban status, and poverty status. Regarding size, we identified and included the 100 largest LEAs in the country. This report does not contain all the results from the survey. The survey and a more complete tabulation of the results can be viewed at [GAO-11-885SP](#). For further information on our survey, see appendix I. Furthermore, at the state and local level, we gathered information from 14 states and the District of Columbia to discuss how they were using, monitoring and planning to evaluate the effect of their Recovery Act funds. We conducted site visits to four states (California, Iowa, Massachusetts, and Mississippi), and contacted an additional seven states (Alaska, Arizona, Georgia, Hawaii, North Carolina, New York, and Wyoming) and the District of Columbia to discuss how they were using, monitoring, and planning to evaluate the effect of their Recovery Act funds. We selected these states based on drawdown rates, economic response to the recession, and data availability, with consideration of geography and recent federal monitoring coverage. In addition, we contacted officials from Florida, Kansas, and South Carolina for information regarding IDEA, Part B waivers. We also met with program officials at Education to discuss ongoing monitoring and evaluation efforts for Recovery Act funds provided through SFSF; ESEA Title I; and IDEA, Part B. We assessed recipient reports for these programs for the quarter ending June 30, 2011, for completeness and accuracy and found them sufficiently reliable for the purposes of this report.<sup>8</sup> We also analyzed the reported FTE jobs data from recipient reports. Lastly, we reviewed relevant federal laws and regulations, as well as information on education reform efforts the four states we visited submitted for their SFSF applications.

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<sup>7</sup>The 33 geographic districts comprising the New York City Public Schools were treated as one school district and that one district was placed in the 100 largest LEAs' stratum.

<sup>8</sup>In addition to our analyses of recipient report data for the education programs in our review, we continued, as in prior rounds, to perform edit checks and analyses on all prime recipient reports to assess data logic and consistency and identify unusual or atypical data.

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Our oversight of programs funded by the Recovery Act has resulted in more than 100 related products with numerous recommendations since we began reporting on the Recovery Act.<sup>9</sup> This report updates agency actions in response to recommendations from previous bimonthly and recipient reporting reviews that have not been fully implemented (referred to as open recommendations) in appendix IV.

We conducted our work from October 2010 to September 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

Of the Education programs funded in the Recovery Act, the newly created SFSF program was the largest in terms of funding. It included approximately \$48.6 billion awarded to states by formula and up to \$5 billion awarded as competitive grants.<sup>10</sup> SFSF was created, in part, to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services, such as public safety. SFSF funds for education distributed under the Recovery Act were required to first be used to alleviate shortfalls in state support for education to LEAs and public institutions of higher education (IHE).

States were required to use SFSF education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to LEAs and public IHEs. When distributing these funds to LEAs, states must use their primary education funding formula, but they can determine how to allocate funds to public IHEs. In general, LEAs maintain

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<sup>9</sup>See <http://gao.gov/recovery> for related GAO products.

<sup>10</sup>States must use 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds). The competitive grants included the Race to the Top program under which about \$3.9 billion was awarded to 11 states and the District of Columbia, and the Investing in Innovation program under which nearly \$650 million was awarded to 49 eligible entities, including school districts, non-profit education organizations, and institutions of higher education.

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broad discretion in how they can use education stabilization funds, but states have some ability to direct IHEs in how to use these funds.

Several other programs received additional funding through the Recovery Act. For example, the Recovery Act provided \$10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated for ESEA Title I, Part A. These additional funds are distributed through states to LEAs using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty.

The Recovery Act also provided \$12.2 billion in supplemental funding for programs authorized by IDEA, the major federal statute that supports the provisions of early intervention and special education and related services for infants, toddlers, children, and youth with disabilities. Part B of IDEA funds programs that ensure preschool and school-aged children with disabilities have access to a free appropriate public education and is divided into two separate grants—Part B grants to states (for school-age children) and Part B preschool grants.<sup>11</sup>

While one purpose of the Recovery Act was to preserve and create jobs, it also required states to report information quarterly to increase transparency and SFSF required recipients to make assurances relating to progress on educational reforms. To receive SFSF, states were also required to provide several assurances, including that they will maintain state support for education at least at fiscal year 2006 levels; and that they would implement strategies to advance four core areas of education reform. The four core areas of education reform, as described by Education, are:

1. Increase teacher effectiveness and address inequities in the distribution of highly qualified teachers.

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<sup>11</sup>Part B Section 611 funds are provided to assist states in providing special education and related services to children with disabilities aged 3 through 21. Part B Section 619 funds are provided to assist states in providing special education and related services to children with disabilities aged 3 through 5. Our review focused on the use of Part B Section 611 funds.

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2. Establish a pre-K-through-college data system to track student progress and foster improvement.
  3. Make progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including students with limited English proficiency and/or disabilities.
  4. Provide targeted, intensive support, and effective interventions to turn around schools identified for corrective action or restructuring.

Education required states receiving SFSF funds to report about their collection and reporting of 34 different indicators and 3 descriptors related to these four core areas of education reform or provide plans for making information related to the education reforms publicly available no later than September 30, 2011. Previously, we reported that, while states are responsible for assuring advancement of these reform areas, LEAs were generally given broad discretion in how to spend the SFSF funds. It is not clear how LEA progress in advancing these four reforms would affect states' progress toward meeting their assurances.<sup>12</sup>

Additionally, Recovery Act recipients and subrecipients are responsible for complying with other requirements as a condition of receiving federal funds. For example, for Recovery Act education programs we reviewed, states and LEAs must meet applicable maintenance of effort (MOE) requirements, which generally mandate them to maintain their previous level of spending on these programs.<sup>13</sup> Generally, this also helps to ensure that states continue to fund education even with the influx of the Recovery Act funds. Specifically, the newly created SFSF program required states to maintain support for elementary and secondary education, in fiscal years 2009, 2010, and 2011, at least at the level that the state provided in fiscal year 2006, but did not place any MOE

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<sup>12</sup>GAO, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, [GAO-10-999](#) (Washington, D.C.: Sept. 20, 2010).

<sup>13</sup>For the SFSF program, only states, and not LEAs, have to meet MOE requirements.

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requirements on subrecipients.<sup>14</sup> IDEA generally prohibits states and LEAs from reducing their financial support, or MOE, for special education and related services for children with disabilities below the level of that support for the preceding year.<sup>15</sup> For ESEA, Title I, states<sup>16</sup> and LEAs are also required to maintain their previous level of funding with respect to the provision of free public education.<sup>17</sup> As long as states met certain criteria, including that the states maintained MOE for SFSF funding, this funding could be counted to meet MOE for other programs including ESEA, Title I, and IDEA.

In addition, section 1512 of the Recovery Act requires recipients to report certain information quarterly. Specifically, the Act requires, among other types of information, that recipients report the total amount of Recovery Act funds received, associated obligations and expenditures, and a detailed list of the projects or activities for which these obligations and expenditures were made. For each project or activity, the information must include the name and description of the project or activity, an evaluation of its completion status, and an estimate of the number of jobs funded through that project or activity. The job calculations are based on

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<sup>14</sup>The Recovery Act authorizes the Secretary of Education to waive the SFSF MOE requirement under certain circumstances. For more information on SFSF MOE see GAO, *Recovery Act: Planned Efforts and Challenges in Evaluating Compliance with Maintenance of Effort and Similar Provisions*, [GAO-10-247](#) (Washington, D.C.: Nov. 30, 2009).

<sup>15</sup>The standard for MOE differs for states and LEAs. IDEA prohibits states from reducing “state financial support for special education and related services for children with disabilities below the level of that support for the preceding fiscal year.” 20 U.S.C. §1412(a)(18)(A). IDEA prohibits LEAs from reducing the level of expenditures for the education of children with disabilities below the level of those expenditures for the preceding fiscal year. 20 U.S.C. §1413(a)(2)(A)(iii). Education may waive the state MOE requirement for the Part B grants to states program under certain circumstances, but there is no provision allowing for a waiver for LEAs from the MOE requirement.

<sup>16</sup>Generally, states are required to demonstrate “maintenance of effort” by showing that either their combined fiscal effort per student or the aggregate expenditures within the state with respect to the provision of free public education for the preceding fiscal year were not less than 90 percent of such combined fiscal effort or aggregate expenditures for the second preceding fiscal year. 20 U.S.C. § 6337(e).

<sup>17</sup>An LEA may receive its full allocation of Title I, Part A funds for any fiscal year only if the state educational agency (SEA) determines that the LEA has maintained its fiscal effort in accordance with 20 U.S.C. § 7901. Specifically, an LEA must maintain its total or per-pupil expenditures in the preceding fiscal year at 90 percent or more of those expenditures in the second preceding fiscal year.

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the total hours worked divided by the number of hours in a full-time schedule, expressed in FTEs—but they do not account for the total employment arising from the expenditure of Recovery Act funds. The prime recipient is responsible for the reporting of all data required by section 1512 of the Recovery Act each quarter for each of the grants it received under the act.

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## **LEAs Have Obligated Most of Their Funds, Primarily on Retaining Teachers, but the Funding Cliff May Reduce Educational Services**

According to our nationally representative survey of LEAs conducted in spring 2011, nearly all LEAs reported that they had obligated the majority of their Recovery Act funds, primarily for retaining instructional positions, which assisted LEAs in restoring shortfalls in state and local budgets that LEAs have had to cope with over the past few school years. As a result of the fiscal stress states faced during the recession, a number of state educational agencies (SEA) and LEAs have had difficulty meeting their required MOE requirements for IDEA. States that do not either fully meet their MOE requirements or receive a waiver from Education may face a reduction in future IDEA allocations. State and LEA officials we visited stated that the actions they have taken to deal with decreased budgets and the expiration of their Recovery Act funds—such as reducing instructional supplies and equipment and cutting instructional positions—could have a negative impact on the educational services they provide to students.

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## **Most LEAs Have Obligated the Majority of Their Recovery Act Education Funds**

According to our survey, the majority of LEAs reported they had already obligated most of their SFSF; ESEA Title I, Part A; and IDEA, Part B funds. Nearly all of the LEAs—99 percent for SFSF; and 97 percent for ESEA Title I and IDEA, Part B—reported that they expected to obligate all of their Recovery Act funds prior to September 30, 2011.<sup>18</sup> However, approximately one-quarter (23 percent) of LEAs reported that uncertainty about allowable uses of the funds impacted their ability to expend them in a timely and effective manner.

According to data from Education, as of September 9, 2011, about 4 percent of the states' obligated Recovery Act funds remain available for

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<sup>18</sup>The Recovery Act education funds must be obligated by September 30, 2011.

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expenditure.<sup>19</sup> See appendix II for percentages of awarded Recovery Act funds drawn down by states. As of September 9, 2011, two states had drawn down 100 percent of their ESEA Title I, Part A funds. Additionally, 27 states had drawn down all of their SFSF education stabilization funds, while Wyoming, for example, had the lowest drawdown rate for SFSF—34 percent. Drawdowns can lag behind actual expenditures for various reasons. For example, SEA officials in Wyoming stated that funds for certain uses, such as professional development, tended to be expended in large amounts during the middle and end of the school year which did not require them to draw down funds at a constant rate throughout the school year. Additionally, SEA officials in Alaska told us their drawdown rates appeared low because the state draws down funds on a quarterly basis to reimburse LEAs after their allocations have been spent.

SEA officials in the states we visited told us they provided guidance on obligating Recovery Act funds in an effort to assist LEAs in meeting the deadline for obligation of the funds. For example, SEA officials in Massachusetts told us that they sent four communiqués and conducted teleconferences with LEAs with the goal of ensuring that SFSF funds were spent appropriately and in a timely fashion. In Wyoming, SEA officials stated they requested that districts submit Periodic Expenditure Reports on a quarterly basis so that they could assess districts' spending of Recovery Act funds. They also told us that they contacted districts to determine if they were having challenges obligating the funds by the September 2011 deadline and sent e-mails to their districts notifying them of the amount of funds they had remaining.

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### Recipients Used Most of Their Recovery Act Funds to Retain Teachers, Build Capacity, and Maintain Educational Services

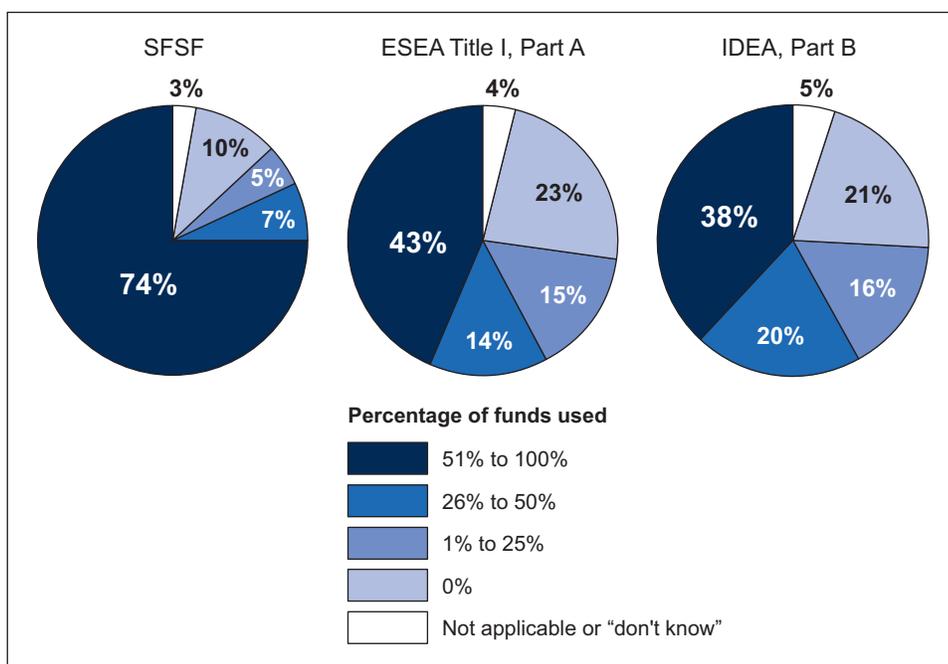
Retaining staff was the top use cited by LEAs of SFSF; IDEA, Part B; and ESEA Title I, Part A Recovery Act funding over the entire grant period. According to our survey, about three-quarters of LEAs spent 51 percent or more of their SFSF funds on job retention (see fig. 1). A smaller, but substantial, percentage of LEAs also reported using 51 percent or more of their ESEA Title I, Part A and IDEA, Part B Recovery Act funding—an estimated 43 percent and 38 percent, respectively—for job retention. Specifically, in the 2010-2011 school year, the large majority of LEAs (84 percent) used Recovery Act funds to retain instructional positions, which

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<sup>19</sup>U.S. Department of Education, *American Recovery and Reinvestment Act of 2009, Spending Report by Program*, <http://www2.ed.gov/policy/gen/leg/recovery/spending/program.xls>, September 9, 2011.

typically include classroom teachers and paraprofessionals. Salaries and benefits comprise the majority of public school's budgets, and funds authorized by the Recovery Act provided LEAs additional funds to pay for the retention of education staff.

**Figure 1: Estimated Percentage of LEAs That Used Various Amounts of SFSF Funds; ESEA Title I, Part A; and IDEA, Part B Recovery Act Funds to Retain Staff over the Entire Grant Period**



Source: GAO survey of LEAs in school year 2010-11.

In addition to retaining instructional positions, LEAs spent Recovery Act funds on one-time, nonrecurring purchases and sustainable items that built capacity without creating recurring costs. According to our survey, 78 percent of LEAs reported using 1 to 25 percent of at least one of their Recovery Act funding sources—SFSF; ESEA Title I, Part A; or IDEA, Part B—on one-time expenditures, such as professional development for instructional staff, computer technology, and instructional materials. For example, LEA officials in one district in Mississippi told us that they used Recovery Act funds to invest in technology, security equipment, and a handicapped-accessible school bus for students with special needs. In the New Bedford Public Schools district in Massachusetts, LEA officials stated that Recovery Act funds were used to rehabilitate and redeploy computers around the district, purchase iPad connections to enable

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online learning, and provide professional development to teachers on various technological efforts. See figure 2.

**Figure 2: Examples from Selected States of How LEAs Spent SFSF; ESEA Title I, Part A; and IDEA, Part B Recovery Act Funding**

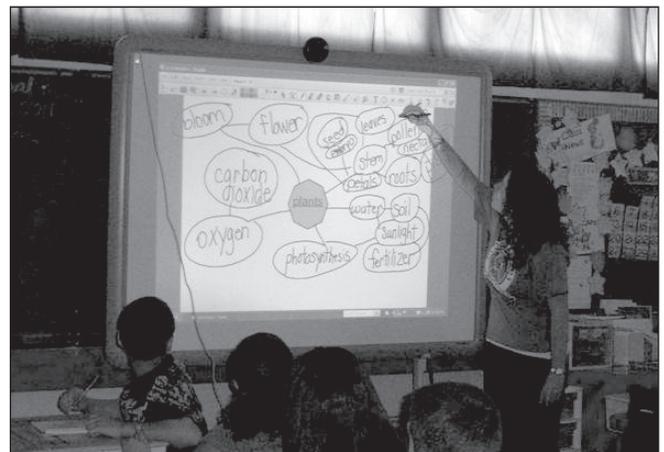


Mississippi summer school students work in a computer lab in a Water Valley elementary school.



