# TRACKING THE MONEY: HOW RECOVERY ACT RECIPIENTS ACCOUNT FOR THEIR USE OF STIMULUS DOLLARS

## HEARING

BEFORE THE

## COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

## HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

NOVEMBER 19, 2009

**Serial No. 111–96**

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# TRACKING THE MONEY: HOW RECOVERY ACT RECIPIENTS ACCOUNT FOR THEIR USE OF STIMULUS DOLLARS

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**THURSDAY, NOVEMBER 19, 2009**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
*Washington, DC.*

The committee met, pursuant to notice, at 10:12 a.m., in room 2154, Rayburn House Office Building, Hon. Edolphus Towns (chairman of the committee) presiding.

Present: Representatives Towns, Issa, Cummings, Kucinich, Tierney, Clay, Watson, Lynch, Cooper, Quigley, Kaptur, Norton, Van Hollen, Cuellar, Murphy, Welch, Foster, Driehaus, Chu, Burton, Mica, Turner, Bilbray, Jordan, Chaffetz, Luetkemeyer, and Cao.

Staff present: John Arlington, chief counsel—investigations; Britton Fraser, counsel; Kwane Drabo and Katherine Graham, investigators; Brian Eiler, investigative counsel; Jean Gosa, clerk; Adam Hodge, deputy press secretary; Carla Hultberg, chief clerk; Marc Johnson, assistant clerk; Phyllis Love and Christopher Sanders, professional staff members; Mike McCarthy, deputy staff director; Leah Perry, senior counsel; Jason Powell, counsel and special policy advisor; Jenny Rosenberg, director of communications; Leneal Scott, IT specialist; Shrita Sterlin, deputy director of communications; Ron Stroman, staff director; Gerri Willis, special assistant; Lawrence Brady, minority staff director; John Cuaderes, minority deputy staff director; Rob Borden, minority general counsel; Jennifer Safavian, minority chief counsel for oversight and investigations; Frederick Hill, minority director of communications; Adam Fromm, minority chief clerk and Member liaison; Kurt Bardella, minority press secretary; Seamus Kraft and Benjamin Cole, minority deputy press secretaries; Christopher Hixon, minority senior counsel; Hudson Hollister, minority counsel; and Brien Beattie and Mark Marin, minority professional staff members.

Chairman TOWNS. The committee will come to order. Our hearing today is entitled, "How Recovery Act Recipients Account for their Use of Stimulus Dollars."

I want to thank all of you for being here this morning.

Today, the committee continues its oversight of the largest spending bill in our Nation's history—the American Recovery and Reinvestment Act of 2009. Nine months ago, it appeared that our national economy was spiraling out of control, with nothing to slow the free fall. Now, with the help of the Recovery Act, our economy may be on the brink of recovery.

This is the fourth in a series of hearings that examines the unprecedented rescue plan to jump start our economy, heal the hemorrhaging labor market, prevent drastic cuts in State budgets, and provide much needed assistance to our Nation's working families.

With nearly $790 billion in taxpayer money on the line, the Recovery Act mandated extraordinary accountability and transparency provisions. Among these requirements, Section 1512 of the act obligates recipients to report on their use of certain Recovery funds. On October 30th, the Recovery Accountability and Transparency Board (the Recovery Board), released the first recipient reports. And today, the GAO will release its first report analyzing the reporting process and results.

The recipient reports indicate that the Recovery Act has directly created or saved approximately 640,000 jobs. And about 400,000 of those jobs are in education or construction.

In my home State of New York, over 40,000 jobs reportedly have been created or saved by Recovery Act funding. And in New York City, job placements in the third quarter were up 60 percent from last year, with 3,043 job placements in Brooklyn alone. In downtown Brooklyn, the long-stalled revitalization project, City Point, has been resurrected and will generate more than 300 construction jobs and 100 permanent jobs. Additionally, Recovery Act funds are being used to build nearly 740 affordable homes in Harlem and Brooklyn, generating 2,800 new jobs.

While stories like this are very encouraging, I am gravely concerned that the unemployment rate is now 10.2 percent, the highest in 26 years. It is even higher for African Americans and Hispanic Americans. For people who have lost their jobs, it is not very comforting to say we are making progress.

Nevertheless, the experts tell us that employment recovery historically lags behind economic recovery. According to Federal Reserve Chairman Ben Bernanke, if the stimulus package did not exist, our Nation's unemployment situation would be far worse. And on the positive side, in the third quarter of this year we saw the first growth in GDP in over a year.

That being said, today's hearing confronts the question "How do we know the Recovery Act is working?"

The truth of the matter is that while recipient reports provided for an unprecedented level of transparency, we must be able to rely on the reported data. At this point, it is clear that errors found by GAO and others should be corrected immediately, not months later, no matter how difficult. Recipient reporting should be subject to strict quality control.

The American taxpayer expects reporting to be done, and done well. And $787 billion weighing in the balance is certainly far from just general pocket change.

Taken as a whole, the big picture seems to indicate that the job trend is positive. Overall, there are some signs that jobs are finally being created, both as a direct and indirect result of Recovery Act spending. But while we are on the brink of recovery, we have a long way to go.

The important message that I get from these recipient reports is that we need to spend Recovery Act money on projects that actually create jobs, we need to get the money out there faster, and we need to make sure it is targeted on economically distressed areas. And we certainly need to make sure it is properly accounted for.

I am looking today for assurance from our witnesses that there is a sense of urgency to do that.

In addition, I think the Congress, working with the President, really needs to focus on the need for further job creation over the next several weeks. The American people are really hurting.

Again, I want to thank our witnesses for appearing today, and I look forward to your testimony.

[The prepared statement of Chairman Edolphus Towns follows:]

COMMITTEE ON
OVERSIGHT AND GOVERNMENT REFORM

HOUSE COMMITTEE ON
OVERSIGHT & GOVERNMENT REFORM

**CHAIRMAN EDOLPHUS TOWNS**

**OPENING STATEMENT**

HEARING

"TRACKING THE MONEY: HOW RECOVERY ACT RECIPIENTS ACCOUNT FOR THEIR USE OF STIMULUS DOLLARS"

NOVEMBER 19, 2009

Good morning and thank you all for being here.

Today, the Committee continues its oversight of the largest spending bill in our nation's history -- the American Recovery and Reinvestment Act of 2009 (Recovery Act). Nine months ago, it appeared that our national economy was spiraling out of control with nothing to slow the freefall. Now, with the help of the Recovery Act, our economy may be on the brink of recovery.

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In my home state of New York over 40,000 jobs reportedly have been created or saved by Recovery Act funding. And in New York City, job placements in the third quarter were up 60 percent from last year with 3,043 job placements in Brooklyn alone. In downtown Brooklyn, the long stalled revitalization project, City Point, has been resurrected and will generate more than 300 construction jobs and 100 permanent jobs. Additionally, Recovery Act funds are being used to build nearly 740 affordable homes in Harlem and Brooklyn, generating 2,800 new jobs.

While stories like this are very encouraging, I am gravely concerned that the unemployment rate is now 10.2 percent – the highest in 26 years. It is even higher for African Americans and Hispanic Americans. For people who have lost their jobs, it is not very comforting to say we are making progress.

Nevertheless, the experts tell us that employment recovery historically lags behind economic recovery. Moreover, according to Federal Reserve Chairman Ben Bernanke, if the stimulus package did not exist, our nation's unemployment situation would be far worse. And on the positive side, in the third quarter of this year we saw the first growth in GDP in over a year.

That being said, today's hearing confronts the question, "How do we know the Recovery Act is working?"

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The American taxpayer expects reporting to be done, and done well. And $787 Billion weighing in the balance is certainly far from pocket change.

Taken as a whole, the big picture seems to indicate that the job trend is positive. Overall, there are some signs that jobs are finally being created, both as a direct and indirect result of Recovery Act spending. But while we are on the brink of recovery, we have a long way to go.

The important message that I get from these recipient reports is that we need to spend Recovery Act money on projects that actually create jobs, we need to get the money out there faster, and we need to make sure it is targeted on economically distressed areas. And we certainly need to make sure it is properly accounted for.

I'm looking for assurance from today's witnesses that there is a sense of urgency to do that.

In addition, I think the Congress, working with the President, really needs to focus on the need for further job creation over the next several weeks. The American people are really hurting.

Again, I want to thank our witnesses for appearing today, and I look forward to their testimony.

* * * *

Chairman TOWNS. At this time, I yield 5 minutes to the ranking member of the committee, the gentleman from California, Congressman Issa.

Mr. ISSA. Thank you, Mr. Chairman.

I want to thank all the members of the administration for being here. I want to first preface by saying that Recovery.gov is the right idea in reportability. It is a new idea and there are going to be bugs. I think we all recognize that we are not going to get it right the first time, but we can and must continue to make transparency in Government not just a goal, but a reality.

Mr. Chairman, I am pleased that we have a panel of witnesses before us today who can answer questions about why, after the passage of a $787 billion stimulus, substantial job creation has not occurred and why members of the administration are peddling false saved jobs created. You yourself used the 640,000 jobs created number, a number that is still on the board even though it has been discredited by both public and private sources.

The American people, Mr. Chairman, are suffering. We learned this month that another 190,000 people joined the ranks of the unemployed, bringing the total number of jobs lost since President Obama took office to 3.8 million jobs, or 10.2 percent of the work force. If you are that 10.2 percent, or an African-American at a 15 percent unemployment, or an African-American youth at a 50 percent unemployment, it is 100 percent unemployment to you.

We all remember, Mr. President, the stimulus pitch, a promise that unemployment would never rise above 7.8 percent and the stimulus would save 3½ to 4 million jobs. By the President's own metrics, this policy has been an abject failure.

Vice President Biden, who is responsible, has in fact been the chief mis-reader of the economy by his own statements. If he had ever met with the chairman and myself on this issue, we certainly would have told him that, in fact, we needed to work more closely together and we needed not to predict these numbers without science.

Then the same economists that misread the economy are creating a policy of miscalculation of what to do next, and steps in the recovery will clearly be in the wrong direction. The administration continues to misread the economy and misunderstand the nature of economic growth. They also continue to mislead the American people with the faulty jobs claims that missed the steps that the country needed for an economic recovery.

The administration continues to rely on the discredited economic theory that puts misplaced belief in Government spending on pet projects and, in this case, taking credit for jobs saved that are substantially Government jobs. School teachers are important, Federal workers are important, but that is really where this has gone, rather than to the economic growth that this country is famous for.

Unfortunately, the main thing about the stimulation of the policy is in fact the size of Government. Reports indicate that over half the jobs claimed so far have been in the public sector. The Federal Government stands to grow by 140,000 permanent jobs by 2010. Clearly, the Federal Government is not feeling pain. Unemployment here in the Nation's Capital is 4 percent.

And we have to keep in mind that taxpayers' money is, in fact, by definition, always being wasted in Government programs. We try to keep it to a minimum. Clearly, it happens. If our stimulus had been one in which we allowed the American people to make their own determinations and simply supported them in that through investment tax credits and other systems that have historically worked, we would be only having the IRS making sure they truthfully made the investments; we wouldn't be trying to figure out where the California 99th Congressional District is—which, by the way, I hope it is a Republican district.

Perhaps most relevant to today's hearing is the fact that the administration continues to try to cover up its mistakes with misleading job claims. Recovery.gov currently proclaims 640,329 jobs have been created or saved by the stimulus. While the administration has continued to brag about this number as a fact, reports have indicated that it is wildly inaccurate.

The whole jobs created/saved metrics is not only troubled, it is entirely deceitful. No Government agency, private sector group, or research economist has any idea what the reliable calculation track for these numbers would be.

Mr. Chairman, I would like to put up at this time the Oxford English Dictionary's definition of propaganda. "Propaganda, a noun: information, especially of a biased or misleading nature, used to promote a political cause or point of view."

Mr. Chairman, it is very clear today, not by the witnesses here, not by, in fact, Recovery.gov directly, but by how this is being treated, how these jobs are being continued to be claimed, and how in fact we are dealing with 3.8 million lost jobs, and yet we are told to focus on the 640,000 saved jobs and how much worse it would be.

Mr. Chairman, that is propaganda, plain and clear. The administration has to go back to the facts. As I said in the first part of my opening statement, I support the work of Recovery.gov trying to bring the facts to us and recognize there will be mistakes, but the fact is they have no idea how many jobs have been saved or created.

With that, I yield back, Mr. Chairman.

[The prepared statement of Hon. Darrell E. Issa follows:]

EDOLPHUS TOWNS, NEW YORK
CHAIRMAN

DARRELL E. ISSA, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED ELEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
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**Statement of Rep. Darrell Issa, Ranking Member**

**"Tracking the Money: How Recovery Act Recipients Account for their Use of Stimulus Dollars"**

**November 19, 2009**

Mr. Chairman, thank you for holding today's hearing. I am pleased that we have a panel of witnesses before us today who can answer questions about why, after passage of the $787 billion stimulus bill, substantial job creation is not occurring and why members of the Administration are peddling false "jobs saved and created" claims.

The American people are suffering. We learned this month that another 190,000 people joined the ranks of the unemployed, bringing the total number of jobs lost since President Obama took office to 3.8 million and the unemployment rate to an astonishing 10.2 percent.

We all remember the President's stimulus sales pitch: the promise that unemployment would never rise above 7.8 percent and that the stimulus would save 3.5 to 4 million jobs. By the President's own metrics, this policy has been an objective failure.

Vice President Biden says that the Administration "misread the economy." Then the same economists and policy advisors <u>miscalculated</u> the necessary steps to economic recovery. This Administration continues to <u>misread</u> the economy, <u>misunderstand</u> the nature of economic growth, <u>mislead</u> the American people with faulty job claims, and <u>miss</u> the steps this country needs to take to get our economy back on track.

The Administration continues to rely on a discredited economic theory that puts a misplaced faith in government spending on pet projects.

Unfortunately, the main thing that's been stimulated by this policy is the size of government. Reports indicate that over half the jobs claimed so far have been in the public sector. The federal government stands to grow by 142,000 jobs in 2010. Clearly, the federal government is not feeling the pain of the average American worker. It seems the only part of the country not suffering under the Democrats' economic policies is Washington, D.C.

And we have to keep in mind that the taxpayer money wasted on the stimulus would have been spent differently if it wasn't taken out of the private sector in the first place. If the borrowed money wasn't spent on the stimulus, it would have been loaned out or spent directly. This spending would have created jobs, and most likely more jobs than have been created by the stimulus.

Perhaps most relevant for today's hearing is the fact that the Administration continues to try to cover up their mistakes with misleading job claims. Recovery.gov currently proclaims that 640,329 jobs have been "created or saved" by the stimulus. While the Administration continues to brag about this number as "fact," report after report indicates that the numbers are wildly inaccurate.

The whole "jobs created or saved" metric is not only troubling, it's entirely deceitful. No government agency, private sector group, or research economist has any idea how to reliably calculate and track this spurious number.

In truth, these numbers are biased and misleading, and are simply being used to promote a political cause and point of view. The Oxford English Dictionary defines this as propaganda. The characterization of this number by the Administration is dishonest and shameful.

I want to thank all of our witnesses for appearing today. I would particularly like to thank Earl Devaney, Chairman of the Recovery Board. I have a tremendous amount of respect for Earl's integrity and public service, and I appreciate his courage and honesty in stating that the Administration's job claims are not accurate or auditable.

I would also like to thank former Majority Leader Dick Armey for appearing before the Committee today. Leader Armey has tremendous experience and deep expertise in economic policy. The Administration and the Congress should pay attention to his advice and judgment.

Mr. Chairman, the patience of the American people is running out. We must continue to hold this Administration accountable and bring out the truth about the continued failure of the Administration's economic policies, including the stimulus.

I thank you again for calling today's hearing.

Chairman TOWNS. Thank you very much.

Now we will move to our witnesses.

Mr. Earl Devaney is the chairman of the Recovery Accountability and Transparency Board—some people refer to it as "RAT"; I am not going to call it RAT—which is the body created by the Recovery Act to ensure transparency in the use of Recovery funds and prevent the waste, fraud, and abuse of those taxpayer dollars. Prior to being named as chairman of the Recovery Board, Mr. Devaney served as the Inspector General of the Department of the Interior. Mr. Devaney has also served as the Director of the Office of Criminal Enforcement, Forensic and Training for the Environmental Protection Agency, and as an officer in the Secret Service.

Welcome, Mr. Devaney. Look forward to your testimony.

Mr. DEVANEY. Thank you, Mr. Chairman.

Chairman TOWNS. Mr. Gene Dodaro is the Acting Comptroller General of the Government Accountability Office. Mr. Dodaro has held this position since March 13, 2008. Mr. Dodaro's career is well seasoned, spanning over 30 years of service at GAO. Over the course of the last 9 years, Mr. Dodaro has held a number of key senior level positions, including Chief Operating Officer and Head of the GAO's Accounting and Information Management Division.

Welcome, Mr. Dodaro.

The Honorable John Porcari is the Deputy Secretary of Transportation and is responsible for managing the day-to-day operations of the Department. Previously, Mr. Porcari served as Secretary of Maryland's Department of Transportation and was Assistant Secretary of Economic Development Policy at the Maryland Department of Business and Economic Development.

Welcome, Mr. Porcari.

The Honorable Anthony Wilder Miller was confirmed in July as the Deputy Secretary of Education. Mr. Miller serves as the Department's Chief Operating Officer. Deputy Secretary Miller has previously worked with the Los Angeles Unified School District, the Santa Monica-Malibu Unified School District, and served as an ex-officio member of the Board of Education for the city of Los Angeles Budget and Finance Committee.

We welcome you to this hearing today.

As a longstanding procedure, we always swear our witnesses in, so if you would be kind enough to stand and raise your right hands.

[Witnesses sworn.]

Chairman TOWNS. You may be seated.

Why don't we just go right down the line? We will start with you, Mr. Dodaro, and just come right down the line.

**STATEMENTS OF GENE L. DODARO, ACTING COMPTROLLER GENERAL, GOVERNMENT ACCOUNTABILITY OFFICE; EARL DEVANEY, CHAIRMAN, RECOVERY ACCOUNTABILITY AND TRANSPARENCY BOARD; ANTHONY WILDER MILLER, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION; AND JOHN D. PORCARI, DEPUTY SECRETARY, U.S. DEPARTMENT OF TRANSPORTATION**

## STATEMENT OF GENE L. DODARO

Mr. DODARO. Thank you, Mr. Chairman. Good morning to you, Ranking Member Issa, and members of the committee. I am very pleased to be here today to have the opportunity to talk about GAO's views and suggestions regarding the first set of recipient reports filed under the Recovery Act.

Given the national scope of this activity and the relatively limited timeframe to stand up the original reporting system, we think it was a good first start. However, there are a number of significant data quality and reporting issues that must be addressed.

Based on our initial analysis, for example, of the data base that was released on October 30th, we found that there were some erroneous or questionable information in the data base that merits additional scrutiny. For example, we found about 4,000 reports that had no money expended, but yet claimed over 50,000 FTEs that had been reported. There are other reports where money has been expended but no FTEs have been reported under those reports. So this needs additional scrutiny and examination to determine the validity of that information.

Second, the coverage. OMB estimates that about 90 percent of the recipients reported, but questions remain about the remaining 10 percent of the recipients that should have reported but potentially did not. There are also questions about the quality of the review that was done by Federal departments and agencies, and by prime recipients. While over 75 percent of the reports were reviewed by Federal agencies, close to 1 in 5 were not, and far fewer reviews were done and documented in the system by the prime recipients. So that needs further inquiry and investigation as well.

Another problem that we identified—and this was a fairly significant one—dealt with the different interpretations of full-time equivalent positions that were due to be reported. There was a lot of inconsistent application regarding this, especially as it related to the time period in which people made the calculations. This area, because of the different interpretation, really compromises the ability to aggregate the information across the recipient reports.

We made a series of recommendations to OMB to work with the Recovery Board and Federal departments and agencies. First is to clarify and standardize the definition of full-time equivalent positions and set a standard period of measurement so the information can be collected and accumulated consistently and properly. Also, to be clearer in the guidance about the fact that the reporting focuses on hours worked that need to be reported in a consistent manner.

We also believe that, given the issues that we and others have identified, that OMB should work with the Federal agency establishment and with the prime recipients to review lessons learned under this first reporting exercise and re-evaluate their quality assurance and reporting approaches to make necessary modifications to ensure that these data quality and reporting issues are addressed successfully.

Because this is a cumulative reporting approach and GAO is required to review each of the quarterly reports that are filed by the recipients act, we will be following up on this, conducting additional analysis and making further reports to this committee and to the Congress regarding the extent to which these data quality reporting issues are addressed. I think it is important to address these issues both for the current set of recipients that are filing reports, but also there will be new recipients that did not have to file reports now. As the Recovery money gets spent over fiscal year 2010 and 2011, there will be many more recipients filing, and those areas need to be addressed as well to prevent future problems from emerging in this area.

So I thank you very much, Mr. Chairman, for the opportunity to summarize our findings. I would be happy to respond to questions at the appropriate point in time.

[The prepared statement of Mr. Dodaro follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Thursday, November 19, 2009

# RECOVERY ACT

# Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention

Statement of Gene L. Dodaro
Acting Comptroller General of the United States

GAO
Accountability * Integrity * Reliability

GAO-10-224T

November 19, 2009

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here to discuss the report we are issuing today on the first set of recipient reports made available in October 2009 in response to the American Recovery and Reinvestment Act's section 1512 requirement. On October 30, Recovery.gov (the federal Web site on Recovery Act spending) reported that more than 100,000 recipients had reported hundreds of thousands of jobs created or retained. GAO is required to comment quarterly on the estimates of jobs created or retained as reported by direct recipients of Recovery Act funding from federal agencies.

In the first quarterly GAO report, being released today, we address the following issues: (1) the extent to which recipients were able to fulfill their reporting requirements and the processes in place to help ensure recipient reporting data quality and (2) how macroeconomic data and methods, and the recipient reports, can be used to help gauge the employment effects of the Recovery Act.[1] Because the recipient reporting effort will be an ongoing process of cumulative reporting, our review represents a snapshot in time.

At this juncture, given the national scale of the recipient reporting exercise and the limited time frames in which it was implemented, the ability of the reporting mechanism to handle the volume of data from a wide variety of recipients represents a solid first step in moving toward more transparency and accountability for federal funds; however, there is a range of significant reporting and quality issues that need to be addressed. Consequently, our report contains several recommendations to improve data quality that Office of Management and Budget (OMB) staff generally agreed to implement. We will continue to review the processes that federal agencies and recipients have in place to ensure the future completeness and accuracy of data reported. Finally, our report notes that because the recipient reports cover about one-third of Recovery Act funds, both the data in those reports and other macroeconomic data and methods

[1] GAO, *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). This report as well as all of our Recovery Act related products is available at www.gao.gov/recovery.

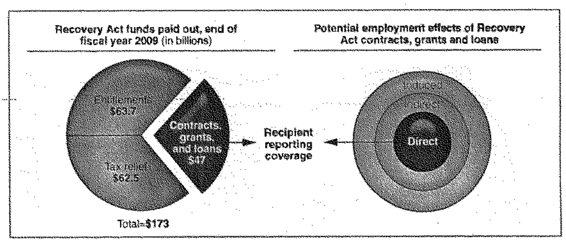
together can offer a more complete view of the overall employment impact of the Recovery Act.

## Background

In December 2007, the United States entered what has turned out to be the deepest recession since the end of World War II. In responding to this downturn, the Recovery Act employs a combination of tax relief and government spending. About one-third of the funds provided by the act are for tax relief to individuals and businesses; one-third is in the form of temporary increases in entitlement programs to aid people directly affected by the recession and provide some fiscal relief to states; and one-third falls into the category of grants, loans, and contracts.

As of September 30, 2009, approximately $173 billion, or about 22 percent, of the $787 billion provided by the Recovery Act had been paid out by the federal government. Nonfederal recipients of Recovery Act-funded grants, contracts, and loans are required to submit reports with information on each project or activity, including the amount and use of funds and an estimate of jobs created or retained. Of the $173 billion paid out, about $47 billion—a little more than 25 percent—is covered by this recipient report requirement. Neither individuals nor recipients receiving funds through entitlement programs, such as Medicaid, or through tax programs are required to report. In addition, the required reports cover direct jobs created or retained as a result of Recovery Act funding; they do not include the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs), as shown in figure 1.

**Figure 1: Fiscal Year 2009 Recovery Act Funds Paid Out and Recipient Reporting Coverage**




Source: GAO.

To implement the recipient reporting data requirements, OMB has worked with the Recovery Accountability and Transparency Board (Recovery Board)[2] to deploy a nationwide data collection system at www.federalreporting.gov, while the data reported by recipients are available to the public for viewing and downloading on www.recovery.gov (Recovery.gov). OMB's June 22, 2009, guidance[3] on recipient reporting also includes a requirement for data quality review. Prime recipients have been assigned the ultimate responsibility for data quality checks and the final submission of the data. Because this is a cumulative reporting process, additional corrections can take place on a quarterly basis.

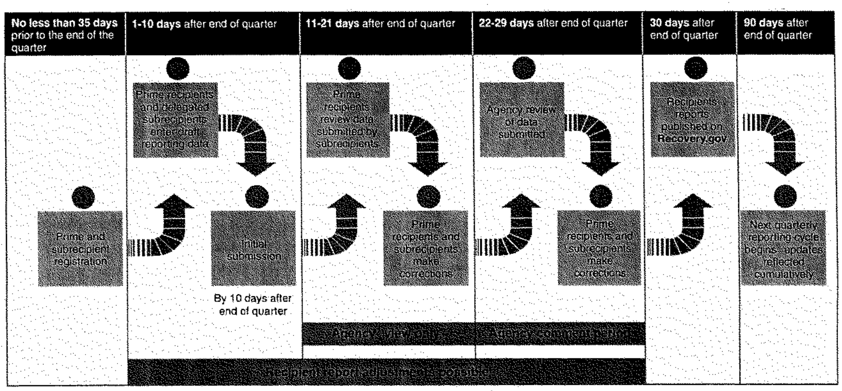
The first of the required recipient reports cover cumulative activity since the Recovery Act's passage in February 2009 through the quarter ending September 30, 2009. As shown in figure 2, OMB specified time frames for different stages in the reporting process: for this current report, prime recipients and delegated subrecipients were to prepare and enter their information from October 1 to October 10; prime recipients were able to review the data for completeness and accuracy from October 11 to

[2]The Recovery Act created the Recovery Accountability and Transparency Board, which is composed of 12 Inspectors General from various federal agencies, who serve with a chairman of the board. The board issues quarterly and annual reports on Recovery Act activities to Congress and the President. The board is also to issue "flash reports" under the statute.

[3]OMB Memorandum, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

October 21, and a federal agency review period began October 22. The final recipient reporting data for the first round of reports were first made available on October 30.

**Figure 2: Recipient Reporting Time Frame**




Source: OMB.

To assess the reporting process and data quality efforts, GAO performed an initial set of edit checks and basic analyses on the final recipient report data that first became available at Recovery.gov on October 30, 2009. We built on information collected at the state, local, and program level as part of our bimonthly reviews of selected states' and localities' uses of Recovery Act funds. These bimonthly reviews focus on Recovery Act implementation in 16 states and the District of Columbia, which contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental federal assistance funds available through the Recovery Act.

To understand state quality review and reporting procedures, we visited the 16 selected states and the District of Columbia during late September and October 2009 and discussed with prime recipients projects associated with 50 percent of the total funds reimbursed as of September 4, 2009, for that state in the Federal-Aid Highway Program administered by the

Department of Transportation (DOT). Prior to the start of the reporting period on October 1, we obtained information on prime recipients' plans for the jobs data collection process. After the October 10 data reporting period, we went back to see if prime recipients had followed their own plans and subsequently talked with at least two subrecipients to gauge their reactions to the reporting process and assess the documentation they were required to submit. We gathered and examined issues raised by recipients in these jurisdictions regarding reporting and data quality and interviewed recipients on their experiences using the Web site reporting mechanism. During the interviews, we looked at state plans for managing, tracking, and reporting on Recovery Act funds and activities. In a similar way, we examined a nonjudgmental sample of Department of Education (Education) Recovery Act projects at the prime and subrecipient level. We also collected information from selected transit agencies and housing authorities as part of our bimonthly Recovery Act reviews.

To gain insight into and understanding of quality review at the federal level, we interviewed federal agency officials who have responsibility for ensuring a reasonable degree of quality across their program's recipient reports. We assessed the reports from the Inspectors General (IG) on Recovery Act data quality reviews from 15 agencies. We are also continuing to monitor and follow up on some of the major reporting issues identified in the media and by other observers. For example, a number of press articles have discussed concerns with the jobs reporting done by Head Start grantees. According to a Health and Human Services (HHS) Recovery Act official, HHS is working with OMB to clarify the reporting policy as it applies to Head Start grantees. We will be reviewing these efforts as they move forward.

For our discussion of how macroeconomic data and methods and recipient reporting together can be used to assess the employment effects of the Recovery Act, we analyzed economic and fiscal data using standard economic principles and reviewed the economic literature on the effect of monetary and fiscal policies for stimulating the economy. We also reviewed the guidance that OMB developed for Recovery Act recipients to follow in estimating the effect of funding activities on employment, reviewed reports that the Council of Economic Advisers (CEA) issued on the macroeconomic effects of the Recovery Act, and interviewed officials from CEA, OMB, and the Congressional Budget Office (CBO).

Our work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Initial Observations on Recipient Reporting Data Identify Areas for Further Review

As detailed in our report, our analysis and fieldwork indicate there are significant issues to be addressed in reporting, data quality, and consistent application of OMB guidance in several areas.

- **Erroneous or questionable data entries.** Many entries merit further attention due to an unexpected or atypical data value or relationship between data.
- **Quality review by federal agencies and prime recipients.**
    - *Coverage:* While OMB estimates that more than 90 percent of recipients reported, questions remain about the other 10 percent.
    - *Review:* Over three quarters of the prime reports were marked as having undergone review by a federal agency, while less than 1 percent were marked as having undergone review by the prime recipient
- **Issues in the calculation of full-time equivalents (FTE).** Different interpretations of OMB guidance compromise the ability to aggregate the data.

## Erroneous or Questionable Data Entries

We performed an initial set of edit checks and basic analyses on the recipient report data available for download from Recovery.gov on October 30. As part of our review, we examined the relationship between recipient reports showing the presence or absence of any full-time equivalent (FTE) counts with the presence or absence of funding amounts shown in either or both data fields for "amount of Recovery Act funds received" and "amount of Recovery Act funds expended." Forty-four percent of the prime recipient reports showed an FTE value. However, as shown in table 1, we identified 3,978 prime recipient reports where FTEs were reported but no dollar amount was reported in the data fields for amount of Recovery Act funds received and amount of Recovery Act funds expended. These records account for 58,386 of the total 640,329 FTEs reported. There were also 9,247 reports that showed no FTEs but did show some funding amount in either or both of the funds received or expended data fields. The total value of funds reported in the expenditure field on these reports was $965 million. Those recipient reports showing FTEs but no funds and funds but no FTEs constitute a set of records that merits closer examination to understand the basis for these patterns of reporting.

**Table 1: Count of Prime Recipient Reports by Presence or Absence of FTEs and Recovery Act Funds Received or Expended**

| Recovery Act funds | Reports with FTEs | Reports without FTEs |
|---|---|---|
| Received or expended funds reported[a] | 21,280 (84%) | 9,247 (29%) |
| No received or expended funds reported | 3,978 (16%) | 22,481[b] (71%) |
| **Total** | **25,258 (100%)** | **31,728 (100%)** |

Source: GAO analysis of Recovery.gov data.

[a]Prime recipient reports showing a nonzero dollar amount in either or both Recovery Act funds received or expended data fields.

[b]As might be expected, 71 percent of those prime recipient reports that did not show any FTEs also showed no dollar amount in the data fields for amount of Recovery Act funds received and amount expended.

Our review also identified a number of cases in which other anomalies suggest a need for review: discrepancies between award amounts and the amounts reported as received, implausible amounts, or misidentification of awarding agencies. While these occurred in a relatively small number of cases, they indicate the need for further data quality efforts.

## Quality Review by Federal Agencies or Prime Recipients

OMB guidance assigns responsibility for data quality to the prime recipient and provides for federal agency review. A correction could be initiated by either the prime recipient or the reviewing agency. OMB requires that federal agencies perform limited data quality reviews of recipient data to identify material omissions and significant reporting errors and notify the recipients of the need to make appropriate and timely changes to erroneous reports. The prime recipient report records we analyzed included data on whether the prime recipient and the agency reviewed the record in the data quality review time frames. Over three quarters of the prime recipient reports were marked as having undergone federal agency review.

Less than 1 percent of the records were marked as having undergone review by the prime recipient. The small percentage reviewed by the prime recipients themselves during the OMB review time frame warrants further examination. While it may be the case that the recipients' data quality review efforts prior to initial submission of their reports were seen as not needing further revision during the review timeframe, it may also be indicative of problems with the process of noting and recording when and how the prime recipient reviews occur and the setting of the review flag. In addition, the report record data included a flag as to whether a correction was initiated. Overall, slightly more than a quarter of the reports were marked as having undergone a correction during the period of review.

## Issues in Calculation of Full-Time Equivalents

In its guidance to recipients for estimating employment effects, OMB instructed recipients to report solely the direct employment effects as "jobs created or retained" as a single number. Recipients are not expected to report on the employment impact on materials suppliers ("indirect" jobs) or on the local community ("induced" jobs). OMB guidance stated that "the number of jobs should be expressed as 'full-time equivalents (FTEs),' which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient." Consequently, the recipients are expected to report the amount of labor hired or not fired as result of having received Recovery Act funds. It should be noted that one FTE does not necessarily equate to the job of one person. Organizations may choose to increase the hours of existing employees, for example, which can certainly be said to increase employment but not necessarily be an additional job in the sense of adding a person to the payroll.

Problems with the interpretation of this guidance or the calculation of FTEs were one of the most significant problems we found. Jobs created or retained expressed in FTEs raised questions and concerns for some recipients. While reporting employment effects as FTEs should allow for the aggregation of different types of jobs—part-time, full-time, or temporary—and different employment periods, if the calculations are not consistent, the ability to aggregate the data is compromised.

One source of inconsistency was variation in the period of performance used to calculate FTEs, which occurred in both the highway and education programs we examined. For example, in the case of federal highways projects, some have been ongoing for six months, while others started in September 2009. In attempting to address the unique nature of each project, DOT's Federal Highway Administration (FHWA) faced the issue of whether to report FTE data based on the length of time to complete the entire project (project period of performance) versus a standard period of performance, such as a calendar quarter, across all projects. According to

FHWA guidance, which was permitted by OMB, FTEs reported for each highway project are expressed as an average monthly FTE. Because FTEs are calculated by dividing hours worked by hours that represent a full-time schedule, a standard period of performance is important if numbers are to be added across programs.

As an illustration, take a situation in which one project employed 10 people full time for 1 month, another project employed 10 people full time for 2 months, and a third project employed 10 people full time for 3 months. FHWA's use of average monthly FTE would result in FTEs being overstated compared either with using OMB's June 22 guidance or to standardizing the reports for one quarter. Under FHWA's approach, 30 FTEs would be reported (10 for each of the three projects); on the other hand, using a standardized measure, 20 FTEs would be reported (3-1/3 for the first project, 6-2/3 for the second project, and 10 for the third). Conversely, if a project starts later than the beginning of the reporting period, applying OMB's June 22 guidance, which requires reporting of FTEs on a cumulative basis, could result in reporting fewer FTEs than would be the case under a standardized reporting period approach. In either case, failure to standardize on a consistent basis prevents meaningful comparison or aggregation of FTE data.

This was also an issue for education programs. For example, in California, two higher education systems calculated FTE differently. In the case of one, they chose to use a 2-month period as the basis for the FTE performance period. The other chose to use a year as the basis for the FTE. The result is almost a three-to-one difference in the number of FTEs reported for each university system in the first reporting period. Although Education provides alternative methods for calculating an FTE, in neither case does the guidance explicitly state the period of performance of the FTE.

OMB's decision to convert jobs into FTEs provides a consistent lens to view the amount of labor being funded by the Recovery Act, provided each recipient uses a standard time frame in calculating the FTE. The current OMB guidance, however, creates a situation where, because there is no standard starting or ending point, an FTE provides an estimate for the life of the project. Without normalizing the FTE, aggregate numbers should not be considered, and the issue of a standard period of performance is magnified when looking across programs and across states.

Recipients were also confused about counting a job created or retained even though they knew the number of hours worked that were paid for with Recovery Act funds. While OMB's guidance explains that in applying the FTE calculation for measuring the number of jobs created or retained recipients will need the total number of hours worked that are funded by the Recovery Act, it could emphasize this relationship more thoroughly throughout its guidance.

While there were problems of inconsistent interpretation of the guidance, the reporting process went relatively well for highway projects. DOT had an established procedure for reporting prior to enactment of the Recovery Act. As our report shows, in the cases of Education and the Department of Housing and Urban Development, which do not have this prior reporting experience, we found more problems. State and federal officials are examining identified issues and have stated their intention to deal with them.

## Recommendations for Executive Action

In our report, we make a number of recommendations to OMB to improve the consistency of FTE data collected and reported. OMB should continue to work with federal agencies to increase recipient understanding of the reporting requirements and application of the guidance. Specifically, OMB should

- clarify the definition and standardize the period of measurement for FTEs and work with federal agencies to align this guidance with OMB's guidance and across agencies;
- given its reporting approach, consider being more explicit that "jobs created or retained" are to be reported as hours worked and paid for with Recovery Act funds; and
- continue working with federal agencies and encourage them to provide or improve program-specific guidance to assist recipients, especially as it applies to the full-time equivalent calculation for individual programs.

Given some of the issues that arose in our review of the reporting process and data, we also recommend that OMB should work with the Recovery Board and federal agencies to re-examine review and quality assurance processes, procedures, and requirements in light of experiences and identified issues with this round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

## Agency Comments and Our Evaluation

In commenting on a draft of our report, OMB staff told us that OMB generally accepts the report's recommendations. It has undertaken a lessons-learned process for the first round of recipient reporting and will generally address the report's recommendations through that process.

As recipient reporting moves forward, we will continue to review the processes that federal agencies and recipients have in place to ensure the completeness and accuracy of data, including reviewing a sample of recipient reports across various Recovery Act programs to assure the quality of the reported information. As existing recipients become more familiar with the reporting system and requirements, these issues may become less significant; however, communication and training efforts will need to be maintained and in some cases expanded as new recipients of Recovery Act funding enter the system. In addition to our oversight responsibilities specified in the Recovery Act, we are also reviewing how several federal agencies collect information and provide it to the public for selected Recovery Act programs, including any issues with the information's usefulness. Our subsequent reports will also discuss actions taken on the recommendations in this report and will provide additional recommendations, as appropriate.

## Recipient Reports and Economic Methods Together Can Offer Insights into Employment Impact

While the recipient reports provide a real-time window on the use and results of Recovery Act spending, the data will represent only a portion of the employment effect, even after data quality issues are addressed. A fuller picture of the employment effect would include not only the direct jobs reported but also the indirect and induced employment gains resulting from government spending. In addition, the entitlement spending and tax benefits included in the Recovery Act also create employment. Therefore, both the data reported by recipients and other macroeconomic data and methods are helpful in gauging the overall employment effects of the stimulus.

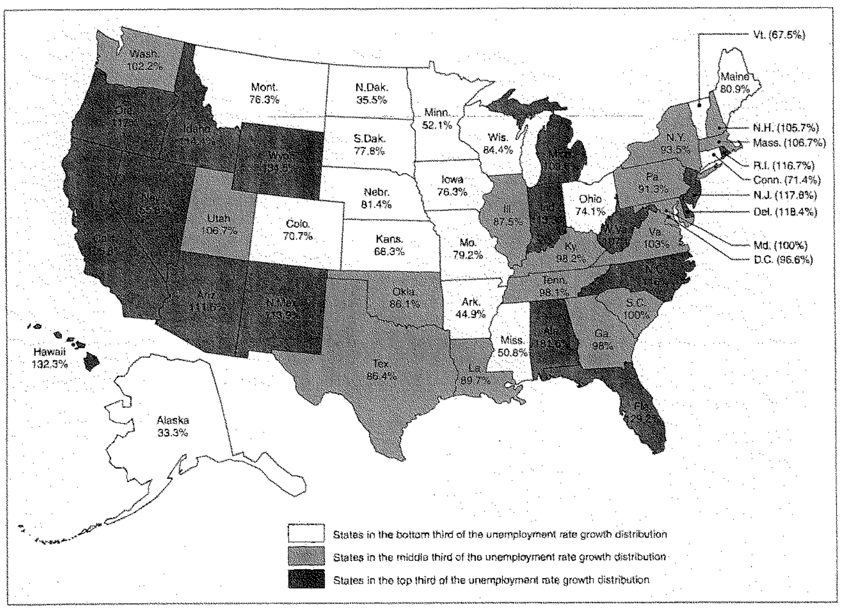
Economists will use statistical models to estimate a range of potential effects of the stimulus program on the economy. In general, the estimates are based on assumptions about the behavior of consumers, business owners, workers, and state and local governments.

Neither the recipients nor analysts can identify with certainty the impact of the Recovery Act because of the inability to compare the observed outcome with the unobserved, counterfactual scenario (in which the stimulus does not take place). At the level of the national economy, models can be used to simulate the counterfactual, as CEA and others have done. At smaller scales, comparable models of economic behavior either do not exist or cover only a very small portion of all the activity in the macroeconomy.

Our report discusses a number of the issues that are likely to affect the impact of the Recovery Act, including the potential effect of different types of stimulus. We also discuss state and sectoral employment trends and that the impact of the Recovery Act will vary across states. The employment effects of Recovery Act funds are likely to vary with the condition of a state's labor market, as measured by its unemployment rate. Labor markets in every state weakened over the course of the recession, but the degree to which this has occurred varies widely across states.

Figure 3 illustrates this—it shows the geographic distribution of the magnitude of the recession's impact on unemployment as measured by the percentage change in unemployment between December 2007 and September 2009.

**Figure 3: State Unemployment Rate Growth during Recession (Percentage Increase)**




Source: Copyright © Corel Corp. All rights reserved (map); GAO analysis of U.S. Bureau of Labor Statistics data.

The impact of funds allocated to state and local governments will also likely vary with states' fiscal conditions.

## GAO's Review of Allegations of Fraud, Waste, and Abuse Submitted to FraudNet

Finally, let me provide the committee with an update on allegations of fraud, waste, and abuse made to our FraudNet site. As of November 13, 2009, FraudNet has received 106 Recovery Act-related allegations that were considered credible enough to warrant further review. We referred 33 allegations to the appropriate agency Inspectors General for further review and investigation. Our Forensic Audits and Special Investigations unit is actively pursuing 8 allegations, which include wasteful and improper spending; conflicts of interest; and grant, contract, and identity fraud. Another 9 are pending further review by our criminal investigators, and 15 were referred to other GAO teams for consideration in their ongoing work. We will continue to monitor these referrals and will inform the committee when outstanding allegations are resolved. The remaining 41 allegations were found not to address waste, fraud, or abuse; lacked specificity; were not Recovery Act-related; or reflected only a disagreement with how Recovery Act funds are being disbursed. We consider these allegations to be resolved and no further investigation is necessary.

Mr. Chairman and Members of the Committee, this concludes my statement. I would be pleased to respond to any questions you may have.

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Chairman TOWNS. Thank you very much, Mr. Dodaro.
Chairman Devaney.

**STATEMENT OF EARL DEVANEY**

Mr. DEVANEY. Thank you, Mr. Chairman, Ranking Member Issa, and members of the committee. Thank you for the opportunity to appear before you today to discuss the activities of the Recovery Board and, in particular, the recipient reporting period that just ended October 30th.

After I have made my opening remarks, I would be glad to answer any questions you might have.

Much has transpired since the last time I testified before this committee in March, but I will start with a discussion of recipient reporting. Overall, the Board's two Web sites, the inbound reporting Web site, FederalReporting.gov, and the public facing portal, Recovery.gov, worked together as intended during this first reporting period. On October 1st, recipients of Recovery funds began reporting on their use of the funds, and between October 1st and October 30th over 130,000 prime and subprime recipient award reports were filed.

Since this was the first time that recipients were submitting data reports and some States had been encountering technical challenges in filing bulk reports for the recipients, the Board decided to have a 10-day grace period where late filers were permitted to submit their required quarterly reports after the due date. However, they also were required to explain their reasons for the delayed reporting.

Beginning October 11th, OMB and the awarding agencies began the review of the recipient reports, providing comments and posing questions to recipients. Following this data quality review, prime recipients and subrecipients worked to make corrections identified by the awarding agencies. As a result, about 21 percent of the recipient reports were modified. These changes are chronicled on a separate Web page for all users to see and are downloadable for more experienced users.

While there were very few technical difficulties with the reporting process, that is not to say that recipients did not encounter problems either in reporting or their ability to digest the guidance. As you undoubtedly know, OMB created a large amount of guidance on reporting. However, there were apparently still some reporting questions the recipients were unable to solve, as GAO chronicled in their most recent report. Accordingly, we will continue to play an active role with OMB in crafting solutions to help resolve those reporting problems.

Mr. Chairman, I believe these reporting problems can be divided into two categories: inaccurate data and non-compliance. First, the data reported was riddled with inaccuracies and contradictions. For example, a misplaced decimal made it look as though a company had been awarded a $10 billion contract, when it had really been awarded a $10 million contract. Another obvious error, more than one entity put dollars awarded in the data field for jobs created or saved. Even more notorious were significant errors relating to congressional districts.

These mistakes do not surprise me, however, and in a way they are not unequivocally bad. In reality, this data should serve in the long run as evidence of what transparency can achieve. In the past, this data would have been scrubbed from top to bottom before its release and the agencies would never have released the information until it was near perfect. You and the American public are now seeing what agencies have seen internally for years.

And what we are all seeing, at least following this first reporting period, is not particularly pretty. This raw form, unsanitized data may cause embarrassment for some agencies and recipients, but my expectation is that any embarrassment suffered will encourage self-correcting behavior and lead to better reporting in the future.

In addition to incorrect data, the second major reporting problem was the considerable amount of non-reporting. The Board believes that the number of non-reporting recipients exceeds early OMB estimates, but we have not yet received their list. Given my decades of law enforcement experience, it should come as no surprise to anybody that I personally favor a penalty of some sort for non-compliers. The Recovery Act prescribes no penalties for failure to report, but perhaps an amendment to that effect would be something for Congress to consider.

Even if criminal penalties are not practical, the fact that some would willfully not file is distressing and must be addressed. Agencies, at a minimum, will need to decide what actions they are willing to take to ensure the transparency and accountability aims of the Recovery Act are not disregarded. Perhaps an agency could refuse to provide any additional funds to a non-compliant recipient or demand that non-compliant recipients return funds not yet spent.

For the Board's part, we intend to post those recipient names prominently on Recovery.gov. Although the Web site presents the most visible aspect to the Board's work, the transparency it provides is only half of the Board's dual mission of transparency and accountability. Over the past several months, we have also made great strides in furthering our goal of accountability and oversight.

Simply stated, the Board will now be utilizing recently procured software tools and analytical tools to provide an in-depth fraud analysis that interfaces with 8½ million public records with the recipient data to help identify non-obvious relationships. We believe these non-obvious relationships will unveil facts that may have not been transparent to Government officials at the time the contract or grant award was made. Today, I can assure you that every recipient of a contract, grant, or loan under the Recovery Act is being processed through this sophisticated multifaceted system.

To further assist our accountability mission, the Board has implemented a robust hotline solution where citizens can reach us by phone, electronically, fax, or regular mail. To date, we have received more than 350 citizen complaints. As you might expect, not all of those complaints have concerned actual fraud, waste, or mismanagement, but those that did have been referred by our hotline staff to the appropriate IG for further inquiry. Meanwhile, the rest of the IG community has been working diligently to manage its Recovery-related oversight responsibilities with approximately 77 investigations having been opened and more than 390 audits, evaluations, and reviews underway.

Mr. Chairman, I would like to conclude my oral remarks today with a thought about transparency. I believe that the principal downside of transparency is embarrassment, and there is enough of that here to go all around. All of those involved, including the Board I chair, will need to dedicate themselves to improve the quality of the data in the days and the weeks ahead. However, if I have learned anything yet about transparency, it is that it is harder to practice transparency than it is to talk about transparency. It is definitely not something for the faint of heart.

Mr. Chairman, I will now be glad to answer any questions you might have.

[The prepared statement of Mr. Devaney follows:]

TESTIMONY OF THE HONORABLE EARL E. DEVANEY
CHAIRMAN, RECOVERY ACCOUNTABILITYAND TRANSPARENCY BOARD
BEFORE THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
NOVEMBER 19, 2009

Mr. Chairman and members of the Committee, I want to thank you for the opportunity to appear before you today to discuss the activities of the Recovery Accountability and Transparency Board (the Board), to include the recipient reporting period that just ended last month. I will be glad to answer any questions you have for me after my opening remarks.

Much has transpired since I last testified before this Committee in March, but I would like to jump to the end, as it were, by providing some data on the most recent major event that has occurred – namely, recipient reporting. Overall, the Board's two websites – the inbound reporting site FederalReporting.gov and the public-facing portal Recovery.gov – worked concurrently as intended during the historic first reporting period. On October 1st, recipients of Recovery funds began reporting on their use of those funds. From October 1st to October 10th, prime recipients and subrecipients filed more than 113,000 award reports. Since this was the first time that recipients were submitting data reports and some states had been encountering technical challenges in filing bulk reports for their recipients, the Board decided to have FederalReporting.gov remain open for reporting until October 20th. During this 10-day "grace period," late filers were permitted to submit their required quarterly reports; however, they were also required to explain their reasons for delayed reporting. These late filers are identified as such on Recovery.gov. In all, there were approximately 17,000 late filers identified on Recovery.gov, about 13 percent of the total submissions. I expect those late submitters will be prepared to file timely in January.

Between October 11th and 29th, prime recipients, awarding agencies, and the Office of Management and Budget (OMB) reviewed the recipient reports for inaccuracies. During this same period, prime recipients and subrecipients worked together to correct errors in the data they had submitted. As a result of this data quality process, about 21 percent of the recipient reports were modified. These changes are chronicled on a separate web page for all users to see and are also downloadable for more technologically experienced users.

On October 15th, the recipient-reported information on federal contracts was posted on Recovery.gov, representing approximately 7 percent of the total funds being tracked by Recovery.gov. When the Board posted the reports on October 15th, traffic on the website jumped 52 percent from its daily average of 19,000 visitors to 28,895 visitors. Users logged on from 137 countries and territories. The largest number of visitors were from California, followed by New York, and then the District of Columbia. On that date, the website also reported that more than 30,000 jobs had been created or saved through the use of those federal contracting dollars.

On October 30th, the second, larger wave of data – that reported by recipients of non-federal contracts, grants and loans – was also displayed on Recovery.gov. In the aggregate, recipients reported on the award of almost $158 billion in Recovery funds and counted approximately 640,000 jobs created or saved through the use of Recovery funds.

As expected, the process for this first reporting period was not completely free of difficulties. We know that some recipients experienced unacceptable wait times to reach the technical helpdesk, which at its height of operations was running seven days a week with more than 60 helpdesk personnel. The helpdesk ultimately handled over 31,000 separate recipient contacts.

The Board was also very pleased with the effectiveness and utility of the High Volume Coordinator (HVC) program, which was created to assist state and local governments with their reporting obligations. With leadership from the USDA Forest Service, coordinators from more than a dozen agencies participated in state conference calls and answered questions, meeting the HVC's goal of a 24-hour average response time in providing solutions to state and city Recovery officials. The HVC program was positively received by the state and city participants, who praised the personalized responsiveness and coordinators' ability to provide the right answers quickly to ensure compliance with the requirements of the American Recovery and Reinvestment Act (Recovery Act). For example, seven states – six of which were batch reporters with a significant number of recipient reports – ran into last-minute errors on October 10th, but the HVC program resolved their problems within hours.

While it is still too soon to make pronouncements on lessons learned, even at this early stage we can reflect on some matters that may affect the next rounds of reporting. While there were very few technical difficulties with the reporting process, that is not to say that recipients did not encounter problems on their end, either in reporting or in their ability to digest the guidance. As you undoubtedly know, OMB created a large amount of guidance on reporting; however, there were apparently still some reporting questions that recipients were unable to solve even with that abundance of assistance. Accordingly, we will continue to do our part to help craft solutions to solve the problems of the largest number of recipients.

The reporting problems can be divided into two categories: inaccurate data and noncompliance. First, the data initially reported was riddled with inaccuracies and contradictions. For example, a misplaced decimal made it look as though a company was awarded a $10 billion contract, when it had really been awarded a $10 million contract. Another obvious error: more than one entity put the dollars awarded in the data field for jobs created or saved.

These mistakes do not surprise me, however, and in a serendipitous way, they are not unequivocally bad. In reality, this data should serve in the long run as evidence of what transparency can achieve. In the past, this data would have been scrubbed from top to bottom before its release, and the agencies would never have released the information until it was perfect. You – and the American public – are now seeing what agencies have seen, internally, in the past. And what we are all seeing, at least following this first reporting period, is not particularly pretty. This raw-form, unsanitized data may cause embarrassment for some agencies and recipients, but my expectation is that any embarrassment suffered will encourage self-correcting behavior and lead to more accurate reporting in the future.

In addition to incorrect data, the second major reporting problem was the considerable number of recipients who did not report. The Board believes that the number of non-reporting prime recipients exceeds early OMB estimates. As a law enforcement type, I believe that there needs to be a penalty of some sort for non-filers. The Recovery Act, as you may know, prescribes no penalties for failure to report, but perhaps an amendment in that regard would be something to consider. Even if criminal penalties are not practical, the fact that some would willfully not file is distressing and must be addressed. Agencies will need to decide what actions they are willing to take to ensure that the transparency and accountability aims of the Recovery Act are not disregarded. Perhaps an agency could refuse to provide any additional funds to a noncompliant recipient, or demand that noncompliant recipients return funds not yet spent. For the Board's part, after we do a thorough analysis to determine which recipients of contracts, grants, and loans did not report, we intend to post those recipient names on Recovery.gov.

Regarding the website, the last time I appeared before you, Recovery.gov was still in its infancy. I am happy to report that on September 28th, the Board published the redesigned and enhanced Recovery.gov, which we have referred to as Recovery.gov 2.0. We have received many compliments about the new site, especially about its dynamic mapping capabilities. While it could have been expected that reviews from the non-profit watchdog groups would be mixed, we were pleasantly surprised to hear those groups say that the site's new features were very well done.

Even following Recovery.gov 2.0's September release, the Board has continued to make additional enhancements to the site. Starting last month, Recovery.gov had the capability to display a "heat map" showing the overlay of Recovery funds distributed in areas of unemployment and by the end of November, we will be able to display how funds are distributed onto a map showing population diversity, as provided by the U.S. Census Bureau. Also we have begun providing the downloadable XML, Excel, and CSV files for the final recipient reports, as well as downloadable files of recipient reports showing changes made, and the files of late reporters. As required by the Recovery Act, we had initially displayed a simple list of non-fixed price and non-competed contracts awarded, but, having heard criticisms of that .pdf list, we are now providing a hyperlinked page with more detailed data so that individuals can obtain more information on how those contracts were awarded. We have also created state summary pages, which show for each state the total number of jobs created, as well as the number of jobs by zip code; the top funding agencies; the top recipients in the state; the top infrastructure recipients; and the top congressional districts. Recovery.gov visitors are also now able to use the site's new search capability to search by recipient name.

This is not to say that Recovery.gov is now perfect and in need of no further updates. We continue to be receptive to new ideas and functions that may improve the experience of Recovery.gov users. In furtherance of that goal, the Board – with assistance from our contractor Smartronix – conducted usability tests on Recovery.gov. Early reports from these usability tests were good, and we will post the results of these tests, along with earlier focus group reports, on the website when they are in their final form.

Visitors to Recovery.gov will also notice the familiar logos of Facebook, Twitter, MySpace, and YouTube. The Board has established a visible presence on each of those social networking sites. Currently, we are using these well-known sites to promote awareness of the capabilities of Recovery.gov and direct users to various parts of the website they may not otherwise be aware of.

Although the website represents the most visible aspect of the Board's work, the transparency it provides is only half of the Board's dual missions of transparency and accountability. Over the past several months, we have also made great strides in furthering our goal of accountability and oversight. With procurement support from the General Services Administration (GSA), the Board put out a solicitation for analytical tools and personnel to assist our own investigative staff with risk-based predictions about potential fraud. Last month, GSA awarded that contract to HMS Technologies, Inc., of Martinsburg, West Virginia, a certified Service Disabled Veteran-Owned Business. HMS is part of an accountability solution that, first, provides an in-depth fraud analysis capability that utilizes the vast amount of public information (more than 8.5 million public records and growing) about companies receiving Recovery Act funds in order to identify non-obvious relationships between entities. We believe these relationships will unveil facts that may not have been transparent to government officials at the time of contract or grant award. Using this tool has resulted in leads for investigations and for audits, identified added risk factors, and pointed to excluded parties receiving Recovery Act funds.

Second, this accountability solution also provides a predictive-analysis model in order to focus limited government oversight resources (for example, auditors, investigators, and inspectors) where they are most needed. Simply stated, the Board is looking at multiple risk factors to determine the most susceptible areas of fraud or waste. These risk-prone areas may be segregated by program, federal agency, or geographic region. With limited oversight personnel, it is important for the Inspectors General (IGs) and our oversight partners to know where they might best concentrate their efforts, and the Board is now in a good position to provide that type of information to the whole oversight community.

In summary, the analytical tools we are utilizing have been used successfully in other government and private companies to identify criminal trends and reduce fraudulent activity. However, the IG community has never before had the opportunity to apply this technology to a singular appropriation across multiple federal programs. Now we can ensure that every recipient of a contract, grant, or loan under the Recovery Act is processed through these sophisticated oversight tools.

To further assist with our accountability mission, the Board has implemented a robust hotline solution, whereby citizens can call, report electronically, fax, or mail letters to trained operators. You will be pleased to know that citizens are responding. To date, we have received more than 340 complaints. As you might expect, not all of those complaints have concerned actual fraud, waste, or mismanagement of Recovery funds, but those that did have been referred by the hotline staff to the appropriate IG for further exploration. Meanwhile, the rest of the IG community has been working diligently to manage its new Recovery-related oversight responsibilities, with approximately 77 investigations open and more than 390 audits, evaluations, and reviews currently being conducted.

I would like to conclude my testimony with some thoughts I have about the real meaning of transparency. I have said before that just throwing data up on a website does not meet my definition of "transparency." Rather, transparency means readable, usable data that actually informs people. When it comes to transparency, I believe the Board has met the requirements of the Recovery Act by providing a user-friendly website that serves as a portal to key information on the Recovery. More than that, we have accommodated the needs of the conventional user by providing simple, intuitive tools that help to navigate the data, such as interactive maps. Finally, we have also accommodated the needs of the technologically sophisticated users, providing downloadable data in formats that will let them do what they want with the data, placing it in whichever context they deem useful and creating "mash-ups" that have the power to resonate with the non-technologically sophisticated users. Unlike previous government ventures into transparency, we are not attempting to direct or control the data's context. Rather, the users themselves are being provided with the tools to contextualize the data in whatever manner is most useful to them. Through this process, the information is not the end result in itself, but rather information becomes the means to an end – the end, hopefully, being a more efficient, more accountable government.

Mr. Chairman and members of the Committee, that concludes my prepared testimony. Thank you for this opportunity. I will now be glad to answer any questions you might have.

Chairman TOWNS. Thank you very much, Mr. Devaney.
Deputy Secretary Miller.

**STATEMENT OF ANTHONY WILDER MILLER**

Mr. MILLER. Thank you, Chairman Towns, Ranking Member Issa, and members of the committee.

The American Recovery and Reinvestment Act provides nearly $100 billion in funding to the Department of Education. This is to help avert layoffs of teachers, school personnel, and other public employees, while advancing critical education reforms. We have distributed more than $67 billion of these funds and recipients have reported saving or creating almost 400,000 jobs, including jobs for more than 300,000 teachers and others in public schools and in our colleges.

The first Recovery Act funds released were supplements to existing formula grant programs such as Title I and the Individuals with Disabilities Education Act. These programs have well developed monitoring systems and regulatory requirements that control expenditures, thus minimizing the risk of misuse.

The next round of awards were made under the State Fiscal Stabilization Fund. This Fund was used to support grants to help stabilize State and local government budgets in order to minimize reductions in education and other essential public services. This was done in exchange for a commitment to advance central education reforms.

We were able to obligate these funds quickly by taking advantage of the Department's existing grant administration systems and working closely with OMB to ensure compliance with the statutory requirements. A percentage of the Stabilization Fund was withheld for a Phase Two application, which requires States to be transparent about their education reform efforts.

Governors will need to provide data on four key areas of school reform, as outlined by Congress in the Recovery Act. Those are achieving equity and teacher distribution, improving the collection and use of data, implementing high standards and high quality assessments, and turning around our most struggling schools. The Phase Two requirements were published in the Federal Register on November 12th and applications are due on January 11th.

The remaining Recovery Act funding, which is yet to be released, is for discretionary grants, including the "Race to the Top Fund" and the "Investing in Innovation Fund." The requirements for Race to the Top were posted on the Department's Web site on November 12th and applications are due on January 19th.

The Department is continuing to work hard to provide guidance and technical assistance to our grant recipients on the reporting requirements. We publish detailed official guidance and are holding biweekly Webinars and conducting significant outreach with State and local leaders to ensure that recipients are well aware of the Recovery Act's unique reporting requirements. We are keeping the lines of communication open with grantees and, when clarification is needed, we are responding quickly and publicly.

To ensure adequate financial systems and control of these funds, the Department utilizes its centralized Grants Administration and Payment System [GAPS]. At any time we know exactly how much funding has been awarded to any grantee and how much funding has been drawn down. With GAPS, we not only screen any grantee requests for funds to be drawn down, but we also require grantees to certify that they will use the funds within three business days, as required by the Cash Management Improvement Act.

GAPS also has an excessive payments monitoring feature that requires Recovery Act payments over a set amount to be approved by the program office before those funds can be drawn down. That is opposed to be drawn down automatically. We are expanding this process to apply to Department funds, not just Recovery Act funds.