A display showing images from security cameras around a school in Mississippi.

A classroom in Fairfield-Suisun in California that helps students with cognitive disabilities and significant behavioral issues learn life skills, such as cooking and cleaning.



Above: A New Bedford School District teacher in Massachusetts using a Smart Board to help students with a writing assignment.

Left: A “Sensory Room” designed to aid the physical and cognitive development of students with special needs in New Bedford School District in Massachusetts.

Source: GAO.

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Other one-time purchases made with Recovery Act funds enhanced districts' capacity to provide services in the future, sometimes with anticipated long-term cost savings. In Massachusetts, we visited two LEAs—Newton Public Schools and New Bedford Public Schools—that used IDEA, Part B Recovery Act funds to provide or expand their services for students with special needs instead of paying more expensive schools or facilities to provide the alternative programs and services. LEA officials in Fairfield-Suisun Unified School District in California told us they used IDEA, Part B Recovery Act funds to implement two initiatives they expected to lead to significant cost savings in the future. The first initiative involved partnering with the nearby University of the Pacific to recruit recent speech pathology graduates. In exchange for externships and student loan stipends paid for with Recovery Act funds, the students committed to working in the district for 3 years upon graduation. These newly licensed therapists would be paid salaries around \$45,000 per year, considerably less than the contracted therapists that cost the district over \$100,000 per year. Further, because of the 3-year commitment, officials stated the graduates were more likely to continue working in the district as permanent employees. Officials estimated that this initiative could save them \$800,000 in the 2011-2012 school year. The second initiative used IDEA, Part B Recovery Act funds to start a public school for emotionally disturbed students who previously attended non-public schools at the district's expense. According to the officials, remodeling the old school building was both cost-effective and programmatically effective, since non-public schools for emotionally disturbed students could cost up to \$85,000 per student, with additional costs for occupational and speech therapy if needed. The new public school costs from \$25,000 to \$35,000 per student, according to district officials. Additionally, officials at Hinds Community College in Mississippi used SFSF education stabilization funds to invest in energy conservation. Specifically, the college contracted with an organization to help educate students and staff on energy conservation efforts, such as turning off lights and computers. The officials stated that they saved approximately \$1 million on utilities in fiscal year 2010, which offset the need to increase tuition.

Compared to the year prior to receiving Recovery Act funds, a large majority of LEAs reported being able to, with the use of Recovery Act funds, maintain or increase the level of service they could provide to students (see table 1). LEA officials in the Center Point-Urbana Community School District in Iowa told us that Recovery Act funds allowed the district to maintain its core curriculum, provide professional development to instructional staff, and maintain the collection of

assessment data that helps them align the district’s curriculum with the state’s core curriculum. LEA officials in the Water Valley School District in Mississippi stated that SFSF funds allowed the district to maintain its reform efforts because they allowed students greater access to teachers. They explained that saving those teacher positions allowed them to keep class sizes small and offer more subjects, such as foreign language, fine arts, and business classes.

However, an estimated 13 percent of LEAs were not able to maintain the same level of service even with Recovery Act SFSF funds. These LEAs reported a number of factors that had an effect on their decreased level of service, including increases in class size, reductions in instructional and non-instructional programs, and reductions in staff development. For example, LEA officials at the Tipton Community School District in Iowa stated that, even with Recovery Act funding, they could not afford to maintain their high school agriculture program and middle school vocal music program on a full-time basis.

**Table 1: Estimated Percentage of LEAs Reporting Maintaining, Increasing, or Decreasing Level of Service**

	Maintain	Increase	Decrease
ESEA Title I, Part A	50	46	3
IDEA, Part B	58	38	2
SFSF	71	14	13

Source: GAO survey of LEAs in school year 2010-11.

Note: There were variations in the wording of the survey questions that were used to create this table. We asked respondents about the overall effect of their Title I, Part A funds on education reform efforts and the overall effect of their IDEA, Part B funds on education reform for students with disabilities. We asked respondents how their SFSF funds affected their ability to maintain or raise the level of service in their LEA.

## LEAs Reported Anticipating Continued Fiscal Constraints and Being Likely to Reduce Educational Services

The fiscal condition of LEAs across the country is mixed, but many school districts continued to face funding challenges in the 2010-2011 school year. One sign of state fiscal stress has been mid-year budget reductions resulting from lower revenues than those forecasted. Nationwide, in state fiscal year 2011, one of the program areas where many states made mid-year general fund expenditure reductions was K-12 education, according

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to the Fiscal Survey of States.<sup>20</sup> Out of the 23 states that reported making mid-year reductions, 18 states reduced K-12 education funding. Looking forward to fiscal year 2012, reductions for K-12 education had been proposed in 16 states, according to the Fiscal Survey of States.<sup>21</sup> Given that nearly half of education funding, on average, is provided by the states, the impact of state-level reductions to education could significantly affect LEA budgets.

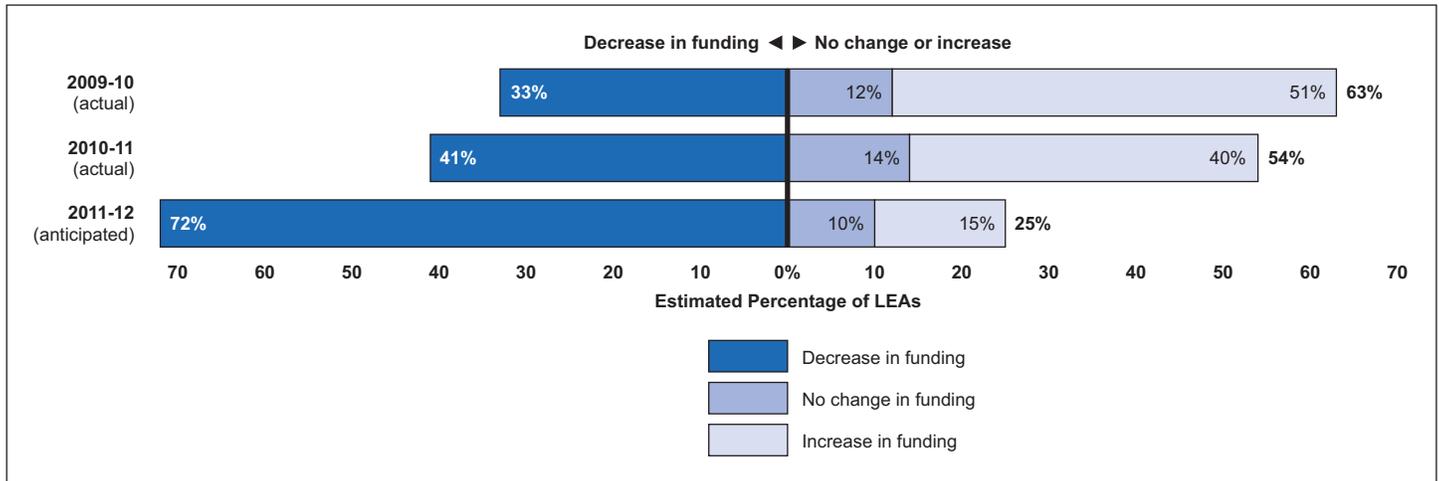
Over the course of our work on the Recovery Act, our surveys of LEAs have shown a mixed but deteriorating fiscal situation for the nation's LEAs. Specifically, our survey of LEAs conducted in the 2009-2010 school year indicated that an estimated one-third of LEAs reported experiencing funding decreases in that year. Our survey conducted in the 2010-2011 school year showed that an estimated 41 percent of LEAs reported experiencing funding decreases in that year. Moreover, nearly three-quarters (72 percent) anticipated experiencing funding-level decreases in school year 2011-2012 (see fig. 3). Further, LEAs anticipated decreases of varying amounts—24 percent expected decreases between 1 and 5 percent, 29 percent expected decreases between 6 and 10 percent, and 19 percent expected decreases over 10 percent.

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<sup>20</sup>The National Governors Association and the National Association of State Budget Officers, *The Fiscal Survey of States* (Washington, D.C.: Spring 2011). Forty-six states begin their fiscal years in July and end them in June. The exceptions are Alabama and Michigan, with October to September fiscal years; New York, with an April to March fiscal year; and Texas, with a September to August fiscal year.

<sup>21</sup>*The Fiscal Survey of States*, Spring 2011, "Table 9. Fiscal 2012 Recommended Program Area Cuts," 11.

**Figure 3: Estimated Percentage of LEAs with Funding-Level Changes in School Years 2009-2010 and 2010-2011, and Anticipated Funding Changes for School Year 2011-2012**



Source: GAO survey of LEAs in school years 2009-10 and 2010-11.

All types of LEAs have had to cope with declining budgets in the past few school years, but LEAs with high student poverty rates were especially hard hit. LEAs that had high student poverty rates (54 percent) more often reported experiencing funding decreases compared to those with low student poverty rates (38 percent).<sup>22</sup> Additionally, 45 percent of suburban LEAs reported experiencing a decrease in funding from the 2009-2010 school year to the 2010-2011 school year.<sup>23</sup> Likewise, 41 percent of rural LEAs and 33 percent of urban LEAs reported experiencing funding decreases in the same year.<sup>24</sup> In addition, 62 percent of LEAs that experienced a decrease in funding in the 2010-2011 school year reported

<sup>22</sup>We used data from the U.S. Census Bureau's Small Area Income and Poverty Estimates (SAIPE) program to stratify LEAs by poverty status. The SAIPE program provides estimates by LEA of poverty rates, the number of children age 5 to 17 in poverty, and median household income. We defined an LEA to be high poverty if 20 percent or more of the children who are age 5 through 17, and served by the local LEA, are from families with incomes below the poverty line. The margins of error for the estimates for LEAs with high and low poverty rates were plus or minus 9.3 and 7.9 percentage points, respectively.

<sup>23</sup>The margin of error for this estimate was plus or minus 9.5 percentage points.

<sup>24</sup>The margins of error for the estimates for rural and urban LEAs were 8.2 and 8.1 percent, respectively.

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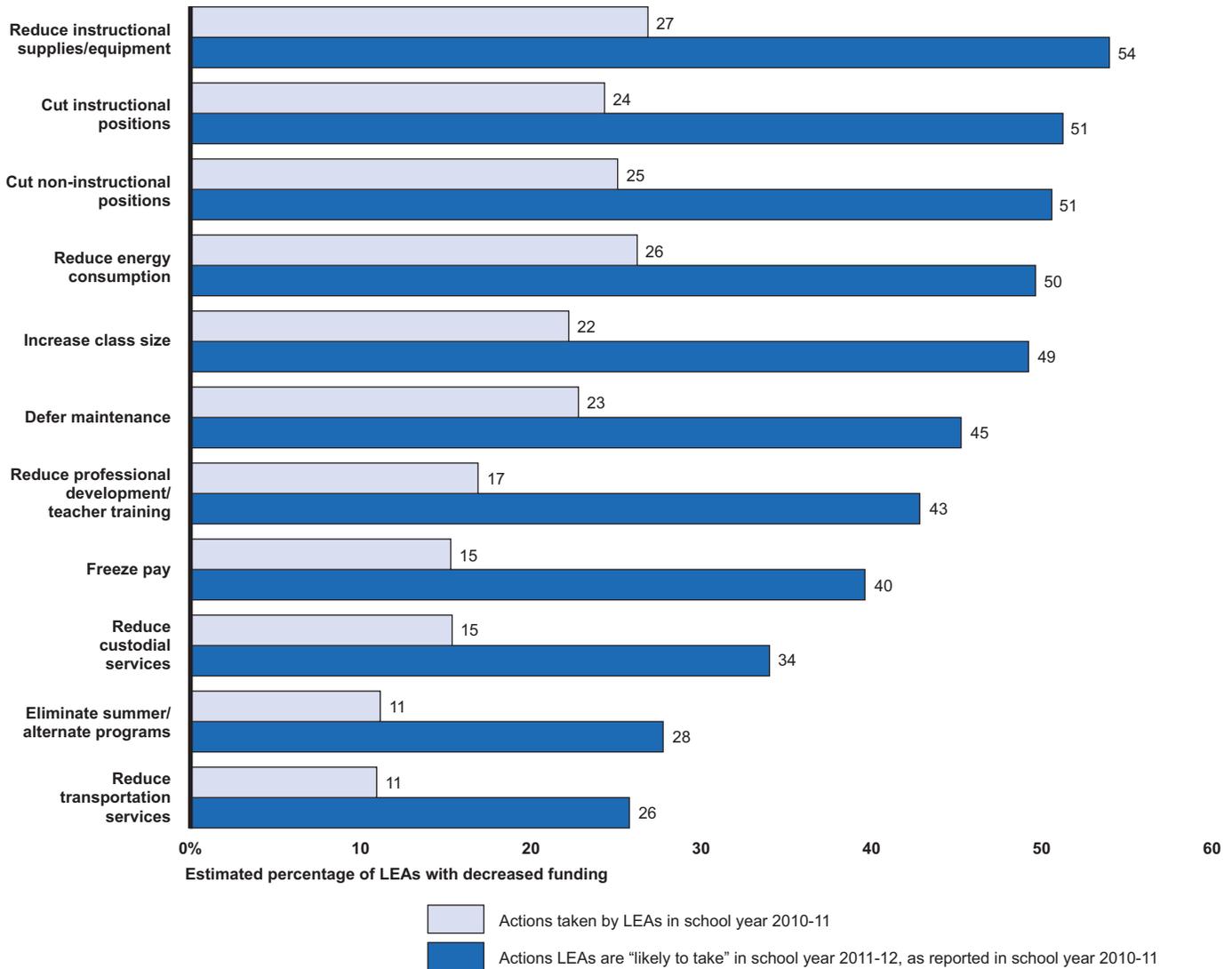
that they formed or planned to form an advisory committee or hold meetings with community stakeholders to develop budget recommendations as a cost-saving strategy.<sup>25</sup>

To address their funding decreases in school year 2010-2011, about one-quarter or more of LEAs reported taking actions such as reducing instructional supplies and equipment and cutting instructional positions. Moreover, about one-half of LEAs that expected a decrease in funding in the upcoming 2011-2012 school year reported that they would likely have to reduce instructional supplies and equipment or cut instructional and non-instructional positions in the 2011-2012 school year to address the budget shortfall (see fig. 4).

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<sup>25</sup>The margin of error for this estimate was plus or minus 8.4 percentage points.

**Figure 4: Selected Actions Taken in School Year 2010-2011 and Likely Actions LEAs Will Take in School Year 2011-2012 Reported by LEAs Experiencing or Expecting Funding Decreases**



Source: GAO survey of LEAs in school year 2010-11.

Note: The LEAs who responded that they took actions in school year 2010-11 may not be the same LEAs that reported that they anticipated being likely to take actions in school year 2011-12.

LEAs across the country will soon exhaust their SFSF; ESEA Title I, Part A; and IDEA, Part B Recovery Act funds, which will place them at the edge of a funding cliff—meaning that they will not have these funds to

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help cushion budget declines in the upcoming 2011-2012 school year. However, many LEAs planned to spend Education Jobs Fund awards, which could mitigate some of the effects of the funding cliff. Congress created the Education Jobs Fund in 2010, which generally provides \$10 billion to states to save or create education jobs for the 2010-2011 school year.<sup>26</sup> States distribute the funds to LEAs, which may use the funds to pay salaries and benefits, and to hire, rehire, or retain education-related employees for the 2010-2011 school year. According to our survey, an estimated 51 percent of LEAs spent or planned to spend 75 to 100 percent of their Education Jobs fund allocation in the 2010-2011 school year and about 49 percent planned to spend the same amount in the 2011-2012 school year. The large majority of LEAs (72 percent) spent or planned to spend most of the funds on retaining jobs, as opposed to hiring new staff or rehiring former staff.

State and LEA officials we visited stated that the actions they have taken to deal with decreased budgets and the expiration of their Recovery Act funds could have an impact on the educational services they provide. For example, officials at the Fairfield-Suisun Unified School District in California told us that they tried to make cuts that had the least impact on the classroom, but they had begun making cuts that would impact the students. For example, they reported that they will increase class sizes, cut administrative and student support staff, eliminate summer school programs, and close schools because of their decreased budget. LEA officials at the Newton Public School District in Massachusetts stated that they cut many support services and were reviewing under-enrolled classes to determine which programs to eliminate. They stated that they tried to insulate cuts to mitigate the impact on student learning, but stated that the cuts would nonetheless negatively impact the students' educational services. In Hawaii, SEA officials told us that their state was considering certain cost-saving scenarios to help mitigate the state's strained fiscal climate, including decreasing wages for all SEA employees, increasing class size, and eliminating school bus transportation for all students except those with special needs.<sup>27</sup> Officials

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<sup>26</sup>Pub. L. No. 111-226, § 101, 124 Stat. 2389 (2010). According to Education guidance, the funds are available for obligations that occur as of August 10, 2010 (the date of enactment of the Act). An LEA that has funds remaining after the 2010-2011 school year may use those remaining funds through September 30, 2012.

<sup>27</sup>The Hawaii Department of Education is both an LEA and an SEA.

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noted that eliminating bus transportation could lead to increased student absences and could be a challenge for students living in rural areas. Additionally, officials at the Center Point-Urbana School District in Iowa told us that they made several adjustments to save costs and be more efficient, such as reducing custodial staff. Because it is a small, rural district, Center Point-Urbana officials told us that any further cuts would jeopardize the quality of education it can provide to students.

Further, a recent Center on Education Policy report found funding cuts also hampered progress on school reform.<sup>28</sup> According to their national survey of school districts, they estimate that 66 percent of school districts with budget shortfalls in 2010-2011 responded to the cuts by either slowing progress on planned reform, or postponing or stopping reform initiatives. Further, about half (54 percent) of the districts that anticipated shortfalls in 2011-2012 expected to take the same actions next school year.

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### LEAs Reduced Support for Special Education Due to Flexibility Allowed under IDEA

According to our survey, over a quarter of LEAs decreased their spending on special education because of the local MOE spending flexibility allowed under IDEA and the large influx of Recovery Act IDEA funds. Under IDEA, LEAs must generally not reduce the level of local expenditures for children with disabilities below the level of those expenditures for the preceding year.<sup>29</sup> The law allows LEAs the flexibility to adjust local expenditures, however, in certain circumstances. Specifically, in any fiscal year in which an LEA's federal IDEA, Part B Grants to States allocation exceeds the amount the LEA received in the previous year, an eligible LEA<sup>30</sup> may reduce local spending on students with disabilities by up to 50 percent of the amount of the increase.<sup>31</sup> If an LEA elects to reduce local spending, those freed up funds must be used for activities authorized under the ESEA. Because Recovery Act funds for

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<sup>28</sup>Center on Education Policy, *Strained Schools Face Bleak Future: Districts Foresee Budget Cuts, Teacher Layoffs, and a Slowing of Education Reform Efforts* (Washington, D.C.: June 2011).

<sup>29</sup>20 U.S.C. § 1413(a)(2)(A)(iii); 34 C.F.R. § 300.203(b).

<sup>30</sup>To be eligible to exercise this flexibility, among other things, the LEA must be rated as "Meets Requirements" in its performance evaluation conducted by the SEA pursuant to 20 U.S.C. § 1416(a)(1)(C). 20 U.S.C. § 1416(f).

<sup>31</sup>20 U.S.C. § 1413(a)(2)(C)(i).

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IDEA count as part of the LEA's overall federal IDEA allocation,<sup>32</sup> the total increase in IDEA funding for LEAs was far larger than the increases in previous years, which allowed many LEAs the opportunity to reduce their local spending.

As we have previously reported, the decision by LEAs to decrease their local spending may have implications for future spending on special education.<sup>33</sup> Because LEAs are required to assure that they will maintain their previous year's level of local, or state and local, spending on the education of children with disabilities to continue to receive IDEA funds, if an LEA lowers its spending using this flexibility, the spending level that it must meet in the following year will be at this reduced level. If LEAs that use the flexibility to decrease their local spending do not voluntarily increase their spending in future years—after Recovery Act funds have expired—the total local, or state and local, spending for the education of students with disabilities may decrease, compared to spending before the Recovery Act.

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### Many LEAs Anticipate Difficulty Meeting IDEA MOE Requirements, Which May Result in Financial Consequences

Many LEAs anticipate difficulty meeting the IDEA MOE requirement for the next few years and could experience financial consequences if they do not comply. Through our survey, we found that 10 percent of LEAs expected to have trouble meeting their MOE for school year 2010-11 and, in the 2011-12 school year, this percentage jumps to 24 percent of LEAs. For example, Florida officials reported that nearly two-thirds of the LEAs in their state may be in jeopardy of not meeting their MOE requirement. Further, Education officials told us the LEA MOE amount can be difficult to calculate because there are various exceptions and adjustments LEAs can make, such as considering spending changes in the case of students with high-cost services leaving a program, hiring lower salary staff to replace retirees, and extensive one-time expenditures like a computer system. Education officials reported that they provided technical assistance to help states and LEAs understand how to include these exceptions and adjustments in their MOE calculations.

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<sup>32</sup>Pub. L. No. 111-5, § 1601, 123 Stat. 115, 302.

<sup>33</sup>GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, [GAO-09-1016](#) (Washington, D.C.: Sept. 23, 2009).

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Of LEAs that exercised the flexibility to adjust their IDEA MOE amount, 15 percent reported they anticipated having difficulty meeting MOE in 2010-11 even though their required local spending level was reduced.<sup>34</sup> And in 2011-12, 33 percent of the LEAs that took advantage of the MOE adjustment still expected difficulty in meeting their MOE level.<sup>35</sup>

According to Education's guidance, if an LEA is found to have not maintained its MOE, the state is required to return to Education an amount equal to the amount by which the LEA failed to maintain effort. Additionally, IDEA does not provide LEAs an opportunity to receive a waiver from MOE requirements.

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### Several States Applied for IDEA MOE Waivers, but Two States May Receive a Long-Lasting Reduction of IDEA Funding Because Full Waivers Were Not Approved

As of August 2011, seven states had applied for a total of 11 waivers of IDEA MOE requirements and other states reported they were considering applying for a waiver because of fiscal declines in their states. In addition to LEAs, states must also meet MOE requirements. To be eligible for Part B funding, states must provide an assurance that they will not reduce the amount of state financial support for special education below the amount of that support for the preceding fiscal year,<sup>36</sup> and must operate consistent with that assurance. However, Education may waive this state MOE requirement under certain circumstances.<sup>37</sup> While Education has granted full waivers for five instances, it has also denied or partially granted<sup>38</sup> waivers in five instances for Iowa, Kansas, Oregon, and South Carolina (twice) and is currently reviewing an additional waiver request from Kansas (see table 2). In their waiver requests, all seven states cited declining fiscal resources as the reason for not being able to maintain their spending on special education, but waiver requests varied in amount

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<sup>34</sup>The margin of error for this estimate was plus or minus 9.1 percentage points.

<sup>35</sup>The margin of error for this estimate was plus or minus 10.9 percentage points.

<sup>36</sup>20 U.S.C. § 1412(a)(18)(A).

<sup>37</sup>The Secretary may waive this requirement if the Secretary determines that granting a waiver would be equitable due to exceptional or uncontrollable circumstances, such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the state. 20 U.S.C. § 1412(a)(18)(C)(i).

<sup>38</sup>A partial waiver will waive a portion of the amount requested by the state, but deny the remainder.

from nearly half a million dollars in West Virginia to over \$75 million in South Carolina.

**Table 2: Approval Status and Outcomes for IDEA MOE Waivers as of August 2011**

State	State fiscal year	Amount requested	Amount waived	Approval status and outcome
AL	2010	\$9,204,462	\$9,204,462	Approved
IA <sup>a</sup>	2010	38,102,897	38,102,897	Approved
	2011	4,082,923	0	Denied—state recalculated MOE and no shortfall remained. <sup>a</sup>
KS	2010	55,492,707	53,306,253	Partially granted—shortfall of about \$2 million
	2011	34,193,605	<sup>b</sup>	Currently under review
NJ	2010	25,671,915	25,671,915	Approved
OR	2011	15,674,579	0	Denied—state restored shortfall.
SC	2009	20,312,122	20,312,122	Approved
	2010	67,402,525	31,199,616	Partially granted—shortfall of about \$36 million.
	2011	75,343,070	0	Denied—state restored the entire shortfall.
WV	2010	491,580	491,580	Approved

Source: GAO analysis of state waiver requests and Education’s waiver determination letters.

<sup>a</sup>According to Education officials, Iowa recalculated its MOE based and was able to meet the MOE requirement.

<sup>b</sup>Kansas applied for a waiver on August 17, 2011, and is currently being reviewed by Education officials.

Education’s guidance states that it considers waiver requests on a case-by-case basis and seeks to ensure that reductions in the level of state support for special education are not greater in proportion than the reduction in state revenues. In addition, as part of its review of waiver requests, Education seeks to ensure that states are not reducing spending on special education programs more severely than other areas. When Education receives a request for a waiver, officials told us they request state budget data to better understand the state’s calculation of MOE, and to assess whether granting a waiver would be appropriate. According to Education officials, as well as state officials, this process can be lengthy and may involve a lot of back-and-forth between the department and the state to acquire the necessary information, understand the state’s financial situation, and determine the state’s

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required MOE level.<sup>39</sup> Once all the data have been collected and reviewed to determine whether the state experienced exceptional or uncontrollable circumstances and whether granting a waiver would be equitable due to those circumstances, Education officials inform states that their waiver has either been approved, partially granted, or denied.

For states whose waivers are denied or are partially granted, according to Education officials, the state must provide the amount of the MOE shortfall for special education during the state fiscal year in question or face a reduction in its federal IDEA grant award by the amount equal to the MOE shortfall.<sup>40</sup> Education officials told us that because a state must maintain financial support for special education during a fiscal year, IDEA does not permit a state to make up this shortfall after that fiscal year is over. Education officials also told us that once a state's funding is reduced, the effect may be long-lasting in that the IDEA requires that each subsequent year's state allocation be based, in part, on the amount the state received in the prior year.<sup>41</sup> Both Kansas and South Carolina now face reductions of IDEA awards for fiscal year 2012 of approximately \$2 million and \$36 million, respectively. Education officials reported that it is impossible to predict with certainty the effect this may have on the states' future IDEA awards, but they indicated that these reductions may have a long-lasting negative effect on future IDEA awards. South Carolina has filed an "Appeal of Denial of Waiver Request/Reduction in Funds" with Education's Office of Hearings and Appeals regarding Education's decision to partially grant its waiver request for 2009-2010.

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<sup>39</sup>Education officials reported that they try to reach agreement with the state on the amount of a state's required MOE level, the amount of the state's MOE shortfall, and other state budget data.

<sup>40</sup>According to Education officials, whether and how much this reduction affects those states' future IDEA awards depends on a variety of factors contained in the funding formula for IDEA (such as, for example, changes in federal appropriations for IDEA, or changes in the population of children in the state, including the number of children living in poverty).

<sup>41</sup>Education officials told us this result is based on the interaction of two provisions of IDEA -- 20 U.S.C. § 1412(a)(18)(B) (requiring a reduction in a state's IDEA grant for any fiscal year following the fiscal year in which the state failed to maintain support) and 20 U.S.C. § 1411(d) (regarding IDEA funding requirements, which base funding in part upon the amount of IDEA funds a state received in the preceding fiscal year).

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## Education Plans to Assess Results of Recovery Act Funds

Education plans to conduct two common types of systematic program assessment: program evaluation and performance measurement. In the coming years, Education plans to produce an evaluation that will provide an in-depth examination of various Recovery Act programs' performance in addressing educational reform. In addition to this overall assessment of the programs' results, for the SFSF program, Education plans to measure states' ability to collect and publicly report data on preestablished indicators and descriptors of educational reform. Education intends for this reporting to be a means for improving accountability to the public in the shorter term.

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## Education's Planned Evaluations Are Intended to Assess Recovery Act-Funded Outcomes

Education plans to conduct a national evaluation to assess the results of Recovery Act-funded programs and initiatives addressing educational reform. The evaluation is intended to focus on efforts to drive innovation, improve school performance, and reduce student achievement gaps.<sup>42</sup> According to Education officials, the programs covered by the evaluation include SFSF; IDEA, Part B; ESEA Title I, Part A; Race to the Top; the Teacher Incentive Fund; and Ed Tech.<sup>43</sup> Including these Recovery Act education programs in one evaluation will allow for a broad view of the results of programs focused on education reform.

As part of this integrated evaluation, Education plans to issue four reports over the next several years that are descriptive in nature, with the final

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<sup>42</sup>In addition to the integrated evaluation, Education's Institute of Education Sciences (IES) will conduct other Recovery Act-related evaluations that do not include SFSF, IDEA, Part B, and ESEA Title I, Part A. For example, IES will evaluate the implementation and student outcomes related to the Race to the Top grants as well as an impact evaluation on the Teacher Incentive Fund mandated by the Recovery Act. According to IES officials, each evaluation went through an independent award process and has different contractors.

<sup>43</sup>Education established the \$4 billion Race to the Top grant fund to encourage states to reform their elementary and secondary education systems and to reward states that have improved student outcomes, such as high school graduation rates. (For more information on Race to the Top, see GAO, *Race to the Top: Reform Efforts Are Under Way and Information Sharing Could Be Improved*, [GAO-11-658](#) (Washington, D.C.: June 30, 2011)). Through the Teacher Incentive Fund, Education awards competitive grants to states and school districts to support efforts to develop and implement performance-based teacher and principal compensation systems in high-need schools. The Ed Tech program is intended to improve student academic achievement through the use of technology in elementary and secondary schools.

report in 2014 including analysis of outcome data. The four planned reports are described in table 3.

**Table 3: Education’s Planned Reports as Part of Evaluation of Recovery Act Programs That Include SFSF; IDEA, Part B; and, ESEA Title I, Part A**

Type of report and planned completion	Focus of report
<ul style="list-style-type: none"> <li>• Descriptive</li> <li>• Winter 2012</li> </ul>	Analysis of the variation in funding to states, LEAs, and schools and how funds were distributed (e.g., from states to LEAs, directly to LEAs, etc.).
<ul style="list-style-type: none"> <li>• Descriptive</li> <li>• Spring 2012</li> </ul>	<p>The extent to which the key strategies, such as the four reform assurances, are implemented over time and whether the funding seems related to the scope and pace of the activity.</p> <p>How the emphasis and extent of implementation varies by fiscal conditions, other state and LEA characteristics, and the types of Recovery Act program funds received.</p>
<ul style="list-style-type: none"> <li>• Descriptive</li> <li>• Spring 2013</li> </ul>	<p>The extent of support provided by one educational level to another and the match in implementation priorities across them.</p> <p>May also assess whether such factors as clear guidance, technical assistance, or shared priorities are associated with fewer challenges and greater implementation of Recovery Act strategies.</p>
<ul style="list-style-type: none"> <li>• Descriptive and outcome</li> <li>• Summer 2014</li> </ul>	Relationships between levels of Recovery Act funding and implementation of specific reform strategies and how these may be associated with key outcomes (e.g., gains in student achievement, graduation rates). However, definitive causal conclusions cannot be drawn from this study.

Source: GAO analysis of information provided by Education officials.

Notes: For this evaluation, IES contracted with external research professionals, led by Westat.

In addition, studies are planned related to measuring progress in meeting performance goals under the Recovery Act, according to Education officials. For example, Education’s Policy and Program Studies Service will issue a report in 2012 that will examine teacher evaluation and other teacher-related issues based on state reported data under SFSF and through Education’s EDFacts database.<sup>44</sup>

Although the Recovery Act does not require states and LEAs to conduct evaluations of their Recovery Act-funded reform activities, officials in a few states and LEAs we talked with said they are considering conducting

<sup>44</sup>According to Education, EDFacts is an initiative to put performance data at the center of policy, management, and budget decisions for all K-12 education programs. It is a multidimensional data system that includes: (1) an electronic submission system that receives data from states, districts, and schools; (2) analytical tools for analysis of submitted data; and (3) reporting tools for Education staff and data submitters to ensure better use of those data.

evaluations. For example, Mississippi has implemented LEA program evaluations of some Recovery Act funded initiatives using student achievement data. At the local level, between about 43 and 56 percent of LEAs reported that they are neither collecting nor planning to collect data that would allow for the evaluation of the use of SFSF; IDEA, Part B; or ESEA Title I, Part A funds, while between about 19 and 31 percent of LEAs indicated they were either collecting or planning to collect information for this purpose. (See table 4.) For example, officials at one LEA in Massachusetts said that they are evaluating their use of IDEA Recovery Act funds to provide special education programs within the district rather than through private schools.<sup>45</sup>

**Table 4: Estimated Percentage of LEAs with and without Plans to Collect Data for Evaluation Purposes**

Program	Not collecting or planning to collect	Collecting or planning to collect	Don't know
SFSF	56	19	25
ESEA Title I, Part A	43	31	26
IDEA, Part B	47	24	29

Source: GAO survey of LEAs.

## Education Plans to Measure States' Progress on Reporting SFSF Reform Data

In addition to the more comprehensive evaluation, Education intends to assess each state's progress on collecting and publicly reporting data on all of the 37 SFSF-required indicators and descriptors of educational reform because, according to Education officials, the public will benefit from having access to that information.<sup>46</sup> States have until September 30,

<sup>45</sup>In April 2011, Mathematica Policy Research and the American Institutes for Research provided guidance to states on evaluating Recovery Act programs and other educational reforms. The guidance provides a framework for thinking about evaluations and examples of how to apply it, such as illustrating how recipients might evaluate professional development targeted to teachers and instructional leaders.