In our ongoing effort to prevent waste, fraud, and abuse of Recovery Act funds, our Office of Inspector General is a significant asset. Our OIG has held more than 160 meetings with State and local officials on issues related to the Recovery Act. They have conducted audits in seven States and Puerto Rico to assess their internal control systems for administering the Recovery Act funds. To ensure that their findings inform program implementation, the OIG staff are in regular contact with staff offices across the Department to alert them to potential issues in the field. OIG intends to initiate additional audits in the coming months, increasing its focus on the use of funds and data quality.

The Recovery Act's recipient reporting provides a new tool in our efforts to ensure transparency. For the first time, grantees are required to provide quarterly reports, as you know, that account for their use of these funds. We are making considerable efforts to ensure recipients' compliance with the reporting requirements and help maximize the accuracy of their data.

Due in large part to our extensive guidance and outreach effort, the Department achieved virtually 100 percent compliance with the reporting requirements among State agencies. A relatively small number of local level recipients encountered technical challenges in their reporting efforts and the Department is working closely with them and any other recipients experiencing difficulties, to ensure full compliance in the next round of reporting.

The Department has forwarded to the Recovery Board any significant errors and material omissions that have been corrected, such as discrepancy in award size or funding agency. In instances where job data was flagged as being outside of the anticipated range, the Department has notified the recipient of the concern, provided a link to the relevant guidance, and maintained a record of how the guidance was being interpreted so that it can be clarified in the coming months. We will also develop a lessons learned document and begin another round of outreach in advance of the next period of reporting.

In summary, as we work to refine the data reporting process, it is important to recognize the impressive level of transparency that has already been achieved. Every parent can go to Recovery.gov and see how much Recovery Act funding their school district has received. If any vendor receives more than $25,000 in payments, that information is available as well. This transparency provides an important tool for taxpayers to see how public funds are being used in their community and is a significant deterrent against fraud.

In closing, I believe that the Department has been highly effective in implementing and overseeing its Recovery Act funds. We have received considerable feedback from our grantees on the guidance we have provided. We will continue to work to improve data quality and further the unprecedented level of transparency. Moreover, we are confident that the Recovery Act has succeeded in keeping hundreds of thousands of teachers and other staff in schools, helping to ensure that, despite the significant budget crisis that States face, our children can continue to get the education they need and deserve to prepare them for the future.

Thank you again, and I would be happy to answer any questions.

[The prepared statement of Mr. Miller follows:]

Testimony of Deputy Secretary Tony Miller
U.S. Department of Education
Before the U.S. House of Representatives
Committee on Oversight and Government Reform
November 19, 2009

Thank you Chairman Towns, Ranking Member Issa, and Members of the Committee for having me here today. I appreciate the opportunity to address this very important topic and to respond to any questions you might have.

As you know, the American Recovery and Reinvestment Act (Recovery Act) provided nearly $100 billion in funding to the Department of Education, which was intended to help avert layoffs of school personnel and other public employees while also driving critical reform efforts in our public schools. To date, we have distributed more than $67 billion of these funds. In administering these funds, the Department has focused on getting money out the door quickly while also ensuring that States, local educational agencies (LEAs), and other recipients use the funds as efficiently and effectively as possible. We have approached this effort systematically, but we have also been able to react swiftly when change was needed. In fact, the unprecedented challenges associated with managing these funds under such an accelerated timetable have helped our agency to work more effectively and improve our overall approach to grants management and oversight. So far, recipients of the Department's Recovery Act funds have reported saving or creating almost 400,000 jobs, including the jobs of over 300,000 educators and support staff in our public schools and institutions of higher education.
In my testimony today, I will focus on the following components of the Department's integrated approach to implementation of the Recovery Act:

1) Overall timing of program awards;
2) Guidance and technical assistance;
3) Financial systems and controls;
4) Inspector General efforts, and;
5) Recipient Reporting.

Overall timing of program awards

In planning the timing of the various Recovery Act awards, the Department was coordinated in its approach and laid the groundwork for effective oversight. As you may know, the first Recovery Act funds we released were supplements to our large existing formula grant programs, including Title I, Special Education, and Vocational Rehabilitation. We released these funds in two installments -- 50 percent on April 1st and 50 percent on September 1st. This strategy was intended to ensure that States and LEAs had access to sufficient funds to meet immediate, urgent needs, while also giving the Department time to complete guidance on the new reporting requirements related to these funds. Also, these existing formula programs have well-developed monitoring systems and regulatory requirements that control how funds may be expended, thus minimizing the risk of misuse for the first monies out the door.

The next round of awards was made under the State Fiscal Stabilization Fund (Stabilization Fund). As you know, the Stabilization Fund invested in saving and creating jobs, as well as advancing education reform. Though this was a new program, we were able to obligate the funds quickly by taking advantage of the Department's existing grant administration systems. The Department worked closely with the Office of Management and Budget (OMB) to devise a Phase One grant application that minimized the burden on states but also ensured compliance with statutory requirements, such as Maintenance of Effort (MOE). A percentage of this award was withheld pending completion of a Phase Two application that provides transparency into state education reform efforts. This second application requires Governors to provide data on the following four key areas of school reform: (1) implementing rigorous college- and career-ready standards and assessments; (2) improving the collection and use of data; (3) improving teacher effectiveness; and (4) supporting struggling schools. The Phase Two notice of final requirements, definitions, and approval criteria was published in the Federal Register on November 12, 2009, and applications are due January 11, 2010.

The final wave of Department funding is for discretionary grants. The requirements and criteria for these programs have been or are being developed after consideration of public input, and the competitions for most of these grants will involve an intensive peer review process to ensure that these awards go to only the most qualified of applicants.

Guidance and technical assistance

Throughout this process, the Department has worked hard to provide guidance and technical assistance to recipients, as the Recovery Act includes some unique requirements for uses of funds and reporting. The Department published detailed guidance to ensure that recipients were aware of these various requirements. We also conducted significant outreach with State and local government and education and community organizations to ensure that recipients and other stakeholders had the information they needed. This outreach included:

- Briefings with Governors, Mayors, Chief State School Officers, the Council of the Great City Schools, plus an address to the U.S. Conference of Mayors Forum on Education;
- Two conference calls with state political and education leadership and two conference calls with mayors and local school leadership, reaching a total of 721 participants;
- Three major Recovery Act e-mail bulletins directed to the Department's targeted listserv community of 2290 stakeholders; and
- An interactive briefing session for education and community groups at our headquarters, with a webcast of the event available to the public.

In all our outreach efforts, we kept the lines of communication open with grantees, and when clarification was needed, we responded quickly and publicly. We posted guidance supplements to clarify a number of issues, such as whether Education monies from the Stabilization Fund could be used for construction, and whether some uses of the Stabilization Fund were prohibited by other statutes. The Secretary also issued Dear Colleague letters in a number of instances where direct concerns were raised, such as those related to the monitoring requirements for the

Stabilization Fund and the MOE requirements under the Individuals with Disabilities Education Act (IDEA).

The Department supplemented its guidance with technical assistance, developing a series of bi-weekly webinars for grantees to address issues of consistent concern. Topics have included Fraud Prevention, Cash Management Requirements, MOE Requirements, Recipient Reporting, Strategic Planning across Funds, and Direct/Indirect Cost Allocation.

The Department also gave individualized assistance to states when needed. For example, we provided customized technical assistance for six states, based on factors including total financial exposure and historical audit findings. In these states, our fiscal and program experts worked together to provide assistance that addressed the specific implementation issues facing each state.

Financial systems and controls

To ensure adequate financial systems and controls for these funds, the Department has utilized its centralized Grants Administration and Payment System (GAPS), which records all financial activity for grants, including obligations and outlays. At any point in time, the Department knows exactly how much funding has been awarded to any grantee and how much funding has been drawn down against the award. This data system is the source for the required weekly reporting to Recovery.gov on Recovery Act obligations and expenditures. The Department has also used this system to post on its website weekly financial data by state and program, providing additional transparency that goes beyond the required reporting elements.

The GAPS system not only screens any requests for funds to be drawn down from available awards, but it also requires grantees to certify that the funds will be used within three business days, as required by the Cash Management Improvement Act (CMIA). Cash management is an ongoing priority for the Department, so it was important to us to ensure states' compliance with this requirement, even as they worked to get funding to districts as quickly as possible. To address this issue, the Department's Office of the Chief Information Officer (OCIO) developed a Recovery Act Excessive Payments Monitoring feature in the GAPS system that places a hold on all requests for funds over $100 million or over a set percentage threshold that is deemed excessive. All excessive payments have to be approved by the relevant program office rather than being granted automatically. This process has been successful in identifying cash management issues in a number of instances, and is being expanded to include all Department of Education funds, not just those received through the Recovery Act.

Inspector General Efforts

In our ongoing effort to prevent waste, fraud, and abuse of Recovery Act funds, the Department of Education's Office of Inspector General (OIG) has been a significant asset. Before any funds were awarded, OIG provided us with information on its extensive work at the state and local levels. OIG employees also met with state and local officials, providing outreach materials on fraud awareness and tools for the timely reporting of any misuse of Recovery Act funds. OIG has held over 160 meetings with state and local officials on issues related to the Recovery act, and thus far has conducted audits in 7 states and Puerto Rico to assess the internal control systems that would be used to administer Recovery Act funds. Based on its findings in these states and its other work, OIG issued alert memoranda on MOE and Cash Management to create heightened sensitivity to these issues among both the agency and its grantees. It is also providing detailed audits of the individual states monitored in order to help states optimize their systems and avoid fraud, waste, and abuse.

The first phase of this program is nearing completion, and OIG intends to initiate additional audits in the coming months, increasing its focus on the use of funds and data quality. OIG is also coordinating its efforts with the Government Accountability Office (GAO) to minimize duplication of audit efforts.

OIG has also recently completed an internal audit requested by the Recovery Board. This audit determined that the Department had established a process to perform limited data quality reviews in order to identify material omissions and/or significant recipient reporting errors, and then to notify the recipients of the need to make timely changes. OIG is currently conducting an internal audit of the Department's implementation of the Stabilization Fund, to evaluate whether state allocations were calculated in accordance with statutory requirements, whether applications for initial funding and state plans included all required information and were appropriately reviewed, and whether the Department's program staffing and monitoring plans are effective.

Recipient Reporting

The recipient reporting required by Section 1512 of the Recovery Act provides a new tool in our efforts to ensure transparency. For the first time, grantees are required to provide quarterly reports that account for the use of their funds, and the Department is excited about this opportunity to supplement our own monitoring efforts with the information provided through this new level of transparency.

We have undertaken a major communication and oversight effort to maximize recipients' compliance with the reporting requirements and ensure the accuracy of the data they submit. Following the release of OMB's Recipient Reporting Guidance on June 22, we developed and posted Clarifying Guidance, Jobs Reporting Guidance, and program-specific Tip Sheets tailored to the issues facing our recipients. We also conducted two technical assistance webinars on Recipient Reporting, one on August 10 to help recipients prepare for the process, and another on September 21 to address follow-up details and questions. Our program offices also worked directly with grantees to ensure that they had valid Data Universal Numbering System (DUNS) numbers and were registered in the Central Contractor Registration (CCR) database, which are prerequisites for registering on FederalReporting.gov, the central portal for all recipient reporting.

Due in large part to our extensive guidance and outreach efforts, we achieved virtually 100 percent compliance with Section 1512 Recipient Reporting among the State-level agencies receiving formula funding. OMB assisted us in these efforts by coordinating cross-agency technical support for State-level agencies. A relatively small number of local-level recipients have encountered technical challenges in their reporting efforts, and the Department is working closely with them and any other recipients experiencing difficulties to ensure full compliance in the next round of reporting. Despite some issues, by the time the Prime Recipient reporting period had ended, we had accounted for 97 percent of our Recovery Act obligations to date.

In addition to guidance we have provided to recipients, we have also developed internal guidance on data quality to ensure the validity of our recipient-reported data. The guidance details the responsibilities of each office during the data quality review process and describes the review procedures provided to the Department from FederalReporting.gov. The Office of the Chief Financial Officer (OCFO), in consultation with our program offices, developed an automated program to compare the reported information to key data elements in GAPS, including program code, award amount, outlay amount, and potential errors. A second automated program checks the data against standard data norms, identifying potential outliers in expenditure and jobs reporting. The Chief Financial Officer then provides the results of these automated checks to the program offices, which then review the flagged reports manually and contact recipients as appropriate with questions on the data. A total of 742 reports out of 2229 were changed during this recent Agency Review period as a result of these data checks.

The Department has forwarded to the Recovery Board any significant errors and material omissions that have not been corrected, such as discrepancies in award size or funding agency. In instances where jobs data was flagged as being outside of the anticipated range, the Department notified the recipient of the concern, provided a link to the relevant guidance, and maintained a record of how the guidance was being interpreted so that it can be clarified in the coming months. We will also develop a "Lessons Learned" document and begin another round of outreach in advance of the next reporting period, which begins January 1. We believe that the numbers reported are an indication of the significant impact that the Department's Recovery Act funds have had on employment, and we will continue to work with recipients to even further improve the quality of their data.

Summary and Conclusion

As we work to refine the data reporting process, it is important to note the impressive level of transparency that has already been achieved. Every parent can go to Recovery.gov, identify his or her local school district, and see how much Recovery Act funding their community has received. If any vendors received over $25,000 in payments, that information is identified as well. This transparency provides a significant deterrent against fraud and an important tool for taxpayers to see how these funds are being used in their community.

In closing, I believe that the Department of Education has been highly effective in the implementation and oversight of its Recovery Act funds to date. Our staff members have risen to the occasion, worked as a team, and leveraged their depth of experience to develop solutions that will enable our agency to function more effectively and efficiently in the future.

In addition, we have received considerable feedback from grantees that the guidance we have provided was helpful and appreciated during this first-ever recipient reporting period, and the success of our outreach efforts is evident in our outstanding 97% compliance rate. As we look forward to the next round of reporting, wc will continue to provide guidance and technical assistance to improve data quality and continue the unprecedented level of transparency we have achieved in this critical recovery effort.

Perhaps most importantly, we are confident that the Recovery Act has succeeded in keeping hundreds of thousands of educators and support personnel in our schools, helping to ensure that, despite the budget crises many states face, our kids can continue to get the education they need to prepare them for the future.

Again, thank you so much for having me here today. I'd be happy to answer any questions you might have.

Chairman TOWNS. Thank you very much, Secretary Miller.

Deputy Secretary Porcari.

**STATEMENT OF JOHN D. PORCARI**

Mr. PORCARI. Chairman Towns, Ranking Member Issa, and members of the committee, thank you for having me here today. Let me begin by sharing information about our progress in implementing this historic legislation.

The Department of Transportation received $48.1 billion in resources to support infrastructure improvements and create and sustain jobs throughout the transportation sector. In the 38 weeks following enactment, we have obligated a total of $30.3 billion on more than 10,000 projects nationwide. More than $5½ billion of these resources have been expended and more than 6,500 projects are underway or completed.

In addition, work is underway to prepare for the award of $8 billion that the Recovery Act provided for high-speed passenger rail. On a parallel track, we are internally reviewing the applications for the $1½ billion provided to the Department in discretionary grants. We expect to award these grants in January 2010, ahead of the February 17th deadline. Overall, the Department has made substantial progress in implementing the Recovery Act, and the Secretary and I are very proud of these accomplishments.

Recovery Act funds are improving our transportation infrastructure, while putting people back to work in cities and counties throughout the Nation. As I travel around the country, I have talked with construction workers who have shared with me how difficult it was to provide for their families until they were employed or re-employed after being laid off on a Recovery Act project.

This program has been an economic lifeline for people like Brandon Nessler, a constructionsite foreman from Wisconsin who was laid off last year after 18 years of service, until a Recovery-funded project put him back to work full-time, overseeing grading work on I–94.

Allison Barber, a new college graduate with a degree in construction management, had few job prospects until a construction company hired her as a full-time foreman on a major road project in Colorado.

These workers and many thousands like them can look forward to a paycheck and ensure that their families have the resources they need.

There is no question the Recovery Act is working as intended, putting Americans to work while making long-term investments in our infrastructure. Equally important is DOT's commitment to ensuring that all these funds are spent wisely, that the program meets all federally reporting requirements, and that we are able to share accurate information with the American people about our progress.

The Recovery Act requires, among other things, that funding recipients provide independent reports of the numbers of direct jobs created and other project-related information. Section 1512 of the Recovery Act requires recipients to report this information as of September 30, 2009, and then again at the end of each subsequent quarter through fiscal year 2010.

Given that this reporting process was new for the recipient community, the Department of Transportation staff reached out to the State DOTs, affected Transit and Airport Authorities, and Amtrak to assist them in understanding the reporting guidelines provided by the Office of Management and Budget. We also conducted a series of Webinars and other training sessions to provide recipients with information needed to comply with the Section 1512 requirements. DOT staff continued to provide support to these recipients until the reporting data base was closed on October 20th.

As a result of these efforts, the recipient community for DOT reported 45,250 direct jobs created. DOT contractors reported more than 1,000 additional jobs. More than 96 percent of our recipient community successfully reported their data in the reporting system.

Overall, we are pleased with the Section 1512 reporting and anticipate even more success in the future quarterly reporting. We are in the process of contacting the recipient community to identify any errors that could be corrected in the next reporting cycle. In addition, we are asking for their help in identifying recommended process improvements and lessons learned to simplify future reporting.

As we begin planning for the next Section 1512 reporting cycle, in January 2010, we will buildupon our initial training and outreach efforts to help ensure success with the future recipient reporting requirements.

This concludes my testimony, and I would be pleased to answer your questions.

[The prepared statement of Mr. Porcari follows:]

# STATEMENT OF THE HONORABLE JOHN D. PORCARI DEPUTY SECRETARY OF TRANSPORTATION

## BEFORE THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM U.S. HOUSE OF REPRESENTATIVES

**November 19, 2009**

Chairman Towns, Ranking Member Issa, and Members of the Committee, I want to thank you for the opportunity to appear before you today to discuss the jobs reporting process for transportation programs under Section 1512 of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

Let me begin by sharing information about our progress in implementing this historic legislation. The Department of Transportation (DOT) received $48.1 billion in resources to suppport infrastructure improvements and create and sustain jobs throughout the transportation sector. In the 38th week following enactment, DOT has obligated a total of $30.3 billion on more than 10,000 projects nationwide. Nearly 6,500 projects are underway or completed. The Federal Aviation Administration has issued 321 grants for 99% of the $1.1 billion provided for airport projects. The Federal Highway Administration has authorized more than $20 billion in funding for over 8,500 projects representing 77% of the total funds provided to States. The Federal Transit Administration has awarded 700 grants totaling $8.0 billion and has already reported $1.2 billion in outlays. The Maritime Administration's Small Shipyard grants have been awarded to 70 separate projects.

In addition, work is underway to prepare for the award of the $8 billion the Recovery Act provided for High Speed Passenger Rail. The applications process has closed and the Federal Railroad Administration has been reviewing and evaluating all of the applications received. On a parallel track, we are internally reviewing the applications for the $1.5 billion provided to the Department in Discretionary Grants. We expect to award these grants ahead of the February 17th deadline. Overall, the Department has made substantial progress in implementing the Recovery Act and the Secretary and I are very proud of these accomplishments.

Recovery Act funds are improving our transportation infrastructure while putting people back to work in cities and counties throughout the Nation. As I travel around the country, I have talked with construction workers who have shared with me how difficult it was before being employed on Recovery Act projects to provide for their families.

This program has been an economic lifeline for people like Brandon Nesler, a construction site foreman from Wisconsin who was laid off last year after 18 years of service, until a Recovery-funded project put him back to work full-time overseeing grading work on I-94.

Alison Barber, a new college graduate with a degree in construction management, had few job prospects until a construction company hired her as a full-time foreman on a major road project in Colorado.

These workers, and many thousands like them, can look forward to a paycheck and ensure that their families have the resources they need.

There's no question the Recovery Act is working as intended, putting Americans to work while making long-term investments in our infrastructure. Equally important is DOT's commitment to ensuring that all funds are spent wisely, that the program meets all Federal reporting requirements, and that we are able to share accurate information with the American people about our progress.

The Recovery Act requires, among other things, that funding recipients provide independent reports of the numbers of direct jobs created or retained and other project-related information. Recipients are also responsible for reporting direct jobs from any sub-recipients (for example, sub-contactors in the case of construction projects). Section 1512 of the Act requires recipients to report this information as of September 30, 2009 and then again at the end of each subsequent quarter through Fiscal Year 2010.

Given that this reporting process was new for the recipient community, the Department of Transportation began an outreach effort to assist its recipients with understanding and implementing the reporting requirements. DOT staff reached out to State Departments of Transportation, affected Transit and Airport Authorities, shipyard recipients, and Amtrak to assist them in understanding the reporting guidelines provided by the Office of Mangement and Budget. DOT staff engaged with their respective stakeholders to provide clarifying information. We also conducted a series of webinar and other training sessions to provide recipients with information needed to comply with the Section 1512 requirements. DOT staff confirmed that the recipients could properly register in the reporting sytem and provided troubleshooting services to those encountering difficulty. Our technical assistance effort focused heavily on the OMB methodology for counting jobs to make sure those entering data understood the information being soughts. DOT staff continued to provide support to the recipients until the reporting database was closed on October 20th. Even before the offical deadline was reached and continuing until October 29th, DOT staff reviewed the data for obvious errors and ommissions. While DOT staff could not directly correct the data, they contacted recipients about potential problem areas so that as many corrections as possible could be entered before the reporting system was closed.

As a result of these efforts, the grantee recipient community for DOT reported 45,250 direct jobs created or retained so far. Contractors reported more than 1,000 additional jobs. More than 96% of the recipient community sucessfully reported their data in the reporting system. The majority of those who did not report encountered problems with accessing the reporting system. To our knowledge there were no transportation-related noncompliant recipients.

We did identify one serious error in the process. One State Department of Transportation erroneously coded its reports to the Veterans Administration rather than to DOT. Furthermore, two States submitted a single 1512 report for all their ARRA projects. This error accounts for 831 projects of the 924 missing project reports expected in the Federal Highway Administration's recipient community.

Overall, we are pleased with the intial Section 1512 reporting and anticipate even more success in future quarterly reporting. We are in the process of contacting the receipient community to identify any difficulties that could be addressed in the next reporting cycle. In additon, we are asking for their help in identifying recommended process improvements and "lessons learned" to simplify future reporting.

As we begin planning for the next Section 1512 reporting cycle in January 2010, we will build upon our initial training and outreach efforts to help ensure success with the future recipient reporting endeavors.

This concludes my testimony and I will be pleased to answer your questions.

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Chairman TOWNS. Thank you very much. Let me thank all of you for your testimony. We will start the questioning and I will start off.

Let me direct this to you, Mr. Dodaro, and also to you, Mr. Devaney. We all know how important this is, but is it really creating jobs, jobs being created out of the stimulus package?

Mr. DODARO. Well, I think it is clear that the use of the money is intended for that purpose. The real question that we are looking at in this case is what is the accuracy of the information that is being reported; and the accuracy of the information needs to be improved. That, I say, would be the bottom line because——

Chairman TOWNS. But you do think jobs are being created?

Mr. DODARO. Well, the funds are being used for the appropriate purposes, from what we have seen. But the question is how many jobs are being created or not. There are several dimensions to this. First of all, of the $787 billion that is estimated to be spent, as of the reporting period here, only 22 percent of that amount of money had been spent as of September 30th, $173 billion.

Point No. 2 is that was spent both in the tax cuts, the entitlement programs, unemployment insurance, Medicaid and others, and then in grants, contracts, and other things. The recipient reports only deal with the grants and contracts. So of the $173 billion that has been spent under the Recovery Act, only $47 billion is subject to the reporting requirements under the act. So even if you get an accurate count under the recipient reports, it is still a subset and it only focuses on job creation.

We believe we made good recommendations to improve the accuracy so that there is a better basis for making informed judgments about how many jobs were created or saved.

Chairman TOWNS. Mr. Devaney.

Mr. DEVANEY. I think I would agree totally with that. I think there is probably no doubt jobs are being created or saved, it is just the number and the accuracy of the number. We have a number; it is based on what the recipients told us their interpretation of the guidance was. And as the Acting Comptroller suggests, that guidance needs to be clarified in a big way, in a big hurry to help recipients be a lot clearer the next time they report.

I have no doubt that there are a lot of jobs being created. I think it could above or below 640. I think missing reports might drive the job numbers up, and I think there are enough inaccuracies in here to question the 640 number. It might go down. So somewhere in the middle there is a balancing act, and as the quarters go on and as the accuracy gets better and recipients get better at reporting accurately, I think we will get a much better picture. This was the first time and there were a lot of challenges for both recipients and agencies, and, quite frankly, for my Board. So my hope is that, as we go forward, this is all going to get better.

Chairman TOWNS. You know, the non-compliance, do you think that is the fact in terms of the lack of staff or being an unfunded mandate? What do you think really creates the non-compliance? Do you think that they are overworked, the request is just too much for them to handle at this time? I am trying to get a handle on this because I like the idea you indicated of maybe some kind of penalty. As you know, the ranking member and this committee has put forth legislation trying to create some relief, and, of course, that is another reason why I have interest in this, and, of course, maybe get your response even to our legislation.

Mr. DEVANEY. I think there are probably a number of reasons why recipients didn't report. It could be as simple as they didn't want to, or they were confused and didn't know they had to. There are no penalties, and in that kind of a situation, just my enforcement background leads me to believe penalties are a deterrent effect, and if there were some I think we would have gotten better compliance.

But the fact is I am still trying to get a handle on how many didn't. I think Mr. Dodaro suggested that it may be as high as 10 percent. I am in that range. We are in that range ourselves. That is a little higher than what OMB's early estimates are, but I am waiting for that list.

Chairman TOWNS. OK, Mr. Porcari, you indicate your situation has been very different. I understand you said 96 percent?

Mr. PORCARI. Yes, Mr. Chairman. Of our 1,037 recipients that were required to report, 96 percent did, and I would point out that they are widely varying in capabilities. Some were very large State DOTs; we also had municipalities like High Point, NC, where you had one person who was planning, designing, bidding the project, and doing all the reporting requirements. We believe that is one of the reasons that 4 percent were not able to report.

Chairman TOWNS. I yield to the gentleman from California, the ranking member, 5 minutes.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Devaney, Secretary LaHood said we know for a fact that Recovery Act investments have created or saved more than 640,000 direct jobs so far. These are real, identifiable jobs directly funded by the act. Can you support that?

Mr. DEVANEY. Well, I think, sir, it may be a fact that is what is my Web site, but that may not be the correct number.

Mr. ISSA. So to characterize, he may have been a little overzealous in saying real, identifiable, direct; and, in fact, it is just a damn estimate, isn't it?

Mr. DEVANEY. It is what the recipients reported.

Mr. ISSA. OK. I was reminded, by the way, that when a fish hits a wall, he says dam. That is what we are talking about here.

OK, so going through a couple of slides, the White House Press Secretary, Robert Gibbs, on October 30, 2009, says the direct jobs in that is, again, 640,329, referring to Recovery.gov.

Same day, Vice President Biden's Chief Economic Advisor, those jobs accumulate to 650,000 jobs saved or created so far.

Same day, Vice President Joe Biden, when the data is posted later today, it will show that we have created or saved 640,239 jobs directly from contracting authority with the Federal Government.

Last slide, CNN, headline, "Stimulus Creates 640,000 Jobs."

Pull up the propaganda again.

Is there any reason, when you don't know what the number really is, that it is just an estimate, that, in fact, there is about 60,000 jobs you pulled off, and you didn't even pull off the 26,000 jobs the University of California says it claims, which would be half of its employees were saved by this act, and they don't have a net new hiring, so you had to save existing employees, half of them, isn't that just propaganda? Isn't it either misleading or designed to serve a political agenda, when in fact it can't be substantiated, it is not true and it is either misleading or designed to say we are doing a great job, when in fact we don't know?

Mr. Devaney, you are the most honest man I know. Without a whole lot of in between, shouldn't we be more conservative and say, look, this is what the reports are. We are scrubbing it. This is a new system; it has its problem; we hope that at least they are reporting the dollars right and we have; and we have no idea whether those people have the ability to calculate accurately the full-time job equivalents, but we are going to get to the bottom of it. Wouldn't that be a fairer way to put it?

Mr. DEVANEY. I like that statement.

Mr. ISSA. Thank you, Mr. Devaney.

Now, I said, to begin with, that I commend you for what you are doing, and I am going to concentrate really on the fact that we know that the output is propaganda; we know we lost 3.8 million jobs; we know, for example, Secretary Miller, when he says he saved 300,000 jobs, these are simply transfers to pay for teachers. So it is not created, it is simply they are alleged not to be laid off. The money was moved to other parts of the budgets, so those teachers kept their job and the State spent the same money they would have spent on teachers somewhere else. That is the reality of those 300,000 jobs.

So now let's get down to the real question, which is, can you, with the money you have, Mr. Devaney, improve your site to have back engine capabilities, so that when somebody puts an erroneous number in, when somebody puts in a number that doesn't jive with what they were given, when somebody puts in a congressional district that doesn't exist—and I know you have scrubbed that now—but can you have the engine fact check it so that it comes back and says, hold it, you have these corrections?

When I try to put the wrong credit card number in, I get a bounce back when I try to buy online. Can you do that with the money you have today, or should Congress be giving you more dollars so that your prototype for online reporting in Government can become robust enough to be everyone's prototype?

Mr. DEVANEY. I think we can do that, sir, and I don't think we need any more money to do it. To be quite honest with you, I think we needed this first quarter to totally understand which pieces of the data were going to cause the most problems. So now that we know, we are doing that analysis. We certainly intend to build what we call internal logic checks into the system. So, for instance, if congressional district that is selected does not correspond with the zip code that is also put in there, there is a bong that goes off somewhere and the recipient is asked to spend some more time and come up with the right congressional district.

Mr. ISSA. One quick last followup. Will you also be producing the kind of software that would allow a single recipient trying to do their job and report properly to be able to do it at little or no cost? Will you create that so that the downstream—because I know the Department of Transportation, most of those people reported because they are used to reporting, it is pretty similar to what they have been doing. Can you create the ability to enable more and more people to be able to report accurate by delivering additional capability to them downstream? Is that part of your plan?

Mr. DEVANEY. Well, we certainly work literally constantly with the States. Bear in mind, on this first reporting, 31 States chose to do bulk reporting and literally report for everybody in their State, all the recipients; and that actually enabled us to work with the people that were doing the reporting. I think it worked well. I think there were problems encountered that we resolved rather quickly. So, yes, it is a constant ongoing dialog we are having with States and recipients how can we make it better for you; and to the extent we can, we will.

Mr. ISSA. Thank you.

Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much.

The gentleman from Massachusetts, Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman.

First of all, I want to thank everybody for their testimony here today. This is a difficult job that you all have, but I think the transparency issue is critical, and I suspect that the American people are grateful for it. The Recovery Act funds are going to amount, apparently, to about 10 percent of our deficit over the next 10 years.

I wish that we had given scrutiny to the other 90 percent, which, of course, comes from the $1 to $3 trillion spent on the Iraq war, which obviously wasn't very well accounted for; what will probably amount to over $4 to $5 trillion for the 2001–2003 tax cuts which weren't paid for; and we can go on and on with what brought us to this point. But I think it is very important that we have this transparency and accountability, and I think all of you for doing that.

Let me ask you, Mr. Devaney, the Recovery and Reinvestment Act contained certain Buy American requirements that was intended to ensure that the stimulus money was spent on U.S. companies. It also allowed for agency heads to waive those requirements if it met certain criteria. I wanted to know whether or not you were aware that five agencies have granted more than two dozen exceptions to that Buy American rule.

Mr. DEVANEY. I am aware that agencies are giving waivers.

Mr. TIERNEY. Is it concerning to you at all that the information about those waivers is not really available on Recovery.gov?

Mr. DEVANEY. I think that is something we should probably get and put on Recovery.gov.

Mr. TIERNEY. So, if I am clear, in your opinion, at least, it would increase transparency on the use of the Recovery funds to have the information on those waivers and the rationale and the amount that is expected to be made on foreign-made goods noted publicly on Recovery.gov?

Mr. DEVANEY. I agree with that.

Mr. TIERNEY. Thank you.

Mr. Dodaro, did you find that there was inadequate monitoring of subrecipients by the States?

Mr. DODARO. We are continuing to look at that issue. We do the bimonthly reviews on the use of the money. There have been some concerns that we have reported in our earlier reports about the need to have better reporting or to ensure reporting on subrecipients. So we are continuing to look at that issue as part of our bimonthly reports on the uses of the money by selected States and localities.

Our next scheduled report there is due in early December, so we will be talking about that then. For this report we focused on analyzing the data base of the recipient reports. But we are very much attuned to that issue; it is very important, particularly where there are known reporting issues or known problems with some subrecipients.

For example, HUD has identified high-risk subrecipients in the public housing authorities. There are some concerns in the local education agencies. So we are looking to see what the Federal agencies are doing, what State auditors are doing, and State program officials to monitor the use of the money at subrecipients.

Mr. TIERNEY. Great. Thank you, sir.

Mr. Miller, will the Department proactively review the State subrecipient monitoring plans and will they audit any of the States to determine whether or not those plans are accurate or flawed?

Mr. MILLER. As part of our guidance, we will be working with OMB to develop the final guidance. Even in this period we had 25 staff working during the review process, reaching out to all 50 States to help convey the guidance and understand the issues. So we will continue to build on that effort. To the degree that subrecipient issues have been identified, we will continue to work with them to resolve the subrecipient reporting issues as well.

Mr. TIERNEY. Thank you.

Mr. Porcari, how has transportation been monitoring the subrecipients of the act?

Mr. PORCARI. Congressman, we have been directly working with the recipients and, in turn, asking them to make sure their subrecipient data is correct. We are relying on the recipients to have correct data from their subrecipients.

Mr. TIERNEY. Chairman Devaney, do you find that the lack of resources for the States has impacted their ability to report on the subrecipients, their inability to have the Inspectors General or other auditing facilities?

Mr. DEVANEY. Sir, I think it creates an enormous challenge for the States. I will give you an example. I went out to Colorado when they were reporting, and I walked by a football-sized field of empty cubicles. They had literally laid off a good part of their staff; they were facing a furlough the next week, and they had to report in 3 days. And they had regular State work as well.

So there are challenges out there; States are hurting. There is no doubt that they made a Herculean effort to try and report on time, and that is why I felt a grace period for late reporters was appropriate in this first reporting cycle, and maybe another, because I think they are doing their best, but there are enormous monetary challenges out there.

Mr. TIERNEY. Thank you.

Mr. Dodaro.

Mr. DODARO. Congressman Tierney, we have been very concerned about the ability of the States and the auditors to oversee the funding. We have raised that issue in our earlier reports on the bimonthly reviews of the use of the money. A number of States are under fiscal stress; they have been cutting back in some of these administrative areas.

We have recommended that the Congress allow a certain percentage of the money to be used for administrative oversight and auditing of those funds; we think it would be a prudent investment given the size of this whole endeavor. And I know this committee had passed legislation that has passed the House, but it is pending in the Senate right now.

Mr. TIERNEY. What a shock to all of us that the Senate hasn't acted. [Laughter.]

Mr. TIERNEY. Thank you, Mr. Chairman.

Chairman TOWNS. Such a shock.

Congressman Burton from Indiana.

Mr. BURTON. Thank you, Mr. Chairman.

President Obama brushed off criticism over his administration's inaccurate reporting on job creation Wednesday, telling Fox News the accounting is an inexact science and that any errors are a side issue when compared with the goal of turning the economy around. He said job growth is his No. 1 responsibility. I think he said something like that back in January, and let's just look at what has happened since January.

You want to put that slide up?

Jobs that they claimed to have been saved or created, 640,329, and there are 15.7 million Americans unemployed.

He said he would create 3½ million jobs, and, instead, we have lost 3.8 million jobs. That is a difference of 7.3 million jobs. And yet this is a side issue, it is not a big deal.

We have authorized $787 billion, and you say you have spent $173 billion. I don't know what you have done with the rest of that money, but if it is available and it is supposed to stimulate job creation, why in the heck haven't you been doing it? It makes no sense to me. I mean, we are suffering one of the biggest recessions in the history of this country and you are telling me, out of the $787 billion, you have only spent $173 billion. I just don't understand it.

And now the administration is talking about another stimulus.

Now, if you take the $787 billion, and you have only spent $173 billion, why do you need another stimulus? This just doesn't make any sense.

And then you read that—let me get my glasses here, because my eyes aren't as strong as they used to be. Now you have Peter Orszag at the White House saying that the Federal Government made $98 billion in improper payments, including fraud, abuse, and everything else, and they can't document where that money went.

This administration has been an absolute disaster as far as the economy is concerned, and now they are coming up with some more minor things that they want to do like change the health care system and add another $1 to $3 trillion to the deficit. The deficit this year is $1.4 trillion, and we are still in the current fiscal year. That is over three times what it was when my Democratic colleagues were raising cane about it. It was $500 billion. They have really outdone themselves. The White House has not got it up to $1.4 trillion this year, and we still have 10.2 percent unemployed, and it is probably going to go up. And you can't document the 640,329 jobs you are talking about.

I feel like I am listening to a baloney factory here, because people come down from the White House and they give us these figures, and they can't document the figures, and it just goes on and on and on. And then the President has the unmitigated gall to say job growth is his No. 1 responsibility. Where has he been the last 11 months? He said that was the first thing he wanted to do, was create jobs in this country, and he said he was going to create 3½ million new jobs. Instead, we lost 3.8 million, and we have over 15 million people out of work. Unemployment is at 10.2 percent. I have said that before, but I will say it again.

This whole issue is just propaganda. It is political hyperbole. He is one of the most eloquent Presidents I have ever seen in my life, I have ever heard in my life, but the fact of the matter is all he does is campaign; and as far as getting results to help this economy, he is doing almost zero. Pretty doggone close to it.

And I think it is just disgusting to me that the American people are being told that these jobs are being saved or created, and that jobs is No. 1. It is just not so. You can't even document these jobs; 640,000 jobs? How do you say a job is saved? Somebody just say it. How do you prove that a job has been saved? How do you prove that a job has been created when unemployment is now 10.2 percent? Anybody.

Mr. MILLER. I think in the case of education, since that represents a significant portion of the total jobs reported, I think we are confident. There have been many stories, that well preceded the reporting period, of layoff notices that were rescinded. I have been out talking, again, outside of this reporting contest, Ms. Cho, a fourth grade teacher in Los Angeles, many teachers who I have met with directly who said thank God for the stimulus package, because it, in fact, allowed me to save jobs.

Mr. BURTON. Mr. Devaney, can you audit these jobs that have been created or saved?

Mr. DEVANEY. We are not in a position to audit them, no.

Mr. BURTON. So you can't audit it?

Mr. DEVANEY. The jobs that we are reporting came directly from the recipients of the Recovery moneys because that is what the act said had to happen.

Mr. BURTON. But as far as auditing them, being able to document it, it is not really possible.

Mr. DEVANEY. Well, it is the responsibility of the agencies to ensure the accuracy of those recipient reports, and that is what is happening. It is going to take time to get that accuracy.

Mr. BURTON. I know I am finished, Mr. Chairman.

Mr. Issa asked you that question and you said there is no way to really prove all these jobs being saved or created.

Chairman TOWNS. I can understand the gentleman's frustration. Eight years of failed economic policy. I can understand your frustration.

Mr. BURTON. You can't think that one up forever, Mr. Chairman.

Chairman TOWNS. I yield to Congressman Van Hollen of Maryland, yield 5 minutes.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

People are entitled to their own opinions, but they are not entitled to their own facts, so I think it is important to put this in a little bit of context.

When President Obama was sworn in back in January, this economy was in total free fall, it was in collapse. We were in a rate of GDP 6½ negative growth. In that first quarter, in January, we saw 700,000 Americans a month losing their job. This past quarter, GDP growth, 3½ percent plus. And while it is unacceptable that people continue to lose their jobs, it dropped from around 700,000 a month to under 200,000 a month.

So let's keep this in context. The fact of the matter is that the economic recovery plan is working.

Now, Mr. Dodaro, let me just ask you a couple questions with respect to the expenditures. As my colleagues have said, the Recovery Plan had $787 billion, but as of today, $173 billion has actually been expended. Is that correct?

Mr. DODARO. As of September 30th.

Mr. VAN HOLLEN. As of September 30th.

Mr. DODARO. That is correct. And we picked that date because that was the reporting period for these first set of reports.

Mr. VAN HOLLEN. And I know my colleagues, apparently, from their testimony, would like to rush all $787 billion into the economic bloodstream immediately, but I think you would agree, would you not, that would likely cause a lot of waste in the process?

Mr. DODARO. That definitely was a concern in the early stages, and I might say, in terms of the CBO estimates of the stimulus bill before it was passed by the Congress, it was clear that the amount of money would be spent out over a several year period.

Mr. VAN HOLLEN. That was planned, was it not?

Mr. DODARO. Yes, that is correct.

Mr. VAN HOLLEN. Thank you. And, as you pointed out, of the $173 billion that has been spent so far, the part that is the subject of your review and the reporting represented just $47 billion of that, is that correct?

Mr. DODARO. That is correct.

Mr. VAN HOLLEN. OK. Do you have an economics background?

Mr. DODARO. No, but I have plenty of economists at GAO.

Mr. VAN HOLLEN. All right. So let's put this in context. There was also $6.3 billion in what is called entitlement spending, for example, for unemployment compensation, is that correct?

Mr. DODARO. That is correct.

Mr. VAN HOLLEN. And would you agree that most economists say that by making sure people who were unemployed through no fault of their own have a little money to spend, that also helps them go out and spend money in the economy and helps job creation?

Mr. DODARO. I think most economists would say that all three parts of the stimulus composition would create either direct or induce or indirect jobs.

Mr. VAN HOLLEN. Correct. So when we are talking about 680,000 with that $47 billion, we are actually under-counting the number of jobs that are created as a result of this expenditure, isn't that correct?

Mr. DODARO. Well, there is no question that the recipient reports only entail a subset of the employment effects of the——

Mr. VAN HOLLEN. And based on what you said, it would mean that since about two-thirds are expended elsewhere, based on your experience and expertise, you would agree that there have been more jobs saved or created as a result of those expenditures, isn't that the case?

Mr. DODARO. Well, what we have said in our report is that you need to look at the macro economic estimates that have been made as a result of the expenditures in those areas, along with the recipient reports, to have a more complete picture.

Mr. VAN HOLLEN. Right. Let me just read from your report, because I think it is important to keep it in perspective. You said that this reporting mechanism, which is unprecedented in its transparency and accountability, represents a "solid first step in moving toward more transparency and accountability," isn't that right?

Mr. DODARO. That is correct.

Mr. VAN HOLLEN. Have you ever seen any kind of transparency data collection effort of this magnitude in the United States?

Mr. DODARO. Not on a national scale like this. And that is why we said what we did, because it is national in scope and it was in a relatively limited timeframe given the size of its charge.

Mr. VAN HOLLEN. Right. And in addition to the direct jobs—and these are only supposed to be counting direct jobs—as an economist or someone who is familiar with what economists say, you would agree that there is also an indirect multiplier, isn't that correct?

Mr. DODARO. As we say in our report, there are indirect and induced——

Mr. VAN HOLLEN. Of course. And that would obviously add. To the extent you have indirect jobs, that is on top of what is direct, is that not the case?

Mr. DODARO. That is correct.

Mr. VAN HOLLEN. Thank you.

Mr. Porcari, before you took your position as Deputy Secretary at the Department of Transportation, you were the Secretary of Transportation for the State of Maryland, isn't that right?

Mr. PORCARI. That is correct.

Mr. VAN HOLLEN. OK. So you have seen the direct impact of the stimulus moneys in the State of Maryland, is that correct?

Mr. PORCARI. That is absolutely true. I have a unique perspective on this from the front lines, and I can tell you from firsthand experience, Congressman, that before the Recovery Act, while it was being considered and immediately after it, you could actually see the impact. We had contractors that were laying people off. We met with members of the contracting community, associations, laid out the timeframe for what we expected in the bill and asked them at the time not to lay off people because the work was coming.

Mr. VAN HOLLEN. Would you characterize a job and the ability to pay the rent as propaganda?

Mr. PORCARI. No, a job is a job and, in this industry right now, those jobs are very precious.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. I think characterizing a real job and the ability to provide your family as propaganda is a disservice to the American people. Thank you.

Chairman TOWNS. I now yield 5 minutes to the gentleman from Florida, Mr. Mica.

Mr. MICA. Well, thank you, and thank you for holding this hearing.

As Deputy Secretary of Transportation in our committee, we hold these followup hearings and oversight on transportation spending just about monthly, and we are trying to track, we are trying to get the money out. There appear to be some serious problems with the whole reporting system. Now, I was told that the reporting system, software and all, costs—and I am not sure about this—is it $73 or $84 million? Do you know, Mr. Devaney or Mr. Dodaro?

Mr. DEVANEY. The $84 million figure, sir, is——

Mr. MICA. $84 million?

Mr. DEVANEY [continuing]. Is the budget for the Board for 2½ years.

Mr. MICA. The Board is one thing, but you have software that has been developed and reporting system and people. Is that the whole cost?

Mr. DEVANEY. No.

Mr. MICA. And then I hear there is maybe $10 million that you have paid to sort of clean up some of the software problems.

Mr. DEVANEY. The Board has built two Web sites, one for reporting and one for displaying, and the costs for those so far is in the vicinity of $9 or $10 million.

Mr. MICA. $9 to $10 million?

Mr. DEVANEY. Right.

Mr. MICA. OK. And you said there are a couple of problems, inaccurate data or noncompliance, those are the major problems. It is sort of like garbage in, garbage out.

Mr. Dodaro, you said that there were 4,000 reports with no money spent and accounting for 50,000 jobs. That was one of the first things you led with?

Mr. DODARO. That is correct, Congressman.

Mr. MICA. So, Mr. Devaney, if it is garbage in, it is basically garbage reported out. Is that the way it is devised? There is no qualitative measure of what is coming in done by you all, or is there?

Mr. DEVANEY. I would say, sir, that there are a lot of inaccuracies in this data, and the data was put in by recipients. But there are a lot of accuracies in the data as well. There are probably——

Mr. MICA. Well, inaccuracies, though, are simple things like—this isn't me or the Republican side, this is ABC News, they said it was reported in Arizona's 15th congressional district 30 jobs have been saved or created with just a $761,000 expenditure in Federal stimulus money. The problem is there is no 15th district. We have a multi-million dollar system to put the information in and this is the kind of data that we are getting in, and we are not getting correct information out. How could this happen?

Mr. DEVANEY. It happened because a recipient put in the wrong district.

Mr. MICA. So that is the first part. You said inaccurate data—the two problems with the system were inaccurate data and what was the other one? Non-compliance?

Mr. DEVANEY. Right.

Mr. MICA. OK, the other one is that it was reported non-compliance 10 percent of the recipients did not even report. Is that correct?

Mr. DEVANEY. We are trying to find that out, but it is probably pretty close.

Mr. MICA. Well, no, wait. I didn't make that up, I heard one of you all say 10 percent of the recipients did not report.

Mr. DEVANEY. I think that, if I am not wrong——

Mr. MICA. That was in somebody's testimony.

Mr. DODARO. Congressman Mica, I said that was OMB's estimate.

Mr. MICA. OK. Well, again——

Mr. ISSA. Would the gentleman just yield?

Mr. MICA. Don't take much of my time, because I was just getting started,

Mr. ISSA. When did it become important for someone to know what congressional district they were in for reporting? Was there a reason that you had to have a congressional district? Was that for propaganda purposes?

Mr. MICA. Well, I am not going to go into that right now, but let me take some other sources here. Chicago Tribune, garbage in, garbage out. More than 4.7—this is the story. More than $4.7 million in Federal stimulus so far has been funneled into schools, Mr. Miller, in North Chicago and State and Federal officials said that the money has saved 473 teachers' jobs. Somebody had to report that. The problem is the district only employs 290 teachers. Did you report that?

Mr. MILLER. No, these would have been reports made by subrecipients to the States; we didn't have access to that information.

Mr. MICA. OK, you didn't have that, so that would have been a local district reporting that?

Mr. MILLER. Reporting to the State. I think, similarly, you had the largest school district in Illinois——

Mr. MICA. Nobody checked to verify?

Mr. MILLER [continuing]. Being Chicago, who reported zero jobs saved. And we would also question that. So part of our followup is to understand all the——

Mr. MICA. But did you count that as the 300,000 jobs saved by teachers, any of this 473, when the entire district only employs 290?

Mr. MILLER. We counted roughly, I believe it was, 18,000 jobs as reported by the State of Illinois.

Mr. MICA. Well, here is another one, this radical rag, the Sacramento Bee. It says up to one-fourth of the 110,000 jobs reported as saved by the Federal stimulus money in California probably never were in danger, a Bee review has found. California State University officials reported last week that they saved more jobs with stimulus money than the number of jobs saved in Texas and 44 other States.

Is this another garbage in, garbage out, Mr. Dodaro, Mr. Devaney?

Mr. DODARO. In that case, there were different interpretations made on the calculation of the FTEs, and that needs to be addressed, and we have recommended that——

Chairman TOWNS. The gentleman's time——

Mr. MICA. And you did say that we have some definition——

Chairman TOWNS. The gentleman's time has long expired.

Mr. MICA. I have just one more quick one, Mr. Chairman, if I may.

Chairman TOWNS. We have votes coming up——

Mr. MICA. I know you want to get one more in.

Chairman TOWNS. Yes.

Mr. MICA. It is just about the jobs sent to China, but we don't want to hear that.

Chairman TOWNS. We can answer that in writing.

Mr. MICA. So I will hold that one for later. Thank you.

Chairman TOWNS. Congresswoman Marcy Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

All I have to say is I am glad we have a Congress and an administration that is focused on creating jobs, and your data is helpful in assisting us in doing the best job we can possibly do for the American people.

I wanted to ask you, in the transportation area, with the $8 billion that was dedicated to the high speed rail corridors, it is my understanding that it has been difficult for the Federal Railroad administration to assume these new duties. Are there concerns within the Department about your ability to move the dollars into the development of this important new infrastructure activity that could truly help transform certainly the Great Lakes region, and I am sure other areas of the country?

Mr. PORCARI. It is an excellent question. We are very focused on the $8 billion of high speed rail money. We are currently reviewing the applications. We have multi-disciplinary teams that come from throughout the Department, not just the Federal Railroad Administration, and we are straining a little bit on this, but we are confident that this grant program, and the high speed rail program in general, that we can accomplish those, and we will be working to build that program over time.

Ms. KAPTUR. Could I ask you when you anticipate making your first awards, Mr. Porcari?

Mr. PORCARI. We currently anticipate making those awards in January 2010.

Ms. KAPTUR. All right.

And I don't know, Mr. Devaney or Mr. Dodaro, if you can answer this question. If you look around the country, some areas census tracks have unemployment of over 55 percent. Some districts have unemployment, as does ours, of 11.1 to 18 percent. Does your data lend itself to be able to see whether the targeting is accurate of the funds? Because so much of this went through the States and the States are in the State capital and things happen with the money.

Is there a way for us to interactively work with the data to assure that the areas that are hurting the most are getting some of the benefit? Is there any way to do that with the data sets being prepared?

Mr. DEVANEY. We do in fact have what we call a heat map on the Web site that shows unemployment, and it also shows where the recipients reported contracts, grants, and loans on that map, so we lay that on top of the unemployment areas across the country by State, by county, and you can go in there and see if areas of high unemployment have been getting their fair share of the grants, contracts, and loans.

Ms. KAPTUR. All right. Maybe your staff could contact members who are on the committee or other interested Members.

Mr. DEVANEY. Of course.

Ms. KAPTUR. I would certainly be interested in seeing how that really layers in northern Ohio, which is extraordinarily hard hit.

That leads me to my next question. Secretary Porcari, I understand that GAO's September 23rd bimonthly report indicated a significant number of bids under the Recovery Act that were funded, have come in under estimate, and that the Secretary is considering redirecting some of those dollars for economically distressed communities. My whole district is an economically distressed community. To your knowledge, have States redirected significant funding to these distressed communities yet, in response to Secretary LaHood's letter?

Mr. PORCARI. Yes. The short answer is yes. We have been working directly with States, asking them to redirect funds, wherever possible, to economically distressed areas. These EDAs make up about 33 percent of the population. I would point out that 57 percent of our highway funds and 60 percent of all of our projects overall are in those economically distressed areas.

We have some States that have devoted 90 percent of their highway funds to economically distressed areas. That is in part because we have been asking them from the beginning to really focus on that. And where the bids have come in lower than engineers' estimates, which is a number of States, we have asked them to redirect the funding, wherever possible, to economically distressed areas.

Ms. KAPTUR. What is the next threshold for—you are saying 22 percent or so of the dollars, a quarter of the dollars, have been committed to date. When do we expect 50 percent of the dollars to be committed from the Recovery bill, across the Government? Is there a threshold for February 1st or——

Mr. PORCARI. Well, first, we work on a reimbursable basis, so we have obligated $31 billion of our $48.1 billion. But the way the transportation projects work, it is like buying a car; you don't pay Ford when they are building it, you pay it when you buy it. So we are reimbursing the States when the projects are completed, as a way to be good stewards of Federal tax dollars. So the obligation is the best measure for us, and we are at $31 billion of $48 billion right now.

Ms. KAPTUR. I know the time is limited, but——

Chairman TOWNS. The gentlewoman's time has expired.

Ms. KAPTUR [continuing]. Mr. Chairman, could you allow Mr. Dodaro to answer that?

Mr. DODARO. Congresswoman Kaptur, what we will do, we will go back and look at CBO's estimated outlay schedule, but I think by the end of Federal fiscal year 2010 it would be about halfway. But we will go back and take a look and I will submit something for the record.

Ms. KAPTUR. Thank you.

Thank you, Mr. Chairman.

Chairman TOWNS. The gentleman from Ohio, Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

I want to thank each of our panelists for their efforts at assisting us in the issue of transparency for this $787 billion stimulus package. I voted against this package, and I voted against it because I thought that there were no achievable standards in the bill, there were no achievable goals, that it was ill defined, that the spending was going to be misdirected, and that the deficits that were going to be generated would have a negative impact on our ability to create jobs.

Lo and behold, the President is now saying that he is concerned that our deficits, created in part by this almost trillion dollar stimulus package, might impact our ability to create jobs in the future.

I appreciate the transparency that you are providing, because we are able to take a look at whether or not this was ill defined, with no achievable goals, no achievable standards. We are actually able to look at how the money is spent and make a decision as to whether or not this should have been done, and hopefully be able to make a decision as to whether or not, in the future, we should do something like this, which I think would be very unfortunate if we continue to try to spend in this manner, where there is no accountability on the spending, it is not directed and targeted toward job creation, and just generates additional deficits.

Mr. Miller, you had said, about the jobs created on the education side—and I have two things I want to comment on that. One, we were reminded by the other side of the aisle that we should deal with facts, so let's talk about some of those facts. According to The Wall Street Journal and Jonathan Carl of ABC News, they looked at the job creation figures on the side of education and they found, for example, that Head Start in Augusta, GA claimed 317 jobs were created by a $790,000 grant. In reality, Mr. Carl reports that the money went toward a one-off pay hike for 317 employees, not creating 317 jobs. And that would be in your numbers you report to us today.

Mr. MILLER. No. Actually, Head Start is out of the Health and Human Services [HHS], it is not out a Department of Education program.

Mr. TURNER. It is certainly out of the aggregate number of jobs that are created, and it is an example of the claim of a job created when there isn't a job created. There were in fact pay hikes that were provided, according to Mr. Carl.

My concern is, in the education sector and in the Government sector, is that as these moneys are used in this manner, which obviously the bill and the act permits, that we are creating a cliff, then, for these Government agencies, we are providing a one-time subsidy for increased costs for their operation. When they go to that next year where the stimulus is not there, the gap is going to be greater between their revenue and their operational costs, creating perhaps a more difficult problem and one where they are going to turn to the Federal Government for additional assistance.

In my community, in Dayton, OH, stimulus dollars were used for the paving of Main Street, and my concern is that although, in the transportation sector, we created jobs or jobs were assisted in that project moving forward, by the time that the project began until it ended, there were probably less jobs along Main Street than were there before. This is not the type of spending that is going to create the type of sustainable jobs that we need in certainly a State like Ohio that is struggling so much and needing job production.

Now, in looking at this issue of the phantom congressional districts, according to the Recovery.org site, in my congressional district, $186,371,562 were spent creating 385.4 jobs in my congressional district. It translates out to roughly about slightly less than $500,000 being spent in trying to create a job. And then on the phantom districts the number is the same. It claims that there were 11 jobs that were saved, over $5 million that were spent in phantom congressional districts, congressional districts that do not exist, translating to about $482,000 per job; not the type of investment that we want to continue.

Now, what strikes me about the phantom congressional districts is that Ed Pound, the Director of Communications for the Obama administration's Recovery.org, said about this whole mess, Who knows, man? Who really knows? That is his quote in the Wall Street Journal today.

Mr. Devaney, I want to know if you disagree with Mr. Pound.

Mr. DEVANEY. Well, I certainly wouldn't have said it that way, and I will speak to him when I get back to the office. The fact is that the information may in fact be true about the jobs and the money spent, and the simple error has been the wrong congressional district. And we think we can fix that next time out, but the accuracy of the data, other than the congressional district——

Mr. TURNER. Excuse me. Would that include the jobs in Augusta, GA for the 317 jobs created, where apparently everyone just got a raise instead of real jobs being created?

Mr. DEVANEY. I don't know why the recipient reported it that way, and it may have been the State of Georgia that reported it.

Mr. TURNER. Because, as you have said to us, and I appreciate your honesty, you are merely reporting what these people have told you. There really is no transparency. We don't really know how they spent this money. And apparently that accountability didn't occur in the beginning of the approval of receiving this money, either. I appreciate what you are doing, but it doesn't give us the type of information to ever believe that jobs have been created or saved.

Mr. DEVANEY. Having said that—and I don't disagree with you, but at this point in time, the fact that we have transparency allows us to see these anomalies and to understand if they occurred or didn't. The old, non-transparent way, which is the way the Government has acted in the past, you never would have seen it.

Mr. TURNER. I agree with you and I thank you for your efforts in that.

Chairman TOWNS. Thank you. The gentleman's time has expired.

We have a vote on the floor, and we will return at 12:30. We have three votes and we will start again at 12:30. So recess until 12:30.

[Recess.]

Chairman TOWNS. Recognize the gentleman from Ohio, Mr. Driehaus.

Mr. DRIEHAUS. Thank you, Mr. Chairman. I appreciate very much the opportunity and I appreciate all the witnesses being here and providing the testimony with regard to how difficult it actually is to pinpoint the numbers of jobs created and the jobs being retained through the efforts of the stimulus package.

But certainly we have heard a lot of propaganda. We have heard propaganda suggesting that this isn't having any effect, that we are not impacting the economy. It seems crystal clear to me that not only is this having a significant effect—and we can argue as to whether to not it is 600,000 jobs, 640,000 jobs, 700,000 jobs in terms of direct benefit, but I would like to get, in a minute, talking about exactly what it is those jobs are in terms of direct spending, but then also talk about the multiplier effect that we see through this investment.

So the jobs that you are referring to are only looking at a small portion, a relatively small portion of the spending itself; $63.7 billion went into entitlements, tax relief was another almost third of this. So this is only looking at a portion of the contracts, grants, and loans, correct? Mr. Dodaro, is that correct?

Mr. DODARO. That is correct.

Mr. DRIEHAUS. So when we look at just that portion and we say we believe that there are jobs upward of 600,000 that have been created, take, for instance, a construction job. And I just brought with me the spending that we have seen in Greater Cincinnati, which is now upward of almost $700 million. And they describe here a project that will directly employ 75 people on a construction project.

Now, I assume that 75 is reported. But the individuals that might be supplying the hardware for that job, the individuals that might be supplying the lumber for that job, the individuals and the companies that are supplying the roofing materials for that job, the transportation workers that bring the materials to the site, the uniform manufacturers that make the uniforms that help these people on the job; none of those are being included in this direct number, correct?

Mr. DODARO. That is correct. That is correct. The indirect costs or indirect benefits, rather, as you are talking about, all the materials and the supplies and all those things, as well as how much additional spending is then induced is not covered; it is just focused on the direct jobs that are created.

Mr. DRIEHAUS. And I assume we can use the same line of reasoning if we are talking about a construction project, a road that is being built and the cement manufacturers or the asphalt manufacturers, the designers, the architects, the engineers, all of the professional employees whose work goes into those jobs that are being created. So the multiplier effect here is that we are paying partial salaries through these contracts to hundreds of thousands of individuals who are participating and supporting these direct jobs that are being created.

Mr. DODARO. They are definitely indirect benefits, yes.

Mr. DRIEHAUS. I assume, Mr. Miller, that the same goes for education, that when we talk about retaining hundreds of thousands of jobs of teachers, that those teachers go out to the grocery store and buy groceries. I assume that those same teachers also buy clothing for their children and for their families.

I assume that those teachers also drive automobiles and buy gas for those automobiles. I assume they also use electricity and use energy. I assume that the salaries that are going into those teachers and supporting the families of those teachers through that spending is going to create and support jobs across the economy. Is that correct?

Mr. MILLER. That is absolutely correct. And I would also say that we have seen other uses of funds, for example, in rural communities, where the districts have bought laptops for students, have put smart boards, electronic devices to help accelerate and improve learning and allow them to develop skills; that the jobs associated with the producers of those smart boards, the training that has been provided to teachers is also not reflected in the over 300,000 job numbers that we have reported.

Mr. DRIEHAUS. So, then, while you are reporting that several hundred thousand jobs have been retained in terms of teachers, is it fair to say that same direct creation of jobs we would see the inverse were that investment not made, so that we wouldn't see the 300,000 jobs or so that have been created for teachers, but we also would not see the ripple effect in the economy of that investment going into those teachers?

Mr. MILLER. Yes. I think looking at notices that were literally picked up, that were announced and then later rescinded because of the receipt of stimulus moneys, we are confident that hundreds of thousands of teachers and educated-related jobs would have been not saved had it been not for this money. Moreover, the impact that would have had on education and students in their learning, frankly, the compromise that would have been to the long-term growth, because we need to have a student population that is prepared to compete, we think would also be at risk. So we actually see the impact.