<sup>46</sup>To receive the second phase of SFSF funding (Phase II), states had to complete an application in which they described their ability to provide data to address 37 indicators and descriptors (34 indicators, 3 descriptors) that support the four assurances they made to receive their initial SFSF funding: (1) to advance reforms in achieving equity in teacher distribution; (2) enhancing standards and assessments; (3) supporting struggling schools; and (4) establishing a statewide longitudinal data system. Education officials said that states are only required to sign that they will meet the assurances and do not have to undertake new initiatives or otherwise indicate that Recovery Act funds are being directly spent on meeting the assurances.

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2011, to report this performance data. As part of that assessment, Education officials said they have reviewed states' SFSF applications and self-reported annual progress reports on uses of funds and the results of those funds on education reform and other areas. Coupled with reviews of the applications and annual reports, Education requires states that receive SFSF funds to maintain a public Web site that displays information responsive to the 37 indicator and descriptor requirements in the four reform areas.<sup>47</sup> For example, on its Web site as of August 2011, Iowa's SEA reported that it includes 9 of the 12 required reporting indicators for its statewide longitudinal data system.<sup>48</sup>

These Web-based, publicly-available data are intended for use within each state, according to Education officials, because individual states and communities have the greatest power to hold their SEAs and LEAs accountable for reforms. Specifically, Education intended this information to be available to state policymakers, educators, parents, and other stakeholders to assist in their efforts to further reforms by publicly displaying the strengths and weaknesses in education systems.<sup>49</sup> Officials in most of the states we talked with said that the requirements to report this information are useful. For example, some state officials pointed out that publicly reporting such data could serve as a catalyst of reform by pointing out areas where the state could improve.<sup>50</sup>

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<sup>47</sup>As we have reported, finalizing the requirements for the SFSF program represented a significant effort by Education that will allow it to document and track the status of the SFSF reform assurances. Moreover, Education sought to use existing data to populate the indicators wherever possible so as to minimize the burden on states and LEAs. GAO, *Recovery Act: 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).

<sup>48</sup>Establishing longitudinal data systems that include 12 specific elements is one of the assurances that states must make to be eligible to receive their portion of SFSF. One of the 12 elements, for example, is a teacher identifier system with the ability to match teachers with students.

<sup>49</sup>GAO has found that entities should use and not simply collect performance information as a compliance exercise. GAO, *Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making*, [GAO-05-927](#) (Washington, D.C.: Sept. 9, 2005).

<sup>50</sup>As we have reported previously, some of these reform goals, such as improving standards and assessments, are more likely to be pursued at the state level than at the local level, while others, such as supporting struggling schools, may not apply to all LEAs.

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In addition to each state publicly reporting this information, Education plans to report states' progress toward complying with the conditions of the SFSF grant at the national level. Education officials said they will summarize states' ability to collect and report on the required indicators and descriptors across the four reform areas. Not all states were able to collect and report this information as of March 2011, but states have until September 30, 2011, to do so. If a state could not report the information, it was required to create a plan to do so as soon as possible and by the September deadline.<sup>51</sup> As part of its reporting, Education will summarize states' responses for certain indicators and descriptors and present it on Education's Web site.<sup>52</sup>

For many other indicators and all three descriptors, Education officials said that it faces challenges in presenting a national perspective on states' progress. For example, there are no uniform teacher performance ratings among LEAs within states and across states, which limits Education's ability to present comparisons. Moreover, states are not required to present information in a consistent manner, making it difficult to present aggregated or comparative data for many of the indicators. Also, Education officials said that because information addressing the three descriptors is presented in narrative, it is difficult to provide summary information. According to Education officials, they did not provide specific guidance on how states are to report the other data elements because they did not want to be too prescriptive. However, according to Education officials, through their reviews of state Web sites they found cases where the sites do not clearly provide the information, and states have acted on Education's suggested improvements to the sites.

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<sup>51</sup>As we have reported, some states' applications for SFSF funding described plans and initiatives that are conditioned on the receipt of funds, in addition to SFSF, under separate federal competitive grants that had not been awarded yet. GAO, *Recovery Act: 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).

<sup>52</sup>Three of the SFSF indicators are part of several other non-SFSF indicators displayed on a "United States Education Dashboard." The Dashboard is intended to show how the nation is progressing on the administration's goal of having the highest proportion of college graduates in the world. For example, the Dashboard provides the latest percentage of 4th and 8th graders proficient on the NAEP reading and mathematics for 2009 and whether this is a change from 2007.

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Additionally, Education plans to use states' progress toward collecting and reporting this information to inform whether states are qualified to participate in or receive funds under future reform-oriented grant competitions, such as they did for the Race to the Top program.<sup>53</sup> GAO has found that using applicant's past performance to inform eligibility for future grant competitions can be a useful performance accountability mechanism.<sup>54</sup> Education communicated its intention to use this mechanism in the final requirements published in the Federal Register on November 12, 2009, but Education has not yet specified how this mechanism will be used.<sup>55</sup> As a result, officials in most of the states we spoke with said they were unaware of how Education planned to use the indicators or how Education would assess them with regards to their efforts to meet assurances. Education officials said they also plan to use the information to inform future policy and technical assistance to states and LEAs.

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## Education and States Help Ensure Accountability, but Education Did Not Consistently Communicate SFSF Monitoring Concerns to States

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<sup>53</sup>For SFSF, states are responsible for assuring advancement of the reform areas, but LEAs were generally given broad discretion in how to spend the SFSF funds. As a result, Education and states bear the bulk of risk since LEAs have received funds whether or not they have pursued activities related to the assurances.

<sup>54</sup>GAO, *Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results*, [GAO-06-1046](#) (Washington, D.C.: Sept. 29, 2006).

<sup>55</sup>74 Fed. Reg. 58,436.

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## A Range of Accountability Efforts Are in Place and Identified Areas for Improvement

To help ensure accountability of Recovery Act funds, a wide variety of entities oversee and audit Recovery Act programs,<sup>56</sup> and Education officials told us they routinely review monitoring and audit results from many of these sources. Federal and state entities we spoke with described various accountability mechanisms in place over Recovery Act education programs, including financial reviews, program compliance reviews, and recipient report reviews. For example, state auditors and independent public accountants conduct single audits that include tests of internal control over and compliance with grant requirements such as allowable costs, maintenance of effort, and cash management practices.<sup>57</sup> The Department of Education, the Education Office of Inspector General (OIG), and various state entities also examine internal controls and financial management practices, as well as data provided quarterly by grant recipients and subrecipients as required by section 1512 of the Recovery Act. Additionally, many of these entities conduct programmatic reviews that include monitoring compliance with program requirements, such as funding allowable activities and achieving intended program goals.

These accountability efforts have helped identify areas for improvement at the state and local levels, such as issues with cash management, subrecipient monitoring, and reporting requirements. For example, since 2009 the Education OIG has recommended that several states improve their cash management procedures after finding that states did not have adequate processes to both minimize LEA cash balances and ensure that LEAs were properly remitting interest earned on federal cash advances.<sup>58</sup>

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<sup>56</sup>GAO, *Recovery Act: 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).

<sup>57</sup>Congress passed the Single Audit Act, codified, as amended, 31 U.S.C. ch. 75, to promote, among other things, sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities. A single audit consists of (1) an audit and opinion on the fair presentation of the financial statements and of the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and over the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs; and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs. The Single Audit Act requirements apply to state and local governments and non-profit organizations that expend \$500,000 or more of federal awards in a year.

<sup>58</sup>For further information about cash management issues we have previously reported, see [GAO-09-1016](#), 57-59, and [GAO-10-604](#), 30-32.

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The Education OIG also found that several states had not developed plans to monitor certain Recovery Act funds or had not incorporated Recovery Act-specific requirements into their existing monitoring protocols. With regard to recipient reporting, various recipients had difficulty complying with enhanced reporting requirements associated with Recovery Act grants. For example, an independent public accounting firm contracted by the Mississippi Office of the State Auditor found 32 instances of noncompliance with reporting requirements in the 43 LEAs it tested. Some of the findings included failure to file quarterly recipient reports on Recovery Act funds as required and providing data in the quarterly reports that differed from supporting documentation.

During the fiscal year 2010 single audits of the state governments we visited, auditors identified noncompliance with certain requirements that could have a direct and material effect on major programs, including some education programs in California and Massachusetts.<sup>59</sup> In Iowa and Mississippi, the auditors found that the states complied in all material respects with federal requirements applicable to each of the federal programs selected by the auditors for compliance testing. Auditors also identified material weaknesses and significant deficiencies in internal control over compliance with SFSF; ESEA Title I, Part A; and IDEA, Part

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<sup>59</sup>As part of a single audit, auditors opine on whether a recipient of federal program funds complied in all material respects with requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of the federal programs selected by the auditors for compliance testing. A “qualified” opinion indicates that the audited entity was in material compliance with program requirements except for certain requirements indicated in the auditor’s report. Auditors qualified their opinion on California’s compliance in part because they found noncompliance with cash management requirements for the Title I program. Auditors qualified their opinion on Massachusetts’ compliance in part because they found noncompliance with requirements applicable to its Federal Family Education Loans, Federal Direct Student Loans, and Vocational Rehabilitation Cluster programs, which were not included in the scope of this Recovery Act education program review.

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B, for some SEAs and LEAs we visited.<sup>60</sup> For example, auditors reported that California's SEA continued to have a material weakness because it lacked an adequate process of determining the cash needs of its ESEA Title I subrecipients.<sup>61</sup> At the state level, Iowa, Massachusetts, and Mississippi were found to have no material weaknesses in internal control over compliance related to Recovery Act education funds, though auditors did identify significant deficiencies in Iowa. For example, in Iowa auditors found several instances of excess cash balances for the SFSF grant. According to our survey of LEAs, nearly 8 percent of all LEAs reported having Single Audit findings related to Recovery Act education funds. For example, an auditor found that one LEA in Iowa had a material weakness because it did not properly segregate duties for SFSF—one employee was tasked with both preparing checks and recording transactions in the general ledger. In Massachusetts, the auditors identified a material weakness because an LEA was not complying with Davis-Bacon Act requirements,<sup>62</sup> such as failing to obtain certified payrolls for vendors contracted for special education construction projects in order to verify that employees were being paid in accordance with

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<sup>60</sup>Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We reviewed 2010 Single Audit findings for the states we visited in-person: California, Iowa, Massachusetts, and Mississippi, as well as the 2 LEAs and 1 IHE we visited in each state. Our review covered Catalog of Federal Domestic Assistance (CFDA) grant numbers 84.010, 84.389, 84.027, 84.391, 84.392, and 84.394.

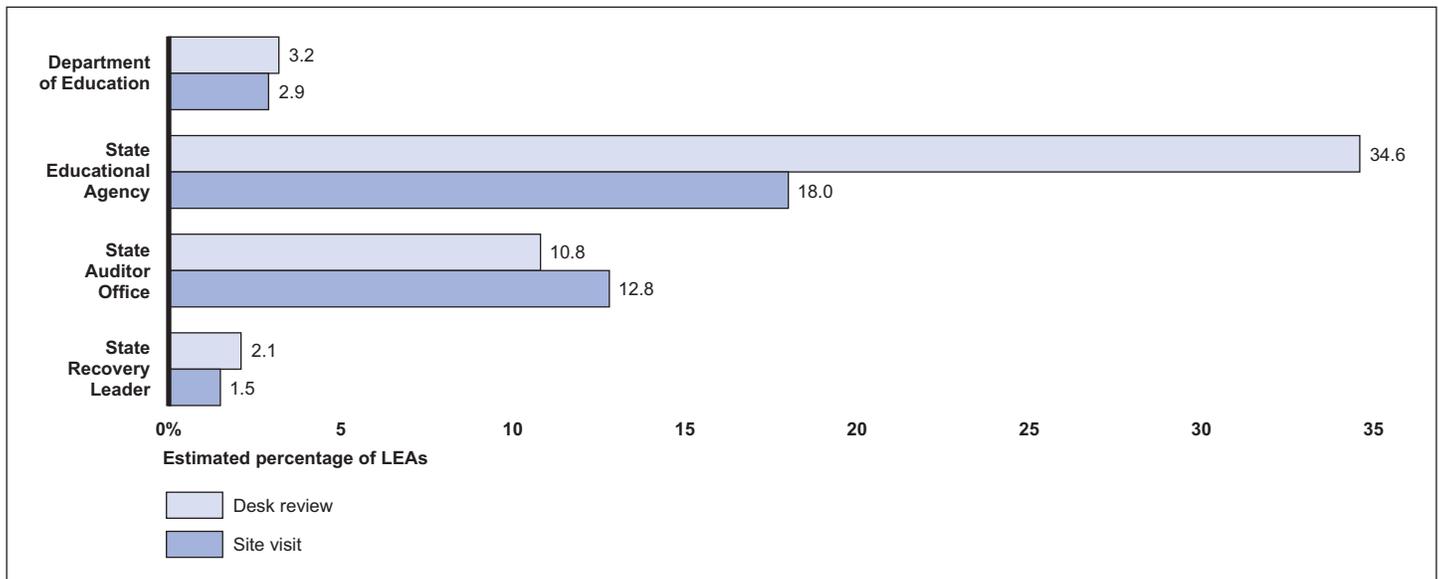
<sup>61</sup>California's 2009 Single Audit also identified deficiencies in cash management of Title I funds. GAO has previously reported on the state's ongoing cash management issues and the actions the SEA has taken to address them—see [GAO-09-830SP](#), [GAO-09-1017SP](#), [GAO-10-232SP](#), and [GAO-10-467T](#). When we spoke with California Department of Education officials in May 2011, they stated they the Web-based reporting system to track LEA cash balances that they began developing in 2009 had been expanded to include Title I, and all federal programs.

<sup>62</sup>The Davis-Bacon Act was enacted in 1931 in part to protect communities and workers from the economic disruption caused by contractors hiring lower wage workers from outside the local geographic area, thus obtaining federal construction contracts by underbidding contractors who pay local wage rates. The act generally requires that employers pay locally prevailing wage rates, including fringe benefits, to laborers and mechanics employed on federally-funded construction projects in excess of \$2,000.

prevailing wage rates. As part of the single audit process, grantees are responsible for follow-up and corrective action on all audit findings reported by their auditor, which includes preparing a corrective action plan at the completion of the audit. For all the 2010 single audit findings described above, the recipients submitted corrective action plans.

Our survey of LEAs showed that federal and state entities also have been monitoring and auditing their Recovery Act funds through both site visits and desk reviews. As figure 5 indicates, over a third of LEAs reported their SEA conducted a desk review to oversee their use of Recovery Act funds, and nearly a fifth reported their SEA conducted a site visit. States are responsible for ensuring appropriate use of funds and compliance with program requirements at the subrecipient level, and Education in turn works to ensure that the states are monitoring and implementing federal funds appropriately. Education does select some school districts for desk reviews and site visits, as shown in figure 5.

**Figure 5: Estimated Percentage of LEAs Reporting Recovery Act Monitoring by Various Entities**



Source: GAO survey of LEAs in school year 2010-11.

Note: Percentages in figure may be underestimates, as survey respondents were instructed to check only one monitoring entity per type of review.

While few LEAs reported that Education monitored their Recovery Act funds directly, Education program offices told us that as part of their oversight efforts, they routinely review and follow up on information from a

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broad range of other entities' monitoring and audit reports. SFSF; ESEA Title I, Part A; and IDEA, Part B program officials told us that information drawn from multiple sources helps to (1) inform their monitoring priorities, (2) ensure states follow up on monitoring findings, and (3) target technical assistance in some cases.

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**Education's New SFSF Oversight Approach Helped Some States Address Findings Quickly but Communication Varied**

Education's approach to ensuring accountability of SFSF funds, which was designed to take into consideration the short timeframes for implementing this one-time stimulus program, as well as the need for unprecedented levels of accountability, has helped some states address issues quickly. Two of Education's goals in monitoring these funds are to (1) identify potential or existing problem areas or weaknesses and (2) identify areas where additional technical assistance is warranted. SFSF officials told us that they have prioritized providing upfront technical assistance to help states resolve management issues before they publish monitoring reports. This is intended to be an iterative process of communicating with states about issues found during monitoring, helping them develop action plans to address findings, and working with them to ensure successful completion of any corrections needed.

Some states we spoke with told us that Education's approach to SFSF monitoring allowed them to resolve issues prior to Education issuing a final monitoring report to the state, and also allowed them to correct systemic or cross-programmatic issues beyond SFSF. For example, New York officials told us that after their monitoring review, Education provided a thorough explanation of the corrective actions that were required. This allowed the state the opportunity to resolve the issues, which were specific to individual subrecipients, prior to the issuance of Education's final monitoring report. North Carolina officials said Education's monitoring helped them to implement new cash management practices, and reported that Education staff were proactive about communicating with the state to enable the issue to be resolved. District of Columbia officials also stated that Education's SFSF monitoring raised awareness of subgrantee cash management requirements and the need for state policies for those requirements across programs. District of Columbia, New York, and North Carolina officials all reported that the technical assistance they received as part of Education's SFSF monitoring follow up was timely and effective.