Mr. DRIEHAUS. Outside of the direct contracts that you are reporting on, do you also believe, Mr. Dodaro, that the Medicaid transfer payments, for example, are critically important to supporting the health care industry and long-term care, I assume; nursing homes, I assume; assisted living providers; medical device manufacturers; doctors; nurses; physician aides; all of these individuals who work in the health care field. Do you believe that their jobs are being supported or retained due to the direct investment made by the Medicaid transfer payments?

Mr. DODARO. As we have reported in the past on the use of the moneys by selected States and localities, the Medicaid additional Federal matching shares had at least two effects: one, it has helped support the increased number of people on the Medicaid rolls as a result of unemployment and allowed the States to maintain eligibility requirements for Medicaid. So it has helped achieve one of the other objectives of the act in addition to jobs created and retained, to help those affected by the recession.

It has also helped achieve another one of the goals of the act, which is to stabilize State and local government budgets. An increased Federal share meant that some of the State share could be reduced, particularly in those States with high unemployment, because they got additional Medicaid funding based upon the unemployment rate. So that allowed them to then use that State money for other purposes as well.

Chairman TOWNS. The gentleman's time has expired.

Mr. DRIEHAUS. Thank you, Mr. Chairman.

Chairman TOWNS. I yield to the gentleman from Ohio, Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Devaney, in your response to the ranking member's letter, you said there is no way to really audit or certify that the 640,000 jobs number is accurate. Earlier, you also said that the data, the information, the numbers you get comes directly from the recipients. But isn't it true it first goes to the State, and then to OMB, and then to you guys? This information, the recipients are getting the dollars, send it to the States, send it to OMB, then you get the information?

Mr. DEVANEY. Actually, Congressman, it goes from recipients sometimes to States—in 31 States the States collected that information and sent it in; in other States we got information directly from the recipients. But it comes to something called FederalReporting.gov, which we built and own and maintain the integrity of.

Mr. JORDAN. So in some cases it comes directly to you, not through OMB?

Mr. DEVANEY. That is true. The recipients are, for the most part, reporting directly to FederalReporting.gov.

Mr. JORDAN. In 31 States, though, there is at least some intermediate step. So there are a couple bites at the apple before this information goes public, is that right?

Mr. DEVANEY. In 31 States—and the States did this differently, all States did it differently, but in some of those 31 States there was a quality review of that data before it was went——

Mr. JORDAN. The 12 projects, 12 programs that were left off, that were not reported because someone made a determination that there was so much ridiculous information there that they shouldn't be public, who made that decision, you guys or someone else?

Mr. DEVANEY. OMB asked us to look at it and we concurred.

Mr. JORDAN. So in that case it went to OMB before it went to you.

Mr. DEVANEY. No. No, sir. It was in the data base and OMB had access to the data base, along with the agencies.

Mr. JORDAN. So who makes the call? So now we are back to OMB doing it. Who is actually making the call on when this stuff goes public?

Mr. DEVANEY. Well, at the end of the——

Mr. JORDAN. And how it is displayed, how it is reported?

Mr. DEVANEY. At the end of the day, the Board makes the call as to whether or not there was significant error in that data and it would have caused public confusion——

Mr. JORDAN. OK, did the Board make the call on these 12 or did OMB make the call?

Mr. DEVANEY. We both made the call.

Mr. JORDAN. Well, which is it? You said the Board makes the call, now you are saying both made the call.

Mr. DEVANEY. OMB asked us to look at it; we concurred with their assessment that there was a lot going on with those 12, including 60,000 jobs that absolutely did not look right on the surface.

Mr. JORDAN. OK, a change in direction. Is there any penalty for people who provide you with false, misleading, or ridiculous information? Any penalty like—in other words, if we are getting ridiculous information, these folks should be—the money that was spent, if we can get some of it back, is there some kind of penalty for that?

Mr. DEVANEY. No, there isn't.

Mr. JORDAN. No penalty?

Mr. DEVANEY. No.

Mr. JORDAN. Do you find that strange? Think about this. Put it in context. Put it in the way the American people see it. We have a health care bill moving through the House, moving through the Congress, which says, if you don't buy health care, you can go to jail; and now people are getting taxpayer dollars, giving ridiculous information, 12 projects that are so ridiculous you don't even list it, and there is no penalty for that? How are we going to correct that matter?

Mr. DEVANEY. Well, as I said earlier in my testimony this morning, I am a big advocate for having penalties, but the Congress didn't put any penalties in.

Mr. JORDAN. But you would be in favor of strong penalties?

Mr. DEVANEY. I would be.

Mr. JORDAN. For people who take taxpayer dollars and report crazy information?

Mr. DEVANEY. No. I would be interested in certainly penalties for people who didn't report, and I would be equally interested in looking at the issue of what happens when people knowingly false report.

Mr. JORDAN. OK.

Mr. DEVANEY. I think that could be a criminal penalty.

Mr. JORDAN. Mr. Dodaro, how many years have you had experience with the General Accounting Office?

Mr. DODARO. Thirty-six years.

Mr. JORDAN. Thirty-six years. In 36 years of serving in that part of our Government, do you ever recall a time where we had this term "created or saved?" In other words, is this the first time, this past year, where we have used this kind of sort of measurement, if you can even use that term with it? Is this the first time in the 36 years you have been looking at what the Government does and accounting for how it spends taxpayer dollars? Is this the first time we have ever had that term?

Mr. DODARO. Well, it definitely—the whole issue of tracking the creating of jobs has always been a difficult methodological——

Mr. JORDAN. My question was real straightforward.

Mr. DODARO. I understand your question.

Mr. JORDAN. Created or saved. Is this the first time in 36 years, your experience in Government, that you know of that we have ever had that term used as some, at least what some would call, some kind of measurement?

Mr. DODARO. Based upon my immediate recollection, I can't recall.

Mr. JORDAN. Do you think that is a little strange, that we have this new term?

Mr. DODARO. Well, it definitely is something that, given the context of what the act was trying to achieve with the multiple objectives, I don't think it is unreasonable. It is difficult to measure.

Mr. JORDAN. Thank you.

Anyone else on the panel recall any time prior to this year we have ever had this measurement "created or saved?"

[No response.]

Mr. JORDAN. I will take that as a no.

Last question I would have for our panel. I will start with the Deputy Secretary from Transportation. What kind of contact do you have on a weekly, biweekly, monthly basis with the administration, in particular Mr. Biden, whose responsibility it was to make sure we got this information in an accurate way? Do you have weekly meetings or what kind of contact do you normally have?

Mr. PORCARI. We have a number of contacts and virtually daily interactions, twice weekly calls, regular meetings, and the common theme is making sure that we are getting these projects out there, making sure——

Mr. JORDAN. My question was what kind of contact do you have with the Vice President, with the Office of the White House or the Vice President.

Mr. PORCARI. The Vice President leads periodic meetings that include all the departments on this topic.

Mr. JORDAN. If I could, Mr. Chairman, one last question for Mr. Devaney.

Do you have any contact at all with the administration on a regular basis or with the White House, or is it strictly with OMB?

Mr. DEVANEY. I do see the Vice President from time to time, probably average once a month.

Mr. JORDAN. Did the Vice President weigh in at all—if I could, Mr. Chairman—on keeping the 12 off the list? Did he weigh in on that decision?

Mr. DEVANEY. No.

Mr. JORDAN. Thank you, Mr. Chairman. I yield back.

Chairman TOWNS. Thank you. I thank the gentleman from Ohio. I now yield to the gentleman from Vermont, Mr. Welch.

Mr. WELCH. Good afternoon.

I want to thank you gentlemen for being here. You have an incredibly important job. It is about accounting for the enormous amount of taxpayer money that has been invested in the stimulus program and you are doing a good job. You are doing a good job by helping us get what we want, just the facts. Congress authorized this program and asked you to report on how it is working, on whether the money has gone missing, and you are doing it.

And I know that, on our side of the aisle, and I expect on the other side of the aisle, the goal here is for us to get information, as opposed to make political speeches. But we have heard quite a few political speeches, and, frankly, that is distressing to me, and I will tell you why.

We have to rebuild America. And we know how we got to where we are at. We had a private sector financial system, led by our big banks and Wall Street, that completely disregarded the public trust that they have and nearly destroyed our economy. And it was so bad that one of the most conservative Presidents in my lifetime came to Congress with his Secretary of Treasury, the former chair of one of our major investment banking houses, and said that if Congress did not approve a $750 billion bailout over the weekend, then the economy as we knew it would be destroyed.

I am just reciting that because it gives us some perspective of why we find ourselves in the situation that we are in. The private sector financial system put a gun to the head of the American economy and they pulled the trigger.

Step one was to stabilize the financial system. I was one of the Members of Congress who had no desire whatsoever to vote for that legislation to take $750 billion of taxpayer dollars and stabilize the financial system that had suffered a self-inflicted wound. But soon it did its damage to the rest of the economy. And when the economy went off the cliff about a year ago, we started seeing the unemployment rate skyrocket, and we saw hardworking Americans lose their jobs through no fault of their own, and that unemployment has continued to rise as we speak.

President Obama came forward with a proposal and a stimulus package that, by the way, was endorsed, as you know, by Republican and Democratic economists. There was no dispute, except on the extreme edges, as to whether or not, in this dire situation, the Federal Government had to be the spender of last resort; again, this was not anything any of us wanted to do, but something that according to a broad consensus position had to be done. It had to be done so we could fight another day, not because we wanted to do it.

And in the doing of it, the stimulus, there was a commitment that was made by Congress—and I think shared by Republicans and Democrats, whether they voted for it or not—that the money should go to jobs, that it should be accounted for, it shouldn't be distributed on the basis of political party or affiliation; it should be broadly beneficial to America.

Now, taking a look at how it works, that is a fair and square question, and there was a lot of debate in Congress about how much of the stimulus should be allocated to tax cuts, how much for infrastructure. I was among those who believed the more for infrastructure the better, because it would create more jobs than the tax cuts. In the House, there was a big debate about whether we should send stimulus money to the States to help our teachers, our firefighters, and our police, and maintain and preserve those jobs. I haven't heard any acknowledgment in the speeches here, but this has been a lifeline.

The stimulus has been a lifeline for our States, and I can speak for Vermont. We would have had a catastrophe in Vermont if we had not had the stimulus funds. Even with the stimulus funds, Vermont, with a Democratic legislature and a Republican Governor, had to work together very hard to pass a budget, and we are continuing to experience a tough time.

So it is not my custom generally to make speeches, but apparently today's hearing is very much about that, so the point I want to make is twofold. No. 1, I believe that the challenge for this Congress is to do things that are going to help buildup the American economy, find ways where we can work together; and No. 2, examining the stimulus is a necessary step that we take in order to maintain credibility with the American people. We have to make sure that it is transparent and that we can account for what has been spent and how effectively it has been spent. Those are just factual questions; just the facts, ma'am.

Mr. Devaney, if you have suggestions about penalties, give them to us and we can vote on them. But I hope it is specific. I encourage you to continue doing the great work that you are doing and I encourage our members, Mr. Chairman, to focus on getting America back on its feet. Thank you.

Chairman TOWNS. Thank you very much. The gentleman's time has expired.

I now yield 5 minutes to the gentleman from Utah, Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

Thank you all for your work and you being here.

Mr. Devaney, following up on Mr. Jordan's question, when is the last time you personally spoke with the Vice President, Vice President Biden?

Mr. DEVANEY. I believe it was—it may have been last week.

Mr. CHAFFETZ. Is there a master list of who was supposed to get the stimulus money? Do you have like a master list, here is who was supposed to get the money?

Mr. DEVANEY. I don't have that.

Mr. CHAFFETZ. That is just mind-boggling to me, that we don't have a list of even who was supposed to get the money.

Mr. DEVANEY. Congressman, I think it is fair to say that each of the 28 agencies that oversee the Recovery money have such a list, and they are in the process right now of trying to determine whether or not each and every one of the recipients on that list actually reported; and I hope to get that result soon.

Mr. CHAFFETZ. It seems like a simple basic accounting process to understand—what it highlights is what we don't know, and that, to me, is a very scary proposition in moving forward. In my own State of Utah, Representative Bishop, one of my colleagues, has pointed out there was some $1.2 million that went to the 4th Congressional District of Utah. We only have three congressional districts. There was $529,834 that went to the 00 Congressional District of Utah. I simply do not understand how those very basic things can happen, and puts, to me, the entire reporting into question.

Now, suddenly, you go to the Web site and it says, well, they are not accounted for, it is unattributed. How are we going to resolve this?

Mr. DEVANEY. Well——

Mr. CHAFFETZ. We don't even know who is supposed to get the money. Then when we say where it went to, it is going to congressional districts that don't even exist.

Mr. DEVANEY. Well, Congressman, I think, first and foremost, the recipients in Utah put the wrong congressional district in. They are the ones that entered that data. Now, going forward, I think we can put technology in the system that says something like if you are in a State with only one district, you can't put anything other than that district in there. If you enter a 9-digit zip code, it has to correspond and match the congressional district. So I think, going forward, we can eliminate that.

Mr. CHAFFETZ. Our time is so short. If we can followup with additional procedures, I would sincerely appreciate it.

My understanding from your testimony is that there have been some 340 complaints, there are 77 investigations open, and more than 390 audits. Can you help explain those numbers to me, please?

Mr. DEVANEY. Of course.

Mr. CHAFFETZ. And how many people do you have dedicated to perform those functions?

Mr. DEVANEY. The actual Board has a limited number, maybe perhaps a dozen people that work in that area. But we leverage the resources of the 29 Inspector Generals that oversee the money.

Mr. CHAFFETZ. OK.

Mr. DEVANEY. So some of those complaints are coming in on our hotline since the data has been released, some 350-plus, and some of them came in before the data was released and directly to Inspector Generals. So out of all the complaints we have had come in, 77 investigations have been opened and 390 or so audits have been——

Mr. CHAFFETZ. OK. And, again, we will followup with some additional details, but that does help clarify it.

Mr. Miller, having read through your testimony and heard what you had to say, at the top of at least the printed out portion here of page 5, it says we have accounted for 97 percent of our Recovery Act obligations to date. What does that mean for the other 3 percent, that there is no—what does that mean?

Mr. MILLER. It means the bulk of our money is formula money in our large State fiscal stabilization that flows through States. In particular, there are two programs: impact aid and Federal work study, which goes directly—again, work study goes to individual students on part-time programs through colleges and universities. Given the very distributed nature of that, some of those recipients, colleges and universities, had difficulty understanding. But that represents such a small percentage.

But specifically to answer your question, it would be the Federal study and impact aid——

Mr. CHAFFETZ. You might think it is small, but it represents $2 billion. What I just want to make sure we understand is how we are going to account for what is unaccounted now, 2 billion worth of dollars.

And I would just like to followup—I see my time is ending here. Let me ask one more question of you, Mr. Miller. It says, in your testimony, a total of 742 reports out of 2,229 were changed during this recent agency review period. There are concerns on many fronts that literally about a third of these reports had to be changed; either the information they are getting and the system and the process they have to go through is terribly flawed or there is fraud going—I mean, it is just such a staggeringly high number to have to go back and change literally a third of the reports that are coming in, I just——

Mr. MILLER. I think with the unprecedented transparency, what you will find is a change would be: we did have the incorrect Treasury code, we had the incorrect DUNS number. These were technical changes in terms of to be consistent with transparencies. These were not, in fact, changes to the jobs being reported.

Chairman TOWNS. The gentleman's time has expired.

I now yield to the gentlewoman from California, Congresswoman Watson.

Ms. WATSON. Thank you so much, Mr. Chairman.

I think this is a very crucial hearing. The timing of it is great, and I am so glad to see Secretary Miller from my district, LA Unified, as our Deputy Secretary of Education. And he knows the condition of our State and our tremendous shortfall.

So given the economic crisis in the State of California, I was especially glad to see that my school district, the Los Angeles Unified School District, was the third largest recipient of Recovery Act funds in the State. Can you explain the impact these funds are having on the quality of education that we are able to provide for our youth? And, I do know that we have a serious shortfall in our budget in LA Unified.

Mr. MILLER. And I think LA Unified, being the second largest school district in the country, is a great story in terms of the impact. I know from the press that there were thousands of jobs that were at risk, that the superintendent was desperately trying to address given the State's budget shortfall, and that the receipt of the stimulus money allowed, in this case, particularly thousands of pink slips to be picked up so that the school year for the 2009–2010 school year in fact could be preserved and have more integrity.

And I think in a large urban school district which has substantial student achievement issues in terms of the gap between those of high poverty and low poverty, that the need to maintain class sizes and not have them skyrocket, the need to ensure that you have the latest equipment is paramount if we ever are going to close the achievement gap, and I think the stimulus moneys have very much helped us make progress and prevent us from falling back.

Ms. WATSON. We could use another traunch, couldn't we? Because even with the moneys that have been received, there is not enough there to close the gap, and I have heard the superintendent, just the beginning of this week, talking about the layoffs, shortened school weeks, time off at no pay, and so on, because I believe we are almost up to a million students.

I understand, before I got to the committee meeting, that there were some challenges to the data and talking about propaganda, but I wish we would remind ourselves the mistaken war we fought in Iraq, costing us $15 billion a month; and now they are asking for more troops in Afghanistan, which will cost us $5 billion a month. If we could get just a portion of that to improve our education system, to improve our transportation system, we could do wonders in strengthening the education of our youth.

I just attended a high-tech meeting this morning, and I mentioned to them around the table that we are going to do the best we can in educating our children in sciences and math so we can be competitive. Take India, you know, with their large $1.1 billion. They test their kids, and they send the most talented ones to a certain school. So I am hoping that we can stimulate, particularly in the educational field—and I want to get Mr. Dodaro to comment on this, but I hope that we can send moneys out to our educational institutions, our school boards, directly so that we can support their curriculum, and particularly in higher education. You know, we are turning away students from our community colleges.

So to those who are saying that the figures are propaganda, I say come to my district. Our unemployment has always been two digits. And if we have a national unemployment of 10.2 percent, ours would be close to 11.

Mr. Dodaro, in your overseeing, are you satisfied with the information you are getting about how we have used that stimulus money, and are we seeing jobs created? Can we look to the future with the stimulus—and if we have a second one—if we can indeed create jobs so that we can enhance school boards throughout this Nation—not just in mine, but through the Nation? Can you respond?

Mr. DODARO. Yes. On your first point, I thought that the national data collection system that was set up was a good first step, but there are a number of data quality and reporting issues that are significant and need to be addressed to improve the quality of the information and the accuracy and completeness of it. So that is a challenge. We have made some recommendations; OMB has agreed to implement those recommendations. The extent to which they are implemented will increase the quality of the information.

Now, with regard to future stimulus, one of the other mandates we have under the current bill, the Recovery Act, is to look at the impact of economic downturns on State governments and what effects it has on them, on health care and other important areas like education. So I think we will be examining that. It asks us to go back to the 1974–1975 recession and look historically, including the latest economic downturn.

One of the areas I think is very important is the future targeting of assistance, whether it is based on unemployment levels or other factors. There was some targeting in this stimulus bill in the Medicaid area, but in other areas I think that is something that can be looked to to perhaps be improved in the future.

Chairman TOWNS. The gentlewoman's time has expired.

I now recognize the gentleman from Louisiana, Mr. Cao.

Mr. CAO. Thank you, Mr. Chairman.

I am not interested in whether or not the stimulus bill is right or wrong. What I am interested in is just plain number crunching.

Now, Mr. Miller, based on your testimony, you said that $67 billion have been spent through the Department of Education, and from the $67 billion, approximately 400,000 jobs have been created or saved. My question to you is of the 300,000 educators, what is their average salary?

Mr. MILLER. As we look at the calculation, it would roughly represent dollars per jobs saved, roughly I believe $105,000, which, when we actually look at the percentage——

Mr. CAO. No, my question to you is what is the average salary of an educator——

Mr. MILLER. On a fully-loaded basis, it is about $70,000. It should be 70 percent of the dollar.

Mr. CAO. So $70,000, on the average, per educator.

Mr. MILLER. On a fully-loaded basis. So that is why, when we actually look at the total jobs saved in the context of awards to date, we triangulate and say, for $100,000, if, typically, 70 percent is personnel costs, the number seems to——

Mr. CAO. I am sorry. Of the 100,000 jobs that are remaining, what kind of jobs are they?

Mr. MILLER. Excuse me?

Mr. CAO. You say that there are 300,000——

Mr. MILLER. They are what we call government services. Many of them are government services, because——

Mr. CAO. And what is the average salary for those positions?

Mr. MILLER. I don't believe I have that information, but I can get that information to you.

Mr. CAO. Would it be safe to say $50,000 per job?

Mr. MILLER. Again, I wouldn't—I would hate to speculate.

Mr. CAO. Now, based on my own number crunching, if you take $67 billion and you divide it by 400,000 jobs, the number comes out to be about $167,000 per job. Now, if an average educator makes about $70,000, my question to you here is where did the other $100,000 go?

Mr. MILLER. Where did the other 100,000 jobs go?

Mr. CAO. No, where did the other $100,000 go? If an average educator makes $70,000 per year, based on your numbers, my calculation comes out to be about $167,000 per job. So my question to you is if we——

Mr. MILLER. For every dollar invested, 70 percent of it goes to personnel. So you would only expect 70 cents on the dollar to be for personnel costs. You would have the whole——

Mr. CAO. So if 70 percent goes to personnel costs, the other 30 percent goes to what?

Mr. MILLER. Capital, computers, all the things that you would need to support. So there is a notion of you need an office, you need—on a fully loaded basis, beyond just benefits, you have personnel——

Mr. CAO. So basically, based on your own testimony, the numbers don't come out correctly.

Mr. MILLER. No, the opposite. We have triangulated——

Mr. CAO. If you have——

Mr. MILLER. We were confident that they actually—coming top down, that it actually matched.

Mr. CAO. Sir, if you have 70 cents out of every dollar goes into personnel, in other words, going to the actual job saved or created, is that correct?

Mr. MILLER. Yes.

Mr. CAO. So based on your calculation, then 70 percent of $167,000 would be approximately $140,000?

Mr. MILLER. No, we are talking about the education-related jobs. So part of this is understanding which math we are talking about. If you take the 325,000 educator-related jobs, if you actually looked at the average education job for salary, and you would say it is roughly just over $100,000, if you said 70 percent of that, typically, if you look at the allocation of education budgets, 70 percent of the educational spend is personnel on a fully loaded basis, you would say roughly the math top down——

Mr. CAO. Mr. Miller, I have taught middle school. I taught at the college level also. When I taught middle school, do you know what my salary was? Twenty thousand per year. When I taught at the college level, do you know what my salary was; $28,000 per year.

Now, I am a little bit confused with respect to how you arrive at this $100,000 per educational job, because I know for a fact that teachers don't make $100,000 a year. All of the teachers in my district, if they are lucky, if they have a 20- or a 30-year experience, they would be lucky to make $60,000 or $70,000 per year. So my question to you here is, based on your numbers, it would cost $167,000 per job. If an average educator makes $67,000 per year, where did that $100,000 remaining go? Where did that $100,000 go?

Mr. MILLER. Again, if I could try to clarify. I believe, and I can followup with the details, the average salary, based on the National Center of Educational Science, is roughly $50,000. If you actually look at——

Mr. CAO. So where did the other $127,000 go?

Mr. MILLER. Once you load for benefits, it is roughly 24 percent. That is how you get to just under 70 percent of personnel-related costs in education. And that is, again, based on——

Mr. CAO. My question to you here, if my constituents were to ask me how did you spend this money, I would have to tell them that, well, of $167,000 that went into an educational job, $50,000 went to an educator and I don't really know where the other $120,000 go.

Mr. MILLER. Again, if you can appreciate, I have spent the bulk of my professional career both in private equity and as an operating executive and, like you, very familiar with finance. I think one of the first things we did as we tried to scrub the numbers was to ensure that the math——

Mr. CAO. You tried to scrub the numbers?

Chairman TOWNS. The gentleman's time has expired.

Mr. CAO. Thank you, Mr. Chairman.

Chairman TOWNS. Let me just say to him, on the way to recognizing Mr. Clay, you should have been teaching in New York or California; you would have made some money. [Laughter.]

Mr. BILBRAY. The word is, though, what he wanted to teach.

Chairman TOWNS. Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

I thank the panel for being here.

Let me start the question with Deputy Secretary Porcari. Transportation jobs allow for the awarding of contracts, loans, grants, and the creation of projects all around the country. What is being done to ensure that of the 46,000 jobs reported to be created or saved by the Recovery Act, a fair proportion are going to women and minority employees?

Mr. PORCARI. Congressman, it is an excellent question. First, none of the normal requirements, including disadvantaged business enterprise goals, were waived as part of the Recovery Act. So we started with the premise that in all the transportation projects—highway, transit, aviation—that those requirements apply. Our recipients are required to certify that they are actually doing that. We have been working, in addition, directly with the State DOTs and transit agencies, among others, to make sure that is the case. We focused on getting the projects underway quickly and making sure that it is equitable at the same time.

Mr. CLAY. You know, many of the Nation's transportation projects are less than or just more than 50 percent complete. Can you project future job numbers based on the reports you have received thus far?

Mr. PORCARI. Congressman, I am reluctant to project into the future on job numbers because, first of all, it is not linear; it is partly dependent on season. In many parts of the country, weather dependency is a big part of that. We also know that the actual outlays that we have lag the work; the work gets done under local funding and we reimburse at the end. So on the employment side it is not linear, but we know that we have many additional created and saved jobs to come. We also have portions of our transportation dollars, including the high speed rail program at $8 billion and the TIGER Grants at $1½ billion that have not yet been awarded. So those will come as well.

We were trying to get projects out the door quickly. I think we were largely successful in that. And we are trying to make sure that there is a steady flow of projects around the country throughout the entire time period of the Recovery Act, and we will be successful at that as well.

Mr. CLAY. Thank you for that response, Mr. Secretary. I will not bring up the rescission issue; I know that is a separate hearing for us.

Let me go to Secretary Miller next. Mr. Secretary, in your report it shows that some of the greatest successes of the Recovery Act have occurred in school districts by saving or creating 325,000 education jobs for teachers and personnel. In my State of Missouri, an estimated 8,500 teachers have been saved from dismissal. Can you discuss what the short- and long-term impact on our children and their schools would have been without the Recovery Act education funds?

Mr. MILLER. Yes. I think, as we have traveled around the country and talked firsthand to superintendents, to principals, and to teachers whose jobs literally were saved by the Recovery Act, what they tell us, and what parents tell us, is we could not afford to have those teachers not in the classroom at this critical time, and that without those jobs our children's ability to continue to learn and to be more college and career ready, at a time when it is so important that our high school graduates are prepared to go on to college and to go on to careers in an increasingly competitive world where more jobs are being competed in India and China, and as they make investments in their education system, that this is a critical time that we must sustain and enhance our investment in education. So they are very thankful and they feel that if this money hadn't been there, those jobs would not have been there and their children would have suffered.

Mr. CLAY. Thank you for your response.

Real quickly, Mr. Devaney, given your experiences in Government, are you aware of any other efforts to collect data and publicly provide information on programs that are similar in scope to Recovery.gov?

Mr. DEVANEY. No, sir.

Mr. CLAY. Are you aware of any similar Web site or tracking mechanism in the history of the Federal Government aimed at providing this level of transparency on Government spending?

Mr. DEVANEY. No, sir.

Mr. CLAY. OK. Very good.

Madam Chair, I am through with my questions and I yield back.

Ms. NORTON [presiding]. Thank you very much, Mr. Clay.

Mr. Bilbray.

Mr. BILBRAY. Madam Chair, thank you.

Mr. Chairman, I spent 18 years in local government filling out reports and applications to the Federal Government, so this process is very interesting, to say the least, starting, I guess, in 1976, before Jimmy Carter was elected, so I sort of date myself.

Who decided what questions were going to be included in this survey?

Mr. DEVANEY. Who decided what questions recipients——

Mr. BILBRAY. Which questions were going to be in this reporting process.

Mr. DEVANEY. That would be OMB.

Mr. BILBRAY. OMB?

Mr. DEVANEY. Right.

Mr. BILBRAY. Why in the world would a congressional seat be included in a report of this type?

Mr. DEVANEY. I actually believe, sir, if my memory serves me right, that is embedded in the act, in the law itself, that the recipients were supposed to report that. So OMB put out the guidance that they had to.

Mr. BILBRAY. So the act was actually engineered to specifically identify political subdivisions within the Federal Government, rather than using the traditional, what we have used for 30, 40 years, and that is using the zip code?

Mr. DEVANEY. Zip codes are included as well, but it is in the act that congressional districts will be reported.

Mr. BILBRAY. So the act we passed literally had this political element mandated into it?

Mr. DEVANEY. It did.

Mr. BILBRAY. I guess it sort of indicates author intent when you see that kind of thing. In your experience, do you remember any identifications like this before, rather than just using the zip codes and extrapolating that item out?

Mr. DEVANEY. Off the top of my head, I don't.

Mr. BILBRAY. Yes. I mean, this problem could have been avoided if the act itself hadn't included this political element and just stuck to the traditional zip code reporting.

In this reporting, by using the districts, what if you had a situation like the improvement of the ride share lane on I–15 in San Diego County that goes through Mr. Hunter's, Mr. Issa's, and my district? Does that count as three jobs?

Mr. DEVANEY. No. I think that each of the—if it was a company—let's say it was a company that was building that, that contractor, as a vendor, would report to the State that they were building a highway and they would count the jobs no matter what State or what district they were in. So you are going to get a lot of projects that span multiple districts and States.

Mr. BILBRAY. OK. The transportation situation. As we are throwing this money or sending this money out to build projects, has there been any discussion at all, seeing that we took an extraordinary effort and did an emergency push to get that money out there, has there been an backup push on the regulatory issues that you will face?

A good example is I was on the board that built the light rail system for San Diego. The environmental obstructionism of trying to use an existing rail technically is there, but you and I know logically it is absurd. If you are going to improve rail on a site that has been used for 200 years, there is not the issues environmentally out there.

Has there been any discussion at all in your Department at coming back and getting us to fast-track the regulatory process to allow the projects like the high-speed rail in California to be able to move forward and spend the money on construction rather than litigation?

Mr. PORCARI. Congressman, there has been a lot of discussion about various ways to streamline the process, whether it is our internal working group on the New Starts transit streamlining process or in more general terms. What you will find with many of the transportation Recovery projects is States and authorities—aviation and transit—put an emphasis on ready-to-go, off-the-shelf projects that had been through those approval processes so that they could get underway quickly and the jobs would be either saved or created quickly. That is the bulk of what you see around the Nation in the projects that are underway. The transportation projects that are imminent tend to be the larger, more complex ones that needed either some final approvals or were finishing design.

Mr. BILBRAY. Well, we can go through the issue of what we see around, too, is all the advertising signs that were mandated, and then the mandate was withdrawn and the flexibility of costs going from 3,000 in one State to 500 in the other, but this whole process being engineered from the beginning with a political statement engineered into the accounting process, I mean, this kind of accounting, where you exaggerate the benefits, you underestimate the problems, is exactly how Enron got itself in trouble and ended up in jail. And, as public agencies, we damned them for doing this, and this accounting process seems to be reflecting that Enron approach.

Ms. NORTON. The gentleman's time is up.

Mr. BILBRAY. Thank you, Madam Chair.

Ms. NORTON. Thank you, Mr. Bilbray.

Secretary Miller, your Department announced 325,000, I am told, education jobs a few weeks ago. How confident are you, given all we have heard today in this hearing, in those jobs and that we will not find the same problems as to those jobs?

Mr. MILLER. We, as a Department, are confident that 300,000-plus jobs, educator jobs, have been saved.

Ms. NORTON. On what basis, sir?

Mr. MILLER. Excuse me?

Ms. NORTON. On what——

Mr. MILLER. On the basis—I think a variety of things give us that confidence. One, our actual guidance that we invested heavily in was really meant to get at the core issue of not just moneys allocated, but specifically, just to quote the guidance, "A job retained is an existing position that would not have been continued to be filled were it not for Recovery Act funding." So the intent in the guidance that we invested in was in fact to get at this core issue; not some clever accounting for moneys allocated, but the core issue of did this money. So our investment in the guidance would be one.

Two, while it may have been confusing, we actually looked at State budgets, the portion of State budgets that in fact were addressed by the stimulus moneys as reported by the States. We then did the calculations of the jobs that were reported by the States in aggregate; looked at what that would have translated to on a per job basis, understood how did that compare with historical trends—and that was another way that we could triangulate it.

Third, we actually, independent of the reporting period, since the Recovery Act moneys first started being available last April, there had been well over 1,000 news stories, independent news stories talking and citing specific jobs saved, gave us confidence that the numbers that are being reported are accurate.

As we scrubbed—and we have the process in terms of data quality—we had automatic programs that actually looked at recipient reporting, wither outliers, flagged outliers, contacted all 50 States that says, in aggregate, we are confident.

Ms. NORTON. OK, you know those words are going to be quoted back to you, so that is why I wanted to give you an opportunity. If you think that there is any pullback that should go on the record, you need to do it, because that is a very specific number and a very vital——

Mr. MILLER. And I think I understand. I think the question becomes, with 14,000 school districts, with 100,000 schools, as you then get to the precision of School A versus School B—and we don't have access in that level of transparency, so if you say do I expect, at that level, that will these numbers be fine-tuned from School A to School B, from District A to District B, I actually think we will see adjustments made over the course of the next quarter.

But, again, I think, in aggregate, as this gets rebalanced and fine-tuned, do we think we will still be coming right back to jobs saved numbers, order of magnitude in 325,000, I think the answer is yes.

Ms. NORTON. Actually, I appreciate what we are trying to do for the first time ever here. We probably need to be operating in the plus or minuses or in some kind of range given the many levels of government with which we are dealing. We haven't even tried to do this kind of thing before. I think the problem may have much to do with the expectation that: here is a number, and nothing is more specific and finite as a number, so if I have a number, I have the goods on you. As far as we are concerned, or at least speaking for myself, the most important thing is the transparency here, tracking these numbers, correcting these errors.

Let me ask you a question in that regard. Given human fallibility, even if all of this data were at one level, there has been established by OMB a way to do quality reviews so that here you have something very specific between the 22nd day and the 29th day, it seems, following the end of each quarter there is supposed to be a review, and this review is apparently intended to resolve just such material omissions and reporting errors as has been under discussion at this hearing today.

If these reviews were conducted and if a material omission or significant reporting error was discovered, was there an immediate process for correcting it? Were people so quick to just get on to the next step to report the data? If you had a quality review period, why didn't that period work better?

I can ask Secretary Miller, Porcari, either of you might be—or Chairman Devaney.

Mr. DEVANEY. Let me take a stab at that. I think this was the very first time that so much data had been asked to be reported by recipients. It is also the very first time that agencies had to oversee that kind of an activity. They had to report by the 10th——

Ms. NORTON. Well, wait a minute. Was 10 days an adequate time?

Mr. DEVANEY. Well——

Ms. NORTON. You gave 10 days—is 7 days, for that matter, enough time for Federal agencies to review the information?

Mr. DEVANEY. Well, at the end of the day, I don't think it is. I think that——

Ms. NORTON. Are you considering what time period, given the experience you now have, might allow?

Mr. DEVANEY. Given the experience we have had now, I think we are seriously considering trying to think of a way to extend the period of time in which corrections can be made.

Ms. NORTON. At this point, I think, since even the smallest error will be held against you, no matter how many jobs you provide, it probably would be better to engage in some delay. There are a whole lot of us here on this panel who are more interested in jobs created, recognizing that the United States has never undertaken quite the logarithm you have; how much were created, how much would have been created anyway. You can always come back saying they would have been created anyway, but you can't, not in this recession, we believe. The economists may need to get to work on their models, by the way, about how many jobs do you create on your own in a recession.

OK, locality—you are in the deepest recession ever. Leave out the word depression. The deepest recession ever. There must be a model somewhere that tells me, in the midst of localities laying off everybody they can find even after they get stimulus money, there must be a model that says jobs get created, and the kinds of jobs that get created. When we see people, for example, in the District of Columbia dismissed after school starts, school has started and teachers dismissed, then we know for sure this is not a very exact science, and whatever models we are using have not had to confront this situation before.

But, frankly, I have been very impressed by all the overlapping accountability, and given that overlapping accountability why it did not work. I am looking at the Recovery Board. Then we have the IGs and we have the State auditors and we have the prime recipients. Then all this gets publicized through Recovery.gov between OMB and the Recovery Board. Now, the first thing that occurred to me is if all these actors are involved, surely they are not stumbling all over one another.

Forgive me if it seems to me that—maybe this comes out of my background of dealing with appeals—if one dealt sequentially so that one finds errors in the prior level, for example, I can understand that. But what I need to understand here is how these layers either get coordinated, whether they have specific roles—the IG, the Recovery Board, the people responsible within the States, the recipients themselves—have they been given any guidance that would sort them out so that they might be a check one on another, or are they all trying to go at the data at one time with their own version of how it should be interpreted?

Mr. DEVANEY. Well, with respect to the IGs, they haven't gotten involved in the quality.

Ms. NORTON. All right, I will accept what you say about the IGs. But, of course, they are a possible layer.

Mr. DEVANEY. And the Board has a small staff and OMB has a small staff. We are trying to be as helpful as we can be.

Ms. NORTON. So who does that really leave with the responsibility?

Mr. DEVANEY. It leaves the recipients themselves responsible for not only what they put in, but for also checking later to make sure they didn't make any mistakes; and it also leaves the agencies in a position where they have to make darned sure those recipients are reporting as accurately as possible——

Ms. NORTON. At the Federal level or at the State level?

Mr. DEVANEY. At both levels, quite frankly. I think the Federal agencies can only see so much, so as they look down, they are going to have to depend on their State counterparts as well to talk to the recipients. And as it cascades down, hopefully, at the end of the day, a recipient will get a notification that something is wrong and you need to look at that. But the way the OMB guidance is, only recipients can actually change the data; Federal agencies, the Board, OMB can't change the data. So the recipients have to be notified that we think there is a mistake and then they have to change the data.

Ms. NORTON. And that, of course, goes to how long it takes to make sure that all of that occurs.

Mr. DEVANEY. It does, yes.

Ms. NORTON. I recognize that the administration, in fact, myself, was very pleased to have some data to use when the first, was it 30,000, jobs came out to indicate that this money was certainly producing something, and you have been under a lot of pressure to show that it is producing something. Now, of course, as is always the case with Congress when they do oversight, you continue to be under that pressure and under the same pressure to correct the errors. At least you have the understanding from me that you are doing what has never been done before.

Let me ask you about analyzing what has occurred. I think this is pretty organic; this is one of those things, kind of like the common law you learn by doing it and you build on it and you build a better mouse trap each time or you perfect the mouse trap each time.

In addition to OMB, agencies had to provide guidance to recipients to explain the requirements. Now we have the next quarterly reporting period, and that is going to be sometime in January, and each quarter thereafter the funds are going to continue to be spent. I guess that is the last year of the stimulus funding.

Is there a way in which, as an administration, you are reviewing the first quarter reporting to analyze the problems, then to streamline or improve upon the process in some way so that everybody will be doing the same thing? Could you tell us what that process looks like, that review process, based on hard data now before you, where you have sorted out what kinds of mistakes were made—I think some of them inevitably made—so that you would then give, I take it, new or revised instructions to whom, and how is that being communicated across the Government?

Mr. DEVANEY. Well, certainly everybody involved in this is engaged in a "lessons learned" exercise. We are all looking—and I would include, I am sure, the agencies are as well. But OMB and the Board are engaged in this lessons learned activity right now and we have learned a lot from this first reporting period. We have learned a lot from the fine report that GAO put out today as well, and I know that OMB has responded that they are going to implement GAO's recommendations. I suspect the IGs will be involved in making some recommendations as well.

And what we hope to do is make each and every reporting period run more smoothly than the last. And there are certainly some technical fixes that the Board can do on this next reporting period to make it easier for recipients to report, and additional guidance or clarification of guidance by OMB is going to be very helpful as well.

Mr. PORCARI. And if I may add, Madam Chair, in practical terms, even during this first reporting period, across agencies we have been trying to make these corrections in real time. We have these twice weekly conference calls that include all the agencies, where we are talking about recipient reporting, what we have seen——

Ms. NORTON. So these are conference calls among all the agencies involved?

Mr. PORCARI. Among all the agencies. We do this twice a week. I have personally found it, actually, to be very helpful because——

Ms. NORTON. And where do those emanate from, OMB?

Mr. PORCARI. The Recovery Office is actually leading those. But we are finding common issues on recipient reporting, for example, across agencies. We see where we should focus our assistance efforts, the kind of common errors. So I know that the recipient reporting will be better in the next quarter, but even getting through this first reporting cycle, some of the things that people have seen, we have been able to do that feedback very quickly.

Ms. NORTON. Again, you will know best, from your own feedback and from your own lessons learned, how this should be done. I must tell you, my own sense is that, in reporting hard numbers, one should be very careful. I, myself, would not use single numbers. I am not here to tell you how to do it, but people who engage in uncertainty every day have learned how to develop ranges so that people do not have raised expectations and so that people do not play a game of gotcha.

And let me tell you something about gotcha. We have never had before this committee anything approaching quarterly reports. The way in which the Congress has operated, certainly in the years I was in the minority, is wait until something is all over. Then the easy thing to do is to call in people and recount the errors that occurred.

What this hearing is doing is working with the administration to track what has never been tracked before so that we can get something out of a hearing that is corrective and helpful. So while we are disappointed that the numbers were erroneous, we believe that the importance of this hearing is the process you have just described. That may be the most important thing that could possibly happen, because the kind of errors that my agency found may be entirely different from that of another agency, and then, in the next quarter, I get that kind of error, but nobody forewarned me that kind of error comes up. So this sharing of errors and of corrections across the boundary lines of agencies, despite their different missions, could not be more helpful.

What I am going to do is to recess this hearing for 15 minutes, let us say until 2 p.m. We will recess until 2 p.m.

[Recess.]

Chairman TOWNS [presiding]. Thank you very, very much for your testimony.

Now we move to our second panel. The Honorable Dick Armey is the chairman of the advocacy group FreedomWorks. Dr. Armey is the former Majority Leader and served in the U.S. House of Representatives for 18 years. Dr. Armey holds a Ph.D. in economics from the University of Oklahoma. And is the former chairman of the University of North Texas Economics Department.

Of course, welcome. Good to see you. Happy to know there is life after this place.

Now we also introduce Dr. Irons, the research and policy director at the Economic Policy Institute. His areas of expertise include the U.S. economy and economic policy, with an emphasis on Federal tax and budget policy. Dr. Irons earned his Ph.D. in economics from the Massachusetts Institute of Technology [MIT], and is the author of numerous publications. Dr. Irons formerly was an economic professor at Amherst College and worked at the Center of American Progress, OMB Watch, and, of course, Brookings Institute and Federal Reserve Board of Governors.

Welcome, Dr. Irons.

It is the longstanding tradition here that we swear our witnesses in, so if you both would stand and raise your right hands.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that the witnesses answered in the affirmative.

Dr. Armey, we will start with you first. As you know, the procedure is that we have 5 minutes and then, of course, we have opportunity after that to raise questions with you and further comments that you might have. So welcome, Dr. Armey.

**STATEMENTS OF HON. DICK ARMEY, CHAIRMAN, FREEDOMWORKS; AND JOHN S. IRONS, RESEARCH AND POLICY DIRECTOR, ECONOMIC POLICY INSTITUTE**

**STATEMENT OF HON. DICK ARMEY**

Mr. ARMEY. Thank you, Mr. Chairman, for the invitation. I would like to spend a few minutes in just a quick review.

The intellectual gantry for such public policies as the stimulus package, of course, is John Maynard Keynes' general theory, and the notion was that in times of economic distress, downturned governments could put a spur to the economy by—I think they called it pump priming; in Texas we call it putting a spur to the economy—by either temporarily running deficits or by either increasing spending or cutting taxes.

There is a mixed review of the history of the Keynesian policy prescriptions and their success. I would be one that would suggest that on the stimulate the economy through increasing spending side is a pretty de minimis record of success in the history of the application of these theories; while on the other side of the coin, stimulating the economy through reduction in taxes has been a fairly rich history of some success, the two most notable cases being the Kennedy tax cuts of 1962 and the Reagan tax cuts about 1982.

I, of course, lived as an economist through both of these times, very exciting times for us in our profession, but one of the sweet ironies that I reflect back on in the academic community, when President Kennedy proposed stimulating the economy through cutting taxes so you could also increase revenues, it was considered an act of genius. He was celebrated in the academic community as being a president who was teaching us economics. When Ronald Reagan came back with exactly the same idea 20 years later, he was considered a moron in the academic community, despite the fact that his success has to be considered even greater than that temporary success of the Kennedy tax cuts.

I would argue that the larger problem that beleaguers the American economy today is we have an economy that is institutionally, structurally out of balance, and by that I think you should look and say the strength of every economy is the private sector. Every nation state in the history of the world that has tried to grow a strong economy through the public sector has had abject failure, serious resource misallocations, and poverty and hardship; while the United States, on the other hand, building its economy on the basis of the sector's initiatives, has had the greatest track record in the history of the world.

But there is a balance that must be struck between public and private activity, and there are various subscriptions. You can go back to Adam Smith's Wealth of Nations. He had a very good outline, but the general principle was the public sector should be de minimis and focused on such things as public capital; administering a system of justice, especially such things as a system of contracts, which, of course, if you have private enterprise, contracts are important and you must, of course, be confident that your government will protect your contractual rights; and, of course, security needs. But the basic notion here is that the government has a limited list of things that it must do and it must do well with efficiency, the primary product of their successful efforts, of course, increased productivity on the private side, such things as roads and transportation.

I believe what has happened in the United States is we have crossed beyond the point of diminishing returns. As Government has grown out of control, we have gotten to the point of negative returns. This discussion is a lively discussion internationally. What is the appropriate size of the government relative to the economy? I am proud to tell you that this international discussion is being carried out, by and large, in terms of something called the Armey Curve, and the Armey Curve says there is a point that is optimal, where you have the necessary and sufficient rational devotion and resources to government enterprise in support of private sector initiatives and you maximize the performance of your economy; beyond that it becomes a burden.

I think we have long since gone beyond that optimal point and we are now at a point where the biggest single problem that belabors the American economy is the fact that the Federal Government is such a burden. And my analogy is this: In the competition between world economies, the United States has the fastest, most beautiful horse in the race; there is no doubt about it. Our record of accomplishing in providing a standard of living for our citizenry is unparalleled, unchallenged, even. But the horse is carrying a 500 pound gluttonous jockey. And the whole theory that you can in fact improve your performance in this race of international economic competition by feeding the jockey and starving the horse is asinine. I don't know any other way to put it. But it is certainly counterproductive.

So what I would suggest to you is that the difficulties that have belabored the American economy dramatically in the past year or year and a half have first been born out of misguided public policy, most importantly, two decades of too easy money. I asked myself, when I looked at the bubble burst on housing, how could so many people make so many bad decisions, irresponsible and counterproductive decisions? It is hard to imagine that. So my response was, well, the last time I did something foolish with money was the last time I had too much easy money.

So what we had was a period where the Government created this enormous housing bubble, maybe for the best of misguided intentions, but still, nevertheless, it was the product of bad public policy. The market could have corrected that, as it did the dot.com crisis just a few years earlier if left alone, but the Government said, look, if we have too much of a good thing, the best way to improve on it is to have more of too much of a good thing. So we had first the Bush stimulus package, which was a failure; then the high drama of the Bush bailout, which was not only a failure, but very offensive failure to the citizenry at large; and then that was followed by this enormous package that is the current stimulus package.

Now, there was one innovation in this recent effort that I find interesting, and that is the idea that we can track this money and make a direct tractability recording of the jobs. My own view is this effort is, by and large, becoming clearly seen as empirically a bogus effort, that is, from its conception in its administration, only politically defined.

Finally, two observations on that. One, politics is morally and intellectually inferior to virtually everything, with the possible exception of sociology. So if you, in fact, are making decisions out of a politically defined motive, and you are letting your politics define your economics, you are probably going to come up with a bad notion. And just to be fair, because in my testimony I quote so many of the correct-thinking economics like Hayak Emesis and so forth, let me just end with a quote from John Kenneth Galbraith, related to this tracking exercise that is, frankly, comical, comicable at best. Galbraith said beware of politicians that manufacture numbers for the sake of testimony. I think he got a perfect example of what it is that he warned us against at that time.

Thank you.

[The prepared statement of Hon. Dick Armey follows:]

STATEMENT OF RICHARD K. ARMEY

before the

THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

on

NOVEMBER 19, 2009

Mr. Chairman and Members of the committee: thank you for inviting me to comment on the economic stimulus package that was signed into law on Tuesday, February 17, 2009. My name is Dick Armey and I am currently chairman of the grassroots organization FreedomWorks. Many of you may know me from my time serving as the Majority Leader of the House of Representatives, but today I will be drawing more on my experience as an economics professor, which was my career before coming to Congress.

Last February the nation's economy had a problem, and something needed to be done. However, attempting to fix a problem caused by government policies that push too much borrowing and spending by instituting a new government policy of too much borrowing and spending was a terribly poor decision. In fact, such an approach ignored the vast strides made by the economics profession over the last 40 years that suggest such a stimulus plan would do little for the economy. If too much government spending brought economic prosperity, we would be experiencing the Bush Boom now. Clearly, we are not.

I will begin by looking at the economic theory on which the stimulus bill was based, discuss its shortcomings with both historical and current evidence, and then suggest a better path toward sustained prosperity.

The intellectual foundation for the stimulus package comes straight out of Economics 101—it is basic Keynesianism, named after famous British economist John Maynard Keynes. When I was a professor, I, like almost all other economics professors, taught Keynesianism to students who lacked an economics background. They learned that Keynes argued that government could intervene in an economy to maintain aggregate demand and full employment, with the goal of smoothing out business cycles. And they learned about how he redefined economics by suggesting that increased government spending during an economic downturn "primes the pump" to get the economy going again.

During recession, Keynes explained, government should borrow money and spend it to drive aggregate demand because consumers and businesses in the private sector were unable to boost demand on their own. This was a decisive departure from classical economics, which maintained a more laissez faire approach to the economy. Indeed, Keynesian economics—premised on the notion that some prices (such as labor) were "sticky" and would not adjust in response to an economic shock—advocated a more active role for government on the grounds that markets were unable to adapt without help.

Students who made it through that lesson would then learn that history had debunked Keynesianism, and modern economics challenged many of the notions championed by Keynes, and empirical evidence supporting the effectiveness of Keynes' ideas has been scant.

Unfortunately, right or wrong, it is undeniable that Keynes' work offers a convenient justification for deficits and government spending that has since proved irresistible to politicians.

It is difficult to get economists to agree on anything, and exactly what is wrong with Keynesian-style stimulus spending is no exception. Several schools of economic thought point to different problems with Keynes' "stimulus" theory.

- The monetarists say any effects of extra spending or easy credit would be short lived and ultimately prices and wages must adjust to market conditions. Their views are more in line with classical economics, emphasizing the importance of market adjustments to eliminate unemployment and foster economic growth. To facilitate these adjustments, the government should focus on maintaining a stable money supply while exercising prudent fiscal policy.

- Rational expectations economists argue that intervention would have no effect on output or unemployment because economic actors are not short sighted and would anticipate and adapt to the government's actions, thus neutralizing attempts at counter-cyclical policy. This was an important critique of the feasibility of Keynesian economics. Many Keynesians believed there was a trade-off between unemployment and inflation—known as the Phillips curve—that could be exploited for policy purposes. In a downturn, for example, employment could be increased through government borrowing and spending, something that would ultimately need to be paid back through a higher inflation rate. Yet with rational expectations, consumers and businesses adapt and offset the potential impacts of government intervention, thus eliminating any policy trade-off and eliminating the benefits of counter-cyclical fiscal policy.

- Austrian economists argue that attempts by government to plan the economy are doomed to fail because government actors will have insufficient knowledge to coordinate the plans of the millions of economic actors that make up the economy. Fiscal policy requires taking resources from those in the private sector and concentrating them in hands of the government. This problem compoundes other counter-cyclical Keynesian policies that force interest rates lower, because such polices distort important price signals that guide market behavior. In the end, Keynesian fiscal policies actually cause more fluctuations in total output, leading to deeper recessions and more unemployment.

- The public choice school, which studies the incentives of the government actors implementing fiscal policy, notes the allure of deficit spending and the difficulty of turning off the spigot in better economic times. Commenting on the pitfalls of Keynesian policies Noble Laureate James Buchanan and economics professor Richard Wagner note, "A regime of permanent budget deficits, inflation, and an increasing public-sector share of national income—these seem to us to be the consequences of the application of Keynesian precepts in American democracy."

These differing schools also agree that Keynes' policies ignore the long term effects of deficit finance and easy credit. His famous glib response to this critique was "we are all dead in the long run". While this is true, most of us will still be alive when the economic impact of a near $1 trillion spending package comes home to roost.

Keynes warned that policy prescriptions are often based on outdated ideas from the past. In 1936, as he was concluding his famous *General Theory*, he wrote, "Practical men, who believe themselves to be quite exempt from any intellectual influences are usually slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back." It is ironic, today, that the "academic scribbler of a few years back" is Keynes himself.

One of the main flaws with the stimulus was that the money government spent had to come from somewhere, and thin air was not an option. The only way the government gets money is through higher taxes, borrowing, or printing—that is, it has to take it out of the economy in order to put it back into the economy. Consequently, as George Mason University economics professor Richard Wagner points out, "any so-called stimulus program is a ruse. The government can increase its spending only by reducing private spending equivalently."

If government borrows the money, then it either has to print money later or raise taxes to pay it back. If it raises taxes, it is, in effect, robbing Peter to pay Paul possibly with interest. If it prints the money, inflation decreases the value of the dollar for every American also robbing Paul to pay Paul.

Given that the government was playing at best a zero-sum game, it is difficult to see how the stimulus—the reshuffling of money—was supposed to create more wealth.

Supporters argue there is a "multiplier" at work—that for every dollar spent by the government there is even more created in the economy as a result. They point out that the dollars spent subsidizing the purchase of electronic golf carts—which was included in the stimulus bill—supposedly creates more wealth because the electronic golf cart dealer is then able to buy himself some new golf clubs from the golf shop owner who is then able to buy a new watch, and so on.

This appealing line of thinking has a long history, but it does not hold up to scrutiny. Harvard economics professor Robert J. Barro recently said, "when I attempted to estimate directly the multiplier associated with peacetime government purchases, I got a number insignificantly different from zero."

His findings highlight a fundamental weakness of Keynesianism. It is what Henry Hazlitt referred to in his book, *Economics in One Lesson*, as "what is seen and what is not seen". The new electronic golf cart is seen, as are the ensuing purchases and the associated jobs. What is not seen is that government had to take the money from someone else to subsidize the person buying the electronic golf cart—me, for example. What is not seen are the 10 Willie Nelson records I would have purchased with that money, enabling the record store owner to buy his own electronic golf cart from someone who could then buy a new set of clubs, and so on.

Importantly, what is also not seen are the few extra dollars the government takes from me that are lost to inefficiency on the way to subsidizing the purchase of an electronic golf cart and as a result create nothing. Also not seen are the extra hours I might have worked if my taxes were lower; if they were cut to stimulate the economy or not raised to pay for the "stimulus". These dollars, too, would have been put into the economy and they would have been used to create jobs. This is where government spending decreases, rather than increases, economic growth.

The limitations of Keynesian fiscal policies are even more important to understand today, given the structural shifts in public expenditures that have taken place. Today entitlement spending—which is consuming ever-increasing amounts of the federal budget—and existing large deficits provide greater limitations of the ability to conduct counter-cyclical Keynesian fiscal policies.

History has shown that this sort of money-shuffle does not create wealth. Take, for example, the Keynesian responses of the bipartisan cast of Herbert Hoover, Franklin Roosevelt, Gerald Ford, and George W. Bush.

Hoover and Roosevelt dramatically increased spending and watched unemployment climb with it. In one year in of Hoover's administration, from 1930 to 1931, the federal government's share of GNP skyrocketed from 16.4 percent to 21.5 percent. Keynesian deficit spending between 1929 and 1939 averaged 3.5 percent of GDP. The average rate of unemployment over the same period was 18.6 percent.

A recent study by two economists at UCLA found that government policy under FDR prolonged the depression by seven years. They claim that a long depression is not likely unless "lawmakers gum up a recovery with ill-conceived stimulus policies." And gumming up the recovery process is exactly what the stimulus Congress passed is doing. It stopped the market from making the corrections it needed to make, after years of government intervention pushed overinvestment in housing and banking.

The failure of a federal fiscal stimulus was not lost on FDR's Treasury Secretary Henry Morgenthau, who testified in May 1939:

> We are spending more money than we have ever spent before, and it does not work ... after eight years of this administration we have just as much unemployment as when we started ... and an enormous debt, to boot.

More recently, former President Gerald Ford failed to stimulate the economy in 1975 when he gave every American a rebate check. This failure led the Carter administration to pull a similar proposal in 1977. Recently, the Bush administration failed to learn this lesson and signed a similarly useless "rebate" bill. The problem is that people understand that the checks from the government are an anomaly, so they do not change their long-term behavior like they would if major reform like the flat tax were implemented. Rebate schemes that fail to lower marginal tax rates on investment and productive activity do not change the incentive to work, save, and innovate, the true drivers of economic growth.

If increasing federal spending created jobs and economic growth, we should be in the middle of the Bush Boom right now. President Bush oversaw a dramatic increase in federal spending, raising it by more than 50 percent during his eight years—including his failed "stimulus" rebate checks, which, as economists predicted, had zero impact on economic growth. Deficit spending mushroomed at the end of Bush's presidency, while unemployment continued to rise. Sadly, the lesson that many drew was Bush's failure was that we needed an even larger stimulus. Rejecting the failures of previous levels of record spending, some in Congress and the administration called for as much as a trillion dollars in new government spending. To the dismay of many, they got what they asked for.

The idea that spending creates prosperity gets it backwards—spending is the result of prosperity, not its cause. What is needed is growth-creating reform.

Government spending programs to boost the economy have similarly failed overseas. Japan—after a dramatic market crash and a drop in real estate prices—responded with government spending not unlike what the U.S. Congress passed back in February. In fact, they had 10 stimulus bills between 1992 and 2000, spending billions on infrastructure, construction, building bridges, roads, and airports as well as pouring money into biotech and telecommunications. While many countries enjoyed booming economies and falling unemployment during this time, Japan had a lost decade, seeing its unemployment more than double. They spent double the U.S. level of GDP on infrastructure, but are still not seeing a return. Instead, Japan has one of the highest national debts in the world. After 10 stimulus packages, Japan has gone from having the second biggest economy in the world by a long shot, to being well behind the new number two, China, and is close to falling behind India, as ranked by GDP purchasing power parity. Many warned that the U.S. may see similar disappointing results from a massive federal spending program. And unfortunately, they are being proven correct.

According to the government website set up to track stimulus funds—Recovery.gov—stimulus spending is directly responsible for "saving or creating" 640,329. Shortly after this figure was announced, however, it came under intense scrutiny. ABC News uncovered some misleading figures. Of the money spent to "save or create" new jobs, Recovery.gov reports:

- $761,420 was spent to create or save 30 jobs in Arizona's 15th district
- $34 million was spent in Arizona's 86th congressional district in a project for the Navajo Housing authority
- $0 were spent in Connecticut's 42nd district but 25 jobs were created
- $8.4 million was spent in the 99th congressional district of the U.S. Virgin Islands to create 40.3 jobs.
- $1.5 million spent in the 69th district and $35 million in the 99th district of the Northern Mariana Islands with .3 jobs created and 142 jobs created respectively.
- $47.7 million spent in Puerto Rico's 99th congressional district to create 291 jobs.

According to ABC News, "none of these districts actually exist."

And ABC is not alone in its skepticism of the job figures released by Recovery.gov. According to the Boston Globe, Massachusetts' stimulus job figures were "wildly exaggerated." USA Today reports that the Texas recipient of a $26,174 roofing contract reported that 450 jobs were created or saved when, in all actuality, six were. And the list goes on and on.

But even if we take the estimated job creation in question as fact, the 640,329 jobs supposedly "saved or created" by the stimulus is still 3 or so million less than the 3 to 4 million jobs Democrats predicted the stimulus would create. It is also hard to ignore the extraordinary disparity between the 640,329 jobs "saved or created" by the stimulus and the 3.8 million jobs that have been lost since the stimulus was passed in February. These staggering statistics help to account for an unemployment rate that currently stands at a staggering 10.2 percent. 10.2 percent is more than 27 percent higher than the 8 percent joblessness the Obama Administration promised would be the high point of unemployment if we rushed through a trillion dollars in new "stimulus" spending earlier this year. Worse still, many economists predict that it will remain above 10 percent for months and even years to come.

President Obama's Chairman of the Council of Economic Advisers, Christina Romer, knows that fiscal policy has repeatedly failed to create growth. She found in a study that "[C]ountercyclical fiscal policy is not achieving its intended purpose" because "it is difficult for fiscal policy to respond quickly to economic developments."

When Obama's Keynesian stimulus package was enacted, I warned that there were two possible outcomes. At best, it could have had a neutral effect on the economy and at worst it could have driven the recession into prolonged depression, much like the UCLA economists found FDR's "stimulus" did. I may be biased, but I think the economic theory that best describes why such a stimulus was doomed from the get go is the Armey Curve—the economic theory I developed. Drawing heavily from the Laffer Curve, the Armey Curve shows that—after a certain point—increased government spending becomes detrimental to economic growth. And we are now well past that point.

We can agree that zero government spending would result in little economic growth. Without the government securing property rights in courts and our liberties from enemies at home and abroad, chaos would likely reign. Similarly, if the government accounted for 100 percent of the economy, we would be the Soviet Union and have little real economic growth. The top of the Armey curve is somewhere in-between, where maximum economic output occurs. Comparing the economic output and growth of the United States with the countries of the European Union suggests that the EU countries are further down the slope toward poor performing countries with an excessively large public sector than the US. This helps explain why EU per capita output lags at around just 70 percent of American output, suggesting a move toward their level of government spending—with actions such as the near trillion dollar stimulus package—results in similarly slower growth.