While some states reported helpful and timely contact from Education after their monitoring reviews were completed, we found that communication varied during the follow-up process, which left some

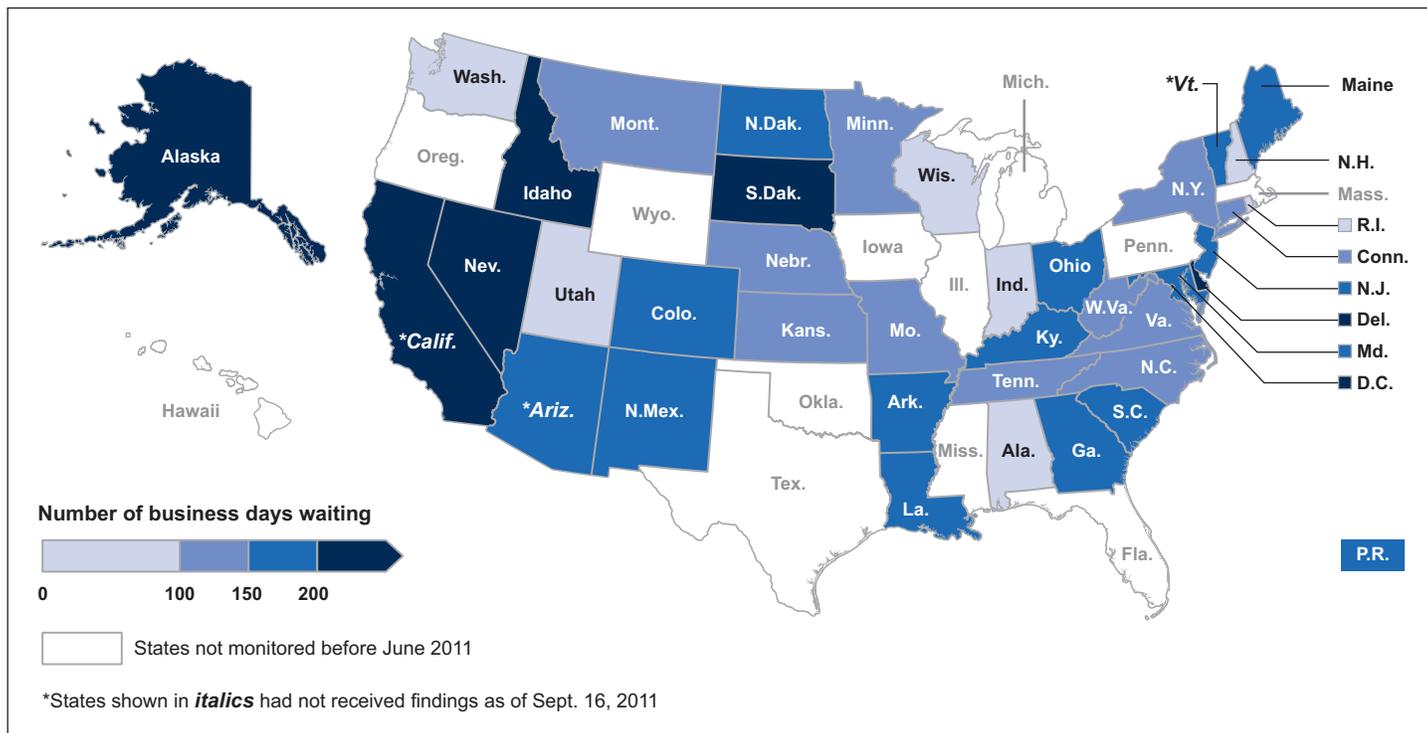
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states waiting for information about potential issues. According to data provided by Education, most states that were monitored before June 2011 received contact at least once before the department issued a draft report with monitoring results. However, several states received no contact from Education before they received draft reports presenting areas of concern. Education officials explained that if complete documentation was available by the end of the state's monitoring review, the situation would require less follow-up communication than if the state needed to submit additional documentation. Additionally, while the department did contact most states after monitoring reviews, they did not consistently communicate feedback to states regarding their reviews. Some states that did not receive monitoring feedback promptly, either orally or in writing, have expressed concerns about their ability to take action on potential issues. For example, an Arizona official told us in June 2011 that the state had not been contacted about the results of its monitoring visit in December 2010 and that follow up contact from Education would have been helpful to make any necessary adjustments during the final months of the SFSF program in the state. According to Education officials, the department did communicate with Arizona on several occasions following the monitoring visit, primarily to request additional information or clarification on such things as the state's method for calculating MOE. Education officials told us that as a result of receiving further information and documentation from the state, they were finalizing the state's draft report and would share the information with the state as soon as possible. In July 2011 California officials told us they had not heard about the results of the monitoring review that was completed 10 months earlier in September 2010. California officials told us that Education raised a question during its review, but the state was unsure about the resolution and whether they would be required to take corrective action. Education officials told us in September 2011 that they had numerous communications with California officials, often to clarify issues such as the state's method for calculating MOE, and that they were still in communication with the state as part of the process of identifying an appropriate resolution.

As a result of Education's approach to monitoring, the length of time between the Department's monitoring reviews and the issuance of the monitoring reports varied greatly—from as few as 25 business days to as many as 265 business days (see fig. 6). The need to address issues identified during monitoring and the subsequent frequency of communication during monitoring follow up can affect the amount of time it takes to issue reports with monitoring results. For example, after Maine's desk review in September 2010, Education contacted the state

10 times to request additional information and clarification before sending the state a draft interim report 7 months later in April 2011. In contrast, Rhode Island was contacted once after its site visit, and Education provided a draft report with results about a month later. In part because of the need for continuous collaboration with states, Education’s written SFSF monitoring plan does not include specific internal time frames for when it will communicate the status of monitoring issues to states after desk reviews and site visits. In the absence of such time frames, the length of time between Education’s monitoring reviews and issuance of draft interim reports with monitoring feedback varied widely across states. Education officials told us they believe states benefit more from the iterative monitoring process that emphasizes early resolution of issues than through the issuance of written monitoring reports.

**Figure 6: Number of Days between SFSF Monitoring Review and Issuance of Draft Report to State (as of 9/16/11)**

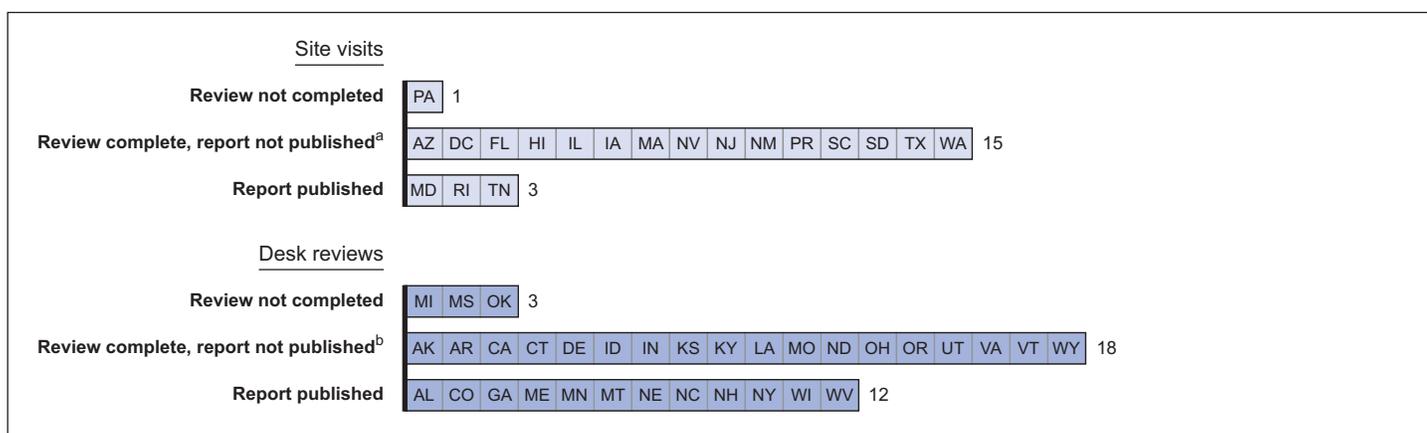


Source: GAO analysis of US Department of Education data.

Due to its SFSF monitoring approach, Education has provided limited information publicly on the results of its oversight efforts, but it has plans to provide more detailed reports on what it has found during monitoring in

the future and has taken steps to share information on common issues found among the states. While most SFSF monitoring reviews have been completed for the 2010-2011 cycle, Education has not communicated information about most of these reviews to the public and the states' governors. Of the 48 completed reviews, only three reports for site visits and 12 reports for desk reviews have been published (see fig. 7). Additionally, the reports that have been published are brief and present a general description of the area of concern without detailing what the specific issues and their severity were. For example, in Tennessee's final letter report, Education wrote that it found issues with LEA funding applications, fiscal oversight, allowable activities, cash management, and subrecipient monitoring. However, Education officials told us that they planned to publish more detailed final reports after the 2011-2012 SFSF monitoring cycle, at which point they would have completed both a desk review and a site visit for each state. In the meantime, to help other states learn from common issues found during SFSF monitoring reviews, Education provided technical assistance to all states via a webinar in February 2011. The webinar highlighted lessons learned during monitoring reviews, including best practices for cash management and separate tracking of funds.

**Figure 7: Status of Education's SFSF Monitoring Reviews and Reports (as of 8/31/11)**



Source: GAO analysis of U.S. Department of Education data.

<sup>a</sup>For the completed site visits, Education has issued draft interim reports to seven states.

<sup>b</sup>For the completed desk reviews, Education has issued draft interim reports to 12 states.

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## Education and States Continue to Oversee the Quality of Recipient Reporting Data in Eighth Round of Reporting

To meet our mandate to comment on recipient reports, we continued to monitor recipient-reported data, including data on jobs funded. For this report, we focused our review on the quality of data reported by SFSF; ESEA Title I, Part A; and IDEA Part B education grant recipients. Using education recipient data from the eighth reporting period, which ended June 30, 2011, we continued to check for errors or potential problems by repeating analyses and edit checks reported in previous reports.

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## Education and States Continue to Review Data Quality and Use Recipient Reports for Monitoring

Education uses various methods to review the accuracy of recipient reported data to help ensure data quality. Specifically, Education compared data from the agency's grant database and financial management system with recipient reported data. These systems contain internal data for every award made to states, including the award identification number, award date, award amount, outlays,<sup>63</sup> and recipient names. Education program officials told us they verified expenditure data in states' quarterly reports by comparing it to data in their internal grants management system. Education officials told us that state expenditures can vary from outlays depending on how the state reimburses its subrecipients, but Education officials review the figures to determine if they are reasonable. In addition, SFSF officials told us they cross-walked the recipient reported data with previous quarterly reports to check for reasonableness. For example, the officials told us they compared the number of subrecipients and vendors from quarter to quarter to see if they increased or stayed the same, as would be expected for a cumulative data point. Education officials stated they worked directly with states to correct any issues found during their checks of recipient reported data. Overall, Education officials agreed that they have made significant progress in ensuring data quality, as compared to the early quarters when they had to focus on helping states understand basic reporting requirements. At this point, the program officials told us they do not generally see significant data quality issues or mistakes when they review recipient reports.<sup>64</sup> In August 2011, the Education OIG reported that they performed 49,150 data quality tests of recipient reported data for grant

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<sup>63</sup>Outlays are defined as the amount of funds obligated by Education and paid to grantees.

<sup>64</sup>We use the term "recipient report" to refer to the reports required by section 1512 of division A of the Recovery Act. Pub. L. No. 111-5, § 1512, 123 Stat. 115, 287.

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awards and found anomalies in 4 percent of the tests.<sup>65</sup> The OIG reported that the Department's processes to ensure the accuracy and completeness of recipient reported data were generally effective.

In addition to Education's efforts to ensure data quality, selected state officials we spoke with said they examined recipient reports of individual subrecipients. For example, Georgia officials told us they reviewed FTE data for reasonableness, compared revenues and expenditures, and ensured all vendors were included in vendor payment reports. The officials stated that they followed up on any questionable items with district staff. As we previously reported, calculating FTE data presented initial challenges for many LEAs, and states worked to ensure the accuracy of the data through a variety of checks and systems. For example, the Mississippi Department of Education helped LEAs calculate FTE data correctly by providing LEAs spreadsheets with ready-made formulas. New York officials told us they examined the calculation of FTEs funded and compared that data with payroll records. North Carolina officials told us that through their review of LEA data, they identified issues with FTE figures that were budgeted but not ultimately verified against actual figures. To improve the accuracy of the data, the state now compares LEA payroll records to their budgeted figures.

Education and selected states told us they used recipient reports to obtain data on expenditures, FTEs, and other activities funded to enhance their oversight and management efforts. For example, Education's special education program officials and most selected states used recipient reported data to track the amount of Recovery Act funds LEAs spent.

In particular, Education officials that administer the IDEA, Part B grant told us they monitored LEA expenditures through recipient reports because it was the only information they had on how much subrecipients had spent. Education and several selected states also told us they examined recipient reports as part of their monitoring efforts. For example, SFSF program officials reviewed recipient reports, particularly expenditure data and the subrecipient award amount, to help choose subrecipients for monitoring. Officials from Arizona, the District of

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<sup>65</sup>To perform this work, the Education OIG used data from the March 31, 2010, recipient report.

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Columbia, and North Carolina told us they used recipient reported data to assess risk and inform their monitoring efforts. For example, the District of Columbia tracks spending rates to ensure subrecipients meet the deadline for using the funds. If a subrecipient has lower than expected spending rates, they are subject to increased monitoring. Arizona uses recipient reported data to verify that internal controls are working, for instance by examining expenditure rates to see whether there may be cash management issues. In addition, Iowa and New York officials said they used recipient reported data to ensure appropriate uses of funds.

State and LEA officials we spoke with continued to report greater ease in collecting and reporting data for recipient reports. As we previously reported, recipients told us they have gained more experience reporting and the reporting process was becoming routine.<sup>66</sup> For example, Arizona officials told us that their centralized reporting process now runs with very little effort or burden on state and local recipients of Recovery Act education funds. Alaska officials stated that the early quarters were challenging for reporting, but the state training sessions with LEAs helped establish a smooth process by the third quarter. At the local level, an LEA official in Iowa told us that while recipient reporting was confusing in the beginning, her district changed some internal procedures and automated some calculations to make the process more efficient. One measure of recipients' understanding of the reporting process is the number of noncompliant recipients. There were no non-compliers in the eighth reporting period for recipients of SFSF, ESEA Title I, Part A or IDEA, Part B funds.<sup>67</sup>

Although the recipient reporting process has become smoother over time, some states and LEAs noted that there continues to be a burden

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<sup>66</sup>GAO, *Recovery Act: 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) 186; and GAO, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, [GAO-10-999](#) (Washington, D.C.: Sept. 20, 2010) 143.

<sup>67</sup>According to Education officials, there was one recipient, Minnesota, that did not report during the eighth reporting period because the Minnesota government was shut down during the grantee reporting period due to budget issues. Consistent with Office of Management and Budget and Recovery Act Transparency Board approved procedures, Education issued Minnesota a waiver for reporting in the April–June 2011 quarter for all education grants. Although not required to, Minnesota did report on the SFSF government services funds.

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associated with meeting reporting requirements, particularly due to limited resources. For example, California officials stated it had been burdensome to collect data from over 1,500 LEAs when there were significant budget cuts. Officials from the Massachusetts SEA stated that the most burdensome aspect of recipient reporting was the short time frame for collecting data from nearly 400 LEAs when local staff were already stretched thin. At the local level, officials at a rural Mississippi school district stated that gathering the supporting documents for their quarterly reports was cumbersome and took a significant amount of time. For example, in the previous quarter one staff member had to upload more than 70 supporting documents to the state's centralized reporting system. Further, Education officials noted that the improvements in the process for recipient reporting have not eliminated the burden on LEAs. Moreover, according to Education officials, although the primary goal of the Recovery Act grants was not reporting, grantees were spending significant amounts of time complying with the reporting process when the Department already had some data elements, such as grant awards and drawdowns, from other sources.

Two recent actions indicate that recipient reporting could be expanded to funds beyond those from the Recovery Act. A White House Executive Order dated June 13, 2011, established a Government Accountability and Transparency Board (Board) to provide strategic direction for enhancing the transparency of federal spending and advance efforts to detect and remediate fraud, waste, and abuse in federal programs, among other things.<sup>68</sup> By December 2011, the Board is required to develop guidelines for integrating systems that support the collection and display of government spending data, ensuring the reliability of those data, and broadening the deployment of fraud detection technologies. In addition, one of the objectives of proposed legislation—the Digital Accountability and Transparency Act of 2011 (DATA Act)—is to enhance transparency by broadening the requirement for reporting to include recipients of non-Recovery Act funds.<sup>69</sup>

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<sup>68</sup>Exec. Order No. 13,576, § 3, 76 Fed. Reg. 35,297 (June 16, 2011).

<sup>69</sup>H.R. 2146, 112<sup>th</sup> Cong. (2011); S. 1222, 112<sup>th</sup> Cong. (2011).