We need to move in the other direction on the Armey Curve by reducing the size of government to achieve better economic success. The only way to see real growth in the long run is to increase productivity where all wealth is created, in the private sector, not by furthering the policies of deficit spending or loose credit that created the current situation. While the federal government can produce nothing itself, it can facilitate economic growth by altering the incentives in favor of working, saving, and investing by lowering the tax burden on those activities and letting productive people keep more of what they earn.

This is what Presidents Harding, Kennedy, and Reagan all did to great success.

Harding inherited a post-World War I depression that was almost as bad as what FDR inherited from Hoover. GNP dropped 24 percent from 1920 to 1921, and unemployment had more than doubled, from 2.1 million to 4.9 million. The policies Harding used to stop this depression were the opposite of the ones FDR would use a decade later. Harding campaigned on "less government in business," cut corporate taxes, and slashed federal government spending almost in half—from $6.3 billion in 1920 to $3.2 billion in 1922. In 1922 GNP rebounded and unemployment plummeted back to 2.8 million. Rather than the 1920s being a prolonged depression like FDR's 1930s, they roared.

President Kennedy, after reflecting on the recessions of 1958 and 1960-61, proposed a dramatic tax cut, arguing, "The billions of dollars this bill will place in the hands of the consumer and our businessmen will have both immediate and permanent benefits to our economy. Every dollar released from taxation that is spent or invested will help create a new job and a new salary. And these new jobs and new salaries can create other jobs and other salaries and more customers and more growth for an expanding American economy." And we all know the country prospered after the Kennedy cut taxes.

President Reagan also understood the lesson of what is seen versus what is not seen. Handed an economy that had been struggling through the anti-growth administrations of his predecessors, President Reagan slashed tax rates and unleashed an economic boom.

Fortunately, we would not even have to cut the tax rates as aggressively Presidents Kennedy and Reagan did. President Kennedy dropped the top income tax rate from 91 percent to 70 percent. That is a 233 percent increase in after income tax take-home pay on those last dollars earned—from 9 cents on the dollar to 30 cents on the dollar—a meaningful impact on the incentive to work, save and invest. President Reagan took the top rate from 70 percent to 28 percent. That meant instead of taking home 30 cents on the dollar, the individual who earned it took home 72 cents on the dollar—a 140 percent increase, in after-income tax return on work.

By comparison, cutting the current top rate from 35 percent to 0 would yield just a 54 percent increase in after-income tax return for addition work. And a reduction to a 20 percent tax rate would be a 23 percent take-home increase. While not as large as earlier cuts, the rate reductions would still create incentives to work, save, and invest. Given current limitations on providing cuts that parallel the pro-growth cuts Reagan and Kennedy made, it is important to find additional reforms to promote job growth and prosperity to get the economy humming again.

I propose scrapping the current tax code entirely to implement a flat tax, just as I had proposed while in Congress. Income would be taxed once, and only once, avoiding punitive taxes on interest earnings and capital appreciation through investments in stocks, bonds, and other financial instruments. A flat tax can provide both a lower marginal rate as well as substantially lower compliance costs. Americans would complete their taxes in minutes on a postcard.

There is no better way to meet President Obama's unanswered call for real tax relief to help small businesses and the middle class. Our complex tax structure puts unproductive obstacles in front of entrepreneurs—the people who create wealth and will lead this country out of the recession we are in. It is entrepreneurs who create the meaningful jobs that the American people want. They do not want jobs building bridges to nowhere for a government make-work program. And they do not want our country to waste billions of unproductive hours filing taxes, when those hours could be spent producing jobs and income.

It is private equity that is going to help fund job creation, and it is the government's role to create the environment in which private equity wants to invest and entrepreneurs want to take risks and innovate. Much like the end of the uncertainty caused by FDR's dramatic policy changes when World War II created the environment that allowed prosperity to return to America in the 1950s, so too will ending the uncertainty caused by bailouts, near trillion dollar stimulus bills, tax and premium increasing healthcare bills, burdensome cape and trade legislation, and a complicated and ever changing tax system. Twenty four nations have adopted a flat tax system, which has repeatedly generated faster growth and more jobs—exactly what the United States needs right now.

Finally, last fall Congress and the Bush White House acted on panic rather than sound economic thought with the bailout package that did nothing but probably exacerbate the problem by increasing uncertainty, and I think the same has proven to be true of the panicked passage of the stimulus. The stimulus idea was more of a political exercise than it was an exercise in sound economic policy, and it is time for Congress to accept that.

I know that many of the 535 people in Congress wanted to be able to say they saved the economy by spending lots of money, but the American people know that the politics of greed is always wrapped in the language of love. They know the stimulus plan was the greed in Washington for more power, more dominion over people lives. The stimulus was just a long-term growth plan for big government, not an immediate response to the economic situation in America today.

The right plan was and still is to leave the money in the hands of the people who were smart enough to earn it in the first place—they are smart enough to spend it, too. Armey's Axiom is "Nobody spends someone else's money as wisely as he spends his own".

That much I know. But really, what no one knows is what the future holds. What is needed at this time, when so many bad decisions and bad policies have been made and supported by so many in power, is humility, not hubris, from both politicians and economists. As Noble Prize winning economist Frederick Hayek said to Keynes regarding his faith in the few in government knowing how to control the economy of the many: "Whatever may be our hope for the future, the one thing of which we must be painfully aware at the present time... is how little we really know of the forces that we are trying to influence by deliberate management; so little indeed that it must remain an open question whether we would try if we knew more."

Thank you for the opportunity to present these views. I would be happy to respond to any questions you might have.

*Richard K. Armey holds a Ph.D. from the University of Oklahoma. He was Chairman of the Economics Department at the University of North Texas before serving 18 years in the US House of Representatives where he became House Majority Leader in 1995. He is now Chairman of FreedomWorks and FreedomWorks Foundation.*

Chairman TOWNS. I thank the gentleman. Thank you very much, Dr. Armey.

Now, Dr. Irons.

**STATEMENT OF JOHN S. IRONS**

Dr. IRONS. Thank you for the opportunity today. And I should warn you that I am an economist who has manufactured numbers for the purpose of this testimony. Hopefully, my manufactured numbers are not made up, but actually good estimates.

But let me start off by saying that there can be no accountability without transparency. And I applaud the efforts of this committee and the Congress and the administration to take transparency seriously. My testimony today will focus primarily on jobs. I want to make four main points. These points are elaborated in my written testimony, but let me cover the basics here.

First, as you have already heard, the recipient reports displayed on Recovery.gov are not perfect. This should not be a surprise given the short timeframe in which the system was implemented, given the sheer number of reports, and given the problems inherent in this kind of endeavor. To err is indeed human. Nevertheless, errors and inconsistencies are unacceptable and should be addressed whenever they are found.

Second, while many in the media have highlighted cases in which jobs have been overstated by recipients, the under-reporting appears to be at least as significant of a problem as over-reporting. My written testimony has more detail on the kinds of problems, but let me highlight a couple examples.

First, there are a number of cases in which the prime recipients do not appear to have correctly estimated saved jobs. One grant recipient stated, "There were a number of jobs held by construction workers that were lengthened because of the funding and they reported zero jobs." This is a case where clearly they had jobs that were retained because of the Recovery Act, yet they reported zero.

In many cases, subcontractors and subawardees are not required to report on job creation. It is often unclear if these jobs are included by prime recipients. One recipient of a $2½ million contract, of which 90 percent was awarded to subcontractors, stated, "One full-time job was created with the prime contractor's organization as a result of this award. The job is titled Project Manager." Clearly, this is a person who is in charge of managing the subcontractors. So for $2½ million, they reported just one job created; they likely did not include the subcontractors.

To give you a sense of the size of this potential problem, by my count, there are 2,181 reports in which projects have been started and recipients received more than $50,000, yet they reported zero jobs in their reports. There are 528 reports in which projects have been started, recipients received more than $1 million, yet fewer than two jobs were reported. So there may be legitimate explanations for these outliers, but we should not necessarily conclude that the 640,000 total, as presented by Recovery.gov is an overstatement of the recipient jobs. It might very well be an understatement.

My third point, I want to stress that recipient reports, while providing valuable information on projects and employment, cannot and will not capture the full true impact of the Recovery Act. In fact, the true impact of the Recovery Act will be far greater than the sum total of the recipient reports. For example, the data only includes contracts, grants, and loans; tax benefits and entitlements are not included. Of the funds paid out so far, only about $52 billion, just one-fourth of the total, is in the form of contracts, grants, and loans.

Further, and importantly, these recipient reports only include direct jobs. For example, a new construction worker hired to install a new roof will be included; the data does not include the job impact of construction workers respending on car repairs or restaurant dining. The data does not also include upstream supplier jobs at the companies that manufacture, transport, and sell roofing supplies at the wholesale or resale level.

My fourth and last point, despite the problems with individual reports, it appears that the recipient report totals are consistent with the counts of economic advisors' job estimates and with other macroeconomic data and estimates. The economic evidence clearly shows that the Recovery Act is having impact. Before the Recovery Act, employment was declining at an average monthly pace of over 500,000 jobs per month in the fourth quarter of 2008, and by nearly 700,000 jobs a month in the first 3 months of this year the economy was very much in free fall.

In the most recent 3 month period, employment declines have averaged fewer than 200,000 jobs. Before the Recovery Act, GDP was declining at a rapid rate. In the 9-month period ending in March this year, we saw the most rapid decline in GDP since quarterly data was first collected, going all the way back to 1947. So we had the most rapidly deteriorating economy in over 60 years. The most recent data shows a turnaround; GDP grew at a 3½ percent annual rate in the most recent quarter.

Now, using methodology more suited to capture the full impact of the Recovery Act, including tax cuts, aid to States, and direct investments, and also including responding and upstream supplier jobs, the total number of jobs created or saved so far is likely between 1 million and 1½ million jobs. This estimate is approximately consistent with the CEA's initial estimate in May of 1½ million in the fourth quarter of 2009. Other forecasters, including Goldman Sachs, Macroeconomic Advisors, Moody's Economy.com, and others have estimated GDP and employment impacts consistent with these estimates as well. These macro estimates are also consistent with the micro data from Recovery.gov recipient reports.

In summary, it does appear that the Recovery Act is on track. Evidence from macro level data to model estimates to Recovery.gov recipient reports all point to a significant impact on jobs and the broader economy.

Thank you. I look forward to your questions.

[The prepared statement of Dr. Irons follows:]

**Written Testimony of John S. Irons, Ph.D.**

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**Before the U.S. House of Representatives**
**Committee on Oversight and Government Reform**

**Hearing on: "Tracking the Money: How Recovery Act Recipients Account for their Use of Stimulus Dollars"**

Thursday November 19, 2009
Washington DC

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## Introduction

In response to a rapidly deteriorating economy, Congress in February passed and President Obama signed the American Recovery and Reinvestment Act of 2009, which put in place a number of measures designed to save and create millions of jobs. These included tax cuts to individuals and businesses, aid to state governments, supports for struggling families, and direct investments in national infrastructure.

As part of this effort, Congress and the President established a requirement for recipients of Recovery Act funds to report quarterly on a range of activities, including project status, location, and number of jobs created or saved. This (and other) information was to be tracked on a new Web site, Recovery.gov.

On October 15, 2009, Recovery.gov began posting quarterly reports from fund recipients. The first wave consisted of over 5,000 reports by federal contractors who received Recovery Act project funding. A subsequent wave included over 100,000 reports from recipients of grants and loans. The reports contain a narrative description of the job impact and an estimated number of jobs created or saved. At this time, the reports total over 640,000 jobs created or saved.

In addition to this effort to measure direct job creation, the Council of Economic Advisors (CEA) has also estimated the total number of jobs that would be created by the recovery act. According to a CEA analysis conducted in May, the recovery package was estimated to create or save approximately 1.5 million jobs by the fourth quarter of 2009, and 3.5 million jobs would be created or saved by the end of 2010.[1]

This testimony examines the job impact of the recovery package, specifically in regards to the data collected so far through the recipient reports. I then examine the relationship between the recipient reports and the more complete estimates done by the CEA and others. Finally, I examine some macroeconomic evidence to take an initial look at the broader economic impact.

Highlights of this testimony include:

- Recipient reports, while providing valuable information on projects and employment, will not fully capture the full employment impact of the Recovery Act policies.
- Recipient reports contain a number of errors or inconsistencies across reports that would create both over- and under-reporting of job creation.
- The under-reporting appears to be as significant a problem as over-reporting, in particular:
    - There are a number of cases in which prime recipients do not correctly estimate "saved" jobs.
    - Sub-contractors and sub-awardees are not required to report on job creation, and it often unclear if or how sub-prime recipient jobs are included.
- The recipient-report job totals are consistent with CEA job estimates as well as with other macro-measures of the impact of federal policy on the economy and employment.

[1] Council of Economic Advisors "Estimates of Job Creation from the American Recovery and Reinvestment act of 2009" May 2009, at http://www.whitehouse.gov/administration/eop/cea/Estimate-of-Job-Creation/

- The evidence suggests that the Recovery Ac is having an impact, and has likely created or saved between 1.1 and 1.5 million jobs so far.

## Limitations of Recipient Reports[2]

As noted above, the Recovery Act put in place transparency and accountability measures mandating that recipients of federal funding report on the number of jobs that are created or saved by these investments.

The recipient data contains valuable information on the effectiveness of the Recovery Act, but a number of considerations should be kept in mind when using this limited data. In particular, the recipient-level data made available through the Recovery.gov site, while exceptionally valuable, will never reveal the full extent of job creation as a result of the Recovery Act provisions: there will be many more jobs supported, and in a more geographically diverse area, than the recipient-level data will suggest. For example:

- **Grant, contract, and loan data are only part of Recovery Act funding.** The recipient-level data includes reports from recipients of contracts, grants, and loans, representing only part of the overall Recovery Act. For example, tax reductions, increased unemployment insurance payments, greater nutritional assistance, and much of the assistance to state governments will not be included in the recipient-level jobs data. So far, these other sources of funding have far exceeded the outlays resulting in contracts, grants, or loans.
    - Of the total Recovery Act funding, 35% is in the form of contracts, grants and loans.
    - Of the funds paid out so far, 25% is in the form of contracts, grants and loans.

| | Tax Benefits | Contracts, Grants and Loans | Entitlements | Total |
|---|---|---|---|---|
| Total Recovery Act Funds | 37% | 35% | 28% | 100% |
| Funds Paid Out | 40% | 25% | 35% | 100% |

- **Not all recipients are required to report.** Reporting is currently limited to "prime" recipients and the first level of sub-recipients. For contracts directly awarded to private companies, for example, second-level sub-contractors are not required to report. (Prime and next-tier recipients may report estimated jobs created by subsequent sub-contractors, but no direct reporting is required by the lower-tier companies.)

[2] This section is substantially based on http://www.epi.org/analysis_and_opinion/entry/recovery.govs_jobs_data_a_very_partial_monty/

- **Only direct employees will be recorded.** Recovery.gov's recipient-level reports only include the jobs created directly by the recipient (and perhaps their subcontractors). For example, a new construction worker hired to install a new roof will be included, but other factors will be omitted, including:

    - *"Respending" jobs.* Data does not include the jobs saved or created by that construction worker's new spending, such as the car repairs or restaurant dining that results from their additional income.

    - *"Upstream" jobs.* Data does not include the jobs created at the companies that manufacture, transport, and sell roofing supplies at the retail or wholesale level. Recovery Act investments will increase demand for business supplies and services, leading to greater employment in sectors that support the direct activity. However, these jobs are also not included in recipient-level reporting.

- **Only a fraction of the money available has been allocated to date.** The funding for grant and contract work has only just begun to ramp up. Funding for the direct investments is expected to have a much greater impact later this year and through 2010.
    - Contracts, grants, and awards already paid out total $52.1 billion and represent just 6.6% of the $787 billion Recovery Act total, and 19% of the $275 billion that will be paid out.

- **Geographic information in the Recovery.org data is not a good guide to the full impact.** Project locations will only be a rough guide to the area impacted by the funding. While work might occur in a particular location, the investment dollars will have much broader impact. In particular, employees might reside in locations other than where the work is performed. In addition, re-spending and supplier jobs will almost certainly be dispersed widely across regions or the nation.

- **Inconsistent methodologies across reports.** It is clear from the data submitted that a range of methodologies are employed by recipients of Recovery Act funds. The Office of Management and Budget has provided some guidance on reporting, and the Recovery Act Transparency and Accountability Board has made (some of) this available to recipients; however, there are numerous instances of unclear or misinterpreted instructions resulting in mis-measurement across reporting entities. This is especially true when estimating the number of jobs "saved" by the Recovery Act. (See below for further details.)

Because of these limitations of recipient-level reporting, the jobs data included in the recipient reports should not be interpreted as a full measure of the impact of the Recovery Act.

In fact, as discussed below, the Recovery Act has likely created/saved about twice the 640,000 jobs reported on Recovery.gov. By examining the pace of spend-out and using standard multipliers from Moody's Economy.com, it appears that the recovery act added approximately 2.7 percentage points to annualized growth in the third quarter, and a bit more in the prior quarter.[3] This translates to an increase in aggregate employment of between 1.1. and 1.5 million as a result of the Recovery Act.

## Recipient Reports: Observed Problems[4]

The recipient reports are a substantial step toward federal accountability and transparency; however, they do not represent a full accounting of the number of jobs created as noted above. Further, the estimates of the numbers of job created or retained by individual recipients appear to be flawed in many cases.

The issues include: 1) inconsistent methodologies across recipients; 2) implausible estimates of job creation relative to the size of the grant and the amount of Recovery Act funds received; and 3) internally inconsistent estimates within individual reports, including inconsistencies between the job narrative and the estimated number of jobs gained.

The size of the problems are difficult to gauge. The Recovery Accountability and Transparency Board has screened the data for some of the most obvious problems, and the Board and oversight agencies will also likely continue to monitor. On first review, it appears that the data problems highlighted below are not uncommon; however, whether these problems would lead to an over- or an understatement of the total direct job creation is unclear: it appears that there are many cases of both "too many" as well as "too few" jobs reported. Further, examples that have already been identified as problematic by, e.g. various media outlets, would not lead to major revisions in the total number of jobs.

### Data inconsistencies: Origins

Most of the most apparent data issues stem from a failure of contractors or recipients to follow official guidance (See Appendix A for full guidance language). According to the instructions (Data Model 3.0, derived from Office of Management and Budget (OMB) guidance M-09-21), the estimate of the number of jobs created or saved should be calculated as follows (emphasis added):

> At a minimum, this estimate shall include any new positions created and any existing filled positions that were retained to support or carry out Recovery Act projects, activities, or federally awarded contracts managed directly by the recipient or federal contractor. For grants and loans, the number shall include the number of jobs created and retained by sub recipients and vendor. The number shall be expressed as "full-time equivalent" (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule...

[3] See Josh Bivens, "How we know the recovery package is helping" October 29, 2009, EPI Issue Brief #265, at: http://www.epi.org/publications/entry/ib265/

[4] Based on John Irons "Recovery.gov recipient reporting on jobs—Problems and recommendations" EPI, October 29, 2009 at http://www.epi.org/publications/entry/pm154/

It should be noted that this failure is, at least in part, due to unclear or insufficient guidance from implementing agencies. For example, the spreadsheet templates (e.g., FederalReportingTemplate-Contract.xls) do not include the full OMB language noted above and only state:

> Number of Jobs: Estimate the number of new jobs created and jobs retained in the U.S. and outlying areas. Refer to the Data Model for guidance on how to calculate this number.

Thus, if a contractor or recipient only uses the spreadsheet template and does not refer to other guidance (such as OMB M-09-21), they might use their own rule-of-thumb in entering this number. In particular, it is obvious from the first round of reports that many contractors incorrectly assumed that, if work was done with existing workers, then the estimate of the number of jobs would be zero.

Even if recipients were to track down OMB M-09-21, they would find that the definition of a "job retained" may still be subject to interpretation by recipients:

> A job created is a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act; a job retained is an existing position that would not have been continued to be filled were it not for Recovery Act funding. (Page 34)

It should also be noted that the FTE calculation is intended to prevent an over-statement of the number of jobs created. For example, a contractor of grantee that employees 10 people on a part-time basis as a result of the funding should not necessarily be credited with creating 10 full-time jobs.

### Data inconsistencies: types of problems

While there may be legitimate reasons for some of the data inconsistencies, there appear to be far too many instances where problems arise. Problems include:

- **Inconsistent methodologies across recipients.** Some recipients report jobs saved and created, others report just new jobs. Some report on sub-contractors' jobs, others do not. Some convert hours to FTEs, others count heads.
- **Implausible estimates of job creation relative to the size of the grant and/or the amount of Recovery Act funds received**. Some contractors show millions of dollars received, yet little or no job impact. Others show little or no funding, but many jobs created.
- **Internally inconsistent estimates within individual reports**. There are many cases where the estimates of jobs created and saved are inconsistent with other data in the reports. For example:
  - Many contractor reports indicate that the project has been partially or entirely completed, and/or has received significant funding to date, yet no jobs have been created.
  - Several reports indicate that the project has not yet begun, yet a significant number of jobs have been created.
  - The narrative often describes the jobs impact in a way that is not reflected in the estimate of the number of jobs created.

- **Recipient reports only jobs created, but omit jobs "saved" or retained.** It appears that many recipients are interpreting the jobs created field as measuring only the number of additional people hired by the firm to work on the project. Many contractors are stating that existing employees were used to work on the project and are reporting zero jobs created or saved.
- **Unclear if sub-recipient (e.g., sub-contractor) jobs estimates are included.** For grants and loans, recipient reports should include these estimates, but contractors don't necessarily need to report on sub-awards. In general, it is impossible to know if the sub-contractors jobs are included or not, unless specifically included in the job creation narrative.

Going forward, it is also likely that recipients may not report cumulative job creation, but only jobs created in the most recent reporting period. The OMB guidance provides some detail on how the cumulative numbers should be reported; however, given the recent experience, recipients may not be sufficiently informed about the proper method for estimating cumulative job creation.

As noted above, the errors or mis-interpretations in the recipient reports can lead to both apparent over- and under- reporting.

## Classification: Examples from Contractors

Below are some of the main areas in which data appear to be problematic for contractors whose reports were made available on October 15th. The first two groupings contain cases that appear to have implausible counts given the ARRA activities, based on simple rules of thumb. The final category contains examples where the narrative does not match the estimate of the number of jobs created. Not every item in these categories is necessarily a problem, and there are problems not captured here; however, these are areas that should be further examined by oversight agencies.

**Apparent under-reporting**

There are many instances in which contractors report zero jobs, even though they say they have received payments. It is uncommon for federal contractors to receive payments before work has begun, so it is possible that these reflect job-reporting errors. Moreover, there are many cases in which contractors report zero jobs even though the project status is listed as under way or even completed.

Zero jobs, project completed: 336 reports
Zero Jobs, but recipient received funds: 779 reports
Zero Jobs, but recipient received more than $100,000: 224 reports
Large Contract (more than $1 million) but less than 2 jobs: 50 reports

**Apparent over-reporting**

In many cases, firms may have reported "too many" jobs relative to their funding. Some recipients may report on new temporary or part-time hires (rather than converting hours worked to FTEs). Note that these cases may not necessarily indicate problems; it may be the case that firms have hired in anticipation of receiving money.

Small contract, but more than 2 jobs: 130 reports;
Number of jobs>0, but project not yet started: 399 reports;

**Description does not match count**
Aside from the potential problems noted above, there appear to be many cases in which the narrative description does not match the jobs estimates. This appears to be particularly true in cases in which jobs were saved rather than created.

## Recipient Report Recommendations

It is clear from the recipient reports that either the jobs-reporting instructions are unclear, that recipients are ignoring the guidance, or both. The proposals below would 1) improve the guidance and communications with recipients; 2) help prevent problematic data from being entered into the system; 3) flag potential problems for additional scrutiny; and 4) augment reporting to include data that would be more likely to result in consistent estimates.

The recommendations below would help to achieve greater accuracy and consistency across reports. However, given the inherent ambiguities in estimating jobs "saved" or "retained," *it is strongly recommended that recovery act recipients also be required to report on the total number of hours worked on Recovery Act projects*. This would allow for better comparison across reports, and would be a complement to the more subjective notion of jobs retained.

- **Improve the reporting process to clarify and re-emphasize jobs-reporting guidance.** In particular, guidance and instructions need to be clarified and emphasize that all hours of work on ARRA projects, whether performed by existing workers or new hires, should go into the job calculations.
  - At a minimum the spreadsheet templates, XML Schema, online forms, etc., should all include the guidance language that states the method for calculating the number of jobs created or retained. In particular, the instructions should include: "The number shall be expressed as ''full-time equivalent'' (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule."
  - OMB and FederalReporting.gov guidance should be amended to include examples to cover various scenarios, with a particular emphasis on how to report on the number of jobs saved or "retained."
  - Stand-alone materials should be developed to illustrate the methods that should be employed. These materials should again include examples to clarify that the proper method is to first estimate the number of hours worked on the project.
  - The recipients should be given the option to enter the total number of hours worked on the project and an estimate of the total number of hours in a FTE over that period. The FTE hours should also be checked to ensure that the number is plausible (e.g., reported in hours per day, or hours per week, or hours per quarter).

   - FederalReporting.gov should also prepare a supplemental worksheet (either online or downloadable) that walks recipients through the appropriate process for calculating the number of jobs.
- **Screen recipient data for obvious errors.** Recipient reports should be automatically screened for obvious errors. The Recovery Board already conducts a first review to ensure that recipient reports do not include, for example, millions of jobs created. This process should continue to be refined and, if not done already, systemized.
- **Flag recipient reports** which are very likely to contain errors or misinterpretations of jobs instructions. The counts of reports below only include the first wave of recipient reports from contractors (and thus do not include loan and grant recipients).
- **Improve report validation.** When submitting a report that would trigger a flag as noted above, the recipient should be immediately notified of the potential flag and given the option to revise their reports before submitting a final report. The notice should also include the text of the jobs-reporting guidance:
   - For future quarterly reports, the entries should be checked to ensure that the jobs estimate is at least as large as prior reports. This will provide an initial check on whether the recipient is reporting on cumulative job creation and retention.
- **Modify Recovery.gov to indicate recipient reports that are flagged.** Recovery.gov should augment all reports, downloads, etc., to include Recovery Board flags as noted above. These data should also be provided to agencies for further follow-up if necessary. Separate files of only the flagged reports should be provided to assist public scrutiny of the reports.
- **Add data fields on jobs reporting.** Additional fields would help reduce ambiguities and clarify reporting methodology:
   - Estimated total cumulative number of hours worked on Recovery Act–funded project(s).
   - Does job estimate include subcontractors' jobs (yes/no)? If yes: how many (#)?
   - Does job estimate include saved jobs (yes/no)? If no, immediately red flag the report and reiterate guidance.

The first wave of recipient reports posted on Recovery.gov provides a wealth of data for observers to sift through on a range of Recovery Act funding. Implementing the recommendations above—from clarifying guidance to flagging and validating reports—would go a long way toward improving the quality of the data, both in aggregate and for individual recipient reports.

## Recovery Act Impact

It is important to remember the dire economic situation the nation was in as a result of the economic recession that began in December 2007, and prior to the enactment of the Recovery Act. During the last half of 2008 and the first three months of 2009 (the nine months preceding the implementation of the recovery act) the economy was collapsing at a 5% annual rate, the fastest decline of any nine month period since data were first collected in 1947. By March the economy had lost 6 million jobs with two million jobs lost in just the prior three months alone, which was the greatest employment decline in sixty years. The unemployment rate had reached 8.5%, which was the highest unemployment rate since the early 1980s.

Since the passage and implementation of the recovery act, the economy and the labor market have improved. Broader economic evidence suggests that the Recovery Act is having a significant impact on the economy and on the labor market. Growth in the gross domestic product (GDP) returned to positive territory in the third quarter (July-September) of this year (Figure A), and job losses have decelerated since the start of the year (Figure B).[5]

**Employment**

*Before the Recovery Act*: Employment was declining at an average monthly pace of 553,000 jobs in the fourth quarter of 2008, and by 691,000 jobs in the first three months of 2009.

*Most recent:* In the most recent 3-month period, job decline has averaged 188,000 jobs.

**GDP**

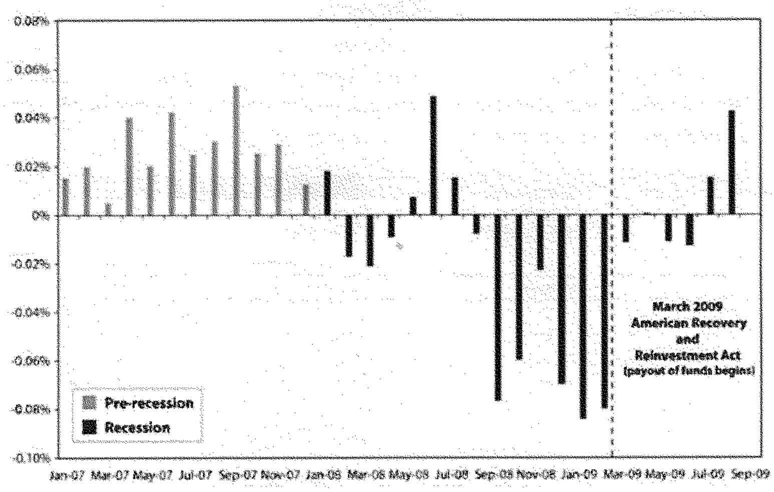
*Before the Recovery Act*: GDP was declining at a 5.4% annual rate in the fourth quarter of 2008, and at a 6.4% annual rate in the first quarter of 2009. The 9-month period ending in March 2009 saw the most rapid decline in GDP since quarterly data was first collected in 1947.

*Most recent:* GDP grew at a 3.5% annual rate in the most recent quarter, after falling at just a 0.7% annual rate in the second quarter of this year.

[5] Figures and Table from See Josh Bivens, "How we know the recovery package is helping" October 29, 2009, EPI Issue Brief #265, at: http://www.epi.org/publications/entry/ib265/

**FIGURE A**

**Monthly percentage change in GDP (rolling three-month average)**

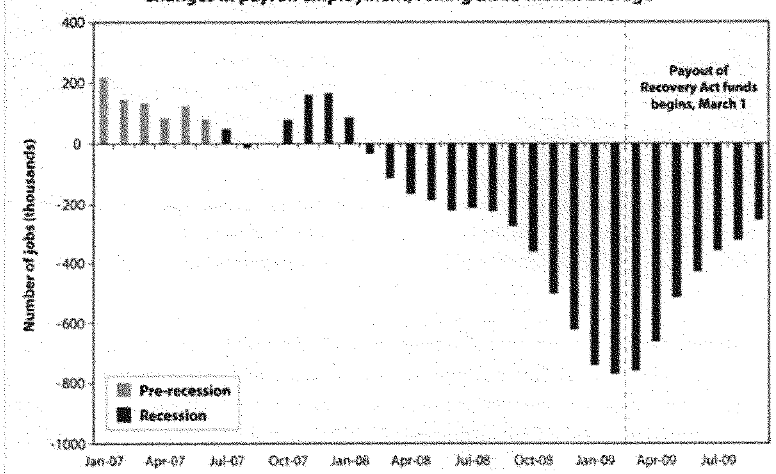



**NOTE:** The first stimulus package, the Economic Stimulus Act passed in February 2008, provided a large but temporary boost to both GDP and personal disposable income that appeared in the second quarter of 2008.

**SOURCE:** Macroeconomic Advisors monthly GDP report.

**FIGURE B**

**Changes in payroll employment, rolling three-month average**




**NOTE:** The first stimulus package, the Economic Stimulus Act passed in February 2008, provided a large but temporary boost to both GDP and personal disposable income that appeared in the second quarter of 2008.

**SOURCE:** Bureau of Labor Statistics.

## Macroeconomic estimates

Using a methodology more suited to capture the full impact of the Recovery Act—including tax cuts, aid to states, and direct investments (including re-spending and upstream supplier jobs)—the number of jobs created or saved so far is likely between 1 and 1.5 million—about 200,000 jobs per month.[6] Table 1 shows the amount of Recovery Act funding to date and, once combined with standard economic multipliers, also shows the a rough estimate of the influence of ARRA on GDP growth and on job growth in each quarter since its passage.

TABLE 1

**ARRA spending and impact: GDP and jobs**

| | | Amount, $ billions | | | Contribution to GDP, $ billion | | |
|---|---|---|---|---|---|---|---|
| | *Multiplier* | *1Q* | *2Q* | *3Q* | *1Q* | *2Q* | *3Q* |
| *Direct spending* | 1.6 | $0.0 | $5.2 | $9.2 | $0.0 | $8.3 | $14.7 |
| *Aid to states* | 1.4 | 8.6 | 22.6 | 21.0 | 12.0 | 31.6 | 29.4 |
| *Transfers to individuals* | 1.7 | 1.3 | 31.0 | 18.0 | 2.1 | 51.2 | 29.7 |
| *Business tax cuts* | 0.4 | 0.0 | 18.0 | 22.0 | 0.0 | 7.2 | 8.8 |
| *Individual tax cuts* | 1.3 | 0.0 | 8.8 | 10.5 | 0.0 | 11.0 | 13.1 |
| *Total* | | 9.9 | 65.6 | 80.7 | 14.2 | 109.3 | 95.7 |
| *% of GDP* | | 0.3% | 2.4% | 2.3% | 0.4% | 3.1% | 2.7% |
| | | | | | Jobs, thousands | | |
| *Jobs created/saved* | | | | | 96 | 752 | 660 |
| *Jobs created/saved, conservative* | | | | | 69 | 541 | 475 |

**SOURCE:** Data from Recovery.gov; multipliers from Zandi (2009).

This estimate is approximately consistent with CEA's initial estimate in May of the number of jobs that would be created (1.5 million by 2009:Q4). Other forecasters, including Goldman Sachs, Macroeconomic Advisors, and Moody's Economy.com have estimated employment growth consistent with this estimate as well.

These "macro" estimates are also consistent with the "micro" data from recovery.gov. As a broad approximation, for every direct job created there will be one job created "indirectly" though re-spending and supplier jobs. The 640,000 estimate of direct job creation by recipients through Recovery.gov is thus approximately ballpark consistent with a total estimate of between 1 and 1.5 million jobs.

The CEA estimate—which is slightly more than twice the direct job total—is also consistent with the recipient totals since the funding covered by Recovery.gov recipient reporting has generally gone out the door more slowly that some of the other elements of the Recovery Act, and thus it should not be surprising that the CEA estimate is higher than twice the direct job total from recipient reports.

[6] Josh Bivens, "How we know the recovery package is helping" October 29, 2009, EPI Issue Brief #265, at: http://www.epi.org/publications/entry/ib265/

In summary, it does appear that the Recovery Act is on track. Evidence from macro-level data, to model estimates, to Recovery.gov recipient reports all point to a significant impact on jobs and the broader economy.

## Appendix A: Data model 3.0

Recipient Reporting Data Model 3.0 (accessed 10/25/09)

**Number of Jobs**

"Jobs created and retained. An estimate of the number of jobs created and jobs retained in the United States and outlying areas.

At a minimum, this estimate shall include any new positions created and any existing filled positions that were retained to support or carry out Recovery Act projects, activities, or federally awarded contracts managed directly by the recipient or federal contractor. For grants and loans, the number shall include the number of jobs created and retained by sub recipients and vendor. The number shall be expressed as ''full-time equivalent'' (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule, as defined by the recipient or federal contractor.

For instance, two full-time employees and one part-time employee working half days would be reported as 2.5 FTE in each calendar quarter. A job cannot be reported as both created and retained. As used in this instruction, United States means the 50 States and the District of Columbia, and outlying areas means..."

**Description of Jobs Created**

"A narrative description of the employment impact of the Recovery Act funded work. This narrative is cumulative for each calendar quarter and at a minimum, will address the impact on the recipient's or federal contractor's workforce (for grants and loans, recipients shall also include the impact on the workforces of sub recipients and vendors).

At a minimum, provide a brief description of the types of jobs created and jobs retained in the United States and outlying areas. ''Jobs or positions created'' means those new positions created and filled, or previously existing unfilled positions that are filled, as a result of Recovery Act funding. ''Jobs or positions retained'' means those previously existing filled positions that are retained as a result of Recovery Act funding. This description may rely on job titles, broader labor categories, or the recipient's existing practice for describing jobs as long as the terms used are widely understood and describe the general nature of the work.

ALTERNATE METHOD FOR GRANT AND LOAN RECIPIENTS: In those circumstances where the recipient employs an approved statistical methodology to generate estimates of job impact, thereby collecting data from a smaller subset of sub-recipients and vendors in order to extrapolate an estimate of job impact to all applicable sub recipients and vendors, the recipient must provide a description of the methodology used."

Chairman TOWNS. Thank you very much.

Let me thank both of you for your testimony and let me begin by asking a question of both of you. The Recovery Act, what is your impression of it?

Mr. ARMEY. My impression of the Recovery Act was that it was a wholly futile effort. If you take a look at, in my adult lifetime and all the years that I spent watching and studying our economic policy, what has worked to spur growth and recovery in the economy is cutting taxes and leaving the taxpayers who earn the money actually become more investment.

We have some very grievous institutional dislocations in this fundamental structure of so much public policy, and we start with the tax code. If you go way back to Adam Smith's 1776 The Wealth of Nations, he says the road to economic growth is abstinence, savings, and investment. Savings and investment are two economic activities that are double taxed, so they are given a double whammy disincentive to savings and investment.

Every smart tax reduction we have ever made, that is, tax reduction aimed at diminishing the load on savers and investors of this activity has caused them to be more active and generated the economy. If in fact the Federal Government, by size and the magnitude of spending, is already redundant with even the interest on the national debt at that time being equal to the entire budget of the Defense Department, with already existing current deficits of $500 billion, to double down on what is redundant is not productive.

Dr. IRONS. Let me share a broad impression. I am afraid I don't have a good horse example, but let me use a different analogy. Before the Recovery Act was passed, the economy was in free fall. The economy had jumped out of a plane; it was declining at a very rapid rate. The recovery package was essentially a parachute; it opened up, it slowed the pace of decline.

We still have jobs that are being lost, but they are being lost at a much smaller pace. It gave the economy a chance to recover. It is not going to be the end-all and be-all; it is not going to get us from where we are to a fantastic economy. No one is claiming that the economy that we currently are in is a great environment, but at least it stopped the worse from happening; it stopped us from going off the cliff.

In terms of the policy, I tend to be more of a kitchen sink economist; I think we should try a little bit of everything. I think in the recovery package you saw that there were a number of investments, there was aid to States, there were tax cuts as part of the package, and I think that a problem of the size that we had demanded a comprehensive, broad-based solution. I think that is what the recovery package represented. So I am very optimistic that this gives the economy the chance to turn around; it stopped the downward spiral and gave us a chance to recover.

On the tax cut component, I think there are components of the recovery package which I might no be as fond of as other parts, including some of the tax cuts, and I find it interesting that the Bush tax cuts were not listed as part of the success stories in terms of stimulus. In fact, we had one of the worst recoveries on record after the Bush tax cuts were passed.

So I think the record in most recent times of the efficacy of tax cuts as stimulus has been, at best, mixed, and I think we need to think about what kinds of tax cuts. Tax cuts are not a generic thing. There are tax cuts, I think, for low- and middle-income Americans which can be respent, can be very effective stimulus. Tax cuts for businesses who need customers, not tax cuts, are in many ways probably not a good idea. So I don't think we should talk about tax cuts in the abstract; we should have a more nuanced view.

Chairman TOWNS. Dr. Irons, I am deeply concerned that the unemployment rate has now surpassed 10 percent. Is this evidence that the Recovery Act is not working or that the projections of the Council of Economic Advisors were wrong?

Dr. IRONS. I don't think it is. I agree with you, I think the 10 percent unemployment rate is a huge problem. I think the high unemployment rate is a result of a disastrous economy that was in place before the Recovery Act was passed. And I think when you look at the projections of the Council of Economic Advisors, where they thought the economy would be, they, along with private forecasters, were overly optimistic about how high the unemployment rate would rise.

So the fact that we have a 10 percent unemployment rate is a statement, not about the recovery package, but is a statement about the state of the economy before the recovery package was passed. In fact, if it were not for the recovery package, we would have a much higher unemployment rate. So my example of the economy in free fall and a parachute, it has slowed down the deceleration, but you still see some increase in the unemployment rate. At the same time, you don't want to cut yourself loose of that parachute; that would make things much worse. And that is the case we would be in if we did not have that parachute, if we did not have the Recovery Act in place.

Chairman TOWNS. I yield to the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

I have so many questions, I don't know where to start with this group.

Thank you for your testimony, Mr. Armey. I am curious. I know that in the previous testimony we heard earlier, they were talking about all the jobs that have been created and saved, and one of my concerns is that two-thirds of jobs happen to be with the Department of Education. They have created 400,000 out of the 640,000 jobs, and in the testimony it appears that all they did was make sure that the teachers' budgets or the education budgets are funded for another year, which means what are we going to do next year?

So it doesn't look like we have created or saved a permanent job, because we haven't fixed an economic problem that will allow that job to continue, unless we continue to find another stimulus that primes the pump again. What is your analysis of that?

Mr. ARMEY. My own view is that, first of all, there has been very little distribution of this massive amount of money that shocked the world, but, by and large, it has been distribute intragovernmentally. So you are getting some public jobs that are perhaps being retained that might not otherwise have been, but certainly nothing constitutes a recovery.

The thing that gives you recovery is when the private sector investor class engages. That is what happened in the aftermath of the Reagan taxes. And you are correct, I did not mention the Bush tax cut. We got an anemic recovery out of them because there was so much income redistribution in that package; tax cuts, as opposed to stimulation for investment and savings. That was a tax cut package that was too politically defined to be as effective as it might otherwise have been. I made the point earlier you need smart tax cuts. If they are just income redistributional tax comes, they do you very little good.

So the fact of the matter is you have some demonstration of direct linkage between jobs in the Government sector with intragovernmental awards, but more than discouraging dramatic demonstration of declining employment in the private sector, that gives you 10 percent overall reduction in employment or unemployment rate.

Mr. LUETKEMEYER. Thank you. I sit on the Small Business Committee and it takes about 67,000 jobs, according to the testimony we have heard a number of times, to create a job for small business. Yet, the average in this package is about $246,000 it has created so far. I know that in this package there was $31 billion, roughly, of small business tax credits and things like that. Do you know, off the top of your head, Mr. Irons, how many jobs were created or saved as a result of those tax credits?

Mr. ARMEY. No, I don't. Again, let me just say there is a generic rule of thumb I think you can apply that public sector job creation is very costly and results in virtually no enhanced productivity for the economy as a whole. Private sector job creation coming from the investment sector, where in fact you expand the application of science and engineering through new capital investment, increases productivity and, in fact, results in a much greater, as it were, bang for your buck in terms of the productivity gains that result in increased sustainability of the jobs. That is why you see a greater permanence in the jobs created on the private sector.

Mr. LUETKEMEYER. Also, with regards to—this stimulus package, we are incurring a huge amount of debt. Dr. Irons, what do you feel is an adequate level of debt for our economy to be able to live with?

Dr. IRONS. Oh, that is a good question, and I don't think it is a knowable question. There is no specific number where, if you are below it, you are fine; if you are above it, you are in trouble.

Mr. LUETKEMEYER. You mean a half a trillion dollars worth of interest is something we can continue to sustain forever?

Dr. IRONS. The question is what is a sustainable level. I think that is the key question. And I think there you have to look at how fast the economy grows and then how fast the deficit increases the debt. I think if you are underneath a threshold which keeps the debt from rising as a share of the economy, you are in OK territory. If the debt is rising faster than the economy as a whole, then you are in trouble. The way I describe it is Bill Gates can carry a bigger debt than I can because of his income. So long as our GDP is rising, we can continue to maintain higher levels of debt.

Mr. LUETKEMEYER. Our GDP is not doing very well right now. That is my question. Where do you think we need to go? Are we maxed out? Do we need to stop borrowing money?

Dr. IRONS. I don't think we are maxed out. I think we can still borrow money.

Mr. LUETKEMEYER. We can still borrow more money?

Dr. IRONS. We can absolutely still borrow money with the caveat that the——

Mr. LUETKEMEYER. Thank you.

Mr. Armey, before I run out of my time. I apologize, but my time is limited.

Mr. ARMEY. Well, of course, the market—finally, the market reveals everything eventually. One of the—what is it they say?—the canaries in the mine that I am looking at right now is the activity of the curry trade, the bet on currencies. For years recently they were betting against the Japanese currency, correctly so. Now they are betting against the U.S. currency because we are flooding the world with dollars and there is a decreasing willingness on the part of the world to own our debt.

The fact is, the Government acquires money in three ways: they tax it directly or they borrow it. In a declining world willingness to do so, they end up printing it. If they print it, then they tax indirectly by inflating the currency, deflating its purchasing power, and it comes back. In almost every case the cost of current mismanaged fiscal policy falls on a future generation.

Mr. LUETKEMEYER. Thank you for your testimony.

I yield back my time, Mr. Chairman.

Chairman TOWNS. Thank you very much.

I now yield to the gentleman who, at one point, chaired this committee for 6 years, Mr. Burton from Indiana.

Mr. BURTON. And I looked so young.

You know, the President has said and his administration has said they created 640,329 jobs. That is pretty specific. You would think they would be able to account for those jobs since they are so specifically down to the axial job. 329? How do you account for that?

Dr. IRONS. Well, I think the number that is presented is——

Mr. BURTON. I know, but do you think that they can really be that accurate, right down to 329?

Dr. IRONS. No. Is the number actually 640,329? No. There are errors.

Mr. BURTON. It is something that they "pulled out of their head."

Dr. IRONS. Absolutely not. The administration did not pull this out of their heads;" this is the sum total of the recipient reports.

Mr. BURTON. OK.

Dr. IRONS. So these are what the recipients reported, and they added that up.

Mr. BURTON. Where did you go to school?

Dr. IRONS. Graduate school? MIT.

Mr. BURTON. And before that, Swarthmore?

Dr. IRONS. Swarthmore College, yes. That is right.

Mr. BURTON. How old are you?

Dr. IRONS. That is a good question. What year is it? Thirty-nine.

Mr. BURTON. Thirty-nine.

Dr. IRONS. Yes.

Mr. BURTON. See, in 1982 where were you? How old would you have been in 1982?

Dr. IRONS. I would be 12.

Mr. BURTON. Well, in 1982, I became a Congressman, and I don't think you were here, Dick, but we had a guy that came into the White House and we had come out of the Carter administration with 14 percent inflation, 12 percent unemployment—called it a misery index, 26 percent—and they were throwing money at everything.

He put on a sweater and said we had to turn our thermostats down and the world was going to hell in a hand basket. And this guy comes riding in from the West and they said you have to raise taxes; we have to get more money in the Treasury because everything is going south. And you know what he said? He said, well, I think that we ought to cut taxes, give people and business more disposable income to invest, and that ought to spur economic growth. And you know what? He was right. We had 25 years of economic expansion, or 20-some years of economic expansion.

This philosophy that you can spend yourself out of debt and solve the economic problems by spending, to me, is just anathema; I just can't get it. And when I hear people say, well, you spent $1.4 trillion more this year than you have taken in, but we can spend more and get out of debt, I think you have to be smoking something that is illegal. You know? This is crazy.

The health bill we are talking about is going to cost at least another trillion dollars over the next decade; it is going to raise taxes of probably God only knows how much. We are already $1.4 trillion in the tank right now, and there is going to be more spending; they want to come up with more programs that are going to cost money and taxes like the cap-and-trade. You can't spend your way out of the hole. When you get so deep, you have to stop digging. And that is the problem we have right now. I am putting this in very simple economic terms. We need to cut spending.

There is a good book I wish you would read, Mr. Irons, it is called "The Forgotten Man." Have you ever heard of that book?

Dr. IRONS. No, I haven't.

Mr. BURTON. Well, you being an intellectual, I wish you would read it. It is a book that goes from 1929 to 1941 and it tracks the Roosevelt administration and the things that they did to solve their economic problems. And they did almost the same thing you are talking about in the mid-1930's.

And you know what happened? Things got worse. And it wasn't until the war started that they dug themselves out of that hole because everybody had to go back to work, women and everybody else, because they were fighting overseas.

The only reason I bring all this up is, you know, I have been here for 27 years, and some people say, well, that is too long. I don't know, maybe it is. I don't know. But I have to tell you this. One thing I do know is that you can't spend more than you take in; inevitably, it is going to come back and bite you in the rear-end, and that is where we are going right now.

I think I heard you say that we are in a position now where we could spend more money to get the economy moving and that sort of thing. I think, Mr. Irons, that you are incorrect. I hope you will read that book, and maybe the next time I see you you will have a different perspective on the way we spend money in this country.

With that, Dick, it sure is good seeing you, buddy. I wish you were still here.

Mr. ISSA. And still majority leader, I would say.

Mr. BURTON. And still majority leader.

Chairman TOWNS. Now you are going too far; you are dreaming.

Mr. ARMEY. I am sure Steny Hoyer would have a different view of the matter. [Laughter.]

Chairman TOWNS. Let me recognize the gentleman from Maryland, Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

Thank you, both gentlemen, for being here.

Dr. Irons, I didn't know when it became a bad thing to know stuff. I think Mr. Armey would agree that although knowledge sometimes is a good thing, having the facts is a good thing. And I would point out that, yes, in World War II we pulled ourselves out of a recession. It was one of the greatest examples of big government investment, and U.S. debt was at extremely high levels during World War II and I think most economists would tell you that had a big part of pulling us out of the recession and depression at that time.

Mr. Armey, do you support unemployment compensation during times like this?

Mr. ARMEY. Well, obviously, we always like to help people who are truly distressed. There is always a question of what definition you give to that. Again, like almost everything I can think of, even unemployment compensation, which can be in fact a good and necessary thing, can be carried to extreme. If it becomes a fountainhead for dependence——

Mr. VAN HOLLEN. Let me—so we are on the same track—I understand where you are going. Let me rephrase the question. Do you agree that, for people who are out of work through no fault of their own and are continuing to look for a job in the economy and can't find one through no fault of their own, that they should receive unemployment compensation?

Mr. ARMEY. I don't believe that the best public policy option is to make them less miserable in their continued unemployment for a longer period of time, as opposed to those policies that can be directly pursued that will give them the job opportunity.

One of the things that frustrates me as I look at this past year and a half in the United States with public policy is the opportunities to expand employment opportunities for real people in the private sector that have been foregone, and the problem is office holders oftentimes tend to pacify their own feelings of inadequacy by saying, well, at least we made them more comfortable in their misery; and I don't find that a very attractive public policy.

Mr. VAN HOLLEN. Let me ask it this way, Mr. Armey. Would you have voted for the unemployment compensation packages that were in the economic recovery bill and the House has passed since then?

Mr. ARMEY. I can't remember—I am sorry——

Mr. VAN HOLLEN. We passed unemployment compensation——

Mr. ARMEY. I probably would have—I may very reluctantly have voted for them while I argued we ought to be doing something more productive, more responsible, with a greater heart and a greater sense of dignity and future for these folks by way of——

Mr. VAN HOLLEN. You would have voted yes? I just want to make it clear.

Mr. ARMEY. I don't know. I haven't looked at that package.

Mr. VAN HOLLEN. You don't know?

Mr. ARMEY. I didn't look at the package. I never voted on something I didn't read.

Mr. VAN HOLLEN. How about the tax reduction components of the economic recovery bill?

Mr. ARMEY. If there were any tax reduction components that were not merely income redistributional and I could possibly assess they would have something to engage savers and investors and more of that activity, which would result in job creation, I would have been supportive of it.

Mr. VAN HOLLEN. Let me ask you this. You keep saying if there were. Did you read the economic recovery bill?

Mr. ARMEY. No, I didn't. I had no reason to read it. I wasn't going to vote on it.

Mr. VAN HOLLEN. Well, now, Mr. Armey, you have been commenting an awful lot, both here and in the press, about the economic recovery bill. We ask Members of Congress to read it when they vote on it and are considering it. You said a lot about it, so I am a little surprised to learn that you haven't——

Mr. ARMEY. Well, look. If my neighbor has a dead cat stinking up his yard, I don't have to know how it got there to know it is a dead cat stinking up the yard.

Mr. VAN HOLLEN. What is that? Well, I think it is important to read things. I understand there are some comments suggesting that knowing stuff is a bad thing, but it seems to me that we owe it to the people that we are communicating with that we have an understanding to read the information.

Let me ask you this, because it is not clear yet whether you are for the unemployment compensation components or whether you would have supported the tax cut components. Both of those were significant components, by the way, of the economic recovery bill.

Dr. Irons, can you talk a little bit to that fact? The economic recovery bill that we have been talking about today represents less than a third of what was in there for economic impact. Could you comment a little bit on that, please?

Dr. IRONS. Yes, that is right. The specific elements that have been reported on through Recovery.gov recipient reports will represent about a third of the total amount that is in the package. Right now there are about a quarter because they have gone a little more slowly than the tax cuts, the assistance to the States and some of the other components.

So tax cuts are a significant part; the assistance for States is a significant part; and the direct investments, which largely show up in the reports you have been talking about today, are a significant part, about equal weight to each. So the numbers we have seen today are only a part of the overall impact.

Mr. VAN HOLLEN. Could you comment a little bit on the situation that the President inherited with respect to the deficit and debt following the last administration?

Dr. IRONS. Yes. The deficit, which is now well over a trillion dollars, is largely the result of policies that were put in place before the President took office, as well as deteriorating economy. The economic deterioration, which was, as I said before, the most rapid since 1947, is the prime culprit in terms of the reduction in revenues and the increase in outlays that have resulted from just the economy going down. That has been the prime driver of the higher deficit.

So in thinking about how you solve a deficit problem, the No. 1 priority is get the economy moving again. We can't solve the deficit problem if we have a recession that is going to last for 5 years or 10 years. That needs to be the No. 1 priority.

Mr. VAN HOLLEN. Thank you.

Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much.

I now yield 5 minutes to the gentleman from Ohio, Mr. Jordan.

Mr. ISSA. Would the gentleman yield for just a moment?

Mr. JORDAN. Yes, a few seconds.

Mr. ISSA. Mr. Armey, since you didn't have a chance to read that entire document, let me assure you that those of us who had a chance to read it, not in the few hours before the air dropping at midnight and the vote, but afterwards, know there were no non-redistribution tax cuts and the tax cuts that were in there were de minimis to the investor class in any way, shape or form, unless you include the green jobs.

I yield back and thank the gentleman.

Chairman TOWNS. You know——

Mr. ISSA. It is on the gentleman's time.

Chairman TOWNS. I must admit——

Mr. JORDAN. Mr. Chairman will give me plenty extra time, if I need it.

Chairman TOWNS. I just think this is a little strange, knowing the kind of technical person that you were when you provided leadership here. That you are providing leadership for an organization that is totally against the bill and you haven't read it.

Mr. JORDAN. Thank you, Mr. Chairman.

Dr. Irons, in one of your earlier statements you said that the recovery package was "kind of try a little bit of everything." Is that right?

Dr. IRONS. I am not sure about the exact wording, but it is close.

Mr. JORDAN. It seems to me what a mischaracterization. I would argue what this Government has done—and, frankly, it goes back to the previous administration as well—is not try a little bit of everything; we have tried a lot of one thing, big government spending. I mean, think about it. The bailout package last fall, the stimulus package, the appropriations process that has moved forward, we are spending at 12 percent, 14 percent increases.

I mean, all we have done, I have argued many times that, if big spending was going to get us out of this mess, we should have been out of it a long time ago. That is all the Government has been doing. So to characterize it as we have tried a lot of everything or a little bit of everything is just totally, totally wrong.

But here is what I want to focus with both of you guys. I want your response to this. Thinking now in a big picture sense, two questions. Are you troubled, either one of you, are you troubled by what I would characterize as an unprecedented involvement of the Government in the private sector? And let's go specifically to all the spending we know, but how about this fact, which when I think about this in the United States of America, we now have a Federal Government pay czar telling private American citizens how much money they can make.

And I understand it is done in the context of the TARP repayment plan, but think about that, what is going on in the framework of Senator Schumer saying maybe we have to look at the idea of any publicly traded company Mr. Feinberg has jurisdiction over executives and their pay compensation.

So are you troubled by where this administration seems to want to take this economy? And I will start quickly with Mr. Armey and then with Mr. Irons.

Mr. ARMEY. Well, first of all, yes, I am troubled because—on the first basis on the basis of individual liberty. Those of us who believe in personal freedom, and especially freedom of enterprise, and we witnessed the world great success story through private individual enterprise, understand that when the Government tries to manage, as they have tried in many other countries, they eventually get it wrong.

Second, and more pragmatically, there is an incentive effect. In fact, you can go all the way back to Shakespeare or you can jump forward to Thomas Edison. Their point was it is not worth writing, it is not worth inventing unless it can be sold for a profit. There is no greater, more productive motive in the history of the world that has contributed to human well-being by greater amounts and done less to negatively affect human well being than the profit motive. And if the Government is going to say, look, we will confiscate your salaries, your earnings and so forth, you disincentivize people from being productive.

Mr. JORDAN. Thank you.

Dr. Irons, quickly.

Dr. IRONS. I mean, it is not a quick answer, unfortunately; it is a big question. The Government is involved in a number of different areas——

Mr. JORDAN. The question is are you troubled by the unprecedented level of Government involvement in the private sector.

Dr. IRONS. Well, I think you have to be more specific than that. I mean, there are areas where the Government should be involved——

Mr. JORDAN. But you can answer yes or no if you are troubled.

Dr. IRONS. I am not troubled by some and I am troubled by others.

Mr. JORDAN. OK.

Dr. IRONS. I would much rather the Government be out of the banking business, out of the car business. I think that once you are in it at the behest of banks, in the case of TARP, you need to do what you have to do to manage that effectively, be it a pay czar, be it oversight, reasonable oversight over the business practices of assets that you own. I think that is reasonable. I would like the Government to be out of the banking sector, so there are bits and pieces.

Mr. JORDAN. Let me frame the question in a slightly different manner. I would argue that one of the things holding us back from coming out of this recession with the type of job growth we would all like to see is business people are smart people; they take educated risk, they don't take crazy risk.

So they are asking themselves, you know, I would like to bring those people I laid off, I would like to do that expansion that we were thinking about doing, but I don't know what these yahoos in Congress are going to do next. I don't know if they are going to pass this health care proposal, which raises my taxes. I don't know if they are going to pass this cap-and-trade, which is going to cost me more in energy costs.

Would you argue that the uncertainty of the policies being promoted, policies being advanced, is hindering the ability to create jobs, whether they get done or not? And let's go quickly with Dr. Irons and then with Dr. Armey.

Dr. IRONS. I think uncertainty is not good for the private sector. Whether or not these are major uncertainties in the life of a business person, I don't think so. I think a lot of this is on your head; you can pass health care and remove that uncertainty. I think that——

Mr. JORDAN. We can get rid of the uncertainty; we can add a big tax if we do it, right?

Dr. IRONS. Well, I think that certainty is better, and the more we can forecast what we are going to do, what you are going to do, I agree that is a good way to go.

Mr. JORDAN. Dr. Armey, quickly.

Mr. ARMEY. There is no doubt about it. The uncertainty kept the investor class on the sidelines throughout all of the 1970's and they are sitting it out right now, specifically with what they see as the targeted industries of the big government ambitions of this administration.

Mr. JORDAN. Mr. Chairman, if I could, since you took a little bit, if you wouldn't mind, Mr. Chairman, one last question on the debt.

We are at $12 trillion. We are slighted to go to $20 trillion over the next decade. This scares me to death. I am the guy who offered a balance budget this past spring, who actually tried to cut some spending and get some sanity back in our Government. Think about what it takes to balance this.

Chairman TOWNS. The gentleman's——

Mr. JORDAN. If I could, Mr. Chairman.

Chairman TOWNS. I will give the gentleman 30 seconds.

Mr. JORDAN. To balance this, we first have to get to zero, then we have to run a trillion dollar surplus—I mean, to ever get to balance. So how serious—I mean, to me, this seems like the most serious thing—one of the most serious things facing our Government and our country. How serious is it, Dr. Irons?

Dr. IRONS. I think it is important to maintain a level of deficit and debt that is sustainable. Do we need to get exactly to zero? I don't think there is any economist who is going to say there is something magic about a zero balance. I think if you feel it is important to keep your books in balance, that is one thing. From an economic perspective, you can absolutely maintain permanent deficits, a permanent debt so long as you maintain the sustainability of the——

Mr. JORDAN. I understand. Thank you, Mr. Chairman.

Chairman TOWNS. Now I will call on the gentleman from Louisiana, Mr. Cao.

Mr. CAO. Thank you, Mr. Chairman.

Dr. Armey, I was reading through some of your background, and it says here that "When I was a professor," so I would assume that you taught at a university level? If you don't mind me asking, what was your salary teaching economics at the university?

Mr. ARMEY. Well, I left teaching in 1985 or 1984. I was teaching both summer terms and my salary was $35,000 at that time, and it was a rather curious case in my point. I was one of the few people I knew that was qualified by way of comparable employment to actually leave my employment and go to Washington, in Congress, and double my salary. Very few people could do that; college professors could. So the pay isn't always all that good, but, still, if somebody is going to pay you to do nothing but what you enjoy doing, it is not a bad life.

Mr. CAO. First of all, I would like to thank you for your answer. The reason why I asked the question was previously I questioned Deputy Secretary Miller on the amount of jobs created in connection with the amount of money actually spent. According to the numbers that Mr. Miller presented, the Department of Education has spent $67 billion in order to create approximately 400,000 jobs. And based on the numbers that he presented, I calculated that, on the average, it would cost $167,500 to create one educational-related job.

My question to you, Dr. Armey, is this. Based on the average salary that Mr. Miller stated as about $70,000 per educator, which leaves about $100,000 remaining to be spent on what have you, how can your organization—I see that you are in charge of FreedomWorks. In what ways can the private sector or your organization improve on the efficiency of jobs creation?

Mr. ARMEY. It is very hard to improve on the efficiency of the Government because cost efficiency is no part of their incentive structure. So what happens, when you devote yourself to sustaining employment in the public sector, you also sustain very high, costly, oftentimes not very productive super structure, support structure. Of course, there is not a college professor I know of that isn't aware that the college spends too much time and money sustaining redundant administrative positions, all of which have to be supported in order to support the faculty.