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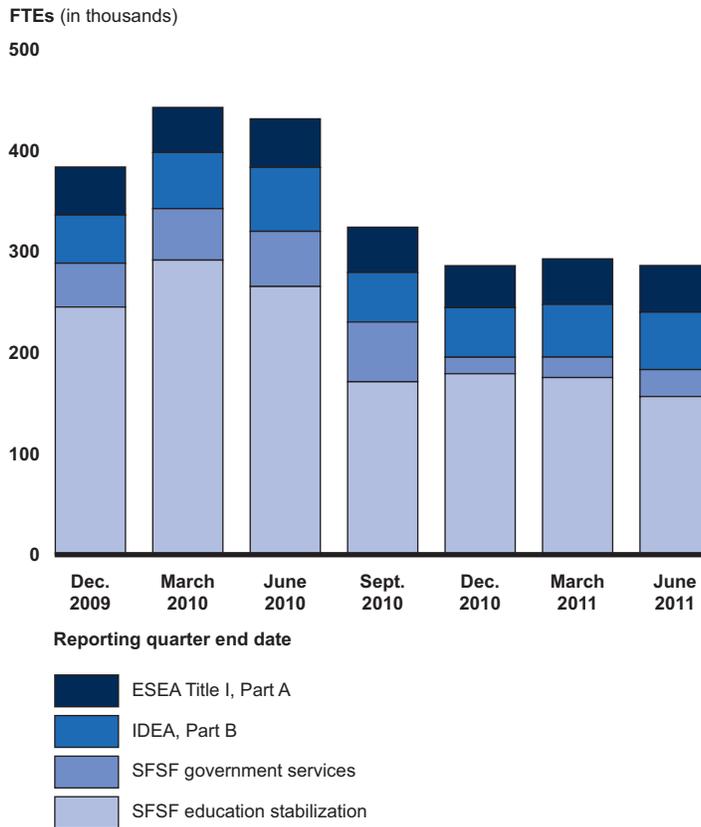
**While FTE Data Have  
Limitations, Education  
Found These Data to Be  
Useful**

According to Recovery.gov, during the quarter beginning April 1, 2011, and ending June 30, 2011, the Recovery Act funded approximately 286,000 FTEs using funds under the programs in our review (see fig. 8).<sup>70</sup> Further, for this eighth round of reporting, similar to what we observed in previous rounds, education FTEs for these programs accounted for about half of all FTEs reported for the quarter. Following OMB guidance, states reported on FTEs directly paid for with Recovery Act funding, not the employment impact on suppliers of materials (indirect jobs) or on the local communities (induced jobs). According to Education officials, FTE numbers were expected to decrease over time because fewer prime recipients would be reporting as they exhaust all of their Recovery Act funds.

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<sup>70</sup>We excluded FTE counts associated with grants whose funding agency was the U.S. Department of Interior.

**Figure 8: FTEs Reported for Recovery Act SFSF; Title I, Part A; and IDEA, Part B in 50 States and DC for Quarters Ending December 2009 through June 2011**



Source: GAO analysis of recipient reported data from Recovery.gov.

Note: Recipient reported data were downloaded from Recovery.gov on July 30, 2011. We did not include FTE data from the first reporting quarter due to concerns about comparability. We did not include FTE counts associated with the Education Jobs Fund.

FTE data provide an overall indication of the extent to which the Recovery Act met one of its intended goals of saving and creating jobs in order to help economic recovery, although some limitations with these data may make it difficult to determine the impact the Recovery Act made in any

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one particular reporting period. In May 2010, GAO identified a number of issues that could lead to under- or over-reporting of FTEs.<sup>71</sup>

Our analysis of the data on Recovery.gov showed variations in the number of FTEs reported, which Education officials said could be explained by states' broad flexibility in determining what they used Recovery Act SFSF funds on and when they allocated those funds. For example, Illinois reported less than 1 FTE in the second reporting round and over 40,000 in the third reporting round for the SFSF education stabilization funds. Education officials stated that rarely would the districts in one state hire 40,000 teachers in 1 quarter. Rather, Education officials said the state likely made a decision to allocate those funds in that quarter to teacher salaries. Similarly, from the fourth to fifth reporting rounds, the number of FTEs more than doubled in Arkansas and nearly doubled in Florida for the SFSF education stabilization funds. Education officials explained that any significant increase or decrease in FTEs likely reflects the state's decision to allocate the funds in one quarter rather than during another quarter. They noted that some states used their funds consistently over time, whereas others used a large portion of the funds at the beginning or end of a school year. Therefore, sharp increases or decreases in the FTE data are not uncommon or unexpected. Delaware reported no FTEs for SFSF government services funds in the eighth reporting round. Education officials stated that Delaware decided to use those funds on operating costs, not salaries.

Education officials told us that recipient reported FTE data were useful to them when assessing the impact of grants on jobs funded. Education does not have any comparable data on jobs funded. Therefore, FTE data provided them a measure of the extent to which the Recovery Act programs, particularly SFSF, accomplished that specific goal of funding jobs. According to Education officials, determining jobs funded was an important, but secondary impact of the Recovery Act funding for the ESEA Title I, Part A and IDEA, Part B grants. The purpose of ESEA Title I is to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education by providing financial assistance to LEAs and schools with high numbers or percentages of poor children. The purpose of IDEA, Part B is to ensure that all students with disabilities

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<sup>71</sup>See GAO, *Recovery Act: 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).

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have available to them a free appropriate public education that emphasizes special education and related services designed to meet their unique needs. According to Education officials, some of the services provided to students using the ESEA Title I, Part A and IDEA, Part B Recovery Act funds led to the creation of jobs while others served the needs of children but did not directly create jobs. Therefore, while FTE data did provide a useful indication of jobs funded for those programs under the Recovery Act, other measures such as student outcomes will be more useful after the Recovery Act ends when assessing the impact of programs with education-related goals.

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## Conclusions

A key goal of Recovery Act funding was to create and retain jobs and, for SFSF, to advance education reforms, and our work has consistently shown that LEAs primarily used their funding to cover the cost of retaining jobs. Additionally, the transparency required by Recovery Act reporting allowed the public access to data on the number of jobs funded and the amount of funds spent, but as the deadline for obligating funds approaches, little is currently known nationally about the advancement of the four areas of educational reform. Education's planned evaluation could make an important contribution to understanding any outcomes related to reform. This national evaluation could be especially important considering that officials in many of our selected states have not planned evaluations, and many LEAs reported that they are neither collecting nor planning to collect data to evaluate the effect of SFSF on education reform efforts. While Education will assess results through its own evaluation, it will not be fully completed for several years. In the shorter term, state reporting on the SFSF indicators and descriptors of reform is the mechanism through which Education and the public track the extent to which a state is making progress. As these final data become available at the end of this fiscal year, Education has plans for assessing state compliance and analyzing the results in order to present, where possible, information to policymakers and the public. Given the accountability and transparency required by the Recovery Act, we feel it is important for Education to follow through with its plans to hold states accountable for presenting performance information and in its efforts to assist the public and policymakers in understanding the reform progress made by states.

In addition to evaluations and reporting, program accountability can be facilitated through monitoring and taking corrective action on audit findings. Because of the historic amount of Education funding included in the Recovery Act, effective oversight and internal controls are of fundamental importance in assuring the proper and effective use of

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federal funds to achieve program goals. Education's new SFSF monitoring process took into account the one-time nature of these funds and was designed to make states aware of monitoring and audit findings to help them resolve any issues or make improvements to their program prior to Education publishing a final report. However, Education's implementation of this process has varied, with some states waiting months to get feedback on monitoring results. When states do not receive timely feedback on monitoring findings, they may not have time to resolve these issues before they have obligated their SFSF funds.

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## Recommendation for Executive Action

To ensure all states receive appropriate communication and technical assistance for SFSF, consistent with what some states received in response to SFSF monitoring reviews, we recommend that the Secretary of Education establish mechanisms to improve the consistency of communicating monitoring feedback to states, such as establishing internal time frames for conveying information found during monitoring.

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## Agency Comments and Our Evaluation

We provided a draft copy of this report to Education for review and comment. Education's comments are reproduced in appendix III.

Education agreed with our recommendation to improve the consistency of communicating SFSF monitoring feedback to states. Specifically, Education responded that their SFSF monitoring protocols should include procedures for effectively communicating the status of monitoring feedback to states. Additionally, Education officials reiterated that the new SFSF monitoring approach was designed as an iterative method to take into consideration the large amount of funding, the complexities of state budget situations, the need to expeditiously resolve monitoring issues due to the short time frames, and the large numbers and diverse types of grantees. Through this monitoring approach, Education officials noted that the department has completed reviews of all but one state and is currently planning the second cycle of monitoring. Education officials reported that the feedback provided to states through this new approach was ongoing and that not all states have required the same level of follow up discussions. GAO agrees that this approach is appropriate given the one-time nature of the SFSF program and, as we point out in our report, this approach has helped states to quickly address potential issues. Since the amount of contact between Education and the states can be numerous and involve multiple officials and agencies, we believe that any actions taken by the department to improve the consistency of communication with states will improve its monitoring process.

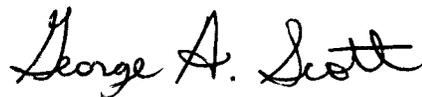
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Education also provided some additional and updated information about their monitoring efforts and we modified the report to reflect the data they provided. In addition, Education provided us with several technical comments that we incorporated, as appropriate.

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We are sending copies of this report to relevant congressional committees, the Secretary of Education, and other interested parties. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or [scottg@gao.gov](mailto:scottg@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.



George A. Scott, Director  
Education, Workforce, and Income Security Issues

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*List of Addressees*

The Honorable Daniel K. Inouye  
Chairman  
The Honorable Thad Cochran  
Vice Chairman  
Committee on Appropriations  
United States Senate

The Honorable Harold Rogers  
Chairman  
The Honorable Norman D. Dicks  
Ranking Member  
Committee on Appropriations  
House of Representatives

The Honorable Joseph I. Lieberman  
Chairman  
The Honorable Susan M. Collins  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Darrell E. Issa  
Chairman  
The Honorable Elijah Cummings  
Ranking Member  
Committee on Oversight and Government Reform  
House of Representatives

The Honorable Tom Harkin  
Chairman  
The Honorable Michael B. Enzi  
Ranking Member  
Senate Health, Education, Labor and Pensions  
United States Senate

The Honorable John Kline  
Chairman  
The Honorable George Miller  
Ranking Member  
Committee on Education and the Workforce  
House of Representatives

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# Appendix I: Objectives, Scope, and Methodology

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To obtain national level information on how Recovery Act funds made available by the U.S. Department of Education (Education) under SFSF; ESEA Title I, Part A; and IDEA, Part B were used at the local level, we designed and administered a Web-based survey of local educational agencies (LEA) in the 50 states and the District of Columbia. We surveyed school district superintendents across the country to learn how Recovery Act funding was used and what impact these funds had on school districts. We selected a stratified<sup>1</sup> random sample of 688 LEAs from the population of 15,994 LEAs included in our sample frame of data obtained from Education's Common Core of Data (CCD) in 2008-09. We conducted our survey between March and May 2011, with a 78 percent final weighted response rate.

We took steps to minimize nonsampling errors by pretesting the survey instrument with officials in three LEAs in January 2011 and February 2011. Because we surveyed a sample of LEAs, survey results are estimates of a population of LEAs and thus are subject to sampling errors that are associated with samples of this size and type. Our sample is only one of a large number of samples that we might have drawn. As each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. All estimates produced from the sample and presented in this report are representative of the in-scope population and have margins of error of plus or minus 7 percentage points or less for our sample, unless otherwise noted. We excluded nine of the sampled LEAs because they were no longer operating in the 2010-11 school year or were not an LEA, and therefore were considered out of scope. This report does not contain all the results from the survey. The survey and a more complete tabulation of the results can be viewed at [GAO-11-885SP](#).

At the state and local level, we conducted site visits to four states (California, Iowa, Massachusetts, and Mississippi), and contacted an additional seven states (Alaska, Arizona, Georgia, Hawaii, North Carolina, New York, and Wyoming) and the District of Columbia to discuss how they were using, monitoring, and planning to evaluate the effect of their Recovery Act funds. In addition, we contacted officials from Florida,

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<sup>1</sup>We stratified the population into strata based on size, poverty level, and urban status. Regarding size, we identified and included the 100 largest LEAs in the country. The 33 geographic districts comprising the New York City Public Schools were treated as one school district and that one district was placed in the 100 largest LEAs stratum.

Kansas, and South Carolina for information regarding IDEA, Part B waivers. We selected these states in order to have an appropriate mix of recipients that varied across certain factors, such as drawdown rates, economic response to the recession, and data availability, with consideration of geography and recent federal monitoring coverage.

During our site visits, we met with SFSF, ESEA Title I, and IDEA officials at the state level as well as LEAs and an Institution of Higher Education (IHE). For the additional seven states, we gathered information by phone or e-mail from state education program officials on fund uses, monitoring, and evaluation. We also met with program officials at Education to discuss ongoing monitoring and evaluation efforts for Recovery Act funds provided through SFSF, ESEA Title I, and IDEA. We also interviewed officials at Education and reviewed relevant federal laws, regulations, guidance, and communications to the states. Further, we obtained information from Education's Web site about the amount of funds these states have drawn down from their accounts with Education.

The recipient reporting section of this report responds to the Recovery Act's mandate that we comment on the estimates of jobs created or retained by direct recipients of Recovery Act funds.<sup>2</sup> For our review of the eighth submission of recipient reports covering the period from April 1, 2011, through June 30, 2011, we built on findings from our prior reviews of the reports. We performed edit checks and basic analyses on the eighth submission of recipient report data that became publicly available at Recovery.gov on July 30, 2011.<sup>3</sup> To understand how the quality of jobs data reported by Recovery Act education grantees has changed over time, we compared the 8 quarters of recipient reporting data that were publicly available at Recovery.gov on July 30, 2011.

In addition, we also reviewed documentation and interviewed federal agency officials from Education who have responsibility for ensuring a reasonable degree of quality across their programs' recipient reports. Due to the limited number of recipients reviewed and the judgmental nature of

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<sup>2</sup>Pub. L. No. 111-5 § 1512(e), 123 Stat. 115, 288.

<sup>3</sup>As with our previous reviews, we conducted these checks and analyses on all prime recipient reports to assess data logic and consistency and identify unusual or atypical data. For this eighth round of reporting, we continued to see only minor variations in the number or percent of reports appearing atypical or showing some form of data discrepancy.

the selection, the information we gathered about state reporting and oversight of FTEs is limited to those selected states in our review and not generalizable to other states. GAO's findings based on analyses of FTE data are limited to those Recovery Act education programs and time periods examined and are not generalizable to any other programs' FTE reporting.

We compared, at the aggregate and state level, funding data reported directly by recipients on their quarterly reports against the recipient funding data maintained by Education. The cumulative funding data reported by the recipients aligned closely with the funding data maintained by the Department of Education. An Education Inspector General report included a similar analysis comparing agency data to recipient reported data from the first quarter of 2010.<sup>4</sup> Although not directly comparable to our analysis, their assessment identified various discrepancies between agency and recipient reported data. We also noted some discrepancies across the education programs we reviewed where the state recipients' reported expenditures were either greater or less than 10 percent of the respective outlays reported by Education. In general, however, we consider the recipient report data to be sufficiently reliable for the purpose of providing summary, descriptive information about FTEs or other information submitted on grantees' recipient reports.

To update the status of open recommendations from previous bimonthly and recipient reporting reviews, we obtained information from agency officials on actions taken in response to the recommendations.

We conducted this performance audit from October 2010 to September 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>4</sup>U.S. Department of Education Office of Inspector General, *American Recovery and Reinvestment Act: The Effectiveness of the Department's Data Quality Review Processes*, ED-OIG/A19K0010 (Washington, D.C.: August 2011).

# Appendix II: Drawdown Rates by Program

**Table 5: Percentage of Awarded Recovery Act SFSF; ESEA Title I, Part A; and IDEA, Part B Funds Drawn Down by States as of September 9, 2011**

	SFSF education stabilization funds	SFSF government services funds	SFSF education stabilization and government services funds	ESEA Title I, Part A	IDEA, Part B
Alaska	87%	92%	88%	95%	93%
Alabama	95	99	96	93	94
Arkansas	88	85	87	86	86
Arizona	100	82	97	92	92
California	100	100	100	98	92
Colorado	98	90	97	89	90
Connecticut	100	100	100	100	99
District of Columbia	99	100	99	65	97
Delaware	90	100	92	86	81
Florida	100	99	100	94	97
Georgia	100	100	100	84	88
Hawaii	100	93	99	84	92
Iowa	100	99	100	96	100
Idaho	100	90	98	90	95
Illinois	100	100	100	95	94
Indiana	95	94	95	90	90
Kansas	96	100	96	99	100
Kentucky	100	100	100	95	93
Louisiana	100	100	100	92	88
Massachusetts	100	96	99	100	100
Maryland	96	100	97	91	86
Maine	95	99	96	93	92
Michigan	100	100	100	94	94
Minnesota	99	100	99	89	92
Missouri	91	98	93	95	89
Mississippi	100	81	97	85	81
Montana	100	98	100	94	95
North Carolina	99	100	99	98	99
North Dakota	100	88	98	85	94
Nebraska	94	100	95	61	74
New Hampshire	100	99	100	76	80
New Jersey	100	100	100	80	81

Appendix II: Drawdown Rates by Program

	SFSF education stabilization funds	SFSF government services funds	SFSF education stabilization and government services funds	ESEA Title I, Part A	IDEA, Part B
New Mexico	100	86	98	93	86
Nevada	100	100	100	95	98
New York	94	97	95	90	85
Ohio	100	100	100	93	95
Oklahoma	100	74	95	89	97
Oregon	98	100	99	97	95
Pennsylvania	93	100	95	82	92
Rhode Island	84	100	87	93	92
South Carolina	96	100	97	90	83
South Dakota	100	100	100	99	100
Tennessee	99	85	96	94	91
Texas	95	99	96	92	90
Utah	100	100	100	87	77
Virginia	89	100	91	79	76
Vermont	97	100	98	98	95
Washington	100	100	100	90	93
Wisconsin	100	100	100	89	89
West Virginia	100	64	94	96	90
Wyoming	34	64	39	84	79
<b>Total</b>	<b>98%</b>	<b>97%</b>	<b>98%</b>	<b>91%</b>	<b>91%</b>

Source: GAO analysis of U.S. Department of Education data.