The private sector is much more efficient. That is to say, it costs less money to sustain a job, because that job, more often than not, is of greater productivity, has a return to it, and they are incentivized to hold down overhead costs.

Mr. CAO. Based on your experience as an educator, as well as being a majority leader, in your professional opinion, how would the Department of Education better spend its stimulus money in order to create jobs?

Mr. ARMEY. Well, again, it is very difficult for me to envision very many ways in which Government can spend money and enhance production output, growth in total output, productivity. Governments are just, frankly, not very efficient in their use of people's money. So if in fact, rather than taxing more money either from me or my grandchildren to put more money in the hands of government agencies and bureaucrats who spend inefficiently now for very little gain in well-being for the community, leave the money in my hands; I will invest it wisely, we will have capital expansion.

There was a great theory of business cycles called the Innovation Cycle, advanced by Joseph Schumpeter, and I remember John Kenneth Galbraith criticizing it because we have seen it all and there will never be another great invention. But look, in the 1980's, when the investors got—all that invention, all that creativity of the 1960's and the 1970's and the electronic sector of the economy just burst on the scene, so now we have all kinds of careers, jobs, opportunities for further employment and enhancement in the private side in product lines that didn't even exist in 1980.

Mr. CAO. Thank you.

I yield back my time.

Chairman TOWNS. I now yield to the ranking member from California.

Mr. ISSA. Thank you, Mr. Chairman.

If I could have the slide put up with the majority statement here. I have underlined a portion that says on October 30, 2009, the Recovery Accountability and Transparency Board, Recovery Board, released a consolidated account of those reports showing the Recovery Act funds have directly created or saved 640,329 jobs. That has been disputed here today.

Mr. Armey, if I asked you to calculate what $1.73 billion would promote in the way of jobs if you gave it to the Government, would you be able to do it that accurately?

Mr. ARMEY. Well, I would have to—first of all, I would have to brush up my shakes here and probably get in touch with the Department of Labor Statistics, one of the really reliably honest agencies of the Federal Government; probably rely also a little bit on some of the information I could get from the Government Accountability Office.

Mr. ISSA. Let me ask you one that you don't have to brush up on, which goes to the core of your economics training and theory. If we accept those figures, even though the earlier panel said it is plus or minus a whole bunch, there are inaccuracies and so on, if we accept those figures, then if we took fiscal year 2010, Mr. Obama's fiscal year, where we are going to spend $3.552 billion—just call it $3½ trillion—I am sorry, $3,552 billion, $3½ trillion, and using the same ratio, my whiz kids in the back came up with 13,145,253 jobs.

So if we continue at that rate, that means that the Federal Government, which employs about 3 million people directly, can spend $13 million on Medicare, Medicaid, every social program, everything. We can save 13 million jobs with our current spending. And if we double the spending, we could nearly wipe out the 15 million unemployed.

So, Dr. Irons, and Dr. Armey, but first Dr. Irons, is it logical to simply spend $3½ trillion more every year in order to get unemployment down, or is in fact the Keynesian concept simply unsustainable, that Government jobs are like feeding somebody fish for a day; you spend the $3½ trillion, you keep people on the Government payola, hanging around blue rooms, waiting for something to do, and not eliminating any inefficiencies, and then at the end of the year the $3½ trillion spent, and you have to spend it the next year if you want to keep those people off unemployment? Isn't that true, Dr. Irons?

Dr. IRONS. I think you are mixing apples and oranges to a great extent.

Mr. ISSA. OK, Dr. Armey, I understand you know about apples and oranges.

Mr. ARMEY. Well, I think what you have to first go back to my initial observation. A very large portion of the existing expenditure and employment structure of the current Federal Government is redundant. So the fact of the matter—or even, for that matter, counterproductive. So if you add to that, you just add to the burden.

Mr. ISSA. So more rocks in a knapsack of somebody who can't carry 100 pound pack is not going to get it any better.

Mr. ARMEY. Absolutely.

Mr. ISSA. Let me ask you about the hangover. Dr. Armey, if we were to spend the $3½ trillion additional that those who say more government would take care of unemployment, don't we have an inevitable hangover, where the debt burden—in other words, the amount of money that goes out just to pay to the Chinese for what we owe them—in fact mortgages the future of Government decisions? In other words, it creates a permanent overhead that you can't get passed even if you reduce the size of Government?

Mr. ARMEY. Well, we are already there. If we were to meet our current obligations in Medicare and Social Security, we would pretty well consume the existing current Federal budget. Again, the problem still remains. The Government cannot get money unless they print it, unless they directly take it away from somebody else. People are not willing to buy our notes and lend us the money, and we burden our children with the taxes.

Mr. ISSA. Dr. Armey, obviously spending $167,000 for each job—and it is only a job for 1 year, it is 1 year full-time equivalent—could be compared to the private sector. Can you imagine your wildest dreams somebody saying if you give me $167,000, all I can do is create one job for 1 year? Can you imagine an investor being asked to do that? Wouldn't it typically be that if you invest, let's say, $1.6 million—in other words, 10 times that figure—I will create 10 jobs in perpetuity? Isn't that the normal business model, something along that job, of about 10 jobs per million that are permanently created in the private sector?

Mr. ARMEY. Well, that is right, because the private sector produces a product that people want and there is a productivity enhancement that generally comes from expanding your capital stock and applying new science and engineering. But there is repeat sales. The fact of the matter is the Government doesn't produce anything.

Mr. ISSA. Last, because my time has expired, the old axiom that if you give a man a fish, he will eat for a day, and if you teach him how to fish he will feed his family for a lifetime, isn't this stimulus simply fish for Government employees for 1 year, even if you accept the figures given to us today?

Mr. ARMEY. My own view is, again, we start with an already existing redundant capacity in the Federal Government, so it is in fact basically spending our money on their own operation, which leads to no enhancement in the overall well-being, productivity, productive capability of the economy. So that is like taking the groom's meals away to buy—or the horse's oats away from it to buy more steak sandwiches for the groom, yes.

Chairman TOWNS. The gentleman's time has expired.

I now yield 5 minutes to the gentleman from Ohio, Mr. Driehaus.

Mr. DRIEHAUS. Thank you very much, Mr. Chairman. I am sorry I wasn't here for the entire presentation; I was in another committee. But it seems as if we have gone from defining propaganda to engaging in propaganda in some of what we are doing here.

Dr. Irons, could you help us? Do you believe that the estimates—and we are only talking about a small portion of the stimulus in terms of job creation—the estimates of 640,000 jobs, even if the statistics aren't exactly specific, do you believe they are close to being accurate?

Dr. IRONS. I think they are ballpark. As I said in my testimony, the errors have been brought up and the mistakes. There are some that would underestimate the number of jobs and some that overestimate. So as a ballpark matter I think we are getting ballpark right numbers.

Mr. DRIEHAUS. And, Mr. Armey, I find the conversation that was just engaged in very curious. This notion that we are spending $167,000 per job, and that job being a temporary thing. When you create a bridge and you hire somebody to build a bridge, does the bridge have value, in and of itself?

Mr. ARMEY. I am sorry, what?

Mr. DRIEHAUS. When you build a bridge and hire someone to build that bridge, does the bridge have value?

Mr. ARMEY. Well, assuming that the bridge is a bridge to somewhere, yes, it would. Of course, probably the greatest observation in economic development theory is sound public capital increases the productivity of the private sector.

Mr. DRIEHAUS. Mr. Armey, if you are building a bridge, I assume that the iron that is coming for that bridge is coming from an iron factory; I am assuming that the tools that are used to create the bridge; I am assuming that the cranes coming to create the bridge are coming from the private sector. I also assume that the engineering studies and the architectural studies, those are private sector jobs, are they not?

Mr. ARMEY. Certainly so.

Mr. DRIEHAUS. And so the one job that might be created to build the bridge or the multiple jobs that might be used to build the bridge are actually having a ripple effect in the economy in that the private sector is benefiting quite tremendously, just using this scenario, in that the supplies for the bridge are coming from the private sector, the tools being used to build the bridge are coming from the private sector, the engineering studies are coming from the private sector, the architectural studies are coming from the private sector. So is it a misrepresentation that the gentleman has made that one job that costs $167,000, that is really only that one job and that it is only temporary?

Mr. ARMEY. First of all, you have to be very careful when you recognize—in order to get the money to build the bridge, you take it away from me. I might have bought something, and that would have been the same——

Mr. DRIEHAUS. Do you have the capacity to build a bridge? Do you have the capacity to build a bridge or a tax cut?

Mr. ARMEY. Look, if in fact there were any substantial documented portion of these funds that were going to real public capital expenditures, I would be more encouraged by your argument.

Mr. DRIEHAUS. Well, there absolutely are, and I would point you to—and it is interesting that you bring this up, because the minority leader suggested—and he is from the State of Ohio—that there had been no projects that were capital in nature invested in the State of Ohio, and then the next day the Governor's office and the Department of Transportation in the State of Ohio said, in fact, while we engage in this hyperbole all the time about no infrastructure dollars going in, they laid out a whole series of projects that have been invested in in infrastructure in the State of Ohio. So are those job creation efforts?

Mr. ARMEY. If in fact they build real productive public capital. You can go back to Adam Smith. Yes, this is good investment in the——

Mr. DRIEHAUS. So it is creating jobs.

Mr. ARMEY. But I would argue that in this—frankly, President Bush's as well, there was very little expenditure of these big expansive funds allocated to real public capital structure, mostly to income redistributional efforts like tax rebates and things of this nature. So I guess in the memorable line of Shania Twain, I would have to say that don't impress me much.

Mr. DRIEHAUS. Well, I would like to get back to this notion that these are 1-year jobs. Are you familiar with, in the construction sector, jobs that continue ad infinitum? If you had a road project, if you build a house, if you build a hotel, if you build a building in downtown Cincinnati, if you build a bridge, do those jobs go on forever, or does it go project to project to project? And isn't the idea in investing in a project in fact to create that temporary employment to get them over that time when the economy is slow?

Mr. ARMEY. Well, of course, if you are talking about capital investment, you build your plant, you build your road, you build your bridge, and then on that you have ongoing production and productivity and expanding in the economy if it is a real capital structure. Like I said, there is a big difference in whether or not it is a bridge to somewhere as opposed to a bridge to nowhere. If it is a bridge to nowhere, then there are no future employment opportunities that are pursuant to the bridge.

Mr. DRIEHAUS. Well, I wasn't in the Congress when they were building bridges to nowhere.

Mr. ARMEY. Well, good for you.

Mr. DRIEHAUS. I am just in the Congress when we are putting money into bridges, and bridges that matter in Cincinnati and elsewhere. But this notion that these jobs, because they employ someone for a year, and that is how they are counted, somehow don't count, because a construction project apparently is supposed to last for years and years and years and years. I just don't understand that, and if you could help me with that, I would appreciate it.

Mr. ARMEY. All right, there is a substantial difference in spending the money to build the bridge that enhances the production of the community, the movement of goods and services, or a plant or a facility, as opposed to paying another year's salary for a redundant person on a faculty someplace. And, in fact, if you make work—and this was an argument that Keynes himself engaged in. Keynes argued that you could actually improve well being by just having people dig holes and fill them back in.

Mr. DRIEHAUS. But I am curious as to your——

Mr. ISSA. Mr. Chairman, I would ask unanimous consent that the gentleman have more time to talk about this very small portion of the bill having very little to do about the earlier discussion, but if he wants to go on about the small amount of roads, even though there should have been a large amount of roads, I would ask he have another 30 seconds.

Mr. DRIEHAUS. I would just ask the witness one more time.

You mentioned a redundant faculty member. Is it your belief that the teachers that are being supported through this legislation are redundant faculty members?

Mr. ARMEY. Let me say very clearly about this. I was a professor for 20 years. I am intimately familiar with what goes on in universities and educational facilities, and they are extremely inefficient at internal resource allocation. And, yes, there are many, many redundant faculty members.

Now, the heartbreak of that is where you could expand the faculty members where there is a true need, you are often blocked from doing so while you maintain the employability of the redundancy.

Mr. DRIEHAUS. So your experience as a university professor at a university allows you to suggest that the faculty members that are retaining employment through this legislation in K through 12 education across the country are redundant?

Mr. ARMEY. Let me suggest to you that, first of all——

Chairman TOWNS. You know, I am trying to be generous, and trying hard, but the gentleman's time has long expired. If he has any additional questions, may you put them in writing and then have Dr. Armey to respond to them?

Mr. DRIEHAUS. I appreciate the chairman's indulgence. Thank you.

Mr. ARMEY. May I just conclude my point? I believe my 20 years of experience in the university and in the administration of universities is a great degree more of experience than yours in building bridges.

Chairman TOWNS. Well, let me thank both witnesses for your testimony, and I think that, of course, you have been very, very helpful. I think Dr. Irons pointed out that even though a few mistakes were made, that when you look at the overall picture, that it probably balances out because some information did not go forward. So when you look at the overall picture, it will balance out in terms of the actual amount of jobs that were created.

The testimony we have heard today directly refutes the completely unsupported allegations of propaganda. It is not propaganda.

Most of the witnesses agree that Recovery Act spending has created and saved hundreds of thousands of jobs.

The 640,000 jobs that were reported as directly created or saved by just a portion of initial Recovery spending validates estimates by the Government and private forecasters that the Recovery Act is responsible for more than 1 million overall jobs so far, which includes jobs indirectly created and jobs saved and all these different categories that people talk about here.

The stimulus package put forward to help every-day working Americans is a far cry from propaganda. This is putting food on the table of many families. To the real people whose jobs were saved and to those who have found work, it represents food on the table and a roof over their heads.

The real issue is that we need to get Recovery Act projects under way faster, and we need to target them on economically distressed areas. The areas that really need it most, we need to make certain that we put it in there and make certain that jobs are created.

At the same time, we need to continue our strict oversight of Recovery Act spending. The chairman of the Recovery Board testified that the Recovery Act contains the most extensive accountability and transparency provisions that we have ever seen. We intend to ensure that we make the most of them.

Finally, I understand that politics is involved in everything we do up here on Capitol Hill. I understand that. I have been here 27 years. But the issue of job creation is too important to play politics with, and I refuse to play politics with it. We need to work together to get this economy back on its feet and get people back to work. This is serious. And I think that if we work together we can do that.

We need to make certain that we have some penalties involved with agencies and groups that are not reporting. We need to make certain that we get the legislation through that makes it possible for people to have funding. I think that now it is an unfunded mandate, and I think that we really should make certain that they are able to get accountants, that they are able to get administrative people, they are able to get folks in that will be in a position to get information in in a reasonable period of time and making certain that information is accurate. I think it is very important to do that.

I think to ignore it and just talk about this is not working and that is not working, at the same time people are suffering, and we cannot afford that luxury any longer. We have a job to do and we need to do it.

So I want to thank you, Dr. Armey. I want to thank you, Dr. Irons. Dr. Armey, it is good to know that there is life after this place. Thank you very much.

On that note, I yield back and the committee is now adjourned.

[Whereupon, at 3:15 p.m., the committee was adjourned.]

[The prepared statement on Hon. Michael R. Turner and additional information submitted for the hearing record follow:]

Congressman Michael R. Turner, Ohio – 3

Statement for the Record

Oversight and Government Reform Hearing: Tracking the Money: How Recovery Recipients Account for their Use of Stimulus Dollars

November 19, 2009

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Thank you Chairman Towns and Ranking Member Issa, for holding this important hearing today on Tracking the Money: How Recovery Act Recipients Account for their Use of Stimulus Dollars.

Today's hearing is timely as Americans learn more about stimulus funds that have been lost, sent to non-existent congressional districts, or are otherwise misappropriated.

Recently, the *Cleveland Plain Dealer* reported that 1.2 Million dollars in stimulus funds added three jobs to Ohio's non-existent 21st Congressional District.

The *Washington Examiner* recently reported that "An $8,000 contract for a 'basketball replacement system' was credited with creating three jobs" in Cincinnati, Ohio, and that in Columbus, Ohio, the city school district claimed that 138 jobs had been "saved," in addition to others that had been created. But a spokeswoman admitted that probably few or none of those jobs would have been lost without stimulus money.

And the reports of bogus jobs go beyond the state of Ohio. According to *The Wall Street Journal*: "One Alabama housing authority claimed that a $540,071 grant would create 7,280 jobs. *The Birmingham News* reported that only 14 were created. In some cases, Recovery Act funds went to non-existent Congressional districts, such as the "26th district in Louisiana, or the 12th in Virginia" The *Journal* also reported: "Up to $6.4 Billion went to imaginary places in America, according to the Franklin Center for Government and Public Integrity."

All of this waste occurring in the face of a 10.1% unemployment rate in Ohio, and a 10.2% unemployment rate nationally.

The American people did not sign up for their tax dollars to go to non-existent places, and to fund projects that don't actually create jobs. I look forward to today's testimony and learning how the Administration plans to increase transparency and accountability for stimulus dollars.

United States Government Accountability Office

GAO

Report to the Congress

November 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 Accountability * Integrity * Reliability

GAO-10-223

**GAO**

# Highlights

Highlights of GAO-10-223, a report to the Congress

## Why GAO Did This Study

The American Recovery and Reinvestment Act of 2009 (Recovery Act) requires recipients of funding from federal agencies to report quarterly on jobs created or retained with Recovery Act funding. The first recipient reports filed in October 2009 cover activity from February through September 30, 2009. GAO is required to comment on the jobs created or retained as reported by recipients. This report addresses: (1) the extent to which recipients were able to fulfill their reporting requirements and the processes in place to help ensure data quality and (2) how macroeconomic data and methods, and the recipient reports, can be used to assess the employment effects of the Recovery Act. GAO performed an initial set of basic analyses on the first recipient report data that first became available at www.recovery.gov on October 31, 2009, reviewed documents, interviewed relevant state and federal officials and conducted fieldwork in selected states, focusing on a sample of highway and education projects.

## What GAO Recommends

GAO is recommending steps OMB should take in continuing to work with federal agencies to increase recipients' understanding of the reporting requirements and guidance. OMB staff generally agreed with our recommendations.

View GAO-10-223 or key components. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

November 2009

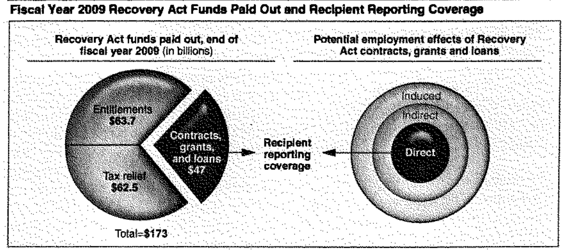
# RECOVERY ACT

## Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention

### What GAO Found

As of September 30, 2009, approximately $173 billion of the $787 billion—or about 22 percent—of the total funds provided by the Recovery Act had been paid out by the federal government. Nonfederal recipients of Recovery Act-funded grants, contracts, and loans are required to submit reports with information on each project or activity, including the amount and use of funds and an estimate of jobs created or retained. Of the $173 billion in funds paid out, about $47 billion—a little more than 25 percent—is covered by this recipient report requirement. Neither individuals nor recipients receiving funds through entitlement programs, such as Medicaid, or through tax programs are required to report. In addition, the required reports cover direct jobs created or retained as a result of Recovery Act funding; they do not include the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs). (See figure.)

**Fiscal Year 2009 Recovery Act Funds Paid Out and Recipient Reporting Coverage**




Source: GAO.

On October 30, www.recovery.gov (the federal Web site on Recovery Act spending) reported that more than 100,000 recipients reported hundreds of thousands of jobs created or retained. Given the national scale of the recipient reporting exercise and the limited time frames in which it was implemented, the ability of the reporting mechanism to handle the volume of data from a wide variety of recipients represents a solid first step in moving toward more transparency and accountability for federal funds. Because this effort will be an ongoing process of cumulative reporting, GAO's first review represents a snapshot in time.

Data Reporting and Quality

While recipients GAO contacted appear to have made good faith efforts to ensure complete and accurate reporting, GAO's fieldwork and initial review and analysis of recipient data from www.recovery.gov, indicate that there are a range of significant reporting and quality issues that need to be addressed.

For example, GAO's review of prime recipient reports identified the following:

**Erroneous or questionable data entries that merit further review:**

- 3,978 reports that showed no dollar amount received or expended but included more than 50,000 jobs created or retained;
- 9,247 reports that showed no jobs but included expended amounts approaching $1 billion, and
- Instances of other reporting anomalies such as discrepancies between award amounts and the amounts reported as received which, although relatively small in number, indicate problematic issues in the reporting.

**Coverage:** While OMB estimates that more than 90 percent of recipients reported, questions remain about the other 10 percent.

**Quality review:** While less than 1 percent were marked as having undergone review by the prime recipient, over three quarters of the prime reports were marked as having undergone review by a federal agency.

**Full-time equivalent (FTE) calculations:**
Under OMB guidance, jobs created or retained were to be expressed as FTEs. GAO found that data were reported inconsistently even though significant guidance and training was provided by OMB and federal agencies. While FTEs should allow for the aggregation of different types of jobs—part time, full time or temporary—differing interpretations of the FTE guidance compromise the ability to aggregate the data.

To illustrate, in California, two higher education systems calculated FTE differently. In the case of one, officials chose to use a 2-month period as the basis for the FTE performance period. The other chose to use a year as the basis for the FTE. The result is almost a three-to-one difference in the number of FTEs reported for each university system in the first reporting period. Although the Department of Education provides alternative methods for calculating an FTE, in neither case does the guidance explicitly state the period of performance of the FTE.

Although there were problems of inconsistent interpretation of the guidance, the reporting process went relatively well for highway projects. Transportation had an established procedure for reporting prior to enactment of the Recovery Act. In the cases of Education and Housing, which do not have this prior reporting experience, GAO found more problems. Some of these have been reported in the press. State and federal officials are examining these problems and have stated their intention to deal with them.

GAO will continue to monitor and review the data reporting and quality issues in its bimonthly reviews and fieldwork on the use of funds in the 16 states and the District of Columbia, and in GAO's analysis of future quarterly recipient reporting.

Recommendations for Executive Action
To improve the consistency of FTE data collection and reporting, OMB should (1) clarify the definition and standardize the period of measurement for FTEs and work with federal agencies to align this guidance with OMB's guidance and across agencies; (2) given its reporting approach, consider being more explicit that "jobs created or retained" are to be reported as hours worked and paid for with Recovery Act funds; and (3) continue working with federal agencies and encourage them to provide or improve program-specific guidance to assist recipients, especially as it applies to the full-time equivalent calculation for individual programs.

OMB should also work with the Recovery Accountability and Transparency Board and federal agencies to re-examine review and quality assurance processes, procedures, and requirements in light of experiences and identified issues with this round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

Employment Effects
Even if the data quality issues are resolved, it is important to recognize that the FTEs in recipient reports alone do not reflect the total employment effects of the Recovery Act. As noted, these reports solely reflect direct employment arising from the expenditure of less than one-third of Recovery Act funds. Therefore, both the data reported by recipients and other macroeconomic data and methods are necessary to gauge the overall employment effects of the stimulus. The Recovery Act includes entitlements and tax provisions, which also have employment effects. The employment effects in any state will vary with labor market stress and fiscal condition, as discussed in this report.

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**Abbreviations**

| | |
|---|---|
| CBO | Congressional Budget Office |
| CCR | Central Contractor Registration |
| CEA | Council of Economic Advisers |
| CFDA | Catalog of Federal Domestic Assistance |
| CIO | chief information officer |
| DOT | Department of Transportation |
| EBO | Equitable Business Opportunities |
| Education | Department of Education |
| FDOT | Florida Department of Transportation |
| FHWA | Federal Highway Administration |
| FRPIN | Federal Reporting Personal Identification Number |
| FTE | full-time equivalent |
| GDOT | Georgia Department of Transportation |
| GDP | gross domestic product |
| HHS | Department of Health and Human Services |
| HUD | Department of Housing and Urban Development |
| IG | inspector general |
| LEA | local education agency |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| RADS | Recovery Act Data System |
| RAMPS | Recovery Act Management and Performance System |
| Recovery Act | American Recovery and Reinvestment Act of 2009 |
| Recovery Board | Recovery Accountability and Transparency Board |
| SEA | state education agency |
| SFSF | State Fiscal Stabilization Fund |
| TAS | Treasury Account Symbol |

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**United States Government Accountability Office**
**Washington, DC 20548**

November 19, 2009

Report to the Congress

Congress and the new administration crafted the American Recovery and Reinvestment Act of 2009 (Recovery Act)[1] with the broad purpose of stimulating the economy. One of the express purposes of the act was to preserve and create jobs. To help measure the progress of this effort, Congress and the administration built into the act numerous provisions to increase transparency and accountability over spending that require recipients of Recovery Act funding to report quarterly on a number of measures. Nonfederal recipients of Recovery Act funded grants, contracts, or loans are required to submit reports with information on each project or activity, including the amount and use of funds and an estimate of the jobs created or retained.[2] Neither individuals nor recipients receiving funds through entitlement programs, such as Medicaid, or tax programs are required to report. The first of these recipient reports cover cumulative activity since the Recovery Act's passage in February 2009 through the quarter ending September 30, 2009. The Recovery Act requires GAO to comment on the estimates of jobs created or retained in the recipient reports no later than 45 days after recipients have reported.[3] The final recipient reporting data for the first round of reports were first made available on October 30, 2009.

The transparency that is envisioned for tracking Recovery Act spending and results is unprecedented for the federal government. Both Congress and the President have emphasized the need for accountability, efficiency, and transparency in the expenditure of Recovery Act funds and have made it a central principle of the act. As Congress finished work on the Recovery Act, the House Appropriations Committee released a statement saying, "A historic level of transparency, oversight and accountability will help guarantee taxpayer dollars are spent wisely and Americans can see results for their investment." In January, the new administration pledged that the Recovery Act would "break from conventional Washington

[1]Pub. L. 111-5, 123 Stat. 115 (Feb. 17, 2009).

[2]Recovery Act, div. A, § 1512. We will refer to the quarterly reports required by section 1512 as recipient reports.

[3]The Congressional Budget Office (CBO) is also required by the act to comment on the estimates of jobs created or retained no later than 45 days after recipients have reported.

approaches to spending by ensuring that public dollars are invested effectively and that the economic recovery package is fully transparent and accountable to the American people." However, tracking billions of dollars that are being disbursed to thousands of recipients is an enormous effort. The administration expects that achieving this degree of visibility will be an iterative process in which the reporting process and information improve over time and, if successful, could be a model for transparency and oversight beyond the Recovery Act.

This report, the first in response to the Recovery Act's section 1512 mandate that GAO comment on the estimates of jobs created or retained by direct recipients of Recovery Act funds, addresses the following: (1) the extent to which recipients were able to fulfill their reporting requirements and the processes in place to help ensure recipient reporting data quality and (2) how macroeconomic data and methods, and the recipient reports, can be used to assess the employment effects of the Recovery Act, and the limitations of the data and methods.

To meet our objectives, we performed an initial set of edit checks and basic analyses on the final recipient report data that first became available at www.recovery.gov, the federal government's official Web site on Recovery Act spending, on October 30, 2009. We calculated the overall sum, as well as sum by states, for the number of full-time equivalents (FTE) reported, award amount, and amount received and found that they corresponded closely with the values shown for these data on Recovery.gov. We built on information collected at the state, local, and program level as part of our bimonthly reviews of selected states' and localities' uses of Recovery Act funds. These bimonthly reviews focus on Recovery Act implementation in 16 states and the District of Columbia, which contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental federal assistance funds available through the Recovery Act. A detailed description of the criteria used to select the core group of 16 states and the District is found in appendix I of our April 2009 Recovery Act bimonthly report.[4] Prime recipients and delegated subrecipients[5] had to prepare and enter their information by October 10, 2009. The days following up to October 30, 2009, included the data review period, and as noted previously, on October 30, 2009, the first round of recipient reported data was made public. Over the course of three different interviews, two with prime recipients of Recovery Act funding and one with subrecipients, we visited the 16 selected states and the District of Columbia during late September and October 2009. We discussed with prime recipients projects associated with 50 percent of the total funds reimbursed, as of September 4, 2009, for that state, in the Federal-Aid Highway Program administered by the Department of Transportation (DOT). Prior to the start of the reporting period on October 1, we reviewed prime recipients' plans for the jobs data collection process. After the October 10 data reporting period, we went back to see if prime recipients followed their own plans and subsequently talked with at least two vendors in each state to gauge their reactions to the reporting process and assess the documentation they were required to submit.

We gathered and examined issues raised by recipients in these jurisdictions regarding reporting and data quality and interviewed recipients on their experiences using the Web site reporting mechanism. During the interviews, we used a series of program reviews and semistructured interview guides that addressed state plans for managing, tracking, and reporting on Recovery Act funds and activities. In a similar way, we examined a nonjudgmental sample of Department of Education (Education) Recovery Act projects at the prime and subrecipient level. We also collected information from transit agencies as part of our bimonthly Recovery Act reviews. In addition, we interviewed federal agency officials who have responsibility for ensuring a reasonable degree of quality across their program's recipient reports. We assessed the reports from the Inspector Generals (IG) on Recovery Act data quality review from 15

[4]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).

[5]Prime recipients are nonfederal entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government. Subrecipients are nonfederal entities that are awarded Recovery Act funding through a legal instrument from the prime recipient to support the performance of any portion of the substantive project or program for which the prime recipient received the Recovery Act funding. Additionally, applicable terms and conditions of the federal award are carried forward to the subrecipient.

agencies. We are also continuing to monitor and follow up on some of the major reporting issues identified in the media and by other observers. For example, a number of press articles have discussed concerns with the jobs reporting done by Head Start grantees. According to a Health and Human Services (HHS) Recovery Act official, HHS is working with the Office of Management and Budget (OMB) to clarify the reporting policy as it applies to Head Start grantees. We will be reviewing these efforts as they move forward.

To address our second objective, we analyzed economic and fiscal data using standard economic principles and reviewed the economic literature on the effect of monetary and fiscal policies for stimulating the economy. We also reviewed guidance that OMB developed for Recovery Act recipients to follow in estimating the effect of funding activities on employment, reviewed reports that the Council of Economic Advisers (CEA) issued on the macroeconomic effects of the Recovery Act, and interviewed officials from the CEA, OMB, and the Congressional Budget Office (CBO).

We conducted this performance audit with field work beginning in late September 2009 and began analysis of the recipient data that became available on October 30, 2009, 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.

## Background

In December 2007, the United States entered what has turned out to be its deepest recession since the end of World War II. Between the fourth quarter of 2007 and the third quarter of 2009, gross domestic product (GDP) fell by about 2.8 percent, or $377 billion. The unemployment rate rose from 4.9 percent in 2007 to 10.2 percent in October 2009, a level not seen since April 1983. The CBO projects that the unemployment rate will remain above 9 percent through 2011.

Confronted with unprecedented weakness in the financial sector and the overall economy, the federal government and the Federal Reserve together acted to moderate the downturn and restore economic growth. The Federal Reserve used monetary policy to respond to the recession by pursuing one of the most significant interest rate reductions in U.S. history. In concert with the Department of the Treasury, it went on to bolster the supply of credit in the economy through measures that provide Federal Reserve backing for a wide variety of loan types, from mortgages to automobile loans to small business loans. The federal government also used fiscal policy to confront the effects of the recession. Existing fiscal stabilizers, such as unemployment insurance and progressive aspects of the tax code, kicked in automatically in order to ease the pressure on household income as economic conditions deteriorated. In addition, Congress enacted a temporary tax cut in the first half of 2008 to buoy incomes and spending[6] and created the Troubled Asset Relief Program[7] in the second half of 2008 to give Treasury authority to act to restore financial market functioning.[8]

The federal government's largest response to the recession to date came in early 2009 with the passage of the Recovery Act, the broad purpose of which is to stimulate the economy's overall demand for goods and services, or aggregate demand. The Recovery Act is specifically intended to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advances in health and science; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize the budgets of state and local governments.[9] The CBO estimates that the net cost of the Recovery Act will total approximately $787 billion from 2009 to 2019.

The Recovery Act uses a combination of tax relief and government spending to accomplish its goals. The Recovery Act's tax cuts include reductions to individuals' taxes, payments to individuals in lieu of reductions to their taxes, adjustments to the Alternative Minimum Tax, and business tax incentives. Tax cuts encompass approximately one-third of the Recovery Act's dollars. Recovery Act spending includes temporary increases in entitlement programs to aid people directly affected by the

[6]Economic Stimulus Act of 2008, Pub. L. No. 110-185, 122 Stat. 613 (Feb. 13, 2008).

[7]GAO, *Troubled Asset Relief Program: One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges,* GAO-10-16 (Washington, D.C.: Oct. 8, 2009).

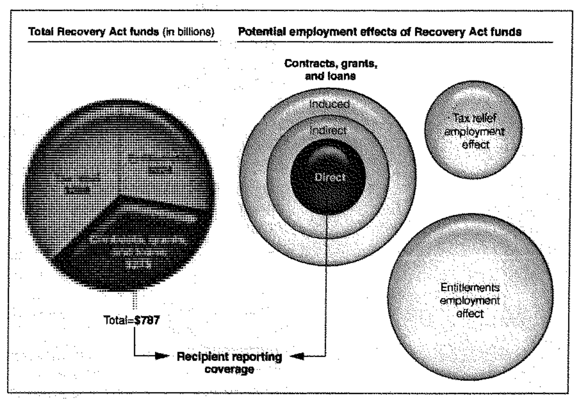
[8]Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat. 3765 (Oct. 3, 2008), codified at 12 U.S.C. § § 5201 5261.

[9]Recovery Act, § 3.

recession and provide some fiscal relief to states; this also accounts for about one third of the Recovery Act. For example, the Recovery Act temporarily increased and extended unemployment benefits, temporarily increased the rate at which the federal government matched states Medicaid expenditures, and provided additional funds for the Supplemental Nutrition Assistance and the Temporary Aid to Needy Families programs, among other things. Other spending, also accounting for about a third of the act falls into the category of grants, loans, and contracts. This includes government purchases of goods and services, grants to states through programs such as the State Fiscal Stabilization Fund for education and other government services, and government investment in infrastructure, health information technology, renewable energy research, and other areas.

In interpreting recipient reporting data, it is important to recognize that the recipient reporting requirement only covers a defined subset of the Recovery Act's funding. The reporting requirements apply only to nonfederal recipients of funding, including all entities receiving Recovery Act funds directly from the federal government such as state and local governments, private companies, educational institutions, nonprofits, and other private organizations. OMB guidance, consistent with the statutory language in the Recovery Act, states that these reporting requirements apply to recipients who receive funding through the Recovery Act's discretionary appropriations, not recipients receiving funds through entitlement programs, such as Medicaid, or tax programs. Recipient reporting also does not apply to individuals. In addition, the required reports cover only direct jobs created or retained as a result of Recovery Act funding; they do not include the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs). Figure 1 shows the division of total Recovery Act funds and their potential employment effects.

**Figure 1: The Potential Employment Effects of Recovery Act Funds**




Source: GAO.

Note: The potential employment effects of the different types of Recovery Act funds are based on historical data and are reflected in the size of the circles.

Tracing the effects of the Recovery Act through the economy is a complicated task. Prospectively, before the act's passage or before funds are spent, the effects can only be projected using economic models that represent the behavior of governments, firms, and households. While funds are being spent, some effects can be observed but often relevant data on key relationships and indicators in the economy are available only with a lag, thereby complicating real-time assessments. When a full range of data on outcomes becomes available, economic analysts undertake retrospective analyses, where the findings are often used to guide future policy choices and to anticipate effects of similar future policies. Stimulus spending under the broad scope of the Recovery Act will reverberate at the national, regional, state, and local levels. Models of the national economy provide the most comprehensive view of policy effects, but they do not provide insight, except indirectly, about events at smaller geographical scales. The diversity and complexity of the components of the national economy are not fully captured by any set of existing economic models. Some perspective can be gained by contemporaneous close observation of the actions of governments, firms, and households, but a complete and accurate picture of the Recovery Act's impact will emerge only slowly.

Section 1512 of the Recovery Act requires recipients of recovery funds to report on those funds each calendar quarter. These recipient reports are to be filed for any quarter in which a recipient receives Recovery Act funds directly from the federal government. The recipient reporting requirement covers all funds made available by appropriations in division A of the Recovery Act. The reports are to be submitted no later than 10 days after the end of each calendar quarter in which the recipient received Recovery Act funds. Each report is to include the total amount of Recovery Act funds received, the amount of funds expended or obligated to projects or activities, and a detailed list of those projects or activities. For each project or activity, the detailed list must include its name and a description, an evaluation of its completion status, and an estimate of the number of jobs created or the number of jobs retained by that project or activity. Certain additional information is also required for infrastructure investments made by state and local governments. Also, the recipient reports must include detailed information on any subcontracts or subgrants as required by the Federal Funding Accountability and Transparency Act of 2006.[10] Section 1512(e) of the Recovery Act requires GAO and CBO to comment on the estimates of jobs created or retained reported by recipients.

In its guidance to recipients for estimating employment effects, OMB instructed recipients to report only the direct employment effects as "jobs created or retained" as a single number.[11] Recipients are not expected to report on the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs). According to the guidance, "A job created is a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act; a job retained is an existing position that would not have been continued to be filled were it not for Recovery Act funding. Only compensated employment . . . should be reported. The estimate of the number of jobs . . . should be expressed as 'full-time equivalents (FTE),' which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient." Consequently, the recipients are

[10] Pub. L. No 109-282, 120 Stat. 1186 (Sept. 26, 2006).

[11] OMB Memoranda, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

expected to report the amount of labor hired or not fired as result of having received Recovery Act funds. It should be noted that one FTE does not necessarily equate to the job of one person. Firms may choose to increase the hours of existing employees, for example, which can certainly be said to increase employment but not necessarily be an additional job in the sense of adding a person to the payroll.

To implement the recipient reporting data requirements, OMB has worked with the Recovery Accountability and Transparency Board (Recovery Board)[12] to deploy a nationwide data collection system at www.federalreporting.gov (Federalreporting.gov), while the data reported by recipients are available to the public for viewing and downloading on www.recovery.gov (Recovery.gov). Recovery.gov, a site designed to provide transparency of information related to spending on Recovery Act programs, is the official source of information related to the Recovery Act. The Recovery Board's goals for the Recovery Act Web site include promoting accountability by providing a platform to analyze Recovery Act data and serving as a means of tracking fraud, waste, and abuse allegations by providing the public with accurate, user-friendly information. In addition, the site promotes official data in public debate, assists in providing fair and open access to Recovery Act opportunities, and promotes an understanding of the local impact of Recovery Act funding.

In an effort to address the level of risk in recipient reporting, OMB's June 22, 2009, guidance[13] on recipient reporting includes a requirement for data quality reviews. OMB's data quality guidance is intended to address two key data problems—material omissions and significant reporting errors. Material omissions and significant reporting errors are risks that the information is incomplete and inaccurate.[14] As shown in figure 2, OMB

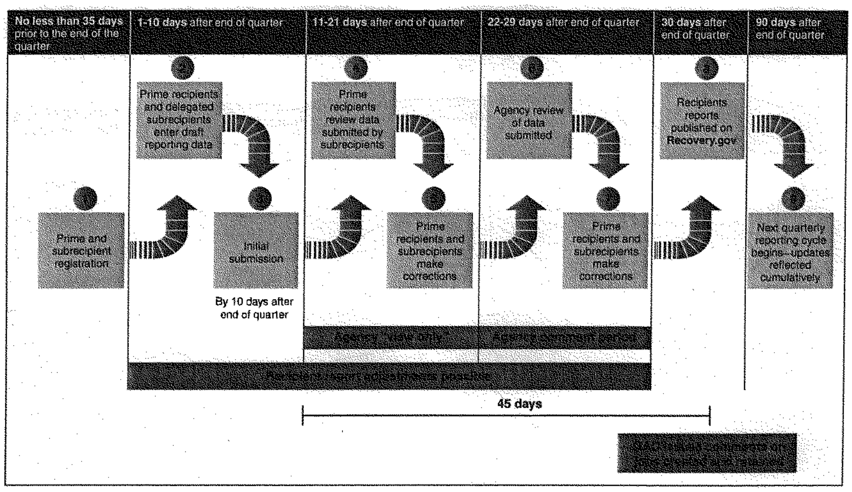
[12]The Recovery Act created the Recovery Accountability and Transparency Board, which is composed of 12 Inspectors General from various federal agencies, who serve with a chairman of the board. Recovery Act, § 1522.The board issues quarterly and annual reports on Recovery Act activities to Congress and the President. The board is also to issue "flash reports" under the statute.

[13]OMB Memoranda, M-09-21.

[14]Material omissions are defined as instances where required data are not reported or reported information is not otherwise responsive to the data requests resulting in a significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. Significant reporting errors are defined as those instances where required data are not reported and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.

gave specific time frames for reporting that allow prime recipients and delegated subrecipients to prepare and enter their information on days 1 through 10 following the end of the quarter. During days 11 through 21, prime recipients will be able to review the data to ensure that complete and accurate reporting information is provided prior to a federal agency review and comment period beginning on the 22nd day. During days 22 to 29 following the end of the quarter, federal agencies will perform data quality reviews and will notify the recipients and delegated subrecipients of any data anomalies or questions. The original submitter must complete data corrections no later than the 29th day following the end of the quarter. Prime recipients have the ultimate responsibility for data quality checks and the final submission of the data. Since this is a cumulative reporting process, additional corrections can take place on a quarterly basis.

**Figure 2: Recipient Reporting Time Frame**

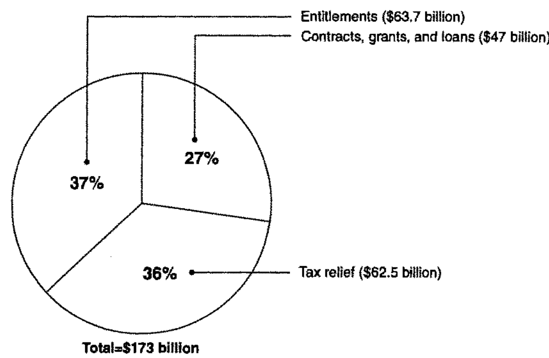



Sources: OMB and GAO.

OMB guidance does not explicitly mandate a methodology for conducting data quality reviews at the prime and delegated subrecipient level or by the federal agencies. Instead, the June 22, 2009, guidance provides the relevant party conducting the data quality review with discretion in determining the optimal method for detecting and correcting material omissions or significant reporting errors. The guidance says that, at a minimum, federal agencies, recipients, and subrecipients should establish internal controls to ensure data quality, completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act.

The Recovery Board published the results of the first round of recipient reporting on Recovery.gov on October 30, 2009. According to the Web site, recipients submitted 130,362 reports indicating that 640,329 "jobs" were created or saved as a direct result of the Recovery Act. These data solely reflect the direct FTEs reported by recipients of Recovery Act grants, contracts, and loans for the period beginning when the act was signed into law on February 17, 2009 through September 30, 2009. As shown in figure 3, grants, contracts, and loans account for about 27 percent, or $47 billion, of the approximately $173 billion in Recovery Act funds paid out as of September 30, 2009.

**Figure 3: Distribution of Recovery Act Funds through the End of Fiscal Year 2009**




Source: Recovery.gov.

Recipients in all 50 states reported jobs created or retained with Recovery Act funding provided through a wide range of federal programs and agencies. Table 1 shows the distribution of jobs created or retained across the nation as reported by recipients on Recovery.gov. Not surprisingly, California, the most populous state, received the most Recovery Act dollars and accounted for the largest number of the reported jobs created or retained.

**Table 1: Jobs Created or Retained by States as Reported by Recipients of Recovery Act Funding**

| Rank | State | Jobs | Rank | State | Jobs | Rank | State | Jobs |
|---|---|---|---|---|---|---|---|---|
| 1 | California | 110,185 | 19 | Oregon | 9,653 | 37 | Arkansas | 3,742 |
| 2 | New York | 40,620 | 20 | Tennessee | 9,548 | 38 | New Hampshire | 3,528 |
| 3 | Washington | 34,517 | 21 | Louisiana | 9,136 | 39 | Mississippi | 3,433 |
| 4 | Florida | 29,321 | 22 | Oklahoma | 8,747 | 40 | Nebraska | 2,840 |
| 5 | North Carolina | 28,073 | 23 | Virginia | 8,617 | 41 | West Virginia | 2,409 |
| 6 | Georgia | 24,681 | 24 | South Carolina | 8,147 | 42 | Alaska | 2,315 |
| 7 | Illinois | 24,448 | 25 | Colorado | 8,094 | 43 | District of Columbia | 2,274 |
| 8 | New Jersey | 24,109 | 26 | Connecticut | 7,551 | 44 | South Dakota | 2,198 |
| 9 | Michigan | 22,514 | 27 | Pennsylvania | 7,427 | 45 | Idaho | 2,103 |
| 10 | Texas | 19,572 | 28 | Maryland | 6,748 | 46 | Vermont | 2,030 |
| 11 | Indiana | 18,876 | 29 | Utah | 6,598 | 47 | Rhode Island | 2,012 |
| 12 | Puerto Rico | 17,597 | 30 | Montana | 6,427 | 48 | Maine | 1,613 |
| 13 | Ohio | 17,095 | 31 | Kansas | 5,935 | 49 | Hawaii | 1,545 |
| 14 | Missouri | 15,149 | 32 | Nevada | 5,667 | 50 | North Dakota | 1,293 |
| 15 | Minnesota | 14,315 | 33 | Iowa | 5,323 | 51 | Delaware | 1,170 |
| 16 | Massachusetts | 12,374 | 34 | New Mexico | 5,230 | 52 | Wyoming | 860 |
| 17 | Arizona | 12,283 | 35 | Alabama | 4,884 | | Other | 1,232 |
| 18 | Wisconsin | 10,073 | 36 | Kentucky | 4,202 | | **Total** | **640,329** |

Source: Recovery.gov.

Notes:

Includes the District of Columbia and Puerto Rico.

"Other" includes all other U.S. territories and data that could not be assigned to a specific state.

Total may not add due to rounding.

Table 2 shows the number and share of jobs created or retained by federal program agencies as reported by recipients of Recovery Act funding. The Department of Education accounted for nearly 400,000 or close to two-thirds of the reported jobs created or retained. According to the Department of Education, this represents about 325,000 education jobs such as teachers, principals, and support staff in elementary and secondary schools, and educational, administrative, and support personnel in institutions of higher education funded primarily through the State Fiscal Stabilization Fund (SFSF).[15] In addition, approximately 73,000 other

[15]States must allocate 81.8 percent of their SFSF funds to support education (education stabilization funds), and must use the remaining 18.2 percent for public safety and other government services, which may include education (government services funds).

jobs (including both education and noneducation positions) were reported saved or created from the SFSF Government Services Fund, the Federal Work Study Program, and Impact Aid funds.

**Table 2: Jobs Created or Retained by Federal Program Agency as Reported by Recipients of Recovery Act Funding**

| Department/agency | Jobs | Percent of total |
|---|---|---|
| Education | 398,006 | 62.2 |
| Labor | 76,223 | 11.9 |
| Transportation | 46,593 | 7.3 |
| Health and Human Services | 28,616 | 4.5 |
| Housing and Urban Development | 28,559 | 4.5 |
| Defense | 11,239 | 1.8 |
| Energy | 10,021 | 1.6 |
| Agriculture | 6,273 | 1.0 |
| Justice | 5,575 | 0.9 |
| Corps of Engineers | 4,354 | 0.7 |
| Environmental Protection Agency | 4,191 | 0.7 |
| National Science Foundation | 2,510 | 0.4 |
| Federal Communications Commission | 1,929 | 0.3 |
| Interior | 1,780 | 0.3 |
| Treasury | 1,454 | 0.2 |
| Homeland Security | 1,305 | 0.2 |
| All others | 11,701 | 1.8 |
| **Total** | **640,329** | **100.0** |

Source: Recovery.gov.

Note: Totals may not add due to rounding.

## Recipients of Recovery Act Funds We Contacted Appear to Have Made Good Faith Efforts to Ensure Complete and Accurate Reporting, but It Will Take Time to Improve Data Quality

While recipients GAO contacted appear to have made good faith efforts to ensure complete and accurate reporting, GAO's fieldwork and initial review and analysis of recipient data from www.recovery.gov, indicate that there are a range of significant reporting and quality issues that need to be addressed. Collecting information from such a large and varied number of entities in a compressed time frame, as required by the Recovery Act, is a huge task. Major challenges associated with the new Recovery Act reporting requirements included educating recipients about the reporting requirements and developing the systems and infrastructure for collecting and reporting the required information. While recipients in the states we reviewed generally made good faith efforts to report accurately, there is evidence, including numerous media accounts, that the data reporting has been somewhat inconsistent. Even recipients of similar types of funds appear to have interpreted the reporting guidance in somewhat different ways and took different approaches in how they developed their jobs data. The extent to which these reporting issues affect overall data quality is uncertain at this point. As existing recipients become more familiar with the reporting system and requirements, these issues may become less significant although communication and training efforts will need to be maintained and in some cases expanded as new recipients of Recovery Act funding enter the system. Because this effort will be an ongoing process of cumulative reporting, our first review represents a snapshot in time.

### Initial Observations on Recipient Reporting Data Identify Areas Where Further Review and Guidance Are Needed

We performed an initial set of edit checks and basic analyses on the recipient report data available for download from Recovery.gov on October 30, 2009. Based on that initial review work, we identified recipient report records that showed certain data values or patterns in the data that were either erroneous or merit further review due to an unexpected or atypical data value or relationship between data values. For the most part, the number of records identified by our edit checks was relatively small compared to the 56,986 prime recipient report records included in our review.

As part of our review, we examined the relationship between recipient reports showing the presence or absence of any FTE counts with the presence or absence of funding amounts shown in either or both data fields for amount of Recovery Act funds received and amount of Recovery Act funds expended. Forty four percent of the prime recipient reports showed an FTE value. As shown in table 3, we identified 3,978 prime recipient reports where FTEs were reported but no dollar amount was reported in the data fields for amount of Recovery Act funds received and amount of Recovery Act funds expended. These records account for 58,386 of the total 640,329 FTEs reported.

**Table 3: Count of Prime Recipient Reports by Presence or Absence of FTEs and Recovery Act Funds Received or Expended**

| Recovery Act funds | Reports with FTEs | Reports without FTEs |
|---|---|---|
| Received or expended funds reported[a] | 21,280 (84%) | 9,247 (29%) |
| No received or expended funds reported | 3,978 (16%) | 22,481 (71%) |
| **Total** | **25,258 (100%)** | **31,728 (100%)** |

Source: GAO analysis of Recovery.gov data.

[a]Prime recipient reports showing a non zero dollar amount in either or both Recovery Act funds received or expended data fields.

As might be expected, 71 percent of those prime recipient reports shown in table 3 that did not show any FTEs also showed no dollar amount in the data fields for amount of Recovery Act funds received and amount expended. There were also 9,247 reports that showed no FTEs but did show some funding amount in either or both of the funds received or expended data fields. The total value of funds reported in the expenditure field on these reports was $965 million. Those recipient reports showing FTEs but no funds and funds but no FTEs constitute a set of records that merit closer examination to understand the basis for these patterns of reporting.

Ten recipient reports accounted for close to 30 percent of the total FTEs reported. All 10 reports were grants and the majority of those reports described funding support for education-sector related positions. For reports containing FTEs, we performed a limited, automated scan of the job creation field of the report, which is to contain a narrative description of jobs created or retained. We identified 261 records where there was only a brief description in this job creation field and that brief text showed such words or phrases as "none," "N/A," zero, or variants thereof. For most of these records, the value of FTEs reported is small, but there are 10 of these records with each reporting 50 or more FTEs. The total number of FTEs reported for all 261 records is 1,776. While our scan could only identify limited instances of apparently contradictory information between the job description and the presence of an FTE number, we suspect that a closer and more extensive review of the job description field in relation to the count of FTEs would yield additional instances where there were problems, and greater attention to this relationship would improve data quality.

In our other analyses of the data fields showing Recovery Act funds, we identified 132 records where the award amount was zero or less than $10. There were also 133 records where the amount reported as received exceeded the reported award amount by more than $10. On 17 of these records, the difference between the smaller amount awarded and the larger reported amount received exceeded $1 million. While there may be a reason for this particular relationship between the reported award amount and amount received, it may also indicate an improper keying of data or an interpretation of what amounts are to be reported in which fields that is not in accordance with the guidance.

We calculated the overall sum and sum by states for number of FTEs reported, award amount, and amount received. We found that they corresponded closely with the values shown for these data on Recovery.gov. Some of the data fields we examined with known values such as the Treasury Account Symbol (TAS) codes and Catalog of Federal Domestic Assistance (CFDA) numbers[16] showed no invalid values on recipient reports. However, our analyses show that there is reason to be concerned that the values shown for these data fields in conjunction with the data field identifying who the funding or awarding agency is may not be congruent. Both TAS and CFDA values are linked to specific agencies and their programs. We matched the reported agency codes against the reported TAS and CFDA codes. We identified 454 reports as having a mismatch on the CFDA number—therefore, the CFDA number shown on the report did not match the CFDA number associated with either the funding or awarding agency shown on the report. On TAS codes, we identified 595 reports where there was no TAS match. Included in the mismatches were 76 recipient reports where GAO was erroneously identified as either the funding or awarding agency. In many instances, review of these records and their TAS or CFDA values along with other

[16]The TAS codes identify the Recovery Act funding program source. The two leftmost characters of each TAS code form a data element that is identical with the two-digit numerical code used in the federal budgetary process to identify major federal organizations. The CFDA is a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits. It contains assistance programs administered by departments. Each program is assigned a unique number where the first two digits represent the funding agency.

descriptive information from the recipient report indicated the likely funding or awarding agencies. These mismatches suggest that either the identification of the agency or the TAS and CFDA codes are in error on the recipient report.

Another potential problem area we identified was the provision of data on the number and total amount of small subawards of less than $25,000. There are data fields that collect information on small subawards, small subawards to individuals, and small subawards to vendors. There were 380 prime recipient report records where we observed the same values being reported in both small subawards and small subawards to individuals. We also identified 1,772 other records where it could be clearly established that these values were being reported separately. While we are able to establish that these data are not being consistently reported, it is not possible to assess from the data alone the full extent to which subaward data are being combined or reported separately across all recipient reports. Additionally, we noted 152 reports where, in either the subawards or subawards to individuals data fields, the value for the number of subawards and the total dollar value of subawards were exactly the same and, as such, most likely erroneous.

While most recipient report records were not identified as potential problems in these initial edit checks and analyses thus far, our results do indicate the need for further data quality efforts.

## Various Interpretations of How to Report FTEs Produced Questionable Data on Jobs Created or Retained

Under OMB guidance, jobs created or retained were to be expressed as FTEs. We found that data were reported inconsistently even though significant guidance and training was provided by OMB and federal agencies. While FTEs should allow for the aggregation of different types of jobs—part-time, full-time or temporary—differing interpretations of the FTE guidance compromise the ability to aggregate the data.

In addition to issuing guidance, OMB and federal agencies provided several types of clarifying information to recipients as well as opportunities to interact and ask questions or receive help with the reporting process. These included weekly phone calls between OMB and groups representing the state budget and comptrollers offices, weekly calls between all state reporting leads, webinars, a call center, and e-mail outreach. State officials reported they took advantage of and appreciated this outreach. For example, Ohio state officials said they were generally satisfied with the technical assistance and guidance provided by OMB—specifically, the assistance it received from the Federalreporting.gov help desk staff. OMB estimated that it had a better than 90 percent response rate for recipient reporting and said that they answered over 3,500 questions related to recipient reporting.

The data element on jobs created or retained expressed in FTEs raised questions and concerns for some recipients. OMB staff reported that questions on FTEs dominated the types of questions they fielded during the first round of recipient reporting. Although the recipient reports provide a detailed account of individual projects, as Recovery.gov shows, these projects represent different types of activities and start and end at various points throughout the year, and recipients had various understandings of how to report an FTE. In section 5.2 of the June 22 guidance, OMB states that "the estimate of the number of jobs required by the Recovery Act should be expressed as 'full-time equivalents' (FTE), which is calculated as the total hours worked in jobs retained divided by the number of hours in a full time schedule, as defined by the recipient." Further, "the FTE estimates must be reported cumulatively each calendar quarter." In section 5.3, OMB states that "reporting is cumulative across the project lifecycle, and will not reset at the beginning of each calendar or fiscal year."

FTE calculations varied depending on the period of performance the recipient reported on. For example, in the case of federal highways projects, some have been ongoing for six months, while others started in September 2009. In attempting to address the unique nature of each project, DOT's Federal Highway Administration (FHWA) faced the issue of whether to report FTE data based on the length of time to complete the entire project (project period of performance) versus a standard period of performance such as a calendar quarter across all projects. According to FHWA guidance, which was permitted by OMB, FTEs reported for each highway project are expressed as an average monthly FTE. This means that for a project that started on July 1, 2009, the prime recipient would add up the hours worked on that project in the months of July, August, and September and divide that number by [(3/12 x 2,080 hours)]. For a project that started on August 1, 2009, the prime recipient should add up the hours worked on that project in the months of August and September and divide that number by [(2/12 x 2,080 hours)]. For a project that started on September, 1, 2009, the prime recipient should add up the hours worked on that project in the month of September and divide that number by [(1/12 x 2,080 hours)]. The issue of a standard performance period is magnified when looking across programs and across states. To consistently compare FTEs, or any type of fraction, across projects, one must use a common denominator. Comparison of FTE calculations across projects poses challenges when the projects have used different time periods as denominators. Tables 4 and 5 below provide more detail on the problems created by not having a standard performance period for calculating FTEs.

Table 4 is an application of the FHWA guidance for three projects with varying start dates. This example illustrates the way FHWA applied the OMB guidance and that the way FTEs are aggregated in Federalreporting.gov could overstate the employment effects. In this example, because the 30 monthly FTE data were aggregated without standardizing for the quarter, FTEs would be overstated by 10 relative to the OMB guidance. A standardized quarterly measure and job-years are included as examples of a standard period of performance. A job-year is simply one job for 1 year. Regardless of when the project begins, the total hours worked is divided by a full years worth of time (12 months), which would enable aggregation of employment effects across programs and time.

**Table 4: Aggregation of FHWA FTE Data**

| | Project A | Project B | Project C |
|---|---|---|---|
| Start date | July 1 | August 1 | September 1 |
| Full-time employees | 10 | 10 | 10 |
| Duration of project as of September 30 | 3 months | 2 months | 1 month |
| Average monthly FTE per FHWA | 10 | 10 | 10 |
| Cumulative FTE per OMB guidance | 10 | 6.67 | 3.33 |
| FTE standardized on a quarterly basis | 10 | 6.67 | 3.33 |
| Job-years | 2.5 | 1.67 | 0.83 |

Source: GAO analysis of FHWA FTE data.

Notes:

Total FTE as calculated by FHWA and aggregated on Federalreporting.gov = 30.

Total cumulative FTE per OMB guidance = 20.

Total FTE on a standardized quarterly basis = 20.

Total job-years = 5 (standardized FTE).

Table 5 is an application of the OMB guidance for two projects with varying start dates. In this example, the OMB guidance understates the employment effect relative to the standardized measure. Cumulative FTE per OMB guidance would result in 20 FTE compared with 30 FTE when standardized on a quarterly basis. Both a standardized quarterly FTE measure and a job-year measure are included as examples of a standard period of performance. Regardless of when the project begins, the total hours worked is divided by a full year's worth of time (12 months), which would enable aggregation of employment effects across programs and time.

**Table 5: OMB's Cumulative FTE versus a Standardized Measure**

| | Project X | Project Y |
|---|---|---|
| Start date | July 1 | October 1 |
| Full-time employees | 10 | 10 |
| Duration of project as of December 30 | 6 months | 3 months |
| Cumulative FTE per OMB guidance | 10 | 10 |
| FTE standardized on a quarterly basis | 20 | 10 |
| Job-years | 5 | 2.5 |

Source: GAO analysis of OMB FTE calculation guidance.

Notes:

Total Cumulative FTE per OMB guidance = 20.

Total FTE on a standardized quarterly basis = 30.

Total job-years = 7.5 (standardized FTE).

There are examples from other DOT programs where the issue of a project period of performance created significant variation in the FTE calculation. For example, in Pennsylvania, each of four transit entities we interviewed used a different denominator to calculate the number of full-time equivalent jobs they reported on their recipients reports for the period ending September 30, 2009. Southeastern Pennsylvania Transportation Authority in Philadelphia used 1,040 hours as its denominator, since it had projects underway in two previous quarters. Port Authority of Allegheny County prorated the hours based on the contractors' start date as well as to reflect that hours worked from September were not included due to lag time in invoice processing. Port Authority used 1,127 hours for contractors starting before April, 867 hours for contractors starting in the second quarter, and 347 hours for contractors starting in the third quarter. Lehigh and Northampton Transportation Authority in Allentown used 40 hours in the 1512 report they tried to submit, but, due to some confusion about the need for corrective action, the report was not filed. Finally, the Pennsylvania Department of Transportation in the report for nonurbanized transit systems used 1,248 hours, which was prorated by multiplying 8 hours per workday times the 156 workdays between February 17 and September 30, 2009. In several other of our selected states, this variation across transit programs' period of performance for the FTE calculation also occurred.

The issue of variation in the period of performance used to calculate FTEs also occurred in Education programs. Across a number of states we reviewed, local education agencies and higher education institutions used a different denominator to calculate the number of FTEs they reported on their recipient reports for the period ending September 30, 2009. For example, two higher education systems in California each calculated the FTE differently. In the case of one, officials chose to use a two-month period as the basis for the FTE performance period. The other chose to use a year as the basis of the FTE. The result is almost a three-to-one difference in the number of FTEs reported for each university system in the first reporting period. Although Education provides alternative methods for calculating an FTE, in neither case does the guidance explicitly state the period of performance of an FTE.[17]

Recipients were also confused about counting a job created or retained even though they knew the number of hours worked that were paid for with Recovery Act funds. For example, the Revere Housing Authority, in administering one Recovery Act project, told us that they may have underreported jobs data from an architectural firm providing design services for a Recovery Act window replacement project at a public housing complex. The employees at the architecture firm that designed the window replacement project were employed before the firm received the Recovery Act funded contract and will continue to be employed after the contract has been completed, so from the Revere Housing Authority's perspective there were no jobs created or retained. As another example, officials from one housing agency reported the number of people, by trade, who worked on Recovery Act related projects, but did not apply the full-time equivalent calculation outlined by OMB in the June 22 reporting guidance. Officials from another public housing agency told us that they based the number of jobs they reported on letters from their contractors detailing the number of positions rather than FTEs. OMB staff said that thinking about the jobs created or retained as hours worked and paid for with Recovery Act funds was a useful way to understand the FTE guidance. While OMB's guidance explains that in applying the FTE calculation for measuring the number of jobs created or retained recipients will need the total number of hours worked that are funded by

[17]California Task Force officials said that they believed that both education agencies determined the estimated number of jobs created or retained within applicable federal agency guidance.

the Recovery Act, it could emphasize this relationship more thoroughly throughout its guidance.

OMB's decision to convert jobs into FTEs provides a consistent lens to view the amount of labor being funded by the Recovery Act, provided each recipient uses a standard time frame in considering the FTE. The current OMB guidance, however, creates a situation where, because there is no standard starting or ending point, an FTE provides an estimate for the life of the project. Without normalizing the FTE, aggregate numbers should not be considered, and the issue of a standard period of performance is magnified when looking across programs and across states.

## Technical Reporting and Processing Glitches Occurred, but Recipients Were Able to Report

Recipients we interviewed were able to report into and review data on Federalreporting.gov. Particularly given the scale of the project and how quickly it was implemented, within several months, the ability of the reporting mechanisms to handle the volume of data from the range of recipients represents a solid first step in the data collection and reporting process for the fulfillment of the section 1512 mandate. Nonetheless, there were issues associated with the functional process of reporting. For example, state officials with decentralized reporting structures reported problems downloading submitted information from Recovery.gov to review top-line figures such as money spent and jobs created or retained. The Iowa Department of Management, which did Iowa's centralized reporting into Federalreporting.gov, said that, overall, the system was very slow. In addition to the slowness, as the system was processing input from Iowa's submission, every time it encountered an error, it kicked back the whole submission—but it showed only the one error. After fixing the one errant entry, the state resubmitted its information, which would then be completely sent back the next time an error was encountered. Iowa officials believe it would have been more efficient if the system identified all errors in submission and sent back a complete list of errors to fix. Other recipient reporters we interviewed highlighted issues around DUNS[18] numbers and other key identifiers, along with the inability to enter more than one congressional district for projects that span multiple districts. The expectation is that many of these entry and processing errors were captured through the review process, but the probability that all errors were caught is low.

[18]A D-U-N-S number is a unique nine-digit sequence recognized as the universal standard for identifying and keeping track of 100 million businesses worldwide.

Generally, state officials from our 17 jurisdictions reported being able to work through technical reporting and processing glitches. For example, Florida officials reported that they encountered many technical issues but were able to solve the problems by contacting the Recovery Board. Ohio officials noted that, although they were initially concerned, in spite of the tremendous amount of data being submitted, Federalreporting.gov held up well. While they faced some challenges, California officials reported that, overall, they were successful in reporting the numbers into Federalreporting.gov. They worked with the technical team at Federalreporting.gov and performed a test on October 1, 2009, to see if the upload of the job data was going to work. During the October reporting time frame, New Jersey officials reported that they generally did not experience significant recipient reporting problems. The few reporting problems New Jersey experienced occurred in relation to issues uploading the data onto Federalreporting.gov and issues requiring clarifying guidance from the relevant federal agency.

Notwithstanding the concerns over the slowness of the reporting system and error checks, Iowa officials also reported that the process worked rather well, determining that most of their state reporting problems seemed to stem from a few recipients not fully grasping all of the training the state had provided and thus not knowing or having key information like DUNS numbers and in some cases submitting erroneous information. The state department of management plans to specifically address the 30 or so recipients associated with these issues—just about all of which were school districts. As a follow-up from this first reporting cycle, several states have developed a list of lessons learned to share with OMB and other federal agencies. An example in appendix I illustrates problems public housing authorities had with both the recipient reporting processing functions and the FTE calculation.

In addition to the Federalreporting.gov Web site, the Recovery Board used a revised Recovery.gov Web site to display reported data. The revised site includes the ability to search spending data by state, ZIP code, or congressional district and display the results on a map. The Recovery Board also awarded a separate contract to support its oversight responsibilities with the ability to analyze reported data and identify areas of concern for further investigation. In addition, the board plans to enhance the capabilities of Federalreporting.gov. However, the Recovery Board does not yet use an adequate change management process to manage system modifications. Without such a process, the planned enhancements could become cost and schedule prohibitive. The board has recognized this as a significant risk and has begun development of a change management process. Finally, the board has recognized the need to improve the efficiency of its help desk operation to avoid dropped calls and is working on agreements to address this risk.

## Processes Are in Place at the States and Federal Agencies for Recipient Reporting Data Quality Review

### State Level Data Quality Review

Recipient reporting data quality is a shared responsibility, but often state agencies have principal accountability because they are the prime recipients. Prime recipients, as owners of the recipient reporting data, have the principal responsibility for the quality of the data submitted, and subrecipients delegated to report on behalf of prime recipients share in this responsibility.[19] In addition, federal agencies funding Recovery Act projects and activities provide a layer of oversight that augments recipient data quality. Oversight authorities including OMB, the Recovery Board, and federal agency IGs also have roles to play in ensuring recipient reported data quality, while the general public and nongovernmental entities can help as well by highlighting data problems for correction.

All of the jurisdictions we reviewed had data quality checks in place for the recipient reporting data, either at the state level or a state agency level. State agencies, as entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government, are often the prime recipients of Recovery Act funding. Our work in the 16 states and the District of Columbia showed differences in the way states as prime recipients approach recipient reporting data quality review. Officials from nine states reported having chosen a centralized reporting approach meaning that state agencies submit their recipient reports to a state central office, which then submits state agency recipient reports to Federalreporting.gov. For

[19]Prime recipients are nonfederal entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government. Subrecipients are nonfederal entities that are awarded Recovery Act funding through a legal instrument from the prime recipient to support the performance of any portion of the substantive project or program for which the prime recipient received the Recovery Act funding. Additionally, the terms and conditions of the federal award are carried forward to the subrecipient.

example, Colorado's Department of Transportation provided its recipient report to a central entity, the Colorado Office of Information Technology, for submission to Federalreporting.gov. States with centralized reporting systems maintain that they will be able to provide more oversight of recipient reporting with this approach. Advocates of centralized reporting also expect that method will increase data quality, decrease omissions and duplicate reporting, and facilitate data cleanup.

Officials from the remaining eight jurisdictions reported using a decentralized reporting system. In these cases, the state program office administering the funds is the entity submitting the recipient report. In Georgia, for example, the State Department of Transportation is responsible for both reviewing recipient report data and submitting it to Federalreporting.gov. Illinois, as is the case for four other decentralized states, is quasidecentralized where the data are centrally reviewed and reported in a decentralized manner. When the audit office informs the Office of the Governor that its review is complete and if the Office of the Governor is satisfied with the results, the Illinois state reporting agency may upload agency data to Federalreporting.gov. Appendix I provides details on California's recipient reporting experiences.

As a centralized reporting state, Iowa officials told us that they developed internal controls to help ensure that the data submitted to OMB, other federal entities, and the general public, as required by section 1512 of the Recovery Act, are accurate. Specifically, Iowa inserted validation processes in its Recovery Act database to help reviewers identify and correct inaccurate data. In addition, state agency and local officials were required to certify their review and approval of their agency's information prior to submission. Iowa state officials told us that they are working on data quality plans to include being able to reconcile financial information with the state's centralized accounting system. According to Iowa officials, the number of Recovery Act grant awards improperly submitted was relatively small.

As a decentralized reporting state, New Jersey officials reported that a tiered approach to data quality checks was used for all Recovery Act funding streams managed by the state. Each New Jersey state department or entity was responsible for formulating a strategy for data quality reviews and implementing that strategy. The New Jersey Department of Community Affairs, for example, directed subrecipients to report data directly into an existing departmental data collection tool modified to encompass all of the data points required by the Recovery Act. This system gave the Department of Community Affairs the ability to view the data as it came in from each subrecipient. From this data collection tool, the department uploaded prime and subrecipient data to Federalreporting.gov. All departmental strategies were reviewed by the New Jersey Governor's office and the New Jersey Recovery Accountability Task Force. The Governor's office conducted a review of the reports as they were uploaded to Federalreporting.gov on a program-by-program, department-by-department basis to identify any outliers, material omissions, or reporting errors that could have been overlooked by departments.

## Federal Agency Data Quality Review

To help ensure the quality of recipient report data, the Recovery Board encouraged each federal Office of Inspector General overseeing an agency receiving Recovery Act funds to participate in a governmentwide Recovery Act Reporting Data Quality Review. The Recovery Board requested the IG community to determine the following: (1) the existence of documentation on the agencies' processes and procedures to perform limited data quality reviews targeted at identifying material omissions and significant reporting errors, (2) the agencies' plans for ensuring prime recipients report quarterly, and (3) how the agencies intend to notify the recipient of the need to make appropriate and timely changes. In addition, IGs reviewed whether the agency had an adequate process in place to remediate systemic or chronic reporting problems and if they planned to use the reported information as a performance management and assessment tool. We reviewed the 15 IG reports that were available as of November 12, 2009. Our review of these reports from a range of federal agencies found that they had drafted plans or preliminary objectives for their plans for data quality procedures.

Published IG audits on agencies' Recovery Act data quality reviews that we examined indicated that federal agencies were using a variety of data quality checks, which included automated or manual data quality checks or a combination. Computer programs drive the automated processes by capturing records that do not align with particular indicators determined by the agency. Agencies may use a manual process where a designated office will investigate outliers that surface during the automated test. For example, the automated process for Education performs data checks to validate selected elements against data in the department's financial systems. As part of its data quality review, Education officials are to examine submitted reports against specific grant programs or contract criteria to identify outliers for particular data elements. Of the IG reports that we reviewed that mentioned systemic or chronic problems, 9 of the 11 found that their agencies had a process in place to address these problems. Although some of the IGs were unable to test the implementation of their agency's procedures for reviewing the quarterly recipient reports, based on their initial audit, they were able to conclude that the draft plan or preliminary objectives for data quality review were in place.

According to OMB's guidance documents, federal agencies must work with their recipients to ensure comprehensive and accurate recipient reporting data. A September 11, 2009, memorandum from OMB directed federal agencies to identify Recovery Act award recipients for each Recovery Act program they administer and conduct outreach actions to raise awareness of registration requirements, identify actual and potential barriers to timely registration and reporting, and provide programmatic knowledge and expertise that the recipient may need to register and enter data into Federalreporting.gov. Federal agencies were also expected to provide resources to assist state and select local governments in meeting reporting requirements required by the Recovery Act. In addition, federal agencies were to identify key mitigation steps to take to minimize delays in recipient registration and reporting.

OMB also requires that federal agencies perform limited data quality reviews of recipient data to identify material omissions and significant reporting errors and notify the recipients of the need to make appropriate and timely changes to erroneous reports. Federal agencies are also to coordinate how to apply the definitions of material omissions and significant reporting errors in given program areas or across programs in a given agency to ensure consistency in the manner in which data quality reviews are carried out. Although prime recipients and federal agency reviewers are required to perform data quality checks, none are required to certify or approve data for publication. However, as part of their data quality review, federal agencies must classify the submitted data as not reviewed by the agency; reviewed by the agency with no material omissions or significant reporting errors identified; or reviewed by the agency with material omissions or significant reporting errors identified. If an agency fails to choose one of the aforementioned categories, the system will default to not reviewed by the agency.

The prime recipient report records we analyzed included data on whether the prime recipient and the agency reviewed the record in the OMB data quality review time frames. In addition, the report record data included a flag as to whether a correction was initiated. A correction could be initiated by either the prime recipient or the reviewing agency. Table 6 shows the number and percentage of prime recipient records that were marked as having been reviewed by either or both parties and whether a correction was initiated. OMB's guidance provided that, a federal agency, depending on the review approach and methodology, could classify data as being reviewed by the agency even if a separate and unique review of each submitted record had not occurred.

**Table 6: Prime Recipient Reports Reviews and Corrections**

| Reviewed by agency | Reviewed by prime recipient | Correction | Number of prime recipient reports | Percentage |
|---|---|---|---|---|
| No | No | No | 2,959 | 5 |
| No | No | Yes | 8,201 | 14 |
| No | Yes | Yes | 1 | 1< |
| Yes | No | No | 37,911 | 67 |
| Yes | No | Yes | 7,900 | 14 |
| Yes | Yes | No | 13 | 1< |
| Yes | Yes | Yes | 1 | 1< |
| **Total** | | | **56,986** | **100%** |

Source: GAO analysis of Recovery.gov data.

As shown in table 6, more than three quarters of the prime recipient reports were marked as having undergone agency review. Less than one percent was marked as having undergone review by the prime recipient. The small percentage reviewed by the prime recipients themselves during the OMB review time frame warrants further examination. While it may be the case that the recipients' data quality review efforts prior to initial submission of their reports precluded further revision during the review time frame, it may also be indicative of problems with the process of noting and recording when and how the prime recipient reviews occur and the setting of the review flag. Overall, slightly more than a quarter of the reports were marked as having undergone a correction during the OMB review time frames.

## Highway and Education Projects Illustrate State and Federal Agency Joint Responsibility for Data Quality

### Highway Projects

The Federal-Aid Highway Program provided a good case study of federal agency data quality reviews because the responsible federal agency, FHWA, had previous experience estimating and reporting on the employment effects of investment in highway construction. As a result, FHWA would seem to be better positioned than some other federal agencies to fulfill the job creation or retention reporting requirements under the Recovery Act and may have data quality review processes that other federal agencies could replicate. We met with officials and reviewed available documentation including federal highway reporting documents and payroll records at the selected state departments of transportation and selected vendors. Overall, we found that the state departments of transportation as prime recipients had in place plans and procedures to review and ensure data quality. We followed up with the state departments of transportation to confirm that these procedures were followed for highway projects representing at least 50 percent of the Recovery Act highway reimbursements as of September 4, 2009 in the 17 jurisdictions where we are conducting bimonthly reviews and reviewed available documentation.[20] Appendix I illustrates recipient reporting processes and data quality checks at the Florida Department of Transportation.

In addition to the section 1512 reporting requirements, recipients of certain transportation Recovery Act funds, such as state departments of transportation, are subject to the reporting requirements outlined in section 1201(c) of the Recovery Act. Under section 1201(c), recipients of transportation funds must submit periodic reports on the amount of federal funds appropriated, allocated, obligated, and reimbursed; the number of projects put out to bid, awarded, or work has begun or completed; and the number of direct and indirect jobs created or

[20]The Federal-Aid Highway Program is not a "cash up-front" program. No cash is actually disbursed until states incur costs. Projects are approved and work is started, then the federal government makes payments—also called reimbursements—to the states for costs as they are incurred on projects. The amount of cash paid to the states reflects only the federal share of the project's cost.

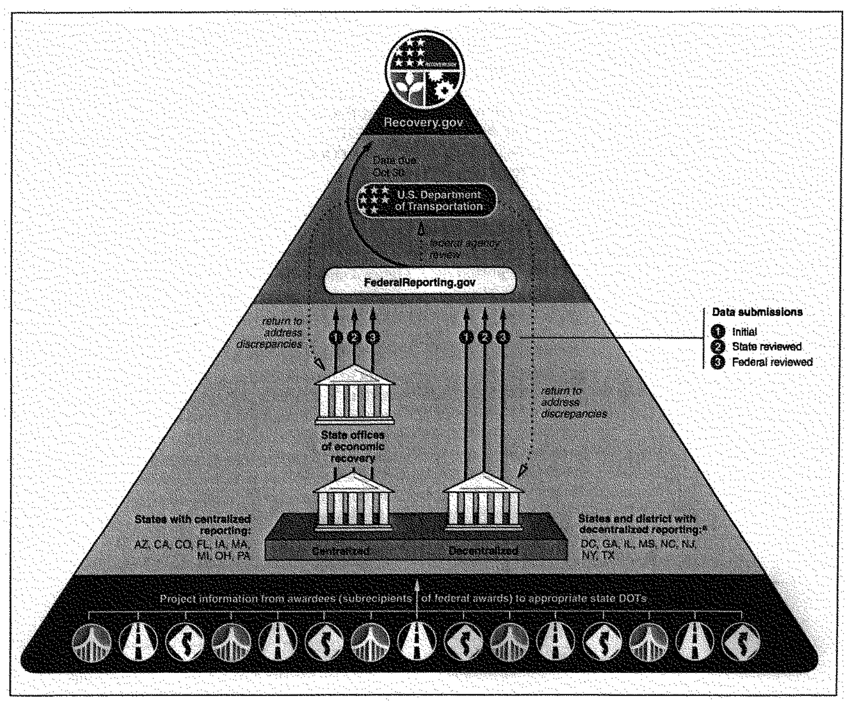
sustained, among other things.[21] The Recovery Act section 1201(c) requirement called for project level data to be reported twice before the first Recovery Act section 1512 report was due.[22] DOT is required to collect and compile this information for Congress, and it issued its first report to Congress in May 2009. Consequently, DOT and its modal administrations, such as FHWA, and state departments of transportation gained experience collecting and reporting job creation and retention information before the first Recovery Act section 1512 report was due in October 2009 and required FHWA to have its data collection and review process in place in advance of October 1, 2009, the start of the section 1512 reporting.

To help fulfill these reporting requirements, FHWA implemented a reporting structure that ties together the federal and state levels of reporting, creating both a chain of evidence and redundancy in the review of the reported data. Figure 4 shows the reporting structure. As part of this reporting structure, FHWA also created the Recovery Act Data System (RADS), with the updated version of the system released in early September 2009. RADS is primarily designed as a repository of data for states, but it also serves as an important oversight tool for FHWA because it links federal financial data to project data reported by the states. The system helps ensure consistent definitions of fields and enables FHWA to auto-populate identification fields, including DUNS numbers, award numbers, and total award amounts, to both reduce the burden at the project level and to reduce the data entry errors. In addition, monthly reporting requirements include payroll records, hours worked, and data quality assurances, in individual contracts for highway projects funded with Recovery Act funds. FHWA may withhold payments if a recipient is found to be in noncompliance with the reporting requirements.

[21]The first periodic report was due no later than 90 days after the date of enactment of the act, with updated reports due no later than 180 days, 1 year, 2 years, and 3 years after enactment.

[22]Section 1201(c) requires recipients of Recovery Act funds under certain federal transportation programs, including Federal-Aid Surface Transportation Program to make periodic reports. Among other information, these reports are to include the number of direct, on-project jobs created or sustained by federal funds, and, to the extent possible the estimated indirect jobs created or sustained in the associated supplying industries, including the number of job-years created and the total increase in employment since the enactment of the Recovery Act.

**Figure 4: FHWA's Recipient Reporting Data Structure**




Source: GAO.

[a]Four states, Georgia, Illinois, New York, and North Carolina, plus the District of Columbia, review data centrally but report in a decentralized manner.

To meet the reporting requirements of the Recovery Act, FHWA required that prime contractors of transportation projects funded with Recovery

Act dollars report project level activity on a monthly basis to the state departments of transportation. Specifically, prime contractors are required to submit the total number of people working on the project, the total number of hours worked on the project, and the total payroll on the project for each month. These reports are to include this information for both the prime contractors and subcontractors. FHWA also requires that prime contractors provide documentation to verify the hours funded through the Recovery Act, a higher standard than the OMB guidance requires for section 1512 reporting purposes. FHWA's monthly reporting requirement is included in individual contracts for each highway project funded with Recovery Act dollars. Prior to the Recovery Act, FHWA required contractors to maintain similar information and make it available for inspection. However, while discussing project level activity with transportation contractors and officials across the 17 jurisdictions, we found that many had been reporting this information to state departments of transportation on a monthly basis.

Within our 17 jurisdictions, we had discussions with prime contractors from 36 highway projects funded by Recovery Act dollars. In several cases, these prime contractors were also prime contractors or subcontractors for other Recovery Act funded projects. Activities conducted by these contractors included projects such as highway repaving, interstate resurfacing, and bridge replacement. To meet the reporting requirements, a number of prime contractors we visited developed data systems to collect required project information from the subcontractors. In some cases, we also found that prime contractors reinforced the reporting requirements by including the requirements in their contracts with subcontractors, providing contractors with the necessary leverage to help ensure compliance with the reporting requirements. Appendix I details recipient reporting examples for contractors in Georgia and Massachusetts.

FHWA has taken several steps to help ensure the reliability of the information contained in RADS. First, FHWA compared information states recorded in RADS to the information states submitted to Federalreporting.gov to identify inconsistencies or discrepancies. Second, as part of an ongoing data reliability process, FHWA monitors select fields in RADS, such as number of projects, types of projects, and where projects are located, and performs data validation and reasonableness tests. For example, it checks if a rate of payment in dollars per hour is too high or too low. When potential issues are identified, FHWA division offices work with the state department of transportation or central office to make necessary changes.

For this round of recipient reporting, FHWA used an automated process to review all of the reports filed by recipients. These automated reviews included various data validation and reasonableness checks. For example, FHWA checked whether the range of FTEs reported were within its own economic estimates. For any reports that were out of range, FHWA would comment on these reports. As described earlier, only recipients could make changes to the data. In making a comment, FHWA let the recipient know there was potential concern with the record. The recipient then had the opportunity to either change or explain the comment raised by FHWA. According to FHWA officials, they reviewed 100 percent of more than 7,000 reports submitted by recipients of Recovery Act highway funds and found that the final submissions were generally consistent with department data. Although there were problems of inconsistent interpretation of the guidance, the reporting process went well for highway projects.

## Education Projects

Education has engaged in numerous efforts to facilitate jobs reporting by states[23] and local educational agencies (LEA). States and LEAs have also taken action to collect and report jobs data and to ensure data quality. Despite these efforts, state and local officials we spoke with raised some concerns about the quality of jobs data reported in October 2009, such as insufficient time to incorporate updated guidance on estimating job counts. To address these concerns, Education and many state officials we interviewed said they plan to take steps to improve the reporting and data quality processes before the next reports are due in January 2010. Our review focused on the State Fiscal Stabilization Fund, as well as Recovery Act grants made for the Elementary and Secondary Education Act of 1965, Title I, Part A and for the Individuals with Disabilities Education Act, Part B. To collect this information, we interviewed Education officials and officials in 10 states—Arizona, California, Colorado, Florida, Georgia, Illinois, Massachusetts, New Jersey, New York, and North Carolina—the District of Columbia, and 12 LEAs, including a mix of LEAs in urban and rural areas. States were selected from the 16 states and the District of Columbia in which we conduct bi-monthly reviews of the use of Recovery Act funds as mandated by the Recovery Act. We also reviewed federal and state guidance and other documentation.

[23]State reporting agencies involved in jobs reporting under section 1512 of the Recovery Act may include governor's offices, recovery agencies, state educational agencies or other state offices, depending on whether the state is using a centralized reporting approach or decentralized reporting approach.

Education's efforts to facilitate jobs reporting by states and LEAs include coordinating with OMB, providing guidance and technical assistance to states and LEAs, and reviewing the quality of the jobs data reported. Education has coordinated its efforts regarding recipient reporting with OMB in a number of ways, including participating in cross-agency workgroups and clearing its guidance materials with OMB prior to disseminating them. On August 10, 2009, Education hosted a web-based technical assistance conference on reporting requirements that included information on OMB's guidance on estimating and reporting jobs data. On September 11, the department issued guidance specifically related to estimating and reporting jobs created or retained by states and LEAs receiving Recovery Act grants.[24] Education updated its jobs guidance and hosted another web-based technical assistance conference on September 21, providing detailed instructions to states and LEAs on a range of topics, such as how to estimate the number of hours created or retained for a teacher who works less than 12 months in a year. In addition, according to Education officials, the department developed and implemented a draft plan to review the jobs data that states and LEAs reported to Federalreporting.gov in October. This plan addresses the roles and responsibilities of several Education offices to assist with the data quality review throughout the 30-day reporting timeline (for example, Oct. 1 through Oct. 30, 2009).[25] According to the plan, these responsibilities include continuous evaluation of recipient and subrecipient efforts to meet reporting requirements, as well as providing limited data quality reviews and notifying the recipient of the need to make appropriate and timely corrections. The plan says that reviewers are to conduct two types of data quality checks – an automated and a manual review. The automated review will validate various data elements for financial assistance against its grant management system, such as prime award numbers, recipient DUNS numbers, and amounts of awards. The manual review will identify outliers in certain data elements, such as whether the reported number of jobs created is reasonable. According to Education officials, upon their

[24]See U.S. Department of Education, *Clarifying Guidance on American Recovery and Reinvestment Act of 2009: Reporting on Jobs Creation Estimates by Recipients* (Washington, D.C., September 2009).

[25]The plan delineates specific roles and responsibilities for the Office of the Deputy Secretary; the Office of the Chief Information Officer; the Office of the Chief Financial Officer, Financial Management Operations; the Office of the Chief Financial Officer, Contracts and Acquisition Management; Office of the Chief Financial Officer, Financial Systems Services; the Office of the Secretary, Risk Management Services Management Improvement Team; and various program offices.

initial review of recipient reported data, the most common errors were relatively small—such as mistyped award numbers or incorrect award amounts—and were easily addressed and corrected during the agency review period. Department officials told us that they provided technical assistance to states and were able to have states correct the errors such that almost all of them were corrected before the October 30 deadline. Furthermore, state officials generally provided positive feedback to the department for these efforts, according to Education officials. Education's Office of Inspector General (OIG) examined Education's process for reviewing the quality of recipient reported data and found that Education's data review process was generally adequate.[26] The OIG's review determined that Education has established a process to perform limited data quality reviews intended to identify problems, such as questionable expenditure patterns or job estimates. OIG also acknowledged that Education developed a process to correct any issues that Education officials find by contacting the recipients who submitted the report. In addition, OIG noted that the department plans to review quarterly data at a state level to determine whether there are systemic problems with individual recipients and that Education plans to use the reported information as a management tool.

State educational agencies (SEA) also have taken action to collect and report jobs data and to ensure data quality.[27] State officials in Arizona, Massachusetts, New Jersey, and New York and officials in the District of Columbia told us that they adapted their existing data systems or created new ones to track and report jobs data. For example, Massachusetts Department of Education officials created an online quarterly reporting web site to collect jobs data from its LEAs and detailed information on personnel funded by Recovery Act grants. In addition, many SEA and LEA officials we spoke with reported taking steps to ensure data quality, such as pre-populating data fields (that is, inserting data, such as DUNS numbers, into the recipient reporting template for the LEAs), checking the

[26]For more information on the Inspector General findings, see U.S. Department of Education. Office of Inspector General, *The Department's Process to Ensure Data Quality Under the Reporting Requirements of the American Recovery and Reinvestment Act of 2009*, Final Audit Report No. ED-OIG/A19J0004. Oct. 29, 2009.

[27]According to federal Recovery Act guidance, LEA officials are primarily responsible for developing job estimates and states—as prime recipients of the Recovery Act SFSF, Elementary and Secondary Education Act Title I, and Individuals with Disabilities Education Act grants—are responsible to report those data to Federalreporting.gov. Both states and LEAs are responsible for ensuring that the reported data are accurate.

reasonableness of data entered, and looking for missing data. In addition to tracking and reporting jobs data and taking steps to ensure data quality, SEA officials reported providing technical assistance, such as written guidance and Web-based seminars, that explain how LEAs should report job estimates. For example, California state officials had LEAs submit their data through a new web-based data reporting system and, prior to implementing the new system, provided written guidance and offered a web-based seminar to its LEAs.

Despite efforts to ensure data quality, state and local officials we spoke with raised some concerns about the quality of jobs data reported in October 2009. For example, LEAs were generally required[28] to calculate a baseline number of hours worked, which is a hypothetical number of hours that would have been worked in the absence of Recovery Act funds. LEA officials were to use this baseline number to determine the number of hours created or retained and to subsequently derive the number of FTEs for job estimates. Each LEA was responsible for deriving its own estimate. New Jersey state officials we interviewed told us that it was likely that LEAs used different methods to develop their baseline numbers, and as a result, LEAs in the same state may be calculating FTEs differently. (See appendix II for a complete description of the calculations used to determine baseline number of hours worked, number of hours created or retained, and FTEs for jobs created or retained). According to Illinois state officials, some of their LEAs had double-counted the number of positions, attributing the positions to both state fiscal year 2009 (which ended on June 30, 2009) and fiscal year 2010 (beginning July 1, 2009), in part because the reporting period covered both of the state's fiscal years. Also, according to Illinois officials, other school districts estimated that zero positions were attributable to the Recovery Act. In those cases, LEA officials received Recovery Act funds before finalizing staff lay-offs. Since they had not officially laid off any staff, Illinois officials told us that LEA officials were unsure as to whether those jobs would count as "jobs saved" and believed it best to report that no jobs had been saved because of Recovery Act funding. Illinois officials told us that Education reviewed Illinois' data, but did not ask them to make any corrections, but instead asked the state to disaggregate the job estimates by type of position, such as teachers and administrators. Also, one LEA official from New York

[28] There are some exceptions to this requirement. For example, in limited circumstances and with approval from Education, recipients may use an Education-approved statistical methodology to generate jobs estimates.

reported that he did not have enough time to conduct the necessary data quality checks he wanted to perform. Education officials acknowledged that many state and local officials reported various challenges in understanding the instructions and methodology that Education suggested they use to calculate job estimates.[29] According to Education officials, when states contacted the department to report these problems, Education officials provided technical assistance to resolve the state's specific issues.

States faced challenges due to the timing of guidance or changes in guidance on how to estimate jobs attributable to the Recovery Act, according to Education officials and several state officials we interviewed. For example, Colorado officials reported that, based on June 22, 2009 guidance from OMB, they believed that subrecipient vendors' jobs would be considered "indirect jobs" and therefore LEAs would not have to provide estimates of their vendors' jobs in their reports. Colorado officials told us they received guidance at Education's August technical assistance conference indicating that subrecipients (in this case, LEAs) are supposed to include vendor job estimates based on those jobs directly funded by Recovery Act grants. However, Education's guidance did not clearly distinguish between direct and in-direct vendor jobs, according to state officials, making it difficult for LEAs to determine which vendor jobs to include in their section 1512 reports. State officials also reported receiving further guidance on estimating jobs from Education on September 15 and attending a related technical assistance conference on September 21. On September 16, the Colorado SEA issued guidance stating that LEAs would be responsible for including vendor jobs in the job estimates they would be reporting. (Colorado's LEA reports were due to the SEA on September 25, because the SEA was required to submit its data to the state controller's office on September 29 for centralized reporting.) Also, officials in California—where LEAs had to report to the SEA on September 23—said they were not notified until Education's September 21 conference that all LEAs that received Recovery Act funds had to register in the Central Contractor Registration. They told us that this contradicted previous guidance from Education and would have required LEAs to

[29]In addition, Education officials told us they found a problem with some states' reports of jobs attributable to the SFSF. According to Education, in a small number of states, state officials had not finalized layoff plans prior to the Recovery Act's enactment and therefore they could not be certain about the number of jobs they would have lost in the absence of Recovery Act funding. Thus, job estimates from these states may need to be adjusted in the January 2010 report, and Education intends to provide guidance to address this issue.

register within 2 days to meet their state's September 23 deadline. California officials advised federal officials that the state would implement this requirement for the second quarterly reporting period.

Education officials and officials in two states mentioned actions that might improve the reporting and data quality processes before the next reports are due in January 2010. Education officials suggested a number of possible changes in Federalreporting.gov, such as allowing Education to pre-populate some basic state data, such as grant award numbers and amounts, would decrease the workload for states and help avoid some technical errors. Also, in response to problems such as LEAs counting jobs in two fiscal years, Education plans to provide more guidance in early December 2009 to states on calculating job estimates. At the state level, officials in Georgia reported plans to make changes to the state's processes, such as adding internal edit checks so that those who enter the data will have to make corrections as part of the data entry process. Also, Illinois has created an office to work with state agencies to improve their data reporting processes, according to a state official. The state also plans to build in more checks to its review of agency data, for example, a check that would compare jobs data against existing employment data to confirm that districts are not reporting more positions than exist in the district.

## GAO Will Continue to Follow These Issues and Highlight Concerns in Subsequent Reports

As recipient reporting moves forward, we will continue to review the processes that federal agencies and recipients have in place to ensure the completeness and accuracy of data, including reviewing a sample of recipient reports across various Recovery Act programs to assure the quality of the reported information. As existing recipients become more familiar with the reporting system and requirements, these issues may become less significant; however, communication and training efforts will need to be maintained and in some cases expanded as new recipients of Recovery Act funding enter the system. In addition to our oversight responsibilities specified in the Recovery Act, we are also reviewing how several federal agencies collect information and provide it to the public for selected Recovery Act programs, including any issues with the information's usefulness. Our subsequent reports will also discuss actions taken on the recommendations in this report and will provide additional recommendations, as appropriate.

## Recommendations for Executive Action

We are making two recommendations to the Director of OMB. To improve the consistency of FTE data collected and reported, OMB should continue to work with federal agencies to increase recipient understanding of the reporting requirements and application of the guidance. Specifically, OMB should

- clarify the definition and standardize the period of measurement for FTEs and work with federal agencies to align this guidance with OMB's guidance and across agencies,
- given its reporting approach consider being more explicit that "jobs created or retained" are to be reported as hours worked and paid for with Recovery Act funds, and
- continue working with federal agencies and encourage them to provide or improve program specific guidance to assist recipients, especially as it applies to the full-time equivalent calculation for individual programs.

OMB should work with the Recovery Board and federal agencies to reexamine review and quality assurance processes, procedures, and requirements in light of experiences and identified issues with this round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

## Despite Limitations, Economic Methods and Recipient Reports Together Can Provide Insight into the Employment Effects of Fiscal Stimulus

The jobs data reported by recipients of Recovery Act funds provide potentially useful information about a portion of the employment effect of the act. At this point, due to issues in reporting and data quality including uncertainty created by varying interpretations of the guidance on FTEs, we cannot draw a conclusion about the validity of the data reported as a measure of the direct employment effect of spending covered by the recipient reports. Even after data quality issues are addressed, these data will represent only a portion of the employment effect. Beyond the jobs that are reported, further rounds of indirect and induced employment gains result from government spending. The Recovery Act also includes entitlement spending and tax benefits, which themselves create employment. Therefore, both the data reported by recipients and other macroeconomic data and methods are necessary to understand the overall employment effects of the stimulus.

Economists will use statistical models to estimate a range of potential effects of the stimulus program on the economy. In general, the estimates are based on assumptions about the behavior of consumers, business owners, workers, and state and local governments. Against the background of these assumptions, themselves based on prior research, the effects of different policies can be estimated. Any such estimate is implicitly a comparison between alternative policies. The reliability of any alternative scenario that is constructed depends on its underlying assumptions and the adequacy of evidence in support of those assumptions, as well as on the accuracy of the data that form the basis for what is observed and on how well the model reflects actual behavior.

In the broadest terms, economic research using macroeconomic models suggests general rules of thumb for approximating the job impact and the GDP increase for a given amount of stimulus spending. In constructing their estimates of the employment impacts of the act, CEA observed that a one percent increase in GDP has in the past been associated with an increase in employment of approximately 1 million jobs, about three quarters of 1 percent of national employment. Similarly, CBO economists have assumed that a one percent increase in output generates somewhere between 600,000 and 1.5 million jobs. As a result, projections of the employment impact of the Recovery Act can be generated from macroeconomic models that estimate output, providing the basis for estimates of changes in employment.

CEA estimates of the employment effects of the Recovery Act have been based on statistical projections and allocations using historical relationships. In January 2009, the incoming administration projected the anticipated effects of fiscal stimulus on output and employment in the economy, specifying a prototypical spending package of tax cuts, payments to individuals, and direct spending by federal and state government. The effects of such additional spending on output (GDP) were projected using multipliers, values based on historical experience that estimate the output change per unit of different types of changes in government spending. These output increases were translated into employment effects using a rule of thumb, again based on history, that a 1 percent rise in GDP yields 1 million jobs.

The incoming administration's January 2009 analysis of a prototypical stimulus package found that it would be expected to increase GDP by 3.7 percent and increase jobs by 3,675,000 by the fourth quarter of 2010. The analysis compared the unemployment rate with and without the stimulus. At that time, the unemployment rate for 2009 was projected to be 8 percent with a stimulus and closer to 9 percent without. In May 2009, CEA reported on the anticipated employment effects of the actual Recovery Act as passed by Congress and signed into law by the President. That analysis was consistent with the January projections that the Recovery Act (which was deemed to closely resemble the prototypical package earlier assumed) would result in approximately 3.5 million jobs saved or created by the end of 2010, compared to the situation expected to exist in the absence of the act. Later, when the actual unemployment rate rose beyond 9 percent, the administration acknowledged that its earlier projections of unemployment were too low but asserted that, without the Recovery Act, the rate would have been even higher than observed.

In September 2009 CEA reported on the effects of Recovery Act spending through the end of August. It noted that statistical analysis of actual economic performance compared to that which might have been expected in the absence of the Recovery Act suggested that the Recovery Act had added "roughly" 2.3 percentage points to GDP in the second quarter and was likely to add even more in the third. Translating that output gain into employment, CEA surmised that employment in August was 1 million jobs higher than it would have been without the act.

The recipient reports are not estimates of the impact of the Recovery Act, although they do provide a real-time window on the results of Recovery Act spending. Recipients are expected to report accurately on their use of funds; what they are less able to say is what they would have done without the benefit of the program. For any disbursement of federal funds, recipients are asked to report on the use of funds to make purchases from business and to hire workers. These firms and workers spend money to which they would not otherwise have had access. Recipients could not be expected to report on the expansionary effects of their use of funds, which could easily be felt beyond local, state, or even national boundaries. Neither the recipients nor analysts can identify with certainty the impact of the Recovery Act because of the inability to compare the observed outcome with the unobserved, counterfactual scenario (in which the stimulus does not take place). At the level of the national economy, models can be used to simulate the counterfactual, as CEA and others have done. At smaller scales, comparable models of economic behavior either do not exist or cover only a very small portion of all the activity in the macroeconomy.

The effect of stimulus on employment depends on the behavior of the recipient of aid. For consumers, it depends on the extent to which their total spending increases. For business firms, it depends on the increase, if any, in their purchases from other business firms or their payrolls. For state and local governments, it is the increase in their purchases of goods and services and their own employment rolls. Within any given group of recipients, choices to spend or save will vary. For example, a consumer with a large credit card balance may use a tax cut to pay down the balance or save more rather than increasing spending. Given that the personal savings rate fell to essentially zero before the recession, households may well choose to rebuild savings rather than spend. A business firm might not see additional capital spending or hiring as advantageous. A state government might decide to bolster its reserves where permitted under law rather than increase its outlays or cut its taxes. In each case, the strength of the program as immediate stimulus is weakened to the extent that all funds are not spent.

The extent to which the initial spending reverberates throughout the economy is summarized by a multiplier, a measure of the cumulative impact on GDP over time of a particular type of spending or tax cut. The resulting change in output translates into a change in employment. In the context of the Recovery Act recipient reports, the output and employment effects will likely vary with the severity of the economic downturn in a recipient's location (as reflected by distress in labor markets and the fiscal positions of governments), and the amount of funds received by the recipient. The nature of the projects or activities to which the recipient applies its funds also matters, whether the projects use labor intensively and whether those who are hired will themselves spend or save their earnings.

## Potential Effect of Different Types of Fiscal Stimulus

Economists use computer models of the U.S. economy with historical data on employment, GDP, public spending, taxes, and many other factors to study the effects of monetary (e.g., changes in interest rates) and fiscal policies (e.g., changes in government taxing and spending) designed to affect the trajectory of the economy. In general, a fiscal stimulus program like the Recovery Act is aimed at raising aggregate demand – the spending of consumers, business firms, and governments. This may be accomplished by means of tax cuts, grants-in-aid, or direct Federal spending. In response, the recipients may purchase more goods and services than they would have otherwise. This could lead to governments and business firms refraining from planned dismissal of employees or to hiring additional workers. The stimulus may lead to an overall, net increase in national employment and economic output. Models of the nation's economy can provide estimates of changes in GDP and employment that result from changes in monetary or fiscal policies.
In assessing the effects of fiscal policies such as additional government spending or tax cuts on GDP, macroeconomic models can be used to estimate "multipliers," which represent the cumulative impact on GDP over time of a particular type of spending or tax cut. Multipliers translate

the consequences of a change in one variable, such as in the demand for goods and services brought about by economic stimulus, on other variables, such as the supply of those goods and services and employment, taking into account "ripple effects" that occur throughout the economy.

The size of the multiplier depends on the extent to which changes in additional government spending or revenue translates into changes in spending by recipients and beneficiaries of the additional spending. Spending increases the multiplier, and saving reduces it. The multiplier is also larger when there is slack in the economy (unemployed persons and idle productive capacity). Also, the expansionary effects of government spending are greater when stimulus funds are borrowed rather than raised by taxation. Finally, the multiplier effect in the U.S. will be greater to the extent that new spending, whether by government or individuals, is devoted to domestically-produced goods and services.

In general, macroeconomic models and estimated multipliers can provide insights on the potential effect of different types of public spending. Because of the limited historical experience with fiscal stimulus of the magnitude of the Recovery Act, there is uncertainty about the extent to which the multipliers estimated using historical data about the effect of previous business cycles will accurately reflect the stimulus effect this time around. Economic research, however, has developed a basis for constructing reasonable ranges of values. In projecting the anticipated effect of the Recovery Act on national output, the CBO grouped the act's provisions according to the size of the multiplier—that is, the magnitude of the effect of a particular provision's spending on GDP (see table 7). Drawing on analyses based on past experience with the results of government spending, CBO has identified a range of 1.0 to 2.5 for multipliers. For example, a multiplier of 1.0 means a dollar of stimulus financed by borrowing results in an additional dollar of GDP. CBO assumes larger multipliers for grants to state and local governments for infrastructure spending, and lower values—0.7 to 1.9—for transfers not related to infrastructure investment.[30] Figure 5 shows the distribution of Recovery Act funds by multiplier.

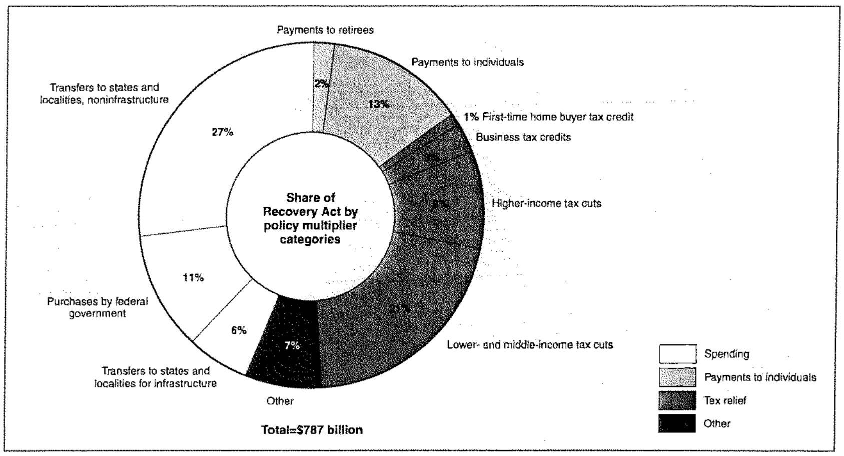
[30]Letter from Douglas Elmendorf (Director, Congressional Budget Office) to Senator Charles Grassley on the macroeconomic effects of ARRA, March 2, 2009.

**Table 7: Estimated Multipliers for Recovery Act Spending and Tax Expenditures**

| Category | Estimated policy multiplier High | Estimated policy multiplier Low |
|---|---|---|
| Purchases of goods and services by federal government | 2.5 | 1 |
| Transfers to state and local governments for infrastructure | 2.5 | 1 |
| Transfers to state and local governments for other than infrastructure | 1.9 | 0.7 |
| Transfers to persons | 2.2 | 0.8 |
| One-time payments to retirees | 1.2 | 0.2 |
| 2-year tax cuts for lower- and middle-income people | 1.7 | 0.5 |
| 1-year tax cuts for higher income people | 0.5 | 0.1 |
| Extension of first-time homebuyer credit | 1.0 | 0.2 |
| Tax provisions for businesses primarily affecting cash flow | 0.4 | 0 |

Source: CBO.

**Figure 5: Composition of Recovery Act Outlays by Jobs Multiplier Category**




Source: CBO.

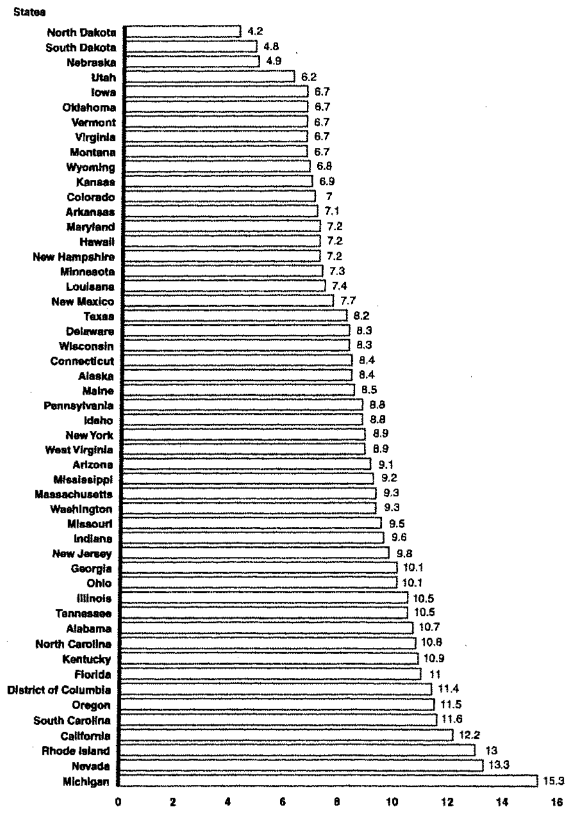
## State Labor Market Conditions Will Affect Results of Recovery Act Spending

The employment effects of Recovery Act funds will likely vary with the strength of the labor market in a recipient's location. Recipients located in areas where labor markets are weak, that is, where unemployment is high, may find it easier to hire people and may be able to do so at lower wages than those located in areas where the recession has had little effect on labor markets. Consequently, recipients located in areas with weak labor markets may be able to employ more people than those located in areas with strong labor markets, all else being equal.

The percentage of the nation's labor force that is unemployed has reached a level not seen in decades. For example, the unemployment rate reached 10.2 percent in October 2009, its highest rate since April 1983. The national unemployment rate was 4.9 percent in December 2007, the month that marked the end of the last business cycle and the beginning of the current recession. In general, the unemployment rate rises and falls over the course of the business cycle, generally increasing during a recession and decreasing during an expansion. Cyclical changes in the national unemployment rate reflect changes in state unemployment rates. State unemployment rates vary over time in much the same way that the national unemployment rate varies—increasing during recessions, decreasing during expansions, but changing direction at different times.

Estimates of current labor market strength, as measured by the unemployment rate, differ across states. Figure 6 ranks states according to the most recent available unemployment data—September 2009. While the national unemployment rate at the time was 9.8 percent, state unemployment rates ranged from a minimum of 4.2 percent in North Dakota to a maximum of 15.3 percent in Michigan. Twenty-seven states had unemployment rates in September 2009 that were less than the national unemployment rate by one percentage point or more, and nine states and the District of Columbia had unemployment rates that exceeded the national unemployment rate by one percentage point or more, and 14 states had unemployment rates that were within one percentage point of the national unemployment rate.

**Figure 6: State Unemployment Rates, September 2009**

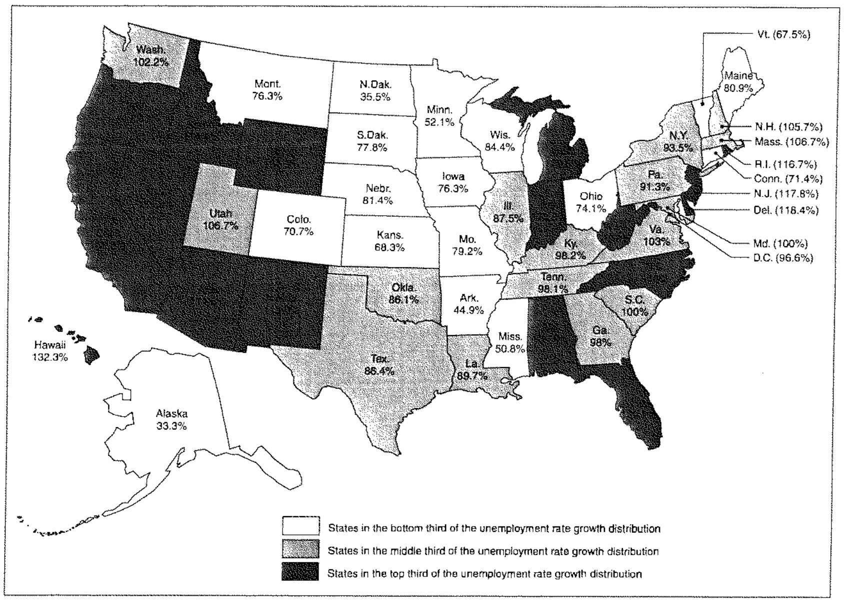



Source: GAO analysis of U.S. Bureau of Labor Statistics data.

Note: State unemployment rates are seasonally adjusted state unemployment rates for September 2009 from the Local Area Unemployment Statistics produced by the U.S. Bureau of Labor Statistics. Estimates of state employment rates for September 2009 are preliminary.

Labor markets in every state weakened over the course of the recession, but the degree to which this has occurred varies widely across states. Figure 7 shows the geographic distribution of the magnitude of the recession's impact on unemployment as measured by the percent change in unemployment between December 2007 and September 2009. Alabama's unemployment rate has grown the most over this period, increasing by about 182 percent. Other states with relatively high unemployment rate growth over this period include Florida, Hawaii, Wyoming, Idaho, and Nevada, all of which have seen their unemployment rates increase by more than 120 percent. At the other end of the spectrum are states like Minnesota, Mississippi, Arkansas, North Dakota, and Alaska. Unemployment rates in these states have grown by less than 60 percent between December 2007 and September 2009. Alaska's unemployment rate growth during this period has been the slowest, measuring only about 33 percent.

**Figure 7: State Unemployment Rate Growth during Recession (Percent Increase)**






Note: State unemployment rate growth is the percent change in the seasonally adjusted state unemployment rate from December 2007 to September 2009.

While the recession has weakened labor markets in every state, those in some states may be showing signs of recovering. Table 8 lists the states for which unemployment rates in September 2009 are less than their peak unemployment rates. The unemployment rate peaked in some states as early as May 2009. In several additional states, the unemployment rate was higher in June or July than it was in September. Although unemployment rates in these states may start to increase again in the future, for the moment it seems that labor markets in these states are getting stronger.

**Table 8: State Unemployment Rates, Peak and Most Recent**

| State | Unemployment rate (percent) | | | | State | Unemployment rate (percent) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sept 2009 | Peak | Peak month | Percent change | | Sept 2009 | Peak | Peak month | Percent change |
| Minnesota | 7.3 | 8.4 | June | -13.1 | Tennessee | 10.5 | 10.8 | June | -2.8 |
| Colorado | 7.0 | 7.8 | July | -10.3 | Hawaii | 7.2 | 7.4 | May | -2.7 |
| Indiana | 9.6 | 10.7 | June | -10.3 | Kentucky | 10.9 | 11.2 | August | -2.7 |
| Ohio | 10.1 | 11.2 | July | -9.8 | North Carolina | 10.8 | 11.1 | May | -2.7 |
| Vermont | 6.7 | 7.4 | May | -9.5 | North Dakota | 4.2 | 4.3 | August | -2.3 |
| Kansas | 6.9 | 7.5 | July | -8.0 | West Virginia | 8.9 | 9.1 | June | -2.2 |
| Wisconsin | 8.3 | 9.0 | July | -7.8 | Nebraska | 4.9 | 5.0 | August | -2.0 |
| Oregon | 11.5 | 12.2 | May | -5.7 | Georgia | 10.1 | 10.3 | July | -1.9 |
| Virginia | 6.7 | 7.1 | June | -5.8 | Oklahoma | 6.7 | 6.8 | August | -1.5 |
| Mississippi | 9.2 | 9.7 | August | -5.2 | Delaware | 8.3 | 8.4 | June | -1.2 |
| Louisiana | 7.4 | 7.8 | August | -5.1 | Maine | 8.5 | 8.6 | August | -1.2 |
| Arkansas | 7.1 | 7.4 | July | -4.1 | Arizona | 9.1 | 9.2 | July | -1.1 |
| South Carolina | 11.6 | 12.1 | June | -4.1 | Idaho | 8.8 | 8.9 | August | -1.1 |
| South Dakota | 4.8 | 5.0 | June | -4.0 | California | 12.2 | 12.3 | August | -0.8 |

Source: GAO analysis of U.S. Bureau of Labor Statistics data.

Note: Peak unemployment rates are the maximum employment rates since December 2007. Peak dates are the most recent month and year during which the unemployment rate was equal to its maximum value since December 2007.

## State and Sectoral Employment Trends

Table 9 shows the change in employment between December 2007 and September 2009. Employment in Arizona, Florida, Georgia, Michigan, Nevada, and Oregon in September 2009 was over 7 percent lower than it was in December 2007 in each state. On the other hand, employment in Louisiana and South Dakota fell by less than two percent over the same period, and employment in Alaska, North Dakota, and the District of Columbia has increased during that time.

Table 9: Change in Employment, December 2007 to September 2009

| State | Change in employment (1,000s) | Percent change in employment (percent) | State | Change in employment (1,000s) | Percent change in employment (percent) |
|---|---|---|---|---|---|
| Alabama | -118.1 | -5.9 | Montana | -9.6 | -2.1 |
| Alaska | 1.8 | 0.6 | Nebraska | -20 | -2.1 |
| Arizona | -267.7 | -10.0 | Nevada | -110.5 | -8.5 |
| Arkansas | -37.7 | -3.1 | New Hampshire | -19.1 | -2.9 |
| California | -988.9 | -6.5 | New Jersey | -168.5 | -4.1 |
| Colorado | -110.5 | -4.7 | New Mexico | -31.7 | -3.7 |
| Connecticut | -82.2 | -4.8 | New York | -213.2 | -2.4 |
| Delaware | -26.1 | -6.0 | North Carolina | -250.3 | -6.0 |
| D.C. | 4.3 | 0.6 | North Dakota | 5.2 | 1.4 |
| Florida | -617.5 | -7.8 | Ohio | -321.5 | -5.9 |
| Georgia | -316.1 | -7.6 | Oklahoma | -31.1 | -2.0 |
| Hawaii | -36.9 | -5.9 | Oregon | -124.3 | -7.2 |
| Idaho | -43.2 | -6.6 | Pennsylvania | -208 | -3.6 |
| Illinois | -356.5 | -6.0 | Rhode Island | -29.7 | -6.1 |
| Indiana | -176.4 | -5.9 | South Carolina | -100.2 | -5.1 |
| Iowa | -45.7 | -3.0 | South Dakota | -4.4 | -1.1 |
| Kansas | -54.7 | -3.9 | Tennessee | -157.6 | -5.6 |
| Kentucky | -113.3 | -6.1 | Texas | -240.2 | -2.3 |
| Louisiana | -26.4 | -1.4 | Utah | -64.3 | -5.1 |
| Maine | -27.4 | -4.4 | Vermont | -14.9 | -4.8 |
| Maryland | -78 | -3.0 | Virginia | -125.6 | -3.3 |
| Massachusetts | -114.4 | -3.5 | Washington | -126.9 | -4.3 |
| Michigan | -416.2 | -9.8 | West Virginia | -25.1 | -3.3 |
| Minnesota | -132 | -4.8 | Wisconsin | -156.8 | -5.4 |
| Mississippi | -54.4 | -4.7 | Wyoming | -6.6 | -2.2 |
| Missouri | -89.5 | -3.2 | | | |

Source: GAO analysis of U.S. Bureau of Labor Statistics data.

Note: Employment is total nonfarm seasonally adjusted employment among people age 16 and over from the Current Employment Statistics produced by the U.S. Bureau of Labor Statistics.

Employment has declined since December 2007, when the current recession began. However, some signs have appeared that the losses in employment are slowing. Job losses in October 2009 numbered 190,000. This number is about equal to average job losses of about 188,000 per month in August, September, and October 2009. The rate at which employment has declined over the past three months is thus lower than the rate at which it declined in May, June, and July 2009, when job losses averaged about 357,000 per month. The rate at which employment has declined over the past three months is thus also lower than the rate at which it declined between November 2008 and April 2009, when job losses averaged about 645,000 per month.

The current employment contraction has been more pronounced in the goods-producing sector, in which employment fell by about 17 percent between December 2007 and October 2009, than the service-providing sector, in which employment fell by about three percent over the same period. The goods-producing sector includes the construction and manufacturing industries, in which employment has fallen by about 21 percent and 15 percent, respectively, between December 2007 and October 2009. The goods-producing sector also includes the mining and logging industry, which lost about 6 percent of its jobs during the same time. Service-providing industries include financial activities, information, professional and business services, and trade, transportation, and utilities, all of which had employment declines of more than six percent between December 2007 and October 2009. Employment declines in the leisure and hospitality industry were about three percent, and employment in education and health services increased by about 4 percent at the same time.

## Fiscal Condition of States Will Affect the Results of Recovery Act Spending

The employment effects of Recovery Act funds allocated to state and local governments will also likely vary with their degree of fiscal stress, as well as with the factors mentioned above. Because recessions manifest in the form of lower output, employment, and income, among other things, reductions in output, employment, and income lead state and local governments to collect less tax revenue and at the same time cause households' demand for publicly provided goods and services to increase. State governments often operate under various constraints, such as balanced budget requirements, so they generally must react to lower tax revenues by raising tax rates, cutting publicly provided programs and services, or drawing down reserve funds, all but the last of which amplify recessionary pressure on households and businesses. Local governments must do the same unless they can borrow to make up for lost tax revenue. By providing funds to state and local governments, the Recovery Act intends to forestall, or at least moderate, their program and service cuts, reserves liquidation, and tax increases.

In addition to the type of spending undertaken, the size of the multiplier and resultant employment effects will depend on the extent to which aid is not diverted to reserves. Generally speaking, states with weaker economies and finances will be more likely to spend Recovery Act dollars. States that may suffer little or no harm from a national downturn are less motivated to make full use of any federal assistance.[31] Rather than increase spending, they may choose to cut taxes or, where permitted by law, add to their reserves. Tax cuts would have some simulative effect, but additions to reserves would reduce any multiplier effect. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the state share for the Medicaid programs. States are prohibited from using any funds directly or indirectly attributable to the increased FMAP for state rainy day funds,[32] but states have reported using funds made available a result of the increased FMAP for a variety of purposes including offset of general fund deficits and tax revenue shortfall.

The availability of reserves and the possibility of borrowing points out the difficulties of gauging the impact of federal policy by the observed timing of aid flows. The expectation of aid could encourage governments to draw more out of reserves or to borrow more than they would otherwise. The rationale is that the expected aid would replace the reserves or liquidate the new debt. In this way, the timing of aid could postdate the impact. Research on individual consumption has long wrestled with the problem of how expectations influence household decisions. State and local governments must also look forward in making fiscal decisions.

The recession has substantially affected the states' fiscal conditions. In recessions, state and local governments are motivated to enact "pro-cyclical" measures that aggravate the downturn. Balanced budget requirements and other constraints cause them to reduce spending and raise taxes, generating what is called "fiscal drag." Federal assistance can reduce the need for such measures. In this way, the negative employment effects of fiscal drag can be precluded and existing jobs can be saved. With sufficient aid, it is possible for state and local governments to go beyond

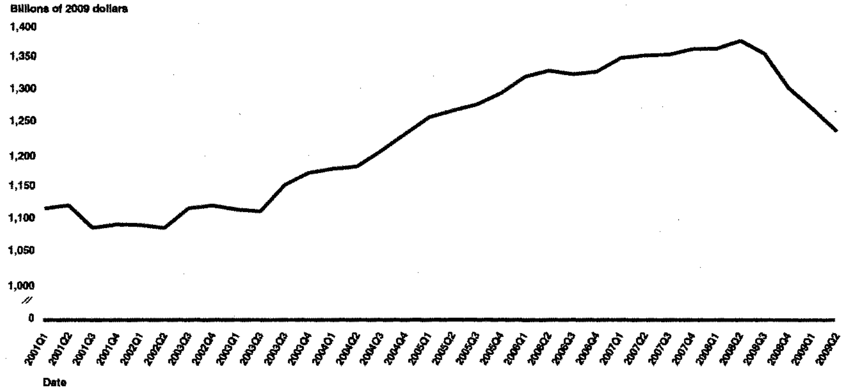
[31]We have ongoing work examining the implementation of maintenance of effort or similar provisions of the Recovery Act. Such provisions are designed to prevent recipients from substituting federal funds for other funds that would have otherwise have been spent. We expect to issue our report later this calendar year.

[32]Recovery Act, div. B, § 50012(f)(3).

saving existing jobs to creating additional ones. However, there are likely to be limits to the abilities of governments to spend aid quickly enough to affect employment

The recession has substantially reduced states' and local governments' combined tax revenues. Figure 8 indicates that tax revenue collected in the second quarter of 2009 fell from the peak in the second quarter of 2008 by more than $130 billion.

**Figure 8: State and Local Tax Receipts**




Source: GAO analysis of U.S. Bureau of Economic Analysis data.

Note: State and local tax receipts are real state and local tax receipts in billions of 2009 dollars, seasonally adjusted at annual rates (the quarterly amount multiplied by four).