# Appendix III: Comments from the Department of Education



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE DEPUTY SECRETARY

September 16, 2011

Mr. George A. Scott  
Director  
Education, Workforce,  
and Income Security Issues  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Scott:

I am writing in response to the recommendation made in the draft U.S. Government Accountability Office (GAO) report, "Recovery Act Education Programs: Funding Retained Teachers, but Education Could More Consistently Communicate Stabilization Monitoring Issues" (GAO-11-804). GAO reviewed the administration, implementation, and oversight of three programs administered by the U. S. Department of Education (Department) that received funding under the American Recovery and Reinvestment Act of 2009 (Recovery Act): the State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended; and the Individuals with Disabilities Education Act, as amended (IDEA). The report examines: (1) how selected States and local recipients used the funds; (2) what plans the Department and selected States have to assess the impact of the funds; (3) what approaches are being used to ensure accountability of the funds; and (4) how the Department and States ensure the accuracy of recipient reported data.

We appreciate the time and effort that your office devoted to conducting this review. We are particularly pleased that GAO found that the Recovery Act funds are helping States save the jobs of significant numbers of teachers. However, we are concerned that local educational agencies (LEAs) continue to face challenging fiscal conditions that may be exacerbated when funds under the Recovery Act and the Education Jobs Fund program are no longer available.

The report has one recommendation. The Department's response to the recommendation follows—

**Recommendation:** *To ensure all states receive appropriate communication and technical assistance for SFSF, consistent with what some states received in response to SFSF monitoring reviews, we recommend that the Secretary of Education establish mechanisms to improve the consistency of communicating monitoring feedback to states, such as establishing internal timeframes for conveying information found during monitoring.*

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www.ed.gov

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**Department's Response to the Recommendation:** The Department agrees that it should include in the SFSF monitoring protocols procedures for communicating more effectively to States the status of outstanding matters relative to the monitoring reviews.

Through the SFSF program, the Department fostered a new cooperative relationship with States by working iteratively with them in implementing and monitoring the program. The Department based its SFSF monitoring procedures on the following assumptions:

- Because SFSF was a one-time appropriation and States received a significant amount of funding, the Department's monitoring review needed to differ from that of other formula grant programs where an issue can be resolved by applying conditions on a future year's allocation or requiring States to implement corrective actions at a later date;
- Due to the frequency of State budgetary changes, the Department had to provide States with the opportunity to provide updated data demonstrating compliance with the program's maintenance-of-effort and allocation requirements;
- To help ensure State compliance with applicable requirements and the appropriate use of taxpayer resources during the relatively short life of the program, the Department should prioritize the expeditious resolution of issues over the release of monitoring reports; and
- Since so many different types of entities served as subgrantees (e.g., LEAs, public institutions of higher education, and State agencies such as corrections and transportation agencies), the Department would need to develop a protocol and process that could address a wide variety of contexts and issues. In addition, since governors were not accustomed to administering large Department grant programs, there would be an added level of complexity and the need to orient governors' staffs to the monitoring process.

The Department has made a concerted effort to monitor every State's implementation of the SFSF program annually. As of September 1, 2011, the Department monitored all but one State and is currently planning the second cycle of monitoring. After each monitoring visit or desk review, Department staff conducted a detailed "wrap-up call" with State officials to discuss issues identified during the review. Depending upon the nature of the issues, there were often numerous follow up calls with a State to discuss further strategies for resolving the issues identified. Not all States have required the same level of follow-up discussions. To date, 34 States have received draft reports and 28 States have received subsequent interim reports.

The Department believes that States receive benefit significantly from an iterative monitoring process that emphasizes early resolution of issues rather than the development and issuance of a monitoring report by a specific deadline. The Department's ongoing communications with States during the monitoring process provide them with immediate feedback on identified issues and opportunities to assist them in resolving the issues. The final report will summarize the results of the monitoring process and include an identification of the issues discovered during the monitoring review and a description of the actions taken by States to resolve those issues. In the limited instances when a State has not yet resolved all issues, the report will specify any corrective actions that are necessary to resolve the remaining issues.

Page 3 – Mr. George A. Scott

The Department will refine its monitoring procedures to ensure more effective communication so that each State understands fully the current status of its monitoring review. For example, the Department is developing a template for a form that each program officer would send to a State immediately after a wrap-up call. This form would provide the State with, among other things, a list of issues to be resolved. Further, the Department is including in its monitoring protocols timeframes for communicating with States on monitoring issues.

Finally, there are some discussions in the report that the Department believes could benefit from additional clarification. We are enclosing suggested technical edits to the report.

We appreciate the opportunity to provide this response. Please let us know if you need additional information.

Sincerely,



Ann Whalen  
Director, Policy and Program Implementation  
Implementation and Support Unit

Enclosures

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# Appendix IV: Status of Prior Open Recommendations and Matters for Congressional Consideration

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In this appendix, we update the status of agencies' efforts to implement the 16 recommendations that remain open and are not implemented, 8 newly implemented recommendations, and 1 newly closed recommendation from our previous bimonthly and recipient reporting reviews.<sup>1</sup> Recommendations that were listed as implemented or closed in a prior report are not repeated here. Lastly, we address the status of our matters for congressional consideration.

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## Department of Energy

### Open Recommendations

Given the concerns we have raised about whether program requirements were being met, we recommended in May 2010 that the Department of Energy (DOE), in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that:<sup>2</sup>

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<sup>1</sup>GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, D.C.: Apr. 23, 2009); *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, [GAO-09-829](#) (Washington, D.C.: July 8, 2009); *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, [GAO-09-1016](#) (Washington, D.C.: Sept. 23, 2009); *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, [GAO-10-223](#) (Washington, D.C.: Nov. 19, 2009); *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: Dec. 10, 2009); *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C.: Mar. 3, 2010); *Recovery Act: 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); *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, [GAO-10-999](#) (Washington, D.C.: Sept. 20, 2010); *Recovery Act: Head Start Grantees Expand Services, but More Consistent Communication Could Improve Accountability and Decisions about Spending*, [GAO-11-166](#) (Washington, D.C.: Dec. 15, 2010); *Recovery Act: Energy Efficiency and Conservation Block Grant Recipients Face Challenges Meeting Legislative and Program Goals and Requirements*, [GAO-11-379](#) (Washington, D.C.: Apr. 7, 2011); *Recovery Act: Funding Used for Transportation Infrastructure Projects, but Some Requirements Proved Challenging*, [GAO-11-600](#) (Washington, D.C.: June 29, 2011); and *Recovery Act: Funds Supported Many Water Projects, and Federal and State Monitoring Shows Few Compliance Problems*, [GAO-11-608](#) (Washington, D.C.: June 29, 2011).

<sup>2</sup>[GAO-10-604](#), 124-125.

- Clarifies the specific methodology for calculating the average cost per home weatherized to ensure that the maximum average cost limit is applied as intended.
- Accelerates current DOE efforts to develop national standards for weatherization training, certification, and accreditation, which is currently expected to take 2 years to complete.
- Sets time frames for development and implementation of state monitoring programs.
- Revisits the various methodologies used in determining the weatherization work that should be performed based on the consideration of cost-effectiveness and develops standard methodologies that ensure that priority is given to the most cost-effective weatherization work. To validate any methodologies created, this effort should include the development of standards for accurately measuring the long-term energy savings resulting from weatherization work conducted.

In addition, given that state and local agencies have felt pressure to meet a large increase in production targets while effectively meeting program requirements and have experienced some confusion over production targets, funding obligations, and associated consequences for not meeting production and funding goals, we recommended that DOE clarify its production targets, funding deadlines, and associated consequences, while providing a balanced emphasis on the importance of meeting program requirements.

#### **Agency Actions**

DOE generally concurred with these recommendations and has made some progress in implementing them. For example, to clarify the methodology for calculating the average cost per home, DOE has developed draft guidance to help grantees develop consistency in their average cost per unit calculations. The guidance further clarifies the general cost categories that are included in the average cost per unit. DOE had anticipated issuing this guidance in June 2011, but as of late July 2011 this guidance has not yet been finalized.

Newly Closed  
Recommendation

In response to our recommendation that it develop and clarify guidance that develops a best practice guide for key internal controls, DOE distributed a memorandum dated May 13, 2011, to grantees reminding

them of their responsibilities to ensure compliance with internal controls and the consequences of failing to do so. DOE officials stated that they rely on existing federal, state, and local guidance; their role is to monitor states to ensure they enforce the rules. DOE officials felt that there were sufficient documents in place to require internal controls, such as the grant terms and conditions and a training module. Because all of the guidance is located in one place, the WAPTAC Web site, DOE officials commented that a best practice guide would be redundant. Therefore, DOE officials stated that they do not intend to fully implement GAO's recommendation.

Open Recommendation

To better ensure that Energy Efficiency and Conservation Block Grant (EECBG) funds are used to meet Recovery Act and program goals, we recommended that DOE explore a means to capture information on the monitoring processes of all recipients to make certain that recipients have effective monitoring practices.<sup>3</sup>

**Agency Actions**

DOE generally concurred with this recommendation, stating that "implementing the report's recommendations will help ensure that the Program continues to be well managed and executed." DOE also provided additional information on changes it has implemented. DOE added additional questions to the on-site monitoring checklists related to subrecipient monitoring to help ensure that subrecipients are in compliance with the terms and conditions of the award. These changes will help improve DOE's oversight of recipients, especially larger recipients, which are more likely to be visited by DOE project officers. However, not all recipients receive on-site visits. As noted previously, we believe that the program could be more effectively monitored if DOE captured information on the monitoring practices of all recipients.

Newly Implemented  
Recommendation

To better ensure that Energy EECBG funds are used to meet Recovery Act and program goals, we recommended that DOE solicit information from recipients regarding the methodology they used to calculate their energy-related impact metrics and verify that recipients who use DOE's

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<sup>3</sup>[GAO-11-379](#), 36.

estimation tool use the most recent version when calculating these metrics.<sup>4</sup>

In our report, we concluded that DOE needed more information regarding the recipients' estimating methods in order to assess the reasonableness of energy-related estimates and thus determine the extent to which the EECBG program is meeting Recovery Act and program goals for energy-related outcomes. DOE officials noted that they have made changes to the way they collect impact metrics in order to apply one unified methodology to the calculation of impact metrics. DOE issued guidance effective June 23, 2011, that eliminates the requirement for grant recipients to calculate and report estimated energy savings. DOE officials said the calculation of estimated impact metrics will now be performed centrally by DOE by applying known national standards to existing grantee-reported performance metrics. Based on DOE's action, we concluded that DOE has addressed the intent of this recommendation.

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## Department of Health and Human Services

### Open Recommendation

To help ensure that grantees report consistent enrollment figures, we recommended that the Director of the Department of Health and Human Services' (HHS) Office of Head Start (OHS) should better communicate a consistent definition of "enrollment" to grantees for monthly and yearly reporting and begin verifying grantees' definition of "enrollment" during triennial reviews.<sup>5</sup>

#### **Agency Actions**

OHS issued informal guidance on its Web site clarifying monthly reporting requirements to make them more consistent with annual enrollment reporting. This guidance directs grantees to include in enrollment counts all children and pregnant mothers who are enrolled and have received a specified minimum of services (emphasis added). According to officials, OHS is considering further regulatory clarification.

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<sup>4</sup>GAO-11-379, 36-37.

<sup>5</sup>GAO-11-166, 39.

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Newly Implemented  
Recommendation

To oversee the extent to which grantees are meeting the program goal of providing services to children and families and to better track the initiation of services under the Recovery Act, we recommended that the Director of OHS should collect data on the extent to which children and pregnant women actually receive services from Head Start and Early Head Start grantees.<sup>6</sup>

**Agency Actions**

OHS has reported that, in order to collect information on services provided to children and families, it plans to require grantees to report average daily attendance, beginning in the 2011-2012 school year.

Newly Implemented  
Recommendation

To provide grantees consistent information on how and when they will be expected to obligate and expend federal funds, we recommended that the Director of OHS should clearly communicate its policy to grantees for carrying over or extending the use of Recovery Act funds from one fiscal year into the next.<sup>7</sup>

**Agency Actions**

Following our recommendation, HHS indicated that OHS would issue guidance to grantees on obligation and expenditure requirements, as well as improve efforts to effectively communicate the mechanisms in place for grantees to meet the requirements for obligation and expenditure of funds. HHS has subsequently reported that grantees have been reminded that the timely use of unobligated balances requires recipients to use the “first in/first out” principle for recognizing and recording obligations and expenditures of those funds.

Newly Implemented  
Recommendation

To better consider known risks in scoping and staffing required reviews of Recovery Act grantees, we recommended that the Director of OHS should direct OHS regional offices to consistently perform and document Risk Management Meetings and incorporate known risks, including

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<sup>6</sup>GAO-10-604, 184.

<sup>7</sup>GAO-11-166, 39.

financial management risks, into the process for staffing and conducting reviews.<sup>8</sup>

**Agency Actions**

HHS reported OHS was reviewing the Risk Management process to ensure it is consistently performed and documented in its centralized data system and that it had taken related steps, such as requiring the grant officer to identify known or suspected risks prior to an on-site review. More recently, HHS has indicated that the results and action plans from the Risk Management Meetings are documented in the Head Start Enterprise System and used by reviewers to highlight areas where special attention is needed during monitoring reviews. HHS also notes that the Division of Payment Management (DPM) sends OHS monthly reports on grantees to assist OHS in performing ongoing oversight, monitoring grantee spending, and assessing associated risks and that it has incorporated a new fiscal information form as a pre-review requirement to ensure that fiscal information and concerns known to the regional office staff are shared with on-site reviewers.

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Department of Housing  
and Urban Development

Open Recommendation

Because the absence of third-party investors reduces the amount of overall scrutiny Tax Credit Assistance Program (TCAP) projects would receive and the Department of Housing and Urban Development (HUD) is currently not aware of how many projects lacked third-party investors, we recommended that HUD should develop a risk-based plan for its role in overseeing TCAP projects that recognizes the level of oversight provided by others.<sup>9</sup>

**Agency Actions**

HUD responded to our recommendation by saying it must wait for final reports from housing finance agencies on TCAP project financing sources

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<sup>8</sup>GAO-11-166, 39.

<sup>9</sup>GAO-10-999, 189.

in order to identify those projects that are in need of additional monitoring. When the final reports are received, HUD said it will develop a plan for monitoring those projects. HUD said it will begin identifying projects that may need additional monitoring at the end of September 2011 when sufficient information should be available to determine which projects have little Low-Income Housing Tax Credit investment and no other leveraged federal funds.

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## Department of Labor

### Newly Implemented Recommendations

To enhance the Department of Labor's (Labor) ability to manage its Recovery Act and regular Workforce Investment Act (WIA) formula grants and to build on its efforts to improve the accuracy and consistency of financial reporting, we recommended that the Secretary of Labor take the following actions:<sup>10</sup>

- To determine the extent and nature of reporting inconsistencies across the states and better target technical assistance, conduct a one-time assessment of financial reports that examines whether each state's reported data on obligations meet Labor's requirements.
- To enhance state accountability and to facilitate their progress in making reporting improvements, routinely review states' reporting on obligations during regular state comprehensive reviews.

### Agency Actions

Labor reported that it has taken actions to implement our recommendations. To determine the extent of reporting inconsistencies, Labor awarded a contract in September 2010 and completed the assessment of state financial reports in June 2011. Labor is currently analyzing the findings and expects to have a final report and recommendations in the fall of 2011. To enhance states' accountability and facilitate their progress in making improvements in reporting, Labor issued guidance on federal financial management and reporting definitions on May 27, 2011, and conducted training on its financial reporting form and key financial reporting terms such as obligations and

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<sup>10</sup>[GAO-10-604](#), 244.