State and local revenues are not likely to return to their previous levels until well after the recession has ended. After the 2001 recession, tax receipts did not begin to recover until after second quarter of 2003, well after the 'official' end of the recession in fourth quarter of 2001. However, the fall in receipts after the second quarter of 2008 is dramatic. In a survey of the nation's state governments, the National Governors Association reported that outlays for current services provided through states' general funds decreased by 2.2 percent in fiscal year 2009, which ended in June 2009 for most states. Spending for fiscal year 2010 is projected to fall by

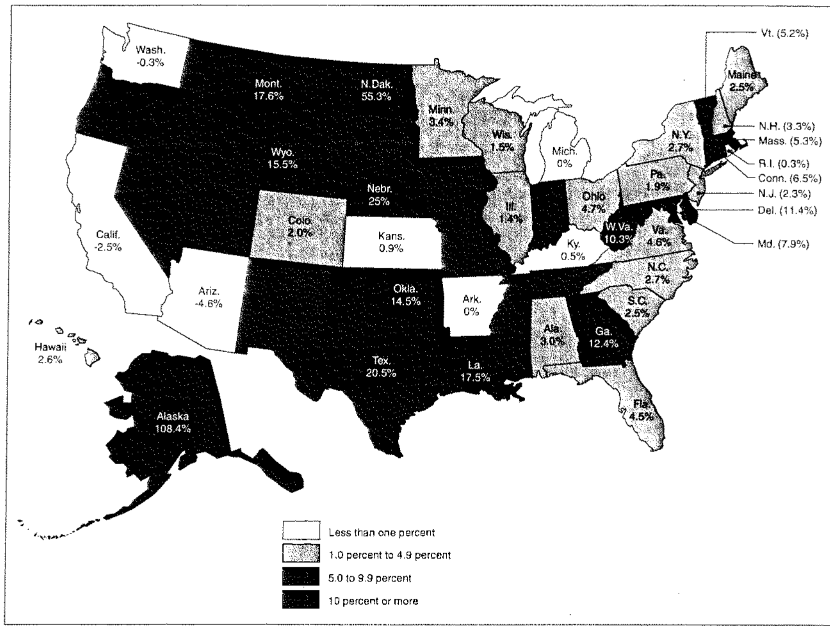
2.5 percent. In light of average annual increases of five percent for total state and local government outlays, any decrease is a significant adjustment.

Most states have some sort of requirement to balance operating budgets. However, most state governments are able to establish reserve funds. Maintenance of a baseline of five percent of annual outlays for a state's fund is regarded by state budget officers as prudent. A lower level could increase a state's borrowing costs. Since 2006 these funds have decreased. In the wake of the 2001 recession, according to an analyst at the Rockefeller Institute of Government, state governments in fiscal year 2002 drew as much as 4.8 percent of their revenues from fund balances.[33] The National Governors Association reports that fund balances peaked in 2006 at $69 billion, at 11 percent of general fund expenditures. The funds declined to 9.1 percent by 2008 and were estimated at 5.5 percent—$36.7 billion—in June 2009. However, by fiscal year 2010, these funds are projected to fall to 5.3 percent of outlays.

In addition, for 2009 there is variation in state government reserves. For example, 11 states had total reserves in excess of 10 percent of outlays, while others, such as California, had total reserves less than 1 percent of outlays. This may be seen in figure 9.

[33]Donald J. Boyd, "Coping with Effects of Recession in the States" (presentation to the Governmental Research Association Annual Conference, Washington, D.C., July 2009), *http://www.rockinst.org/pdf/government_finance/2009-07-Boyd_GRA_Presentation.pdf* (accessed November 13, 2009).

**Figure 9: Total Year-End Balances as a Percentage of Expenditures, Fiscal Year 2009**




Source: Copyright © Corel Corp. All rights reserved (map); GAO analysis of U.S. Bureau of Labor Statistics data.

Diversity in the economic and fiscal conditions of the states and differences in the size and composition of Recovery Act funds they receive suggest that the potential for employment gains varies across states. We will continue work in this area, along with our other work on federal-state fiscal interactions.

## Agency Comments

In commenting on a draft of our report, OMB staff told us that OMB generally accepts the report's recommendations. It has undertaken a lessons learned process for the first round of recipient reporting and will generally address the report's recommendations through that process.

We are sending copies of this report to the Office of Management and Budget and to the Departments of Education, Housing and Urban Development, and Transportation. The report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact J. Christopher Mihm or Susan Offutt at (202) 512-5500. 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 major contributions to this report are listed in appendix III.

Gene L. Dodaro

Gene L. Dodaro
Acting Comptroller General of the United States

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President Pro Tempore of the Senate

The Honorable Harry Reid
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The Honorable Steny Hoyer
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The Honorable John Boehner
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# Appendix I: Calculating Full-Time Equivalent Data—Examples of Guidance and Challenges

The Office of Management and Budget (OMB) and federal agencies have provided wide-ranging guidance to states on how to report full-time equivalent (FTE) data—that is, jobs created or retained. OMB staff reported that questions on FTEs dominated the inquiries they fielded during the first round of recipient reporting, and recipients had various understandings of how to report an FTE. Following are selected examples of the challenges of reporting and calculating FTEs, as seen through public housing agencies and four states—California, Florida, Georgia, and Massachusetts.

## Public Housing Agencies Experienced Problems with the Process of Recipient Reporting and the FTE Calculation

As we reported in September 2009, the Department of Housing and Urban Development (HUD) is using two methods to satisfy reporting requirements for public housing agencies under the Recovery Act. First, OMB and the Recovery Act Board have created and manage www.Federalreporting.gov (Federalreporting.gov), a Web site where all Recovery Act recipients can report on the nature of projects undertaken with Recovery Act funds and on jobs created or retained. Second, HUD developed the Recovery Act Management and Performance System (RAMPS) in response to reporting requirements outlined in section 1609 of the Recovery Act.[1] HUD officials said approximately 96 percent of housing agencies had successfully reported into Federalreporting.gov. Initial reports suggested a lower reporting rate, but this was due to a substantial number of housing agencies incorrectly entering values into certain identification fields, such as the award ID number, the awarding agency, or the type of funding received. HUD officials said that the system did not have validation measures in place to ensure the correct award ID numbers were entered. In addition, housing agencies could not edit the award ID number without submitting a new report. According to a HUD official, OMB initially classified reports that could not be matched with a federal agency as "orphaned." The HUD official told us HUD program and Recovery team staff reviewed reports submitted with nonmatching award ID numbers and OMB's list of reports that could not be matched to determine if they matched HUD awards.

[1]Section 1609 of the Recovery Act requires that adequate resources must be devoted to ensuring that applicable environmental reviews under the National Environmental Policy Act are completed on an expeditious basis and that the shortest existing applicable process under the National Environmental Policy Act shall be used. The National Environmental Policy Act protects public health, safety, and environmental quality by ensuring transparency, accountability, and public involvement in federal actions and in the use of public funds.

According to HUD officials, public housing agencies encountered challenges related to registration and system accessibility. For example, a HUD official said the registration process for Federalreporting.gov requires several steps such as obtaining a DUNS number, registering with the Central Contractor Registration (CCR) and obtaining a Federal Reporting Personal Identification Number (FRPIN). The HUD official told us these steps are necessary for validating the recipient reports because they ensure the appropriate points of contact at the appropriate organizations—in this case, public housing agencies—are reporting for each program. The Federalreporting.gov Web site states that each recipient's point of contact information is taken directly from the CCR and if an organization changes its point of contact information it will take 48 hours for Federalreporting.gov to receive the change and e-mail the FRPIN and temporary password to the new point of contact. According to the HUD official, a housing agency's contact information in CCR is sometimes outdated and the systems are often not updated in time for access to be correctly transferred. Additionally, one housing agency official reported he saved his data entry as a draft before being timed out of the system, but was unable to retrieve the data when he reentered the reporting Web site. A HUD official said in the future, HUD and OMB will need to improve the function of the system and the official said that they are working to ensure all housing agencies have access to the reporting systems.

According to a HUD official, there was widespread misunderstanding by public housing agencies about OMB's methodology for calculating the number of jobs created or retained by the Recovery Act, in part because housing agencies are not familiar with reporting jobs information. In a few cases, we found that public housing agencies had reported the number of jobs created or retained into Federalreporting.gov without converting the number into full-time equivalents. For example, officials from one housing agency reported the number of people, by trade, who worked on Recovery Act related projects, but did not apply the full-time equivalent calculation outlined by OMB in the June 22 reporting guidance. Additionally, officials from another public housing agency told us that they based the number of jobs they reported into Federalreporting.gov on letters from their contractors detailing the number of positions rather than full-time equivalents created as a result of their Recovery Act-funded projects. In another case, a housing agency official reported having difficulty locating guidance on calculating job creation. As a result, the housing agency may have underreported jobs data from an architectural firm providing design services for a Recovery Act window replacement project at a public housing complex.

HUD officials cited the fact that OMB and HUD provided additional clarification and guidance close to the deadline for recipient reporting as a factor in housing agencies' confusion about the methodology for counting jobs. According to a HUD official, HUD was in discussions with OMB about finalizing and clarifying portions of the June 22, 2009, job guidance right up to the end of September. In early September, HUD posted the OMB guidance to its Web site and provided information by e-mail to housing agencies on registration for Federalreporting.gov, as well as links to Web seminars and training provided by OMB. HUD issued further guidance to public housing agencies by e-mail on September 25, 2009, approximately 2 weeks before the October 10, 2009, deadline for recipient reporting, providing templates and data dictionaries tailored to the Public Housing Capital Fund. The guidance also reiterated the recipient reporting responsibilities for public housing agencies.

HUD officials told us they did not have enough time to translate some of the terminology into concrete terms that would be clearer to housing agency officials. For example, HUD posted a jobs calculator spreadsheet to its Web site, and HUD field staff would direct housing agencies to this guidance when they asked specific questions about how to calculate jobs. Nonetheless, greater instruction may be needed beyond what was provided to housing agencies on the job calculator's instructions page. A HUD official said it seemed like some housing agencies may have pulled information for the recipient reports from the wrong fields in the job calculator, which produced errors. A HUD official stated they will work with OMB to improve housing agencies' understanding of the methodology for reporting in full-time equivalents prior to the next round of recipient reporting in January 2010.

## California's Experiences with Recipient Reporting Requirements

State officials from the California Recovery Task Force and the California Office of the State Chief Information Officer (CIO) explained that while the centralized reporting structure had several benefits, challenges with changing reporting requirements from federal agencies and technological glitches still occurred.

As a centralized reporting state, each state agency reported directly to the CIO through the California ARRA Accountability tool. The Task Force is responsible for uploading the data to Federalreporting.gov. However, according to state officials, local government agencies that received direct Recovery Act dollars from the federal government are not under the Task Force's purview of the state officials and report to Federalreporting.gov on their own. State officials stated that a centralized reporting structure allows the CIO to act as a liaison between OMB and the state for faster reconciliation of issues. The CIO, on behalf of the task force, was responsible for collecting, validating, and uploading data from state agencies to Federalreporting.gov. The state officials believed the process went well overall and commended their state team for successfully reporting into Federalreporting.gov. The Task Force officials believed the reporting process could be improved if OMB provided a comprehensive list of awards to better crosscheck reporting. California officials stated that many of the challenges in reporting did not come from the additional information requested during October 11 to 20, but from changes immediately prior to the September 30 cut-off date. These changes included issues such as the Department of Education's request to include Central Contract Registration numbers on September 21, and FHWA's changes to four of the data elements, including the award amounts.

California officials have a greater appreciation of what to expect during the reporting process. They believe that the continuous communication with the state agencies, including weekly data group meetings at which as many as 60 people attended, contributed to the overall success of the reporting process. They also have been developing their own internal logic checks to assist with data validation. California officials continue to be concerned that problems at Federalreporting.gov and changing agency requirements will cause subrecipient data, initially correctly collected in accordance with federal guidance, to be rejected, which will result in penalties for late submissions.

## Florida Department of Transportation's Experiences with Reporting and Data Quality Reviews

The Florida Department of Transportation (FDOT) has reporting requirements under both sections 1512 and 1201 of the Recovery Act. Although the state had an existing system in place that could be used for section 1201 reporting, officials decided to develop two additional systems for 1512 reporting. One system was created to assist FDOT in reporting information to the state Recovery Czar and a second system for employment reporting was created to allow subrecipients to enter total number of employees, payroll, and employee hours for Recovery Act-funded highway projects. According to state officials, the system was launched on May 29, 2009, and is currently in use. FDOT officials experienced no significant reporting problems while submitting more than 400 reports.

Florida began preparing for reporting early and conducted extensive training to assist contractors, consultants, and local agencies in the collection of employment data required by the Recovery Act. For example, FDOT's Office of Inspector General (OIG) developed five computer-based training modules to assist department staff and external partners in the use of the electronic reporting system. FDOT also partnered with its OIG and the Florida Division of the Federal Highway Administration (FHWA) to conduct town hall presentations for its seven District Offices and Florida's Turnpike Enterprise. The presentations were designed to ensure consistent use of the electronic employment data application. In September, OIG followed up with a survey to local agencies to determine the levels of proficiency for using the department's electronic employment reporting system and to solicit feedback.

FDOT's electronic employment data reporting system provides for several levels of data review and approval. For example, once the subrecipient enters their monthly employment data into the electronic system, the data is available for review and subsequent approval by the local agency project manager. Once approved, the data is available for review and approval by the department's district office project manager. The district office project manager performs a reasonableness check of the submitted data prior to electronically approving the same.

The electronic employment data is then available for review by OIG where two types of analyses are performed. First, OIG identifies whether the subrecipient should be reporting job data by comparing submitted data (and subrecipient identifiers) against the master list of awarded Recovery Act transportation projects. Second, OIG compares previously submitted subrecipient information against information contained in its current submission to determine any data anomalies or variances. Should any significant data anomalies or variances occur, OIG will contact the appropriate district and local agency.

FDOT did not require subrecipients to submit verification of their job data but subrecipients were advised by FDOT to maintain documentation for review. For two subrecipients we visited, we found the extent to which documentation was being maintained varied. For example, one subrecipient kept time-sheets for all employees associated with Recovery Act projects, while another had documentation for its hourly employees but not its management employees.

## Reporting from a Georgia Highway Contractor's Perspective

**Reporting Process:** In Georgia, one of the highway contractors we visited noted that it was responsible for reporting on about 30 Recovery Act-funded projects with approximately 10 subrecipients for each project. The contractor stated that they are required to fill out a monthly report (FHWA Form 1589) indicating the number of employees, the hours worked, and the dollars charged to the job through a direct portal created by Georgia Department of Transportation (GDOT). According to the contractor, this reporting requirement is in the contract, and GDOT will withhold payment if this report is not completed. As the general contractor, the firm is also responsible for collecting the 1589 information from its subcontractors on each job. Officials with the firm stated that they would withhold payment from the subcontractors if they fail to provide the information. We examined these contracts and confirmed these requirements. In addition to the 1589 report, the contractor also submits certified payroll to GDOT on a monthly basis.

**Guidance and Challenges:** In terms of guidance, the contractor noted that there was not a lot of training provided but that they did not necessarily need much training. The main challenges raised were issues with making changes within the GDOT system and the DUNS number field. For example, officials explained once a report was submitted into GDOT's system, it could not be edited, which made errors in entry or reporting difficult to correct. The contractor has discussed this issue with GDOT and hopes a solution will be reached for the next reporting cycle.

The DUNS number requirement was an issue for several subrecipients since they did not have a number and they were under the impression that a cost was involved in obtaining a number, which there was not. After discussions with GDOT, it was determined that subrecipients did not need a DUNS number, but the field could not be blank. Therefore, GDOT advised the contractor to have its subrecipients complete the file by entering "not applicable." The contractor suggested that improvements in reporting could be achieved by delaying the reporting date to GDOT to allow more time to handle delays in payroll and obtaining supporting information. Overall, the contractor felt that the September report was the most accurate month reported to date and believed greater accuracy will be achieved over time.

**Data Quality:** Officials of the highway contractor told us they think they have a handle on the process and were confident in the data submitted. In their words, "if it's inaccurate, we paid somebody wrong" since the report comes out of their payroll system. In terms of data from subcontractors, the officials noted that their confidence varied somewhat across subcontractors. Officials explained that information varied, based on the capacity and expertise of the subcontractor (that is, experience in reporting and if a certified payroll is in place). Officials explained they had greater confidence in subcontractors that had certified payroll. They provided several examples of subrecipients who were truckers or haulers who are not familiar with reporting and often are a small operation of one employee. Officials noted that the number of truckers or haulers on a project is often large in order to meet disadvantaged business requirements. Officials questioned if truckers and haulers should be part of the job creation or retained count since similar positions may not be counted for subcontractors that provide materials such as pipe. Officials believed over time, subcontractors would become more comfortable and familiar with the process.

## Reporting from a Massachusetts Highway Contractor's Perspective

**Reporting Process:** An official at a major highway contractor we interviewed in Massachusetts explained that one of his primary responsibilities as the Construction Cost Accountant is to certify payroll records and ensure compliance with federal labor standards. This company is the general contractor (or prime contractor) on six Recovery Act highway construction projects.

A company official stated that that there was no additional burden associated with filing the quarterly recipient reports because they routinely report employment data to the Massachusetts Department of Transportation (MassDOT), Highway Division for federal-highway funded projects through the MassDOT Highway Division's Equitable Business Opportunities (EBO) system. Although there were additional data elements required for Recovery Act projects, the company official noted that FHWA Form 1589 specifies these additional reporting elements, and they have been added to the EBO system to make it easier for contractors and subcontractors to report on a monthly basis.

According to the company official, the process was very straightforward. Contractors and subcontractors log into the EBO system and can see detailed information on all the projects they are working on for the MassDOT Highway Division. Typically, by the 15th day of each month, contractors and subcontractors upload their certified payroll files into the EBO system. However, for the September submission, MassDOT's Highway Division required contractors to submit their employment reports early by October 9, so that they could meet the state's October 10 deadline of submitting the quarterly Recovery Act report.

**Guidance and Challenges:** The official noted that the only guidance he received came from the MassDOT Highway Division in the form of training on the EBO system, which he said helped contractors and subcontractors transition from the old employment reporting system to the EBO system. He noted that for contractors that were used to working with complex accounting systems, this training was adequate, but for smaller contractors with little computer experience, the training could have been better. In general, the official observed that most contractors and subcontractors are very pleased with the new system because it interfaces so well with their existing accounting and certified payroll databases and because the cost is low.

**Data Quality:** There are several steps for ensuring data quality. First, a company official explained that most large contractors and many subcontractors have accounting and payroll data systems that interface with the EBO database well, so they are able to upload data from these systems directly into the EBO system, eliminating the need to reenter employment data. However, some smaller contractors don't have these systems and thus must enter the data by hand each month. The company official stated that he is not concerned with the quality of data because it is verified both internally and by the MassDOT Highway Division.

The official explained that the MassDOT Highway Division puts the responsibility for ensuring that subcontractors file monthly reports with the general contractor, and his company ensures subcontractor compliance by withholding their reimbursements. Although it is rarely needed, the official noted that withholding payments to subcontractors is a very effective tool for getting subcontractors to submit their monthly reports. Furthermore, all subcontractor employment reports are verified against the daily duty log that is kept by the project supervisor, who is an employee of the company. The MassDOT Highway Division also posts resident engineers at each job site on a daily basis, and they keep a daily diary of employment and work status that is used to verify the data submitted by general contractors in the MassDOT Highway Division project management system. This is the same system that is used to generate contractor invoices for reimbursement.

# Appendix II: Department of Education Calculations to Determine 1 ɹll-Time Equivalents (FTE) for Jobs Created or Retained

According to Education's clarifying guidance on jobs estimation, local educational agencies (LEA) are generally required to calculate a baseline number of hours worked, consisting of a hypothetical number of hours that would have been worked in the absence of Recovery Act funds. Once LEA officials derive this number, they then deduct the number from actual hours worked by individuals whose employment is attributable to Recovery Act funding to determine the number of hours created or retained. They then derive the number of full-time equivalents (FTE) for jobs created or retained, as shown in table 10.

**Table 10: Derivation of Number of Hours Created or Retained**

| | | Hypothetical: No Recovery Act funding (baseline) | Actual: Current quarter employees |
|---|---|---|---|
| Direct employees | Employer | Hours employed (estimates) | Hours employed (actual) |
| Employee 1 | Prime recipient | 520 | 520 |
| Employee 2 | Grantee | 300 | 520 |
| Employee 3 | Grantee | 0 | 520 |
| Employee 4 | Grantee | 300 | 300 |
| Employee 5 | Vendor 1 | 200 | 300 |
| Employee 6 | Vendor 2 | 0 | 300 |
| **Total** | | **1320** | **2460** |
| | | | Hours Created or Retained: 1140 |

Source: U.S. Department of Education.

Note: The data were taken from Education's "Clarifying Guidance on American Recovery and Reinvestment Act of 2009 Reporting on Jobs Creation Estimates by Recipients" (September 2009).

Then, they divide the resulting number of hours created or retained by the number of FTE hours in the quarter or reporting period to determine the number of FTEs to report. For example, in the table above, Employees 3 and 6 went from being unemployed (0 hours of employment) in the hypothetical situation where no Recovery Act funds are available to full-time (520 hours) and part-time (300 hours) employment, respectively. Employee 2 went from part-time (300 hours) to full-time (520 hours). Employee 5 remained a part-time employee, but works an additional 100 hours in the reporting quarter. Taking the sum of actual hours worked in the reporting quarter (2460) and subtracting the hours worked in the hypothetical baseline quarter (1320), we are left with 1140 created or retained hours. For the first reporting quarter, LEA officials divided the result by the number of FTE hours in that quarter (520).[1] The total FTEs created or retained in Quarter 1 is 2.19.

Results should be reported cumulatively, so in the second reporting quarter (Q2), the total hours worked in Q2 will be added to the hours worked in Q1 and divided by the hours in a full-time schedule for two quarters (1040 hours). For example, if in quarter 2, all employees reported in quarter 1 are retained and the baseline remains unchanged, we would again have 1140 hours created or retained. To get the final cumulative FTE created or retained, officials would sum 1140 for quarter 1 with 1140 for quarter 2 to get 2280 total hours created or retained. Recipients should divide this by the sum of the hours in a full-time schedule for those two quarters (1040). The result is again 2.19 FTE created or retained in quarter 2.

[1]The value of hours worked in a quarter may vary with the number of full-time hours worked since the beginning of the reporting period and what the recipient regards as a full-time schedule.

# Appendix III: GAO Contacts and Staff Acknowledgments

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**EXHIBIT BOOK**

**November 19, 2009 Full Committee Hearing**
**"Tracking the Money: How Recovery Act Recipients Account for their Use of Stimulus Dollars."**

**COMMITTEE ON OVERSIGHT & GOVERNMENT REFORM**
**U.S. HOUSE OF REPRESENTATIVES**

**Full Committee Hearing**
**"Tracking the Money: How Recovery Act Recipients Account for their Use of Stimulus Dollars."**

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11. Center for American Progress - Stimulus Aids Strong Economic Rebound, Christian Weller, October 29, 2009

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United States Government Accountability Office

GAO

Report to the Congress

November 2009

# RECOVERY ACT

# Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention

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GAO-10-223

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# Highlights

## Why GAO Did This Study

## What GAO Recommends

November 2009

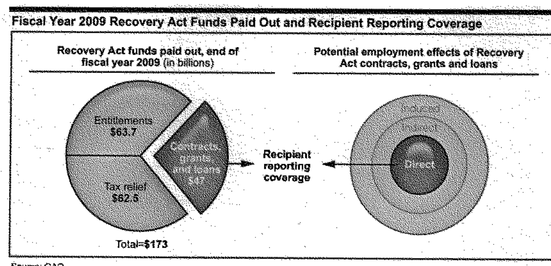
# RECOVERY ACT

## Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention

### What GAO Found

As of September 30, 2009, approximately $173 billion of the $787 billion—or about 22 percent—of the total funds provided by the Recovery Act had been paid out by the federal government. Nonfederal recipients of Recovery Act-funded grants, contracts, and loans are required to submit reports with information on each project or activity, including the amount and use of funds and an estimate of jobs created or retained. Of the $173 billion in funds paid out, about $47 billion—a little more than 25 percent—is covered by this recipient report requirement. Neither individuals nor recipients receiving funds through entitlement programs, such as Medicaid, or through tax programs are required to report. In addition, the required reports cover direct jobs created or retained as a result of Recovery Act funding; they do not include the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs). (See figure.)

**Fiscal Year 2009 Recovery Act Funds Paid Out and Recipient Reporting Coverage**




Source: GAO.

On October 30, www.recovery.gov (the federal Web site on Recovery Act spending) reported that more than 100,000 recipients reported hundreds of thousands of jobs created or retained. Given the national scale of the recipient reporting exercise and the limited time frames in which it was implemented, the ability of the reporting mechanism to handle the volume of data from a wide variety of recipients represents a solid first step in moving toward more transparency and accountability for federal funds. Because this effort will be an ongoing process of cumulative reporting, GAO's first review represents a snapshot in time.

Data Reporting and Quality

While recipients GAO contacted appear to have made good faith efforts to ensure complete and accurate reporting, GAO's fieldwork and initial review and analysis of recipient data from www.recovery.gov, indicate that there are a range of significant reporting and quality issues that need to be addressed.

For example, GAO's review of prime recipient reports identified the following:

**Erroneous or questionable data entries that merit further review:**

- 3,978 reports that showed no dollar amount received or expended but included more than 50,000 jobs created or retained;
- 9,247 reports that showed no jobs but included expended amounts approaching $1 billion, and
- Instances of other reporting anomalies such as discrepancies between award amounts and the amounts reported as received which, although relatively small in number, indicate problematic issues in the reporting.

**Coverage:** While OMB estimates that more than 90 percent of recipients reported, questions remain about the other 10 percent.

**Quality review:** While less than 1 percent were marked as having undergone review by the prime recipient, over three quarters of the prime reports were marked as having undergone review by a federal agency.

**Full-time equivalent (FTE) calculations:**
Under OMB guidance, jobs created or retained were to be expressed as FTEs. GAO found that data were reported inconsistently even though significant guidance and training was provided by OMB and federal agencies. While FTEs should allow for the aggregation of different types of jobs—part time, full time or temporary—differing interpretations of the FTE guidance compromise the ability to aggregate the data.

To illustrate, in California, two higher education systems calculated FTE differently. In the case of one, officials chose to use a 2-month period as the basis for the FTE performance period. The other chose to use a year as the basis for the FTE. The result is almost a three-to-one difference in the number of FTEs reported for each university system in the first reporting period. Although the Department of Education provides alternative methods for calculating an FTE, in neither case does the guidance explicitly state the period of performance of the FTE.

Although there were problems of inconsistent interpretation of the guidance, the reporting process went relatively well for highway projects. Transportation had an established procedure for reporting prior to enactment of the Recovery Act. In the cases of Education and Housing, which do not have this prior reporting experience, GAO found more problems. Some of these have been reported in the press. State and federal officials are examining these problems and have stated their intention to deal with them.

GAO will continue to monitor and review the data reporting and quality issues in its bimonthly reviews and fieldwork on the use of funds in the 16 states and the District of Columbia, and in GAO's analysis of future quarterly recipient reporting.

Recommendations for Executive Action

To improve the consistency of FTE data collection and reporting, OMB should (1) clarify the definition and standardize the period of measurement for FTEs and work with federal agencies to align this guidance with OMB's guidance and across agencies; (2) given its reporting approach, consider being more explicit that "jobs created or retained" are to be reported as hours worked and paid for with Recovery Act funds; and (3) continue working with federal agencies and encourage them to provide or improve program-specific guidance to assist recipients, especially as it applies to the full-time equivalent calculation for individual programs.

OMB should also work with the Recovery Accountability and Transparency Board and federal agencies to re-examine review and quality assurance processes, procedures, and requirements in light of experiences and identified issues with this round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

Employment Effects

Even if the data quality issues are resolved, it is important to recognize that the FTEs in recipient reports alone do not reflect the total employment effects of the Recovery Act. As noted, these reports solely reflect direct employment arising from the expenditure of less than one-third of Recovery Act funds. Therefore, both the data reported by recipients and other macroeconomic data and methods are necessary to gauge the overall employment effects of the stimulus. The Recovery Act includes entitlements and tax provisions, which also have employment effects. The employment effects in any state will vary with labor market stress and fiscal condition, as discussed in this report.

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**Abbreviations**

| | |
|---|---|
| CBO | Congressional Budget Office |
| CCR | Central Contractor Registration |
| CEA | Council of Economic Advisers |
| CFDA | Catalog of Federal Domestic Assistance |
| CIO | chief information officer |
| DOT | Department of Transportation |
| EBO | Equitable Business Opportunities |
| Education | Department of Education |
| FDOT | Florida Department of Transportation |
| FHWA | Federal Highway Administration |
| FRPIN | Federal Reporting Personal Identification Number |
| FTE | full-time equivalent |
| GDOT | Georgia Department of Transportation |
| GDP | gross domestic product |
| HHS | Department of Health and Human Services |
| HUD | Department of Housing and Urban Development |
| IG | inspector general |
| LEA | local education agency |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| RADS | Recovery Act Data System |
| RAMPS | Recovery Act Management and Performance System |
| Recovery Act | American Recovery and Reinvestment Act of 2009 |
| Recovery Board | Recovery Accountability and Transparency Board |
| SEA | state education agency |
| SFSF | State Fiscal Stabilization Fund |
| TAS | Treasury Account Symbol |

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**United States Government Accountability Office**
**Washington, DC 20548**

November 19, 2009

Report to the Congress

Congress and the new administration crafted the American Recovery and Reinvestment Act of 2009 (Recovery Act)[1] with the broad purpose of stimulating the economy. One of the express purposes of the act was to preserve and create jobs. To help measure the progress of this effort, Congress and the administration built into the act numerous provisions to increase transparency and accountability over spending that require recipients of Recovery Act funding to report quarterly on a number of measures. Nonfederal recipients of Recovery Act funded grants, contracts, or loans are required to submit reports with information on each project or activity, including the amount and use of funds and an estimate of the jobs created or retained.[2] Neither individuals nor recipients receiving funds through entitlement programs, such as Medicaid, or tax programs are required to report. The first of these recipient reports cover cumulative activity since the Recovery Act's passage in February 2009 through the quarter ending September 30, 2009. The Recovery Act requires GAO to comment on the estimates of jobs created or retained in the recipient reports no later than 45 days after recipients have reported.[3] The final recipient reporting data for the first round of reports were first made available on October 30, 2009.

The transparency that is envisioned for tracking Recovery Act spending and results is unprecedented for the federal government. Both Congress and the President have emphasized the need for accountability, efficiency, and transparency in the expenditure of Recovery Act funds and have made it a central principle of the act. As Congress finished work on the Recovery Act, the House Appropriations Committee released a statement saying, "A historic level of transparency, oversight and accountability will help guarantee taxpayer dollars are spent wisely and Americans can see results for their investment." In January, the new administration pledged that the Recovery Act would "break from conventional Washington

[1]Pub. L. 111-5, 123 Stat. 115 (Feb. 17, 2009).

[2]Recovery Act, div. A, § 1512. We will refer to the quarterly reports required by section 1512 as recipient reports.

[3]The Congressional Budget Office (CBO) is also required by the act to comment on the estimates of jobs created or retained no later than 45 days after recipients have reported.

approaches to spending by ensuring that public dollars are invested effectively and that the economic recovery package is fully transparent and accountable to the American people." However, tracking billions of dollars that are being disbursed to thousands of recipients is an enormous effort. The administration expects that achieving this degree of visibility will be an iterative process in which the reporting process and information improve over time and, if successful, could be a model for transparency and oversight beyond the Recovery Act.

This report, the first in response to the Recovery Act's section 1512 mandate that GAO comment on the estimates of jobs created or retained by direct recipients of Recovery Act funds, addresses the following: (1) the extent to which recipients were able to fulfill their reporting requirements and the processes in place to help ensure recipient reporting data quality and (2) how macroeconomic data and methods, and the recipient reports, can be used to assess the employment effects of the Recovery Act, and the limitations of the data and methods.

To meet our objectives, we performed an initial set of edit checks and basic analyses on the final recipient report data that first became available at www.recovery.gov, the federal government's official Web site on Recovery Act spending, on October 30, 2009. We calculated the overall sum, as well as sum by states, for the number of full-time equivalents (FTE) reported, award amount, and amount received and found that they corresponded closely with the values shown for these data on Recovery.gov. We built on information collected at the state, local, and program level as part of our bimonthly reviews of selected states' and localities' uses of Recovery Act funds. These bimonthly reviews focus on Recovery Act implementation in 16 states and the District of Columbia, which contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental federal assistance funds available through the Recovery Act. A detailed description of the criteria used to select the core group of 16 states and the District is found in appendix I of our April 2009 Recovery Act bimonthly report.[4] Prime recipients and delegated subrecipients[5] had to prepare and enter their information by October 10, 2009. The days following up to October 30, 2009, included the data review period, and as noted previously, on October 30, 2009, the first round of recipient reported data was made public. Over the course of three different interviews, two with prime recipients of Recovery Act funding and one with subrecipients, we visited the 16 selected states and the District of Columbia during late September and October 2009. We discussed with prime recipients projects associated with 50 percent of the total funds reimbursed, as of September 4, 2009, for that state, in the Federal-Aid Highway Program administered by the Department of Transportation (DOT). Prior to the start of the reporting period on October 1, we reviewed prime recipients' plans for the jobs data collection process. After the October 10 data reporting period, we went back to see if prime recipients followed their own plans and subsequently talked with at least two vendors in each state to gauge their reactions to the reporting process and assess the documentation they were required to submit.

We gathered and examined issues raised by recipients in these jurisdictions regarding reporting and data quality and interviewed recipients on their experiences using the Web site reporting mechanism. During the interviews, we used a series of program reviews and semistructured interview guides that addressed state plans for managing, tracking, and reporting on Recovery Act funds and activities. In a similar way, we examined a nonjudgmental sample of Department of Education (Education) Recovery Act projects at the prime and subrecipient level. We also collected information from transit agencies as part of our bimonthly Recovery Act reviews. In addition, we interviewed federal agency officials who have responsibility for ensuring a reasonable degree of quality across their program's recipient reports. We assessed the reports from the Inspector Generals (IG) on Recovery Act data quality review from 15

[4]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).

[5]Prime recipients are nonfederal entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government. Subrecipients are nonfederal entities that are awarded Recovery Act funding through a legal instrument from the prime recipient to support the performance of any portion of the substantive project or program for which the prime recipient received the Recovery Act funding. Additionally, applicable terms and conditions of the federal award are carried forward to the subrecipient.

agencies. We are also continuing to monitor and follow up on some of the major reporting issues identified in the media and by other observers. For example, a number of press articles have discussed concerns with the jobs reporting done by Head Start grantees. According to a Health and Human Services (HHS) Recovery Act official, HHS is working with the Office of Management and Budget (OMB) to clarify the reporting policy as it applies to Head Start grantees. We will be reviewing these efforts as they move forward.

To address our second objective, we analyzed economic and fiscal data using standard economic principles and reviewed the economic literature on the effect of monetary and fiscal policies for stimulating the economy. We also reviewed guidance that OMB developed for Recovery Act recipients to follow in estimating the effect of funding activities on employment, reviewed reports that the Council of Economic Advisers (CEA) issued on the macroeconomic effects of the Recovery Act, and interviewed officials from the CEA, OMB, and the Congressional Budget Office (CBO).

We conducted this performance audit with field work beginning in late September 2009 and began analysis of the recipient data that became available on October 30, 2009, 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.

## Background

In December 2007, the United States entered what has turned out to be its deepest recession since the end of World War II. Between the fourth quarter of 2007 and the third quarter of 2009, gross domestic product (GDP) fell by about 2.8 percent, or $377 billion. The unemployment rate rose from 4.9 percent in 2007 to 10.2 percent in October 2009, a level not seen since April 1983. The CBO projects that the unemployment rate will remain above 9 percent through 2011.

Confronted with unprecedented weakness in the financial sector and the overall economy, the federal government and the Federal Reserve together acted to moderate the downturn and restore economic growth. The Federal Reserve used monetary policy to respond to the recession by pursuing one of the most significant interest rate reductions in U.S. history. In concert with the Department of the Treasury, it went on to bolster the supply of credit in the economy through measures that provide Federal Reserve backing for a wide variety of loan types, from mortgages to automobile loans to small business loans. The federal government also used fiscal policy to confront the effects of the recession. Existing fiscal stabilizers, such as unemployment insurance and progressive aspects of the tax code, kicked in automatically in order to ease the pressure on household income as economic conditions deteriorated. In addition, Congress enacted a temporary tax cut in the first half of 2008 to buoy incomes and spending[6] and created the Troubled Asset Relief Program[7] in the second half of 2008 to give Treasury authority to act to restore financial market functioning.[8]

The federal government's largest response to the recession to date came in early 2009 with the passage of the Recovery Act, the broad purpose of which is to stimulate the economy's overall demand for goods and services, or aggregate demand. The Recovery Act is specifically intended to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advances in health and science; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize the budgets of state and local governments.[9] The CBO estimates that the net cost of the Recovery Act will total approximately $787 billion from 2009 to 2019.

The Recovery Act uses a combination of tax relief and government spending to accomplish its goals. The Recovery Act's tax cuts include reductions to individuals' taxes, payments to individuals in lieu of reductions to their taxes, adjustments to the Alternative Minimum Tax, and business tax incentives. Tax cuts encompass approximately one-third of the Recovery Act's dollars. Recovery Act spending includes temporary increases in entitlement programs to aid people directly affected by the

[6]Economic Stimulus Act of 2008, Pub. L. No. 110-185, 122 Stat. 613 (Feb. 13, 2008).

[7]GAO, *Troubled Asset Relief Program: One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges*, GAO-10-16 (Washington, D.C.: Oct. 8, 2009).

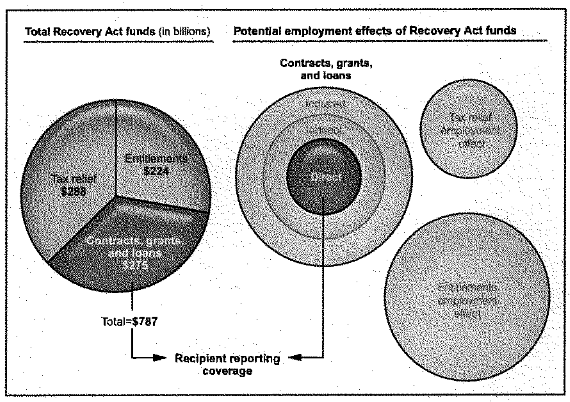
[8]Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat. 3765 (Oct. 3, 2008), codified at 12 U.S.C. § § 5201 5261.

[9]Recovery Act, § 3.

recession and provide some fiscal relief to states; this also accounts for about one third of the Recovery Act. For example, the Recovery Act temporarily increased and extended unemployment benefits, temporarily increased the rate at which the federal government matched states Medicaid expenditures, and provided additional funds for the Supplemental Nutrition Assistance and the Temporary Aid to Needy Families programs, among other things. Other spending, also accounting for about a third of the act falls into the category of grants, loans, and contracts. This includes government purchases of goods and services, grants to states through programs such as the State Fiscal Stabilization Fund for education and other government services, and government investment in infrastructure, health information technology, renewable energy research, and other areas.

In interpreting recipient reporting data, it is important to recognize that the recipient reporting requirement only covers a defined subset of the Recovery Act's funding. The reporting requirements apply only to nonfederal recipients of funding, including all entities receiving Recovery Act funds directly from the federal government such as state and local governments, private companies, educational institutions, nonprofits, and other private organizations. OMB guidance, consistent with the statutory language in the Recovery Act, states that these reporting requirements apply to recipients who receive funding through the Recovery Act's discretionary appropriations, not recipients receiving funds through entitlement programs, such as Medicaid, or tax programs. Recipient reporting also does not apply to individuals. In addition, the required reports cover only direct jobs created or retained as a result of Recovery Act funding; they do not include the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs). Figure 1 shows the division of total Recovery Act funds and their potential employment effects.

**Figure 1: The Potential Employment Effects of Recovery Act Funds**




Source: GAO.

Note: The potential employment effects of the different types of Recovery Act funds are based on historical data and are reflected in the size of the circles.

Tracing the effects of the Recovery Act through the economy is a complicated task. Prospectively, before the act's passage or before funds are spent, the effects can only be projected using economic models that represent the behavior of governments, firms, and households. While funds are being spent, some effects can be observed but often relevant data on key relationships and indicators in the economy are available only with a lag, thereby complicating real-time assessments. When a full range of data on outcomes becomes available, economic analysts undertake retrospective analyses, where the findings are often used to guide future policy choices and to anticipate effects of similar future policies. Stimulus spending under the broad scope of the Recovery Act will reverberate at the national, regional, state, and local levels. Models of the national economy provide the most comprehensive view of policy effects, but they do not provide insight, except indirectly, about events at smaller geographical scales. The diversity and complexity of the components of the national economy are not fully captured by any set of existing economic models. Some perspective can be gained by contemporaneous close observation of the actions of governments, firms, and households, but a complete and accurate picture of the Recovery Act's impact will emerge only slowly.

Section 1512 of the Recovery Act requires recipients of recovery funds to report on those funds each calendar quarter. These recipient reports are to be filed for any quarter in which a recipient receives Recovery Act funds directly from the federal government. The recipient reporting requirement covers all funds made available by appropriations in division A of the Recovery Act. The reports are to be submitted no later than 10 days after the end of each calendar quarter in which the recipient received Recovery Act funds. Each report is to include the total amount of Recovery Act funds received, the amount of funds expended or obligated to projects or activities, and a detailed list of those projects or activities. For each project or activity, the detailed list must include its name and a description, an evaluation of its completion status, and an estimate of the number of jobs created or the number of jobs retained by that project or activity. Certain additional information is also required for infrastructure investments made by state and local governments. Also, the recipient reports must include detailed information on any subcontracts or subgrants as required by the Federal Funding Accountability and Transparency Act of 2006.[10] Section 1512(e) of the Recovery Act requires GAO and CBO to comment on the estimates of jobs created or retained reported by recipients.

In its guidance to recipients for estimating employment effects, OMB instructed recipients to report only the direct employment effects as "jobs created or retained" as a single number.[11] Recipients are not expected to report on the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs). According to the guidance, "A job created is a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act; a job retained is an existing position that would not have been continued to be filled were it not for Recovery Act funding. Only compensated employment . . . should be reported. The estimate of the number of jobs . . . should be expressed as 'full-time equivalents (FTE),' which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient." Consequently, the recipients are

[10] Pub. L. No 109-282, 120 Stat. 1186 (Sept. 26, 2006).

[11] OMB Memoranda, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

expected to report the amount of labor hired or not fired as result of having received Recovery Act funds. It should be noted that one FTE does not necessarily equate to the job of one person. Firms may choose to increase the hours of existing employees, for example, which can certainly be said to increase employment but not necessarily be an additional job in the sense of adding a person to the payroll.

To implement the recipient reporting data requirements, OMB has worked with the Recovery Accountability and Transparency Board (Recovery Board)[12] to deploy a nationwide data collection system at www.federalreporting.gov (Federalreporting.gov), while the data reported by recipients are available to the public for viewing and downloading on www.recovery.gov (Recovery.gov). Recovery.gov, a site designed to provide transparency of information related to spending on Recovery Act programs, is the official source of information related to the Recovery Act. The Recovery Board's goals for the Recovery Act Web site include promoting accountability by providing a platform to analyze Recovery Act data and serving as a means of tracking fraud, waste, and abuse allegations by providing the public with accurate, user-friendly information. In addition, the site promotes official data in public debate, assists in providing fair and open access to Recovery Act opportunities, and promotes an understanding of the local impact of Recovery Act funding.

In an effort to address the level of risk in recipient reporting, OMB's June 22, 2009, guidance[13] on recipient reporting includes a requirement for data quality reviews. OMB's data quality guidance is intended to address two key data problems—material omissions and significant reporting errors. Material omissions and significant reporting errors are risks that the information is incomplete and inaccurate.[14] As shown in figure 2, OMB

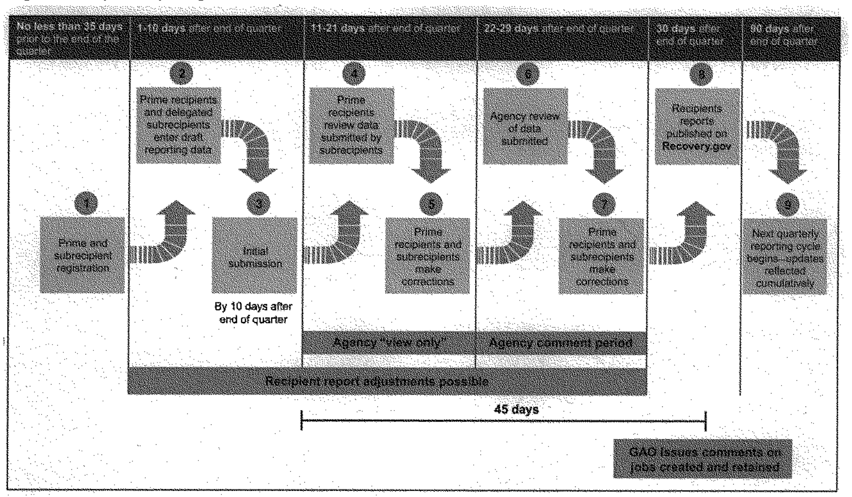
[12]The Recovery Act created the Recovery Accountability and Transparency Board, which is composed of 12 Inspectors General from various federal agencies, who serve with a chairman of the board. Recovery Act, § 1522.The board issues quarterly and annual reports on Recovery Act activities to Congress and the President. The board is also to issue "flash reports" under the statute.

[13]OMB Memoranda, M-09-21.

[14]Material omissions are defined as instances where required data are not reported or reported information is not otherwise responsive to the data requests resulting in a significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. Significant reporting errors are defined as those instances where required data are not reported and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.

gave specific time frames for reporting that allow prime recipients and delegated subrecipients to prepare and enter their information on days 1 through 10 following the end of the quarter. During days 11 through 21, prime recipients will be able to review the data to ensure that complete and accurate reporting information is provided prior to a federal agency review and comment period beginning on the 22nd day. During days 22 to 29 following the end of the quarter, federal agencies will perform data quality reviews and will notify the recipients and delegated subrecipients of any data anomalies or questions. The original submitter must complete data corrections no later than the 29th day following the end of the quarter. Prime recipients have the ultimate responsibility for data quality checks and the final submission of the data. Since this is a cumulative reporting process, additional corrections can take place on a quarterly basis.

**Figure 2: Recipient Reporting Time Frame**

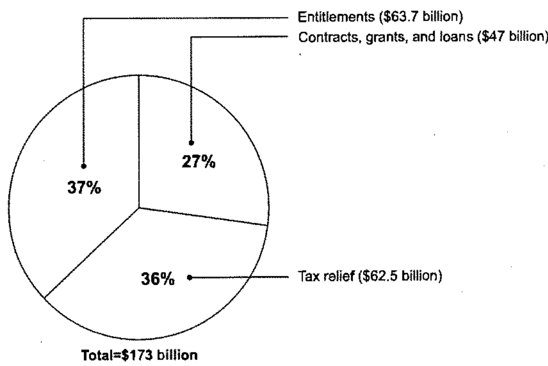



Sources: OMB and GAO.

OMB guidance does not explicitly mandate a methodology for conducting data quality reviews at the prime and delegated subrecipient level or by the federal agencies. Instead, the June 22, 2009, guidance provides the relevant party conducting the data quality review with discretion in determining the optimal method for detecting and correcting material omissions or significant reporting errors. The guidance says that, at a minimum, federal agencies, recipients, and subrecipients should establish internal controls to ensure data quality, completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act.

The Recovery Board published the results of the first round of recipient reporting on Recovery.gov on October 30, 2009. According to the Web site, recipients submitted 130,362 reports indicating that 640,329 "jobs" were created or saved as a direct result of the Recovery Act. These data solely reflect the direct FTEs reported by recipients of Recovery Act grants, contracts, and loans for the period beginning when the act was signed into law on February 17, 2009 through September 30, 2009. As shown in figure 3, grants, contracts, and loans account for about 27 percent, or $47 billion, of the approximately $173 billion in Recovery Act funds paid out as of September 30, 2009.

**Figure 3: Distribution of Recovery Act Funds through the End of Fiscal Year 2009**




Source: Recovery.gov.

Recipients in all 50 states reported jobs created or retained with Recovery Act funding provided through a wide range of federal programs and agencies. Table 1 shows the distribution of jobs created or retained across the nation as reported by recipients on Recovery.gov. Not surprisingly, California, the most populous state, received the most Recovery Act dollars and accounted for the largest number of the reported jobs created or retained.

**Table 1: Jobs Created or Retained by States as Reported by Recipients of Recovery Act Funding**

| Rank | State | Jobs | Rank | State | Jobs | Rank | State | Jobs |
|---|---|---|---|---|---|---|---|---|
| 1 | California | 110,185 | 19 | Oregon | 9,653 | 37 | Arkansas | 3,742 |
| 2 | New York | 40,620 | 20 | Tennessee | 9,548 | 38 | New Hampshire | 3,528 |
| 3 | Washington | 34,517 | 21 | Louisiana | 9,136 | 39 | Mississippi | 3,433 |
| 4 | Florida | 29,321 | 22 | Oklahoma | 8,747 | 40 | Nebraska | 2,840 |
| 5 | North Carolina | 28,073 | 23 | Virginia | 8,617 | 41 | West Virginia | 2,409 |
| 6 | Georgia | 24,681 | 24 | South Carolina | 8,147 | 42 | Alaska | 2,315 |
| 7 | Illinois | 24,448 | 25 | Colorado | 8,094 | 43 | District of Columbia | 2,274 |
| 8 | New Jersey | 24,109 | 26 | Connecticut | 7,551 | 44 | South Dakota | 2,198 |
| 9 | Michigan | 22,514 | 27 | Pennsylvania | 7,427 | 45 | Idaho | 2,103 |
| 10 | Texas | 19,572 | 28 | Maryland | 6,748 | 46 | Vermont | 2,030 |
| 11 | Indiana | 18,876 | 29 | Utah | 6,598 | 47 | Rhode Island | 2,012 |
| 12 | Puerto Rico | 17,597 | 30 | Montana | 6,427 | 48 | Maine | 1,613 |
| 13 | Ohio | 17,095 | 31 | Kansas | 5,935 | 49 | Hawaii | 1,545 |
| 14 | Missouri | 15,149 | 32 | Nevada | 5,667 | 50 | North Dakota | 1,293 |
| 15 | Minnesota | 14,315 | 33 | Iowa | 5,323 | 51 | Delaware | 1,170 |
| 16 | Massachusetts | 12,374 | 34 | New Mexico | 5,230 | 52 | Wyoming | 860 |
| 17 | Arizona | 12,283 | 35 | Alabama | 4,884 | | Other | 1,232 |
| 18 | Wisconsin | 10,073 | 36 | Kentucky | 4,202 | | **Total** | **640,329** |

Source: Recovery.gov.

Notes:

Includes the District of Columbia and Puerto Rico.

"Other" includes all other U.S. territories and data that could not be assigned to a specific state.

Total may not add due to rounding.

Table 2 shows the number and share of jobs created or retained by federal program agencies as reported by recipients of Recovery Act funding. The Department of Education accounted for nearly 400,000 or close to two-thirds of the reported jobs created or retained. According to the Department of Education, this represents about 325,000 education jobs such as teachers, principals, and support staff in elementary and secondary schools, and educational, administrative, and support personnel in institutions of higher education funded primarily through the State Fiscal Stabilization Fund (SFSF).[15] In addition, approximately 73,000 other

[15]States must allocate 81.8 percent of their SFSF funds to support education (education stabilization funds), and must use the remaining 18.2 percent for public safety and other government services, which may include education (government services funds).

jobs (including both education and noneducation positions) were reported saved or created from the SFSF Government Services Fund, the Federal Work Study Program, and Impact Aid funds.

**Table 2: Jobs Created or Retained by Federal Program Agency as Reported by Recipients of Recovery Act Funding**

| Department/agency | Jobs | Percent of total |
|---|---|---|
| Education | 398,006 | 62.2 |
| Labor | 76,223 | 11.9 |
| Transportation | 46,593 | 7.3 |
| Health and Human Services | 28,616 | 4.5 |
| Housing and Urban Development | 28,559 | 4.5 |
| Defense | 11,239 | 1.8 |
| Energy | 10,021 | 1.6 |
| Agriculture | 6,273 | 1.0 |
| Justice | 5,575 | 0.9 |
| Corps of Engineers | 4,354 | 0.7 |
| Environmental Protection Agency | 4,191 | 0.7 |
| National Science Foundation | 2,510 | 0.4 |
| Federal Communications Commission | 1,929 | 0.3 |
| Interior | 1,780 | 0.3 |
| Treasury | 1,454 | 0.2 |
| Homeland Security | 1,305 | 0.2 |
| All others | 11,701 | 1.8 |
| **Total** | **640,329** | **100.0** |

Source: Recovery.gov.

Note: Totals may not add due to rounding.

## Recipients of Recovery Act Funds We Contacted Appear to Have Made Good Faith Efforts to Ensure Complete and Accurate Reporting, but It Will Take Time to Improve Data Quality

While recipients GAO contacted appear to have made good faith efforts to ensure complete and accurate reporting, GAO's fieldwork and initial review and analysis of recipient data from www.recovery.gov, indicate that there are a range of significant reporting and quality issues that need to be addressed. Collecting information from such a large and varied number of entities in a compressed time frame, as required by the Recovery Act, is a huge task. Major challenges associated with the new Recovery Act reporting requirements included educating recipients about the reporting requirements and developing the systems and infrastructure for collecting and reporting the required information. While recipients in the states we reviewed generally made good faith efforts to report accurately, there is evidence, including numerous media accounts, that the data reporting has been somewhat inconsistent. Even recipients of similar types of funds appear to have interpreted the reporting guidance in somewhat different ways and took different approaches in how they developed their jobs data. The extent to which these reporting issues affect overall data quality is uncertain at this point. As existing recipients become more familiar with the reporting system and requirements, these issues may become less significant although communication and training efforts will need to be maintained and in some cases expanded as new recipients of Recovery Act funding enter the system. Because this effort will be an ongoing process of cumulative reporting, our first review represents a snapshot in time.

### Initial Observations on Recipient Reporting Data Identify Areas Where Further Review and Guidance Are Needed

We performed an initial set of edit checks and basic analyses on the recipient report data available for download from Recovery.gov on October 30, 2009. Based on that initial review work, we identified recipient report records that showed certain data values or patterns in the data that were either erroneous or merit further review due to an unexpected or atypical data value or relationship between data values. For the most part, the number of records identified by our edit checks was relatively small compared to the 56,986 prime recipient report records included in our review.

As part of our review, we examined the relationship between recipient reports showing the presence or absence of any FTE counts with the presence or absence of funding amounts shown in either or both data fields for amount of Recovery Act funds received and amount of Recovery Act funds expended. Forty four percent of the prime recipient reports showed an FTE value. As shown in table 3, we identified 3,978 prime recipient reports where FTEs were reported but no dollar amount was reported in the data fields for amount of Recovery Act funds received and amount of Recovery Act funds expended. These records account for 58,386 of the total 640,329 FTEs reported.

**Table 3: Count of Prime Recipient Reports by Presence or Absence of FTEs and Recovery Act Funds Received or Expended**

| Recovery Act funds | Reports with FTEs | Reports without FTEs |
|---|---|---|
| Received or expended funds reported[a] | 21,280 (84%) | 9,247 (29%) |
| No received or expended funds reported | 3,978 (16%) | 22,481 (71%) |
| **Total** | **25,258 (100%)** | **31,728 (100%)** |

Source: GAO analysis of Recovery.gov data.

[a]Prime recipient reports showing a non zero dollar amount in either or both Recovery Act funds received or expended data fields.

As might be expected, 71 percent of those prime recipient reports shown in table 3 that did not show any FTEs also showed no dollar amount in the data fields for amount of Recovery Act funds received and amount expended. There were also 9,247 reports that showed no FTEs but did show some funding amount in either or both of the funds received or expended data fields. The total value of funds reported in the expenditure field on these reports was $965 million. Those recipient reports showing FTEs but no funds and funds but no FTEs constitute a set of records that merit closer examination to understand the basis for these patterns of reporting.

Ten recipient reports accounted for close to 30 percent of the total FTEs reported. All 10 reports were grants and the majority of those reports described funding support for education-sector related positions. For reports containing FTEs, we performed a limited, automated scan of the job creation field of the report, which is to contain a narrative description of jobs created or retained. We identified 261 records where there was only a brief description in this job creation field and that brief text showed such words or phrases as "none," "N/A," zero, or variants thereof. For most of these records, the value of FTEs reported is small, but there are 10 of these records with each reporting 50 or more FTEs. The total number of FTEs reported for all 261 records is 1,776. While our scan could only identify limited instances of apparently contradictory information between the job description and the presence of an FTE number, we suspect that a closer and more extensive review of the job description field in relation to the count of FTEs would yield additional instances where there were problems, and greater attention to this relationship would improve data quality.

In our other analyses of the data fields showing Recovery Act funds, we identified 132 records where the award amount was zero or less than $10. There were also 133 records where the amount reported as received exceeded the reported award amount by more than $10. On 17 of these records, the difference between the smaller amount awarded and the larger reported amount received exceeded $1 million. While there may be a reason for this particular relationship between the reported award amount and amount received, it may also indicate an improper keying of data or an interpretation of what amounts are to be reported in which fields that is not in accordance with the guidance.

We calculated the overall sum and sum by states for number of FTEs reported, award amount, and amount received. We found that they corresponded closely with the values shown for these data on Recovery.gov. Some of the data fields we examined with known values such as the Treasury Account Symbol (TAS) codes and Catalog of Federal Domestic Assistance (CFDA) numbers[16] showed no invalid values on recipient reports. However, our analyses show that there is reason to be concerned that the values shown for these data fields in conjunction with the data field identifying who the funding or awarding agency is may not be congruent. Both TAS and CFDA values are linked to specific agencies and their programs. We matched the reported agency codes against the reported TAS and CFDA codes. We identified 454 reports as having a mismatch on the CFDA number—therefore, the CFDA number shown on the report did not match the CFDA number associated with either the funding or awarding agency shown on the report. On TAS codes, we identified 595 reports where there was no TAS match. Included in the mismatches were 76 recipient reports where GAO was erroneously identified as either the funding or awarding agency. In many instances, review of these records and their TAS or CFDA values along with other

[16]The TAS codes identify the Recovery Act funding program source. The two leftmost characters of each TAS code form a data element that is identical with the two-digit numerical code used in the federal budgetary process to identify major federal organizations. The CFDA is a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits. It contains assistance programs administered by departments. Each program is assigned a unique number where the first two digits represent the funding agency.

descriptive information from the recipient report indicated the likely funding or awarding agencies. These mismatches suggest that either the identification of the agency or the TAS and CFDA codes are in error on the recipient report.

Another potential problem area we identified was the provision of data on the number and total amount of small subawards of less than $25,000. There are data fields that collect information on small subawards, small subawards to individuals, and small subawards to vendors. There were 380 prime recipient report records where we observed the same values being reported in both small subawards and small subawards to individuals. We also identified 1,772 other records where it could be clearly established that these values were being reported separately. While we are able to establish that these data are not being consistently reported, it is not possible to assess from the data alone the full extent to which subaward data are being combined or reported separately across all recipient reports. Additionally, we noted 152 reports where, in either the subawards or subawards to individuals data fields, the value for the number of subawards and the total dollar value of subawards were exactly the same and, as such, most likely erroneous.

While most recipient report records were not identified as potential problems in these initial edit checks and analyses thus far, our results do indicate the need for further data quality efforts.

## Various Interpretations of How to Report FTEs Produced Questionable Data on Jobs Created or Retained

Under OMB guidance, jobs created or retained were to be expressed as FTEs. We found that data were reported inconsistently even though significant guidance and training was provided by OMB and federal agencies. While FTEs should allow for the aggregation of different types of jobs—part-time, full-time or temporary—differing interpretations of the FTE guidance compromise the ability to aggregate the data.

In addition to issuing guidance, OMB and federal agencies provided several types of clarifying information to recipients as well as opportunities to interact and ask questions or receive help with the reporting process. These included weekly phone calls between OMB and groups representing the state budget and comptrollers offices, weekly calls between all state reporting leads, webinars, a call center, and e-mail outreach. State officials reported they took advantage of and appreciated this outreach. For example, Ohio state officials said they were generally satisfied with the technical assistance and guidance provided by OMB—specifically, the assistance it received from the Federalreporting.gov help desk staff. OMB estimated that it had a better than 90 percent response rate for recipient reporting and said that they answered over 3,500 questions related to recipient reporting.

The data element on jobs created or retained expressed in FTEs raised questions and concerns for some recipients. OMB staff reported that questions on FTEs dominated the types of questions they fielded during the first round of recipient reporting. Although the recipient reports provide a detailed account of individual projects, as Recovery.gov shows, these projects represent different types of activities and start and end at various points throughout the year, and recipients had various understandings of how to report an FTE. In section 5.2 of the June 22 guidance, OMB states that "the estimate of the number of jobs required by the Recovery Act should be expressed as 'full-time equivalents' (FTE), which is calculated as the total hours worked in jobs retained divided by the number of hours in a full time schedule, as defined by the recipient." Further, "the FTE estimates must be reported cumulatively each calendar quarter." In section 5.3, OMB states that "reporting is cumulative across the project lifecycle, and will not reset at the beginning of each calendar or fiscal year."

FTE calculations varied depending on the period of performance the recipient reported on. For example, in the case of federal highways projects, some have been ongoing for six months, while others started in September 2009. In attempting to address the unique nature of each project, DOT's Federal Highway Administration (FHWA) faced the issue of whether to report FTE data based on the length of time to complete the entire project (project period of performance) versus a standard period of performance such as a calendar quarter across all projects. According to FHWA guidance, which was permitted by OMB, FTEs reported for each highway project are expressed as an average monthly FTE. This means that for a project that started on July 1, 2009, the prime recipient would add up the hours worked on that project in the months of July, August, and September and divide that number by [(3/12 x 2,080 hours)]. For a project that started on August 1, 2009, the prime recipient should add up the hours worked on that project in the months of August and September and divide that number by [(2/12 x 2,080 hours)]. For a project that started on September, 1, 2009, the prime recipient should add up the hours worked on that project in the month of September and divide that number by [(1/12 x 2,080 hours)]. The issue of a standard performance period is magnified when looking across programs and across states. To consistently compare FTEs, or any type of fraction, across projects, one must use a common denominator. Comparison of FTE calculations across projects poses challenges when the projects have used different time periods as denominators. Tables 4 and 5 below provide more detail on the problems created by not having a standard performance period for calculating FTEs.

Table 4 is an application of the FHWA guidance for three projects with varying start dates. This example illustrates the way FHWA applied the OMB guidance and that the way FTEs are aggregated in Federalreporting.gov could overstate the employment effects. In this example, because the 30 monthly FTE data were aggregated without standardizing for the quarter, FTEs would be overstated by 10 relative to the OMB guidance. A standardized quarterly measure and job-years are included as examples of a standard period of performance. A job-year is simply one job for 1 year. Regardless of when the project begins, the total hours worked is divided by a full years worth of time (12 months), which would enable aggregation of employment effects across programs and time.

**Table 4: Aggregation of FHWA FTE Data**

| | Project A | Project B | Project C |
|---|---|---|---|
| Start date | July 1 | August 1 | September 1 |
| Full-time employees | 10 | 10 | 10 |
| Duration of project as of September 30 | 3 months | 2 months | 1 month |
| Average monthly FTE per FHWA | 10 | 10 | 10 |
| Cumulative FTE per OMB guidance | 10 | 6.67 | 3.33 |
| FTE standardized on a quarterly basis | 10 | 6.67 | 3.33 |
| Job-years | 2.5 | 1.67 | 0.83 |

Source: GAO analysis of FHWA FTE data.

Notes:

Total FTE as calculated by FHWA and aggregated on Federalreporting.gov = 30.

Total cumulative FTE per OMB guidance = 20.

Total FTE on a standardized quarterly basis = 20.

Total job-years = 5 (standardized FTE).

Table 5 is an application of the OMB guidance for two projects with varying start dates. In this example, the OMB guidance understates the employment effect relative to the standardized measure. Cumulative FTE per OMB guidance would result in 20 FTE compared with 30 FTE when standardized on a quarterly basis. Both a standardized quarterly FTE measure and a job-year measure are included as examples of a standard period of performance. Regardless of when the project begins, the total hours worked is divided by a full year's worth of time (12 months), which would enable aggregation of employment effects across programs and time.

**Table 5: OMB's Cumulative FTE versus a Standardized Measure**

| | Project X | Project Y |
|---|---|---|
| Start date | July 1 | October 1 |
| Full-time employees | 10 | 10 |
| Duration of project as of December 30 | 6 months | 3 months |
| Cumulative FTE per OMB guidance | 10 | 10 |
| FTE standardized on a quarterly basis | 20 | 10 |
| Job-years | 5 | 2.5 |

Source: GAO analysis of OMB FTE calculation guidance.

Notes:

Total Cumulative FTE per OMB guidance = 20.

Total FTE on a standardized quarterly basis = 30.

Total job-years = 7.5 (standardized FTE).

There are examples from other DOT programs where the issue of a project period of performance created significant variation in the FTE calculation. For example, in Pennsylvania, each of four transit entities we interviewed used a different denominator to calculate the number of full-time equivalent jobs they reported on their recipients reports for the period ending September 30, 2009. Southeastern Pennsylvania Transportation Authority in Philadelphia used 1,040 hours as its denominator, since it had projects underway in two previous quarters. Port Authority of Allegheny County prorated the hours based on the contractors' start date as well as to reflect that hours worked from September were not included due to lag time in invoice processing. Port Authority used 1,127 hours for contractors starting before April, 867 hours for contractors starting in the second quarter, and 347 hours for contractors starting in the third quarter. Lehigh and Northampton Transportation Authority in Allentown used 40 hours in the 1512 report they tried to submit, but, due to some confusion about the need for corrective action, the report was not filed. Finally, the Pennsylvania Department of Transportation in the report for nonurbanized transit systems used 1,248 hours, which was prorated by multiplying 8 hours per workday times the 156 workdays between February 17 and September 30, 2009. In several other of our selected states, this variation across transit programs' period of performance for the FTE calculation also occurred.

The issue of variation in the period of performance used to calculate FTEs also occurred in Education programs. Across a number of states we reviewed, local education agencies and higher education institutions used a different denominator to calculate the number of FTEs they reported on their recipient reports for the period ending September 30, 2009. For example, two higher education systems in California each calculated the FTE differently. In the case of one, officials chose to use a two-month period as the basis for the FTE performance period. The other chose to use a year as the basis of the FTE. The result is almost a three-to-one difference in the number of FTEs reported for each university system in the first reporting period. Although Education provides alternative methods for calculating an FTE, in neither case does the guidance explicitly state the period of performance of an FTE.[17]

Recipients were also confused about counting a job created or retained even though they knew the number of hours worked that were paid for with Recovery Act funds. For example, the Revere Housing Authority, in administering one Recovery Act project, told us that they may have underreported jobs data from an architectural firm providing design services for a Recovery Act window replacement project at a public housing complex. The employees at the architecture firm that designed the window replacement project were employed before the firm received the Recovery Act funded contract and will continue to be employed after the contract has been completed, so from the Revere Housing Authority's perspective there were no jobs created or retained. As another example, officials from one housing agency reported the number of people, by trade, who worked on Recovery Act related projects, but did not apply the full-time equivalent calculation outlined by OMB in the June 22 reporting guidance. Officials from another public housing agency told us that they based the number of jobs they reported on letters from their contractors detailing the number of positions rather than FTEs. OMB staff said that thinking about the jobs created or retained as hours worked and paid for with Recovery Act funds was a useful way to understand the FTE guidance. While OMB's guidance explains that in applying the FTE calculation for measuring the number of jobs created or retained recipients will need the total number of hours worked that are funded by

[17]California Task Force officials said that they believed that both education agencies determined the estimated number of jobs created or retained within applicable federal agency guidance.

the Recovery Act, it could emphasize this relationship more thoroughly throughout its guidance.

OMB's decision to convert jobs into FTEs provides a consistent lens to view the amount of labor being funded by the Recovery Act, provided each recipient uses a standard time frame in considering the FTE. The current OMB guidance, however, creates a situation where, because there is no standard starting or ending point, an FTE provides an estimate for the life of the project. Without normalizing the FTE, aggregate numbers should not be considered, and the issue of a standard period of performance is magnified when looking across programs and across states.

## Technical Reporting and Processing Glitches Occurred, but Recipients Were Able to Report

Recipients we interviewed were able to report into and review data on Federalreporting.gov. Particularly given the scale of the project and how quickly it was implemented, within several months, the ability of the reporting mechanisms to handle the volume of data from the range of recipients represents a solid first step in the data collection and reporting process for the fulfillment of the section 1512 mandate. Nonetheless, there were issues associated with the functional process of reporting. For example, state officials with decentralized reporting structures reported problems downloading submitted information from Recovery.gov to review top-line figures such as money spent and jobs created or retained. The Iowa Department of Management, which did Iowa's centralized reporting into Federalreporting.gov, said that, overall, the system was very slow. In addition to the slowness, as the system was processing input from Iowa's submission, every time it encountered an error, it kicked back the whole submission—but it showed only the one error. After fixing the one errant entry, the state resubmitted its information, which would then be completely sent back the next time an error was encountered. Iowa officials believe it would have been more efficient if the system identified all errors in submission and sent back a complete list of errors to fix. Other recipient reporters we interviewed highlighted issues around DUNS[18] numbers and other key identifiers, along with the inability to enter more than one congressional district for projects that span multiple districts. The expectation is that many of these entry and processing errors were captured through the review process, but the probability that all errors were caught is low.

[18] A D-U-N-S number is a unique nine-digit sequence recognized as the universal standard for identifying and keeping track of 100 million businesses worldwide.

Generally, state officials from our 17 jurisdictions reported being able to work through technical reporting and processing glitches. For example, Florida officials reported that they encountered many technical issues but were able to solve the problems by contacting the Recovery Board. Ohio officials noted that, although they were initially concerned, in spite of the tremendous amount of data being submitted, Federalreporting.gov held up well. While they faced some challenges, California officials reported that, overall, they were successful in reporting the numbers into Federalreporting.gov. They worked with the technical team at Federalreporting.gov and performed a test on October 1, 2009, to see if the upload of the job data was going to work. During the October reporting time frame, New Jersey officials reported that they generally did not experience significant recipient reporting problems. The few reporting problems New Jersey experienced occurred in relation to issues uploading the data onto Federalreporting.gov and issues requiring clarifying guidance from the relevant federal agency.

Notwithstanding the concerns over the slowness of the reporting system and error checks, Iowa officials also reported that the process worked rather well, determining that most of their state reporting problems seemed to stem from a few recipients not fully grasping all of the training the state had provided and thus not knowing or having key information like DUNS numbers and in some cases submitting erroneous information. The state department of management plans to specifically address the 30 or so recipients associated with these issues—just about all of which were school districts. As a follow-up from this first reporting cycle, several states have developed a list of lessons learned to share with OMB and other federal agencies. An example in appendix I illustrates problems public housing authorities had with both the recipient reporting processing functions and the FTE calculation.

In addition to the Federalreporting.gov Web site, the Recovery Board used a revised Recovery.gov Web site to display reported data. The revised site includes the ability to search spending data by state, ZIP code, or congressional district and display the results on a map. The Recovery Board also awarded a separate contract to support its oversight responsibilities with the ability to analyze reported data and identify areas of concern for further investigation. In addition, the board plans to enhance the capabilities of Federalreporting.gov. However, the Recovery Board does not yet use an adequate change management process to manage system modifications. Without such a process, the planned enhancements could become cost and schedule prohibitive. The board has recognized this as a significant risk and has begun development of a change management process. Finally, the board has recognized the need to improve the efficiency of its help desk operation to avoid dropped calls and is working on agreements to address this risk.

## Processes Are in Place at the States and Federal Agencies for Recipient Reporting Data Quality Review

### State Level Data Quality Review

Recipient reporting data quality is a shared responsibility, but often state agencies have principal accountability because they are the prime recipients. Prime recipients, as owners of the recipient reporting data, have the principal responsibility for the quality of the data submitted, and subrecipients delegated to report on behalf of prime recipients share in this responsibility.[19] In addition, federal agencies funding Recovery Act projects and activities provide a layer of oversight that augments recipient data quality. Oversight authorities including OMB, the Recovery Board, and federal agency IGs also have roles to play in ensuring recipient reported data quality, while the general public and nongovernmental entities can help as well by highlighting data problems for correction.

All of the jurisdictions we reviewed had data quality checks in place for the recipient reporting data, either at the state level or a state agency level. State agencies, as entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government, are often the prime recipients of Recovery Act funding. Our work in the 16 states and the District of Columbia showed differences in the way states as prime recipients approach recipient reporting data quality review. Officials from nine states reported having chosen a centralized reporting approach meaning that state agencies submit their recipient reports to a state central office, which then submits state agency recipient reports to Federalreporting.gov. For

[19]Prime recipients are nonfederal entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government. Subrecipients are nonfederal entities that are awarded Recovery Act funding through a legal instrument from the prime recipient to support the performance of any portion of the substantive project or program for which the prime recipient received the Recovery Act funding. Additionally, the terms and conditions of the federal award are carried forward to the subrecipient.

example, Colorado's Department of Transportation provided its recipient report to a central entity, the Colorado Office of Information Technology, for submission to Federalreporting.gov. States with centralized reporting systems maintain that they will be able to provide more oversight of recipient reporting with this approach. Advocates of centralized reporting also expect that method will increase data quality, decrease omissions and duplicate reporting, and facilitate data cleanup.

Officials from the remaining eight jurisdictions reported using a decentralized reporting system. In these cases, the state program office administering the funds is the entity submitting the recipient report. In Georgia, for example, the State Department of Transportation is responsible for both reviewing recipient report data and submitting it to Federalreporting.gov. Illinois, as is the case for four other decentralized states, is quasidecentralized where the data are centrally reviewed and reported in a decentralized manner. When the audit office informs the Office of the Governor that its review is complete and if the Office of the Governor is satisfied with the results, the Illinois state reporting agency may upload agency data to Federalreporting.gov. Appendix I provides details on California's recipient reporting experiences.

As a centralized reporting state, Iowa officials told us that they developed internal controls to help ensure that the data submitted to OMB, other federal entities, and the general public, as required by section 1512 of the Recovery Act, are accurate. Specifically, Iowa inserted validation processes in its Recovery Act database to help reviewers identify and correct inaccurate data. In addition, state agency and local officials were required to certify their review and approval of their agency's information prior to submission. Iowa state officials told us that they are working on data quality plans to include being able to reconcile financial information with the state's centralized accounting system. According to Iowa officials, the number of Recovery Act grant awards improperly submitted was relatively small.

As a decentralized reporting state, New Jersey officials reported that a tiered approach to data quality checks was used for all Recovery Act funding streams managed by the state. Each New Jersey state department or entity was responsible for formulating a strategy for data quality reviews and implementing that strategy. The New Jersey Department of Community Affairs, for example, directed subrecipients to report data directly into an existing departmental data collection tool modified to encompass all of the data points required by the Recovery Act. This system gave the Department of Community Affairs the ability to view the data as it came in from each subrecipient. From this data collection tool, the department uploaded prime and subrecipient data to Federalreporting.gov. All departmental strategies were reviewed by the New Jersey Governor's office and the New Jersey Recovery Accountability Task Force. The Governor's office conducted a review of the reports as they were uploaded to Federalreporting.gov on a program-by-program, department-by-department basis to identify any outliers, material omissions, or reporting errors that could have been overlooked by departments.

## Federal Agency Data Quality Review

To help ensure the quality of recipient report data, the Recovery Board encouraged each federal Office of Inspector General overseeing an agency receiving Recovery Act funds to participate in a governmentwide Recovery Act Reporting Data Quality Review. The Recovery Board requested the IG community to determine the following: (1) the existence of documentation on the agencies' processes and procedures to perform limited data quality reviews targeted at identifying material omissions and significant reporting errors, (2) the agencies' plans for ensuring prime recipients report quarterly, and (3) how the agencies intend to notify the recipient of the need to make appropriate and timely changes. In addition, IGs reviewed whether the agency had an adequate process in place to remediate systemic or chronic reporting problems and if they planned to use the reported information as a performance management and assessment tool. We reviewed the 15 IG reports that were available as of November 12, 2009. Our review of these reports from a range of federal agencies found that they had drafted plans or preliminary objectives for their plans for data quality procedures.

Published IG audits on agencies' Recovery Act data quality reviews that we examined indicated that federal agencies were using a variety of data quality checks, which included automated or manual data quality checks or a combination. Computer programs drive the automated processes by capturing records that do not align with particular indicators determined by the agency. Agencies may use a manual process where a designated office will investigate outliers that surface during the automated test. For example, the automated process for Education performs data checks to validate selected elements against data in the department's financial systems. As part of its data quality review, Education officials are to examine submitted reports against specific grant programs or contract criteria to identify outliers for particular data elements. Of the IG reports that we reviewed that mentioned systemic or chronic problems, 9 of the 11 found that their agencies had a process in place to address these problems. Although some of the IGs were unable to test the implementation of their agency's procedures for reviewing the quarterly recipient reports, based on their initial audit, they were able to conclude that the draft plan or preliminary objectives for data quality review were in place.

According to OMB's guidance documents, federal agencies must work with their recipients to ensure comprehensive and accurate recipient reporting data. A September 11, 2009, memorandum from OMB directed federal agencies to identify Recovery Act award recipients for each Recovery Act program they administer and conduct outreach actions to raise awareness of registration requirements, identify actual and potential barriers to timely registration and reporting, and provide programmatic knowledge and expertise that the recipient may need to register and enter data into Federalreporting.gov. Federal agencies were also expected to provide resources to assist state and select local governments in meeting reporting requirements required by the Recovery Act. In addition, federal agencies were to identify key mitigation steps to take to minimize delays in recipient registration and reporting.

OMB also requires that federal agencies perform limited data quality reviews of recipient data to identify material omissions and significant reporting errors and notify the recipients of the need to make appropriate and timely changes to erroneous reports. Federal agencies are also to coordinate how to apply the definitions of material omissions and significant reporting errors in given program areas or across programs in a given agency to ensure consistency in the manner in which data quality reviews are carried out. Although prime recipients and federal agency reviewers are required to perform data quality checks, none are required to certify or approve data for publication. However, as part of their data quality review, federal agencies must classify the submitted data as not reviewed by the agency; reviewed by the agency with no material omissions or significant reporting errors identified; or reviewed by the agency with material omissions or significant reporting errors identified. If an agency fails to choose one of the aforementioned categories, the system will default to not reviewed by the agency.

The prime recipient report records we analyzed included data on whether the prime recipient and the agency reviewed the record in the OMB data quality review time frames. In addition, the report record data included a flag as to whether a correction was initiated. A correction could be initiated by either the prime recipient or the reviewing agency. Table 6 shows the number and percentage of prime recipient records that were marked as having been reviewed by either or both parties and whether a correction was initiated. OMB's guidance provided that, a federal agency, depending on the review approach and methodology, could classify data as being reviewed by the agency even if a separate and unique review of each submitted record had not occurred.

**Table 6: Prime Recipient Reports Reviews and Corrections**

| Reviewed by agency | Reviewed by prime recipient | Correction | Number of prime recipient reports | Percentage |
|---|---|---|---|---|
| No | No | No | 2,959 | 5 |
| No | No | Yes | 8,201 | 14 |
| No | Yes | Yes | 1 | 1< |
| Yes | No | No | 37,911 | 67 |
| Yes | No | Yes | 7,900 | 14 |
| Yes | Yes | No | 13 | 1< |
| Yes | Yes | Yes | 1 | 1< |
| **Total** | | | **56,986** | **100%** |

Source: GAO analysis of Recovery.gov data.

As shown in table 6, more than three quarters of the prime recipient reports were marked as having undergone agency review. Less than one percent was marked as having undergone review by the prime recipient. The small percentage reviewed by the prime recipients themselves during the OMB review time frame warrants further examination. While it may be the case that the recipients' data quality review efforts prior to initial submission of their reports precluded further revision during the review time frame, it may also be indicative of problems with the process of noting and recording when and how the prime recipient reviews occur and the setting of the review flag. Overall, slightly more than a quarter of the reports were marked as having undergone a correction during the OMB review time frames.

## Highway and Education Projects Illustrate State and Federal Agency Joint Responsibility for Data Quality

### Highway Projects

The Federal-Aid Highway Program provided a good case study of federal agency data quality reviews because the responsible federal agency, FHWA, had previous experience estimating and reporting on the employment effects of investment in highway construction. As a result, FHWA would seem to be better positioned than some other federal agencies to fulfill the job creation or retention reporting requirements under the Recovery Act and may have data quality review processes that other federal agencies could replicate. We met with officials and reviewed available documentation including federal highway reporting documents and payroll records at the selected state departments of transportation and selected vendors. Overall, we found that the state departments of transportation as prime recipients had in place plans and procedures to review and ensure data quality. We followed up with the state departments of transportation to confirm that these procedures were followed for highway projects representing at least 50 percent of the Recovery Act highway reimbursements as of September 4, 2009 in the 17 jurisdictions where we are conducting bimonthly reviews and reviewed available documentation.[20] Appendix I illustrates recipient reporting processes and data quality checks at the Florida Department of Transportation.

In addition to the section 1512 reporting requirements, recipients of certain transportation Recovery Act funds, such as state departments of transportation, are subject to the reporting requirements outlined in section 1201(c) of the Recovery Act. Under section 1201(c), recipients of transportation funds must submit periodic reports on the amount of federal funds appropriated, allocated, obligated, and reimbursed; the number of projects put out to bid, awarded, or work has begun or completed; and the number of direct and indirect jobs created or

[20]The Federal-Aid Highway Program is not a "cash up-front" program. No cash is actually disbursed until states incur costs. Projects are approved and work is started, then the federal government makes payments—also called reimbursements—to the states for costs as they are incurred on projects. The amount of cash paid to the states reflects only the federal share of the project's cost.

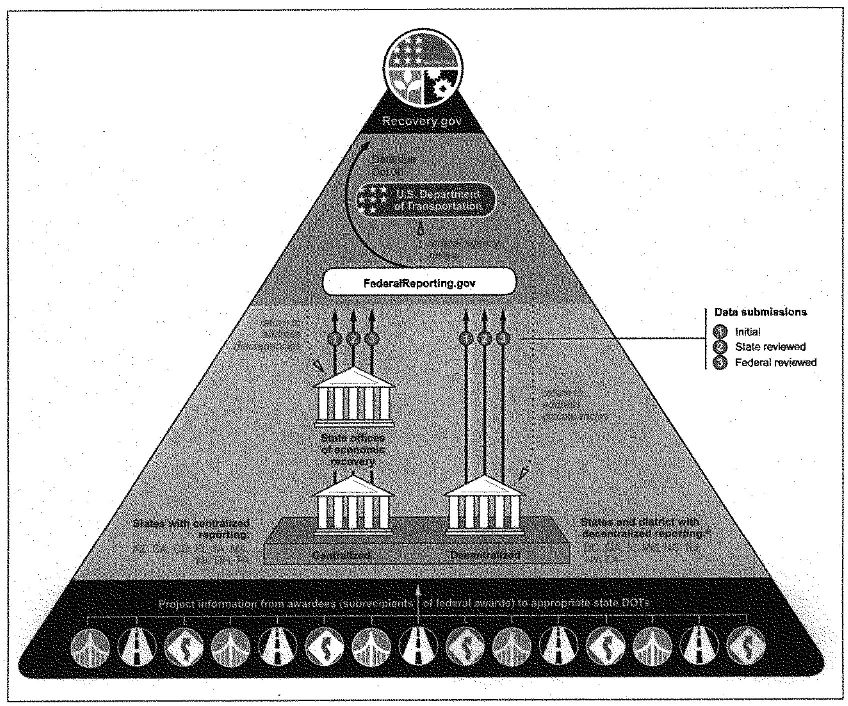
sustained, among other things.[21] The Recovery Act section 1201(c) requirement called for project level data to be reported twice before the first Recovery Act section 1512 report was due.[22] DOT is required to collect and compile this information for Congress, and it issued its first report to Congress in May 2009. Consequently, DOT and its modal administrations, such as FHWA, and state departments of transportation gained experience collecting and reporting job creation and retention information before the first Recovery Act section 1512 report was due in October 2009 and required FHWA to have its data collection and review process in place in advance of October 1, 2009, the start of the section 1512 reporting.

To help fulfill these reporting requirements, FHWA implemented a reporting structure that ties together the federal and state levels of reporting, creating both a chain of evidence and redundancy in the review of the reported data. Figure 4 shows the reporting structure. As part of this reporting structure, FHWA also created the Recovery Act Data System (RADS), with the updated version of the system released in early September 2009. RADS is primarily designed as a repository of data for states, but it also serves as an important oversight tool for FHWA because it links federal financial data to project data reported by the states. The system helps ensure consistent definitions of fields and enables FHWA to auto-populate identification fields, including DUNS numbers, award numbers, and total award amounts, to both reduce the burden at the project level and to reduce the data entry errors. In addition, monthly reporting requirements include payroll records, hours worked, and data quality assurances, in individual contracts for highway projects funded with Recovery Act funds. FHWA may withhold payments if a recipient is found to be in noncompliance with the reporting requirements.

[21] The first periodic report was due no later than 90 days after the date of enactment of the act, with updated reports due no later than 180 days, 1 year, 2 years, and 3 years after enactment.

[22] Section 1201(c) requires recipients of Recovery Act funds under certain federal transportation programs, including Federal-Aid Surface Transportation Program to make periodic reports. Among other information, these reports are to include the number of direct, on-project jobs created or sustained by federal funds, and, to the extent possible the estimated indirect jobs created or sustained in the associated supplying industries, including the number of job-years created and the total increase in employment since the enactment of the Recovery Act.

**Figure 4: FHWA's Recipient Reporting Data Structure**




Source: GAO.

[a]Four states, Georgia, Illinois, New York, and North Carolina, plus the District of Columbia, review data centrally but report in a decentralized manner.

To meet the reporting requirements of the Recovery Act, FHWA required that prime contractors of transportation projects funded with Recovery

Act dollars report project level activity on a monthly basis to the state departments of transportation. Specifically, prime contractors are required to submit the total number of people working on the project, the total number of hours worked on the project, and the total payroll on the project for each month. These reports are to include this information for both the prime contractors and subcontractors. FHWA also requires that prime contractors provide documentation to verify the hours funded through the Recovery Act, a higher standard than the OMB guidance requires for section 1512 reporting purposes. FHWA's monthly reporting requirement is included in individual contracts for each highway project funded with Recovery Act dollars. Prior to the Recovery Act, FHWA required contractors to maintain similar information and make it available for inspection. However, while discussing project level activity with transportation contractors and officials across the 17 jurisdictions, we found that many had been reporting this information to state departments of transportation on a monthly basis.

Within our 17 jurisdictions, we had discussions with prime contractors from 36 highway projects funded by Recovery Act dollars. In several cases, these prime contractors were also prime contractors or subcontractors for other Recovery Act funded projects. Activities conducted by these contractors included projects such as highway repaving, interstate resurfacing, and bridge replacement. To meet the reporting requirements, a number of prime contractors we visited developed data systems to collect required project information from the subcontractors. In some cases, we also found that prime contractors reinforced the reporting requirements by including the requirements in their contracts with subcontractors, providing contractors with the necessary leverage to help ensure compliance with the reporting requirements. Appendix I details recipient reporting examples for contractors in Georgia and Massachusetts.

FHWA has taken several steps to help ensure the reliability of the information contained in RADS. First, FHWA compared information states recorded in RADS to the information states submitted to Federalreporting.gov to identify inconsistencies or discrepancies. Second, as part of an ongoing data reliability process, FHWA monitors select fields in RADS, such as number of projects, types of projects, and where projects are located, and performs data validation and reasonableness tests. For example, it checks if a rate of payment in dollars per hour is too high or too low. When potential issues are identified, FHWA division offices work with the state department of transportation or central office to make necessary changes.

For this round of recipient reporting, FHWA used an automated process to review all of the reports filed by recipients. These automated reviews included various data validation and reasonableness checks. For example, FHWA checked whether the range of FTEs reported were within its own economic estimates. For any reports that were out of range, FHWA would comment on these reports. As described earlier, only recipients could make changes to the data. In making a comment, FHWA let the recipient know there was potential concern with the record. The recipient then had the opportunity to either change or explain the comment raised by FHWA. According to FHWA officials, they reviewed 100 percent of more than 7,000 reports submitted by recipients of Recovery Act highway funds and found that the final submissions were generally consistent with department data. Although there were problems of inconsistent interpretation of the guidance, the reporting process went well for highway projects.

## Education Projects

Education has engaged in numerous efforts to facilitate jobs reporting by states[23] and local educational agencies (LEA). States and LEAs have also taken action to collect and report jobs data and to ensure data quality. Despite these efforts, state and local officials we spoke with raised some concerns about the quality of jobs data reported in October 2009, such as insufficient time to incorporate updated guidance on estimating job counts. To address these concerns, Education and many state officials we interviewed said they plan to take steps to improve the reporting and data quality processes before the next reports are due in January 2010. Our review focused on the State Fiscal Stabilization Fund, as well as Recovery Act grants made for the Elementary and Secondary Education Act of 1965, Title 1, Part A and for the Individuals with Disabilities Education Act, Part B. To collect this information, we interviewed Education officials and officials in 10 states—Arizona, California, Colorado, Florida, Georgia, Illinois, Massachusetts, New Jersey, New York, and North Carolina—the District of Columbia, and 12 LEAs, including a mix of LEAs in urban and rural areas. States were selected from the 16 states and the District of Columbia in which we conduct bi-monthly reviews of the use of Recovery Act funds as mandated by the Recovery Act. We also reviewed federal and state guidance and other documentation.

[23]State reporting agencies involved in jobs reporting under section 1512 of the Recovery Act may include governor's offices, recovery agencies, state educational agencies or other state offices, depending on whether the state is using a centralized reporting approach or decentralized reporting approach.

Education's efforts to facilitate jobs reporting by states and LEAs include coordinating with OMB, providing guidance and technical assistance to states and LEAs, and reviewing the quality of the jobs data reported. Education has coordinated its efforts regarding recipient reporting with OMB in a number of ways, including participating in cross-agency workgroups and clearing its guidance materials with OMB prior to disseminating them. On August 10, 2009, Education hosted a web-based technical assistance conference on reporting requirements that included information on OMB's guidance on estimating and reporting jobs data. On September 11, the department issued guidance specifically related to estimating and reporting jobs created or retained by states and LEAs receiving Recovery Act grants.[24] Education updated its jobs guidance and hosted another web-based technical assistance conference on September 21, providing detailed instructions to states and LEAs on a range of topics, such as how to estimate the number of hours created or retained for a teacher who works less than 12 months in a year. In addition, according to Education officials, the department developed and implemented a draft plan to review the jobs data that states and LEAs reported to Federalreporting.gov in October. This plan addresses the roles and responsibilities of several Education offices to assist with the data quality review throughout the 30-day reporting timeline (for example, Oct. 1 through Oct. 30, 2009).[25] According to the plan, these responsibilities include continuous evaluation of recipient and subrecipient efforts to meet reporting requirements, as well as providing limited data quality reviews and notifying the recipient of the need to make appropriate and timely corrections. The plan says that reviewers are to conduct two types of data quality checks – an automated and a manual review. The automated review will validate various data elements for financial assistance against its grant management system, such as prime award numbers, recipient DUNS numbers, and amounts of awards. The manual review will identify outliers in certain data elements, such as whether the reported number of jobs created is reasonable. According to Education officials, upon their

[24]See U.S. Department of Education, *Clarifying Guidance on American Recovery and Reinvestment Act of 2009: Reporting on Jobs Creation Estimates by Recipients* (Washington, D.C., September 2009).

[25]The plan delineates specific roles and responsibilities for the Office of the Deputy Secretary; the Office of the Chief Information Officer; the Office of the Chief Financial Officer, Financial Management Operations; the Office of the Chief Financial Officer, Contracts and Acquisition Management; Office of the Chief Financial Officer, Financial Systems Services; the Office of the Secretary, Risk Management Services Management Improvement Team; and various program offices.

initial review of recipient reported data, the most common errors were relatively small—such as mistyped award numbers or incorrect award amounts—and were easily addressed and corrected during the agency review period. Department officials told us that they provided technical assistance to states and were able to have states correct the errors such that almost all of them were corrected before the October 30 deadline. Furthermore, state officials generally provided positive feedback to the department for these efforts, according to Education officials. Education's Office of Inspector General (OIG) examined Education's process for reviewing the quality of recipient reported data and found that Education's data review process was generally adequate.[26] The OIG's review determined that Education has established a process to perform limited data quality reviews intended to identify problems, such as questionable expenditure patterns or job estimates. OIG also acknowledged that Education developed a process to correct any issues that Education officials find by contacting the recipients who submitted the report. In addition, OIG noted that the department plans to review quarterly data at a state level to determine whether there are systemic problems with individual recipients and that Education plans to use the reported information as a management tool.

State educational agencies (SEA) also have taken action to collect and report jobs data and to ensure data quality.[27] State officials in Arizona, Massachusetts, New Jersey, and New York and officials in the District of Columbia told us that they adapted their existing data systems or created new ones to track and report jobs data. For example, Massachusetts Department of Education officials created an online quarterly reporting web site to collect jobs data from its LEAs and detailed information on personnel funded by Recovery Act grants. In addition, many SEA and LEA officials we spoke with reported taking steps to ensure data quality, such as pre-populating data fields (that is, inserting data, such as DUNS numbers, into the recipient reporting template for the LEAs), checking the

[26]For more information on the Inspector General findings, see U.S. Department of Education. Office of Inspector General, *The Department's Process to Ensure Data Quality Under the Reporting Requirements of the American Recovery and Reinvestment Act of 2009*, Final Audit Report No. ED-OIG/A19J0004. Oct. 29, 2009.

[27]According to federal Recovery Act guidance, LEA officials are primarily responsible for developing job estimates and states—as prime recipients of the Recovery Act SFSF, Elementary and Secondary Education Act Title I, and Individuals with Disabilities Education Act grants—are responsible to report those data to Federalreporting.gov. Both states and LEAs are responsible for ensuring that the reported data are accurate.

reasonableness of data entered, and looking for missing data. In addition to tracking and reporting jobs data and taking steps to ensure data quality, SEA officials reported providing technical assistance, such as written guidance and Web-based seminars, that explain how LEAs should report job estimates. For example, California state officials had LEAs submit their data through a new web-based data reporting system and, prior to implementing the new system, provided written guidance and offered a web-based seminar to its LEAs.

Despite efforts to ensure data quality, state and local officials we spoke with raised some concerns about the quality of jobs data reported in October 2009. For example, LEAs were generally required[28] to calculate a baseline number of hours worked, which is a hypothetical number of hours that would have been worked in the absence of Recovery Act funds. LEA officials were to use this baseline number to determine the number of hours created or retained and to subsequently derive the number of FTEs for job estimates. Each LEA was responsible for deriving its own estimate. New Jersey state officials we interviewed told us that it was likely that LEAs used different methods to develop their baseline numbers, and as a result, LEAs in the same state may be calculating FTEs differently. (See appendix II for a complete description of the calculations used to determine baseline number of hours worked, number of hours created or retained, and FTEs for jobs created or retained). According to Illinois state officials, some of their LEAs had double-counted the number of positions, attributing the positions to both state fiscal year 2009 (which ended on June 30, 2009) and fiscal year 2010 (beginning July 1, 2009), in part because the reporting period covered both of the state's fiscal years. Also, according to Illinois officials, other school districts estimated that zero positions were attributable to the Recovery Act. In those cases, LEA officials received Recovery Act funds before finalizing staff lay-offs. Since they had not officially laid off any staff, Illinois officials told us that LEA officials were unsure as to whether those jobs would count as "jobs saved" and believed it best to report that no jobs had been saved because of Recovery Act funding. Illinois officials told us that Education reviewed Illinois' data, but did not ask them to make any corrections, but instead asked the state to disaggregate the job estimates by type of position, such as teachers and administrators. Also, one LEA official from New York

[28]There are some exceptions to this requirement. For example, in limited circumstances and with approval from Education, recipients may use an Education-approved statistical methodology to generate jobs estimates.

reported that he did not have enough time to conduct the necessary data quality checks he wanted to perform. Education officials acknowledged that many state and local officials reported various challenges in understanding the instructions and methodology that Education suggested they use to calculate job estimates.[29] According to Education officials, when states contacted the department to report these problems, Education officials provided technical assistance to resolve the state's specific issues.

States faced challenges due to the timing of guidance or changes in guidance on how to estimate jobs attributable to the Recovery Act, according to Education officials and several state officials we interviewed. For example, Colorado officials reported that, based on June 22, 2009 guidance from OMB, they believed that subrecipient vendors' jobs would be considered "indirect jobs" and therefore LEAs would not have to provide estimates of their vendors' jobs in their reports. Colorado officials told us they received guidance at Education's August technical assistance conference indicating that subrecipients (in this case, LEAs) are supposed to include vendor job estimates based on those jobs directly funded by Recovery Act grants. However, Education's guidance did not clearly distinguish between direct and in-direct vendor jobs, according to state officials, making it difficult for LEAs to determine which vendor jobs to include in their section 1512 reports. State officials also reported receiving further guidance on estimating jobs from Education on September 15 and attending a related technical assistance conference on September 21. On September 16, the Colorado SEA issued guidance stating that LEAs would be responsible for including vendor jobs in the job estimates they would be reporting. (Colorado's LEA reports were due to the SEA on September 25, because the SEA was required to submit its data to the state controller's office on September 29 for centralized reporting.) Also, officials in California—where LEAs had to report to the SEA on September 23—said they were not notified until Education's September 21 conference that all LEAs that received Recovery Act funds had to register in the Central Contractor Registration. They told us that this contradicted previous guidance from Education and would have required LEAs to

[29]In addition, Education officials told us they found a problem with some states' reports of jobs attributable to the SFSF. According to Education, in a small number of states, state officials had not finalized layoff plans prior to the Recovery Act's enactment and therefore they could not be certain about the number of jobs they would have lost in the absence of Recovery Act funding. Thus, job estimates from these states may need to be adjusted in the January 2010 report, and Education intends to provide guidance to address this issue.

register within 2 days to meet their state's September 23 deadline. California officials advised federal officials that the state would implement this requirement for the second quarterly reporting period.

Education officials and officials in two states mentioned actions that might improve the reporting and data quality processes before the next reports are due in January 2010. Education officials suggested a number of possible changes in Federalreporting.gov, such as allowing Education to pre-populate some basic state data, such as grant award numbers and amounts, would decrease the workload for states and help avoid some technical errors. Also, in response to problems such as LEAs counting jobs in two fiscal years, Education plans to provide more guidance in early December 2009 to states on calculating job estimates. At the state level, officials in Georgia reported plans to make changes to the state's processes, such as adding internal edit checks so that those who enter the data will have to make corrections as part of the data entry process. Also, Illinois has created an office to work with state agencies to improve their data reporting processes, according to a state official. The state also plans to build in more checks to its review of agency data, for example, a check that would compare jobs data against existing employment data to confirm that districts are not reporting more positions than exist in the district.

## GAO Will Continue to Follow These Issues and Highlight Concerns in Subsequent Reports

As recipient reporting moves forward, we will continue to review the processes that federal agencies and recipients have in place to ensure the completeness and accuracy of data, including reviewing a sample of recipient reports across various Recovery Act programs to assure the quality of the reported information. As existing recipients become more familiar with the reporting system and requirements, these issues may become less significant; however, communication and training efforts will need to be maintained and in some cases expanded as new recipients of Recovery Act funding enter the system. In addition to our oversight responsibilities specified in the Recovery Act, we are also reviewing how several federal agencies collect information and provide it to the public for selected Recovery Act programs, including any issues with the information's usefulness. Our subsequent reports will also discuss actions taken on the recommendations in this report and will provide additional recommendations, as appropriate.

## Recommendations for Executive Action

We are making two recommendations to the Director of OMB. To improve the consistency of FTE data collected and reported, OMB should continue to work with federal agencies to increase recipient understanding of the reporting requirements and application of the guidance. Specifically, OMB should

- clarify the definition and standardize the period of measurement for FTEs and work with federal agencies to align this guidance with OMB's guidance and across agencies,
- given its reporting approach consider being more explicit that "jobs created or retained" are to be reported as hours worked and paid for with Recovery Act funds, and
- continue working with federal agencies and encourage them to provide or improve program specific guidance to assist recipients, especially as it applies to the full-time equivalent calculation for individual programs.

OMB should work with the Recovery Board and federal agencies to reexamine review and quality assurance processes, procedures, and requirements in light of experiences and identified issues with this round of recipient reporting and consider whether additional modifications need to be made and if additional guidance is warranted.

## Despite Limitations, Economic Methods and Recipient Reports Together Can Provide Insight into the Employment Effects of Fiscal Stimulus

The jobs data reported by recipients of Recovery Act funds provide potentially useful information about a portion of the employment effect of the act. At this point, due to issues in reporting and data quality including uncertainty created by varying interpretations of the guidance on FTEs, we cannot draw a conclusion about the validity of the data reported as a measure of the direct employment effect of spending covered by the recipient reports. Even after data quality issues are addressed, these data will represent only a portion of the employment effect. Beyond the jobs that are reported, further rounds of indirect and induced employment gains result from government spending. The Recovery Act also includes entitlement spending and tax benefits, which themselves create employment. Therefore, both the data reported by recipients and other macroeconomic data and methods are necessary to understand the overall employment effects of the stimulus.

Economists will use statistical models to estimate a range of potential effects of the stimulus program on the economy. In general, the estimates are based on assumptions about the behavior of consumers, business owners, workers, and state and local governments. Against the background of these assumptions, themselves based on prior research, the effects of different policies can be estimated. Any such estimate is implicitly a comparison between alternative policies. The reliability of any alternative scenario that is constructed depends on its underlying assumptions and the adequacy of evidence in support of those assumptions, as well as on the accuracy of the data that form the basis for what is observed and on how well the model reflects actual behavior.

In the broadest terms, economic research using macroeconomic models suggests general rules of thumb for approximating the job impact and the GDP increase for a given amount of stimulus spending. In constructing their estimates of the employment impacts of the act, CEA observed that a one percent increase in GDP has in the past been associated with an increase in employment of approximately 1 million jobs, about three quarters of 1 percent of national employment. Similarly, CBO economists have assumed that a one percent increase in output generates somewhere between 600,000 and 1.5 million jobs. As a result, projections of the employment impact of the Recovery Act can be generated from macroeconomic models that estimate output, providing the basis for estimates of changes in employment.

CEA estimates of the employment effects of the Recovery Act have been based on statistical projections and allocations using historical relationships. In January 2009, the incoming administration projected the anticipated effects of fiscal stimulus on output and employment in the economy, specifying a prototypical spending package of tax cuts, payments to individuals, and direct spending by federal and state government. The effects of such additional spending on output (GDP) were projected using multipliers, values based on historical experience that estimate the output change per unit of different types of changes in government spending. These output increases were translated into employment effects using a rule of thumb, again based on history, that a 1 percent rise in GDP yields 1 million jobs.

The incoming administration's January 2009 analysis of a prototypical stimulus package found that it would be expected to increase GDP by 3.7 percent and increase jobs by 3,675,000 by the fourth quarter of 2010. The analysis compared the unemployment rate with and without the stimulus. At that time, the unemployment rate for 2009 was projected to be 8 percent with a stimulus and closer to 9 percent without. In May 2009, CEA reported on the anticipated employment effects of the actual Recovery Act as passed by Congress and signed into law by the President. That analysis was consistent with the January projections that the Recovery Act (which was deemed to closely resemble the prototypical package earlier assumed) would result in approximately 3.5 million jobs saved or created by the end of 2010, compared to the situation expected to exist in the absence of the act. Later, when the actual unemployment rate rose beyond 9 percent, the administration acknowledged that its earlier projections of unemployment were too low but asserted that, without the Recovery Act, the rate would have been even higher than observed.

In September 2009 CEA reported on the effects of Recovery Act spending through the end of August. It noted that statistical analysis of actual economic performance compared to that which might have been expected in the absence of the Recovery Act suggested that the Recovery Act had added "roughly" 2.3 percentage points to GDP in the second quarter and was likely to add even more in the third. Translating that output gain into employment, CEA surmised that employment in August was 1 million jobs higher than it would have been without the act.

The recipient reports are not estimates of the impact of the Recovery Act, although they do provide a real-time window on the results of Recovery Act spending. Recipients are expected to report accurately on their use of funds; what they are less able to say is what they would have done without the benefit of the program. For any disbursement of federal funds, recipients are asked to report on the use of funds to make purchases from business and to hire workers. These firms and workers spend money to which they would not otherwise have had access. Recipients could not be expected to report on the expansionary effects of their use of funds, which could easily be felt beyond local, state, or even national boundaries. Neither the recipients nor analysts can identify with certainty the impact of the Recovery Act because of the inability to compare the observed outcome with the unobserved, counterfactual scenario (in which the stimulus does not take place). At the level of the national economy, models can be used to simulate the counterfactual, as CEA and others have done. At smaller scales, comparable models of economic behavior either do not exist or cover only a very small portion of all the activity in the macroeconomy.

The effect of stimulus on employment depends on the behavior of the recipient of aid. For consumers, it depends on the extent to which their total spending increases. For business firms, it depends on the increase, if any, in their purchases from other business firms or their payrolls. For state and local governments, it is the increase in their purchases of goods and services and their own employment rolls. Within any given group of recipients, choices to spend or save will vary. For example, a consumer with a large credit card balance may use a tax cut to pay down the balance or save more rather than increasing spending. Given that the personal savings rate fell to essentially zero before the recession, households may well choose to rebuild savings rather than spend. A business firm might not see additional capital spending or hiring as advantageous. A state government might decide to bolster its reserves where permitted under law rather than increase its outlays or cut its taxes. In each case, the strength of the program as immediate stimulus is weakened to the extent that all funds are not spent.

The extent to which the initial spending reverberates throughout the economy is summarized by a multiplier, a measure of the cumulative impact on GDP over time of a particular type of spending or tax cut. The resulting change in output translates into a change in employment. In the context of the Recovery Act recipient reports, the output and employment effects will likely vary with the severity of the economic downturn in a recipient's location (as reflected by distress in labor markets and the fiscal positions of governments), and the amount of funds received by the recipient. The nature of the projects or activities to which the recipient applies its funds also matters, whether the projects use labor intensively and whether those who are hired will themselves spend or save their earnings.

## Potential Effect of Different Types of Fiscal Stimulus

Economists use computer models of the U.S. economy with historical data on employment, GDP, public spending, taxes, and many other factors to study the effects of monetary (e.g., changes in interest rates) and fiscal policies (e.g., changes in government taxing and spending) designed to affect the trajectory of the economy. In general, a fiscal stimulus program like the Recovery Act is aimed at raising aggregate demand – the spending of consumers, business firms, and governments. This may be accomplished by means of tax cuts, grants-in-aid, or direct Federal spending. In response, the recipients may purchase more goods and services than they would have otherwise. This could lead to governments and business firms refraining from planned dismissal of employees or to hiring additional workers. The stimulus may lead to an overall, net increase in national employment and economic output. Models of the nation's economy can provide estimates of changes in GDP and employment that result from changes in monetary or fiscal policies.
In assessing the effects of fiscal policies such as additional government spending or tax cuts on GDP, macroeconomic models can be used to estimate "multipliers," which represent the cumulative impact on GDP over time of a particular type of spending or tax cut. Multipliers translate

the consequences of a change in one variable, such as in the demand for goods and services brought about by economic stimulus, on other variables, such as the supply of those goods and services and employment, taking into account "ripple effects" that occur throughout the economy.

The size of the multiplier depends on the extent to which changes in additional government spending or revenue translates into changes in spending by recipients and beneficiaries of the additional spending. Spending increases the multiplier, and saving reduces it. The multiplier is also larger when there is slack in the economy (unemployed persons and idle productive capacity). Also, the expansionary effects of government spending are greater when stimulus funds are borrowed rather than raised by taxation. Finally, the multiplier effect in the U.S. will be greater to the extent that new spending, whether by government or individuals, is devoted to domestically-produced goods and services.

In general, macroeconomic models and estimated multipliers can provide insights on the potential effect of different types of public spending. Because of the limited historical experience with fiscal stimulus of the magnitude of the Recovery Act, there is uncertainty about the extent to which the multipliers estimated using historical data about the effect of previous business cycles will accurately reflect the stimulus effect this time around. Economic research, however, has developed a basis for constructing reasonable ranges of values. In projecting the anticipated effect of the Recovery Act on national output, the CBO grouped the act's provisions according to the size of the multiplier—that is, the magnitude of the effect of a particular provision's spending on GDP (see table 7). Drawing on analyses based on past experience with the results of government spending, CBO has identified a range of 1.0 to 2.5 for multipliers. For example, a multiplier of 1.0 means a dollar of stimulus financed by borrowing results in an additional dollar of GDP. CBO assumes larger multipliers for grants to state and local governments for infrastructure spending, and lower values—0.7 to 1.9—for transfers not related to infrastructure investment.[30] Figure 5 shows the distribution of Recovery Act funds by multiplier.

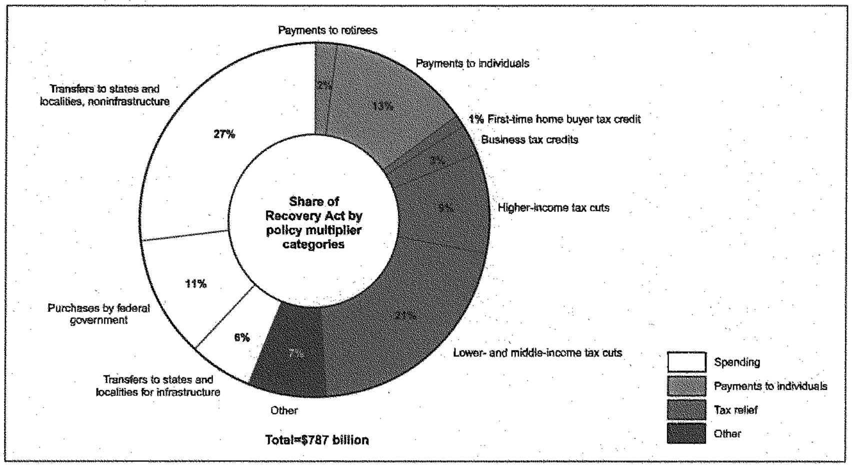
[30]Letter from Douglas Elmendorf (Director, Congressional Budget Office) to Senator Charles Grassley on the macroeconomic effects of ARRA, March 2, 2009.

**Table 7: Estimated Multipliers for Recovery Act Spending and Tax Expenditures**

| Category | Estimated policy multiplier High | Low |
|---|---|---|
| Purchases of goods and services by federal government | 2.5 | 1 |
| Transfers to state and local governments for infrastructure | 2.5 | 1 |
| Transfers to state and local governments for other than infrastructure | 1.9 | 0.7 |
| Transfers to persons | 2.2 | 0.8 |
| One-time payments to retirees | 1.2 | 0.2 |
| 2-year tax cuts for lower- and middle-income people | 1.7 | 0.5 |
| 1-year tax cuts for higher income people | 0.5 | 0.1 |
| Extension of first-time homebuyer credit | 1.0 | 0.2 |
| Tax provisions for businesses primarily affecting cash flow | 0.4 | 0 |

Source: CBO.

**Figure 5: Composition of Recovery Act Outlays by Jobs Multiplier Category**




Source: CBO.

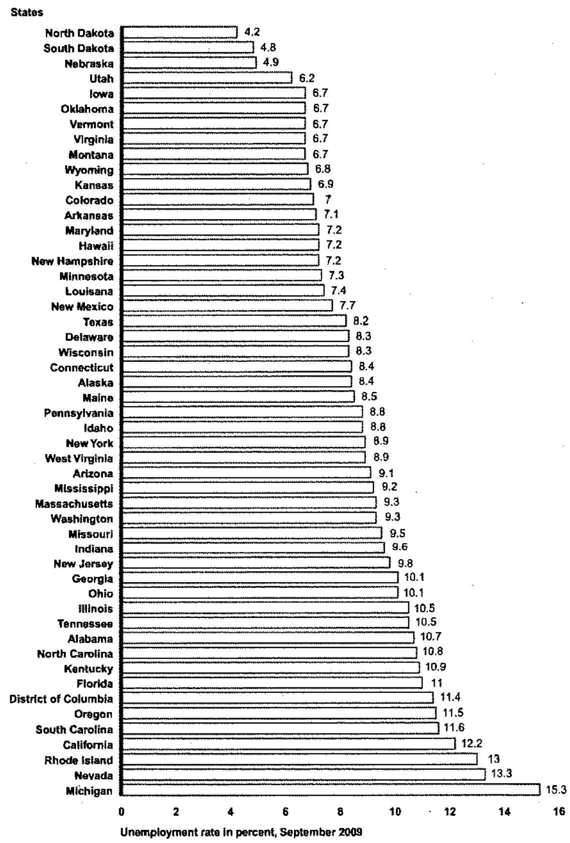
## State Labor Market Conditions Will Affect Results of Recovery Act Spending

The employment effects of Recovery Act funds will likely vary with the strength of the labor market in a recipient's location. Recipients located in areas where labor markets are weak, that is, where unemployment is high, may find it easier to hire people and may be able to do so at lower wages than those located in areas where the recession has had little effect on labor markets. Consequently, recipients located in areas with weak labor markets may be able to employ more people than those located in areas with strong labor markets, all else being equal.

The percentage of the nation's labor force that is unemployed has reached a level not seen in decades. For example, the unemployment rate reached 10.2 percent in October 2009, its highest rate since April 1983. The national unemployment rate was 4.9 percent in December 2007, the month that marked the end of the last business cycle and the beginning of the current recession. In general, the unemployment rate rises and falls over the course of the business cycle, generally increasing during a recession and decreasing during an expansion. Cyclical changes in the national unemployment rate reflect changes in state unemployment rates. State unemployment rates vary over time in much the same way that the national unemployment rate varies—increasing during recessions, decreasing during expansions, but changing direction at different times.

Estimates of current labor market strength, as measured by the unemployment rate, differ across states. Figure 6 ranks states according to the most recent available unemployment data—September 2009. While the national unemployment rate at the time was 9.8 percent, state unemployment rates ranged from a minimum of 4.2 percent in North Dakota to a maximum of 15.3 percent in Michigan. Twenty-seven states had unemployment rates in September 2009 that were less than the national unemployment rate by one percentage point or more, and nine states and the District of Columbia had unemployment rates that exceeded the national unemployment rate by one percentage point or more, and 14 states had unemployment rates that were within one percentage point of the national unemployment rate.

**Figure 6: State Unemployment Rates, September 2009**

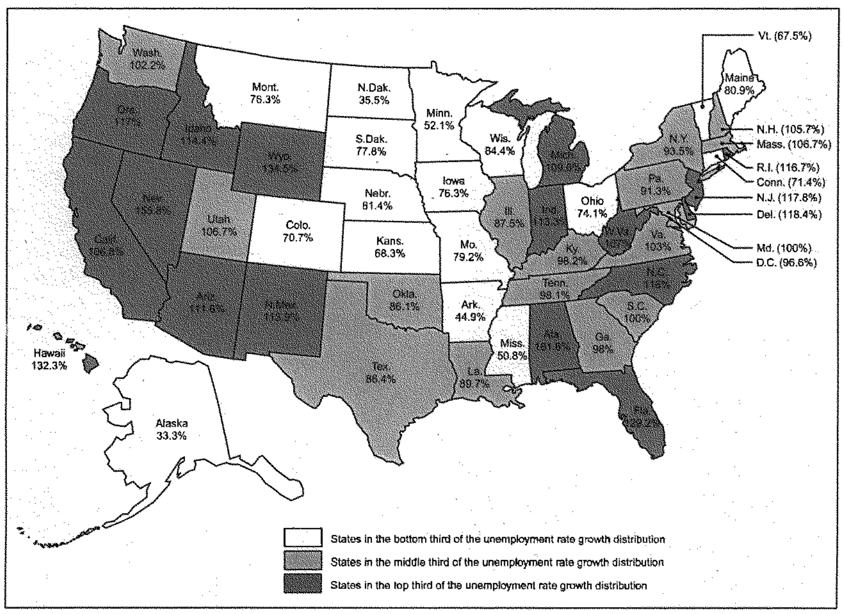



Source: GAO analysis of U.S. Bureau of Labor Statistics data.

Note: State unemployment rates are seasonally adjusted state unemployment rates for September 2009 from the Local Area Unemployment Statistics produced by the U.S. Bureau of Labor Statistics. Estimates of state employment rates for September 2009 are preliminary.

Labor markets in every state weakened over the course of the recession, but the degree to which this has occurred varies widely across states. Figure 7 shows the geographic distribution of the magnitude of the recession's impact on unemployment as measured by the percent change in unemployment between December 2007 and September 2009. Alabama's unemployment rate has grown the most over this period, increasing by about 182 percent. Other states with relatively high unemployment rate growth over this period include Florida, Hawaii, Wyoming, Idaho, and Nevada, all of which have seen their unemployment rates increase by more than 120 percent. At the other end of the spectrum are states like Minnesota, Mississippi, Arkansas, North Dakota, and Alaska. Unemployment rates in these states have grown by less than 60 percent between December 2007 and September 2009. Alaska's unemployment rate growth during this period has been the slowest, measuring only about 33 percent.

**Figure 7: State Unemployment Rate Growth during Recession (Percent Increase)**




Source: Copyright © Corel Corp. All rights reserved (map); GAO analysis of U.S. Bureau of Labor Statistics data.

Note: State unemployment rate growth is the percent change in the seasonally adjusted state unemployment rate from December 2007 to September 2009.

While the recession has weakened labor markets in every state, those in some states may be showing signs of recovering. Table 8 lists the states for which unemployment rates in September 2009 are less than their peak unemployment rates. The unemployment rate peaked in some states as early as May 2009. In several additional states, the unemployment rate was higher in June or July than it was in September. Although unemployment rates in these states may start to increase again in the future, for the moment it seems that labor markets in these states are getting stronger.

**Table 8: State Unemployment Rates, Peak and Most Recent**

| | Unemployment rate (percent) | | | | | Unemployment rate (percent) | | | |
|---|---|---|---|---|---|---|---|---|---|
| State | Sept 2009 | Peak | Peak month | Percent change | State | Sept 2009 | Peak | Peak month | Percent change |
| Minnesota | 7.3 | 8.4 | June | -13.1 | Tennessee | 10.5 | 10.8 | June | -2.8 |
| Colorado | 7.0 | 7.8 | July | -10.3 | Hawaii | 7.2 | 7.4 | May | -2.7 |
| Indiana | 9.6 | 10.7 | June | -10.3 | Kentucky | 10.9 | 11.2 | August | -2.7 |
| Ohio | 10.1 | 11.2 | July | -9.8 | North Carolina | 10.8 | 11.1 | May | -2.7 |
| Vermont | 6.7 | 7.4 | May | -9.5 | North Dakota | 4.2 | 4.3 | August | -2.3 |
| Kansas | 6.9 | 7.5 | July | -8.0 | West Virginia | 8.9 | 9.1 | June | -2.2 |
| Wisconsin | 8.3 | 9.0 | July | -7.8 | Nebraska | 4.9 | 5.0 | August | -2.0 |
| Oregon | 11.5 | 12.2 | May | -5.7 | Georgia | 10.1 | 10.3 | July | -1.9 |
| Virginia | 6.7 | 7.1 | June | -5.6 | Oklahoma | 6.7 | 6.8 | August | -1.5 |
| Mississippi | 9.2 | 9.7 | August | -5.2 | Delaware | 8.3 | 8.4 | June | -1.2 |
| Louisiana | 7.4 | 7.8 | August | -5.1 | Maine | 8.5 | 8.6 | August | -1.2 |
| Arkansas | 7.1 | 7.4 | July | -4.1 | Arizona | 9.1 | 9.2 | July | -1.1 |
| South Carolina | 11.6 | 12.1 | June | -4.1 | Idaho | 8.8 | 8.9 | August | -1.1 |
| South Dakota | 4.8 | 5.0 | June | -4.0 | California | 12.2 | 12.3 | August | -0.8 |

Source: GAO analysis of U.S. Bureau of Labor Statistics data.

Note: Peak unemployment rates are the maximum employment rates since December 2007. Peak dates are the most recent month and year during which the unemployment rate was equal to its maximum value since December 2007.

## State and Sectoral Employment Trends

Table 9 shows the change in employment between December 2007 and September 2009. Employment in Arizona, Florida, Georgia, Michigan, Nevada, and Oregon in September 2009 was over 7 percent lower than it was in December 2007 in each state. On the other hand, employment in Louisiana and South Dakota fell by less than two percent over the same period, and employment in Alaska, North Dakota, and the District of Columbia has increased during that time.

Table 9: Change in Employment, December 2007 to September 2009

| State | Change in employment (1,000s) | Percent change in employment (percent) | State | Change in employment (1,000s) | Percent change in employment (percent) |
|---|---|---|---|---|---|
| Alabama | -118.1 | -5.9 | Montana | -9.6 | -2.1 |
| Alaska | 1.8 | 0.6 | Nebraska | -20 | -2.1 |
| Arizona | -267.7 | -10.0 | Nevada | -110.5 | -8.5 |
| Arkansas | -37.7 | -3.1 | New Hampshire | -19.1 | -2.9 |
| California | -988.9 | -6.5 | New Jersey | -168.5 | -4.1 |
| Colorado | -110.5 | -4.7 | New Mexico | -31.7 | -3.7 |
| Connecticut | -82.2 | -4.8 | New York | -213.2 | -2.4 |
| Delaware | -26.1 | -6.0 | North Carolina | -250.3 | -6.0 |
| D.C. | 4.3 | 0.6 | North Dakota | 5.2 | 1.4 |
| Florida | -617.5 | -7.8 | Ohio | -321.5 | -5.9 |
| Georgia | -316.1 | -7.6 | Oklahoma | -31.1 | -2.0 |
| Hawaii | -36.9 | -5.9 | Oregon | -124.3 | -7.2 |
| Idaho | -43.2 | -6.6 | Pennsylvania | -208 | -3.6 |
| Illinois | -356.5 | -6.0 | Rhode Island | -29.7 | -6.1 |
| Indiana | -176.4 | -5.9 | South Carolina | -100.2 | -5.1 |
| Iowa | -45.7 | -3.0 | South Dakota | -4.4 | -1.1 |
| Kansas | -54.7 | -3.9 | Tennessee | -157.6 | -5.6 |
| Kentucky | -113.3 | -6.1 | Texas | -240.2 | -2.3 |
| Louisiana | -26.4 | -1.4 | Utah | -64.3 | -5.1 |
| Maine | -27.4 | -4.4 | Vermont | -14.9 | -4.8 |
| Maryland | -78 | -3.0 | Virginia | -125.6 | -3.3 |
| Massachusetts | -114.4 | -3.5 | Washington | -126.9 | -4.3 |
| Michigan | -416.2 | -9.8 | West Virginia | -25.1 | -3.3 |
| Minnesota | -132 | -4.8 | Wisconsin | -156.8 | -5.4 |
| Mississippi | -54.4 | -4.7 | Wyoming | -6.6 | -2.2 |
| Missouri | -89.5 | -3.2 | | | |

Source: GAO analysis of U.S. Bureau of Labor Statistics data.

Note: Employment is total nonfarm seasonally adjusted employment among people age 16 and over from the Current Employment Statistics produced by the U.S. Bureau of Labor Statistics.

Employment has declined since December 2007, when the current recession began. However, some signs have appeared that the losses in employment are slowing. Job losses in October 2009 numbered 190,000. This number is about equal to average job losses of about 188,000 per month in August, September, and October 2009. The rate at which employment has declined over the past three months is thus lower than the rate at which it declined in May, June, and July 2009, when job losses averaged about 357,000 per month. The rate at which employment has declined over the past three months is thus also lower than the rate at which it declined between November 2008 and April 2009, when job losses averaged about 645,000 per month.

The current employment contraction has been more pronounced in the goods-producing sector, in which employment fell by about 17 percent between December 2007 and October 2009, than the service-providing sector, in which employment fell by about three percent over the same period. The goods-producing sector includes the construction and manufacturing industries, in which employment has fallen by about 21 percent and 15 percent, respectively, between December 2007 and October 2009. The goods-producing sector also includes the mining and logging industry, which lost about 6 percent of its jobs during the same time. Service-providing industries include financial activities, information, professional and business services, and trade, transportation, and utilities, all of which had employment declines of more than six percent between December 2007 and October 2009. Employment