Newly Implemented  
Recommendation

accruals. Labor also reported that it routinely monitors states' reporting on obligations as part of its oversight process and comprehensive on-site reviews.

Our September 2009 bimonthly report identified a need for additional federal guidance in defining green jobs and we made the following recommendation to the Secretary of Labor:<sup>11</sup>

- To better support state and local efforts to provide youth with employment and training in green jobs, provide additional guidance about the nature of these jobs and the strategies that could be used to prepare youth for careers in green industries.

**Agency Actions**

Labor agreed with our recommendation and has taken several actions to implement it. Labor's Bureau of Labor Statistics (BLS) has developed a definition of green jobs, which was finalized and published in the Federal Register on September 21, 2010. In addition, Labor continues to host a Green Jobs Community of Practice, an online virtual community available to all interested parties. The department also hosted a symposium on April 28 and 29, 2011, with the green jobs state Labor Market Information Improvement grantees. Symposium participants shared recent research findings, including efforts to measure green jobs, occupations, and training in their states. In addition, the department released a new career exploration tool called "mynextmove" ([www.mynextmove.gov](http://www.mynextmove.gov)) in February 2011 that includes the Occupational Information Network (O\*NET) green leaf symbol to highlight green occupations. Additional green references have recently been added and are noted in the latest update, The Greening of the World of Work: O\*NET Project's Book of References. Furthermore, Labor is planning to release a Training and Employment Notice this fall that will provide a summary of research and resources that have been completed by BLS and others on green jobs definitions, labor market information and tools, and the status of key Labor initiatives focused on green jobs.

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<sup>11</sup>[GAO-09-1016](#), 78.

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Executive Office of the  
President: Office of  
Management and Budget

Open Recommendations

To leverage Single Audits as an effective oversight tool for Recovery Act programs, we recommended that the Director of the Office of Management and Budget (OMB)

1. take additional efforts to provide more timely reporting on internal controls for Recovery Act programs for 2010 and beyond;<sup>12</sup>
2. evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act;<sup>13</sup>
3. issue Single Audit guidance in a timely manner so that auditors can efficiently plan their audit work;<sup>14</sup>
4. issue the OMB Circular No. A-133 Compliance Supplement no later than March 31 of each year;<sup>15</sup>
5. explore alternatives to help ensure that federal awarding agencies provide their management decisions on the corrective action plans in a timely manner;<sup>16</sup> and
6. shorten the time frames required for issuing management decisions by federal agencies to grant recipients.<sup>17</sup>

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<sup>12</sup>GAO-10-604, 247.

<sup>13</sup>GAO-09-829, 127.

<sup>14</sup>GAO-10-604, 247.

<sup>15</sup>GAO-10-999, 194.

<sup>16</sup>GAO-10-604, 247-248.

<sup>17</sup>GAO-10-999, 194.

### Agency Actions

GAO's recommendations to OMB are aimed toward improving the Single Audit's effectiveness as an accountability mechanism for federally awarded grants from Recovery Act funding. We previously reported that OMB has taken a number of actions to implement our recommendations since our first Recovery Act report in April 2009. We also reported that OMB had undertaken initiatives to examine opportunities for improving key areas of the single audit process over federal grant funds administered by state and local governments and nonprofit organizations based upon the directives in Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs issued in November 2009. Two sections of the executive order related to federal grantees, including state and local governments, and required OMB to establish working groups to make recommendations to improve (1) the effectiveness of single audits of state and local governments and nonprofit organizations that are expending federal funds and (2) the incentives and accountability of state and local governments for reducing improper payments.

OMB formed several working groups as a result of the executive order, including two separate working groups on issues related to single audits. These two working groups developed recommendations and reported them to OMB in May and June of 2010. OMB formed a "supergroup" to review these recommendations for improving single audits and to provide a plan for OMB to further consider or implement them. The "supergroup" finalized its report in August 2011. OMB also formed a Single Audit Metrics Workgroup as a result of one of the recommendations made in June 2010 to improve the effectiveness of single audits. In addition, the President issued a memorandum entitled "Administrative Flexibility, Lower Costs, and Better Results for State, Local, and Tribal Governments" (M-11-21) in February 2011 that directed OMB to, among other things, lead an interagency workgroup to review OMB circular policies to enable state and local recipients to most effectively use resources to improve performance and efficiency. Agencies reported their actions and recommendations to OMB on August 29, 2011. Among the recommendations included in the report were recommendations aimed toward improving single audits. Since most Recovery Act funds will be expended by 2013, some of the recommendations that OMB acts upon may not be implemented in time to affect single audits of grant programs funded under the Recovery Act. However, OMB's efforts to enhance single audits could, if properly implemented, significantly improve the effectiveness of the single audit as an accountability mechanism. OMB

officials stated that they plan to review the “supergroup’s” August 2011 report and develop a course of action for enhancing the single audit process, but have not yet developed a time frame for doing so. We will continue to monitor OMB’s efforts in this area.

(1) To address our recommendation to encourage timelier reporting on internal controls for Recovery Act programs for 2010 and beyond, we previously reported that OMB had commenced a second voluntary Single Audit Internal Control Project (project) in August 2010 for states that received Recovery Act funds in fiscal year 2010.<sup>18</sup> The project has been completed and the results have been compiled as of July 6, 2011. One of the goals of these projects was to achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action could be taken more quickly. The project encouraged participating auditors to identify and communicate deficiencies in internal control to program management 3 months sooner than the 9-month time frame required under statute. The projects also required that program management provide a corrective action plan aimed at correcting any deficiencies 2 months earlier than required under statute to the federal awarding agency. Upon receiving the corrective action plan, the federal awarding agency had 90 days to provide a written decision to the cognizant federal agency for audit detailing any concerns it may have with the plan.<sup>19</sup>

Fourteen states volunteered to participate in OMB’s second project, submitted interim internal control reports by December 31, 2010, and developed auditee corrective action plans on audit findings by January 31, 2011. However, although the federal awarding agencies were to have provided their interim management decisions to the cognizant agency for audit by April 30, 2011, only 2 of the 11 federal awarding agencies had completed the submission of all of their management decisions, according to an official from the Department of Health and Human Services, the cognizant agency for audit. In our review of the 2009 project, we had noted similar concerns that federal awarding agencies’

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<sup>18</sup>OMB’s second project is similar to its first Single Audit Internal Control project, which started in October 2009. Sixteen states participated in the first project. We assessed the results of the project and reported them in [GAO-10-999](#).

<sup>19</sup>HHS, the cognizant agency for audit, has designated the HHS Office of the Inspector General to perform certain responsibilities relating to Single Audits.

management decisions on proposed corrective actions were untimely, and our related recommendations are discussed later in this report.

Overall, we found that the results for both projects were helpful in communicating internal control deficiencies earlier than required under statute. The projects' dependence on voluntary participation, however, limited their scope and coverage. This voluntary participation may also bias the projects' results by excluding from analysis states or auditors with practices that cannot accommodate the project's requirement for early reporting of internal control deficiencies. Even though the projects' coverage could have been more comprehensive, the results provided meaningful information to OMB for better oversight of Recovery Act programs and for making future improvements to the single audit process. In August 2011, OMB initiated a third Single Audit Internal Control Project with similar requirements as the second OMB Single Audit Internal Control Project. The goal of this project is also to identify material weaknesses and significant deficiencies for selected Recovery Act programs 3 months sooner than the 9-month time frame currently required under statute so that the findings could be addressed by the auditee in a timely manner. This project also seeks to provide some audit relief for the auditors that participate in the project as risk assessments for certain programs are not required. We will continue to monitor the status of OMB's efforts to implement this recommendation and believe that OMB needs to continue taking steps to encourage timelier reporting on internal controls through Single Audits for Recovery Act programs.

(2) We previously recommended that OMB evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act. OMB officials have stated that they are aware of the increase in workload for state auditors who perform Single Audits due to the additional funding to Recovery Act programs subject to audit requirements. OMB officials also stated that they solicited suggestions from state auditors to gain further insights to develop measures for providing audit relief. For state auditors that participated in the second and third OMB Single Audit Internal Control Projects, OMB provided some audit relief by modifying the requirements under Circular No. A-133 to reduce the number of low-risk programs to be included in some project participants' risk assessment requirements. However, OMB has not yet put in place a viable alternative that would provide relief to all state auditors that conduct Single Audits.

(3) (4) With regard to issuing Single Audit guidance, such as the OMB Circular No. A-133 Compliance Supplement, in a timely manner, OMB

has not yet achieved timeliness in its issuance of Single Audit guidance. We previously reported that OMB officials intended to issue the 2011 Compliance Supplement by March 31, 2011, but instead issued it in June. OMB officials stated that the delay of this important guidance to auditors was due to the refocusing of its efforts to avert a governmentwide shutdown. OMB officials stated that although they had prepared to issue the 2011 Compliance Supplement by the end of March by taking steps such as starting the process earlier in 2010 and giving agencies strict deadlines for program submissions, they were not able to issue it until June 1, 2011. OMB officials developed a timeline for issuing the 2012 Compliance Supplement by March 31, 2012. In August 2011, they began the process of working with the federal agencies and others involved in issuing the Compliance Supplement. We will continue to monitor OMB's efforts in this area.

(5) (6) Regarding the need for agencies to provide timely management decisions, OMB officials identified alternatives for helping to ensure that federal awarding agencies provided their management decisions on the corrective action plans in a timely manner, including possibly shortening the time frames required for federal agencies to provide their management decisions to grant recipients.<sup>20</sup> OMB officials acknowledged that this issue continues to be a challenge. They told us they met individually with several federal awarding agencies that were late in providing their management decisions in the 2009 project to discuss the measures that the agencies could take to improve the timeliness of their management decisions. However, as mentioned earlier in this report, most of the federal awarding agencies had not submitted all of their management decisions on the corrective actions by the April 30, 2011, due date in the second project (and still had not done so by July 6, 2011, when the results of the completed project were compiled). OMB officials have yet to decide on the course of action that they will pursue to implement this recommendation.

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<sup>20</sup>The project's guidelines called for the federal awarding agencies to complete (1) performing a risk assessment of the internal control deficiency and identify those with the greatest risk to Recovery Act funding and (2) identifying corrective actions taken or planned by the auditee. OMB guidance requires this information to be included in a management decision that the federal agency was to have issued to the auditee's management, the auditor, and the cognizant agency for audit.

OMB formed a Single Audit Metrics Workgroup to develop an implementation strategy for developing a baseline, metrics, and targets to track the effectiveness of single audits over time and increase the effectiveness and timeliness of federal awarding agencies' actions to resolve single audit findings. This workgroup reported its recommendations to OMB on June 21, 2011, proposing metrics that could be applied at the agency level, by program, to allow for analysis of single audit findings. OMB officials stated that they plan to initiate a pilot to implement the recommendations of this workgroup starting with fiscal year 2011 single audit reports.

Newly Implemented  
Recommendation

We recommended that the Director of OMB provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with higher risk have audit coverage in the area of internal controls and compliance;<sup>21</sup>

Based on OMB's actions, we have concluded that OMB has addressed the intent of this recommendation. To provide direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with higher risk have audit coverage in the area of internal controls and compliance, the OMB Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations Compliance Supplement (Compliance Supplement) for fiscal years 2009 through 2011 required all federal programs with expenditures of Recovery Act awards to be considered as programs with higher risk when performing standard risk-based tests for selecting programs to be audited.<sup>22</sup> The auditors' determinations of the programs to be audited are based upon their evaluation of the risks of noncompliance occurring that could be material

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<sup>21</sup>GAO-09-829, 127.

<sup>22</sup>Congress passed the Single Audit Act, as amended, 31 U.S.C. ch. 75, to promote, among other things, sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to 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 an opinion on compliance with applicable program requirements for certain federal programs.

to an individual major program. The Compliance Supplement has been the primary mechanism that OMB has used to provide Recovery Act requirements and guidance to auditors.<sup>23</sup> One presumption underlying the guidance is that smaller programs with Recovery Act expenditures could be audited as major programs when using a risk-based audit approach. The most significant risks are associated with newer programs that may not yet have the internal controls and accounting systems in place to help ensure that Recovery Act funds are distributed and used in accordance with program regulations and objectives.

Since Recovery Act spending is projected to continue through 2016, we believe that it is essential that OMB provide direction in Single Audit guidance to help to ensure that smaller programs with higher risk are not automatically excluded from receiving audit coverage based on their size and standard Single Audit Act requirements. We spoke with OMB officials and reemphasized our concern that future Single Audit guidance provide instruction that helps to ensure that smaller programs with higher risk have audit coverage in the area of internal controls and compliance. OMB officials agreed and stated that such guidance will continue to be included in future Recovery Act guidance. We also performed an analysis of Recovery Act program selection for single audits of 10 states for fiscal year 2010.<sup>24</sup> In general, we found that the auditors selected a relatively greater number of smaller programs with higher risks with Recovery Act funding when compared to the previous period. Therefore, this appears to have resulted in a relative increase in the number of smaller Recovery Act programs being selected for audit for 7 of the 10 states we reviewed.

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## Department of Transportation

### Open Recommendations

To ensure that Congress and the public have accurate information on the extent to which the goals of the Recovery Act are being met, we recommended that the Secretary of Transportation direct the Department

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<sup>23</sup>In addition to the annual edition of the Compliance Supplement, OMB may issue Compliance Supplement addendums during the year to update or provide further Recovery Act guidance.

<sup>24</sup>Analysis was based on 2010 Single Audit data submitted to the federal government in accordance with the Single Audit Act for 10 randomly selected state governments.

of Transportations' (DOT) Federal Highway Administration (FHWA) to take the following two actions:<sup>25</sup>

- Develop additional rules and data checks in the Recovery Act Data System, so that these data will accurately identify contract milestones such as award dates and amounts, and provide guidance to states to revise existing contract data.
- Make publicly available—within 60 days after the September 30, 2010, obligation deadline—an accurate accounting and analysis of the extent to which states directed funds to economically distressed areas, including corrections to the data initially provided to Congress in December 2009.

#### **Agency Actions**

In its response, DOT stated that it implemented measures to further improve data quality in the Recovery Act Data System, including additional data quality checks, as well as providing states with additional training and guidance to improve the quality of data entered into the system. DOT also stated that as part of its efforts to respond to our draft September 2010 report in which we made this recommendation on economically distressed areas, it completed a comprehensive review of projects in these areas, which it provided to GAO for that report. DOT recently posted an accounting of the extent to which states directed Recovery Act transportation funds to projects located in economically distressed areas on its Web site, and we are in the process of assessing these data.

#### **Open Recommendation**

To better understand the impact of Recovery Act investments in transportation, we believe that the Secretary of Transportation should ensure that the results of these projects are assessed and a determination made about whether these investments produced long-term benefits.<sup>26</sup> Specifically, in the near term, we recommended that the Secretary direct FHWA and FTA to determine the types of data and performance measures they would need to assess the impact of the

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<sup>25</sup>GAO-10-999, 187-188.

<sup>26</sup>GAO-10-604, 241-242.

Recovery Act and the specific authority they may need to collect data and report on these measures.

### **Agency Actions**

In its response, DOT noted that it expected to be able to report on Recovery Act outputs, such as the miles of road paved, bridges repaired, and transit vehicles purchased, but not on outcomes, such as reductions in travel time, nor did it commit to assessing whether transportation investments produced long-term benefits. DOT further explained that limitations in its data systems, coupled with the magnitude of Recovery Act funds relative to overall annual federal investment in transportation, would make assessing the benefits of Recovery Act funds difficult. DOT indicated that, with these limitations in mind, it is examining its existing data availability and, as necessary, would seek additional data collection authority from Congress if it became apparent that such authority was needed. DOT plans to take some steps to assess its data needs, but it has not committed to assessing the long-term benefits of Recovery Act investments in transportation infrastructure. We are therefore keeping our recommendation on this matter open.

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## **Matters for Congressional Consideration**

### **Matter**

To the extent that appropriate adjustments to the Single Audit process are not accomplished under the current Single Audit structure, Congress should consider amending the Single Audit Act or enacting new legislation that provides for more timely internal control reporting, as well as audit coverage for smaller Recovery Act programs with high risk.<sup>27</sup>

We continue to believe that Congress should consider changes related to the Single Audit process.

### **Matter**

To the extent that additional coverage is needed to achieve accountability over Recovery Act programs, Congress should consider mechanisms to

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<sup>27</sup>GAO-09-829, 128.

provide additional resources to support those charged with carrying out the Single Audit Act and related audits.<sup>28</sup>

We continue to believe that Congress should consider changes related to the Single Audit process.

Matter

To provide housing finance agencies (HFA) with greater tools for enforcing program compliance, in the event the Section 1602 Program is extended for another year, Congress may want to consider directing the Department of the Treasury to permit HFAs the flexibility to disburse Section 1602 Program funds as interest-bearing loans that allow for repayment.<sup>29</sup>

We have closed this Matter for Congressional Consideration because the Section 1602 Program has not been extended.

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<sup>28</sup>[GAO-09-829](#), 128.

<sup>29</sup>[GAO-10-604](#), 251.

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# Appendix V: GAO Contact and Staff Acknowledgments

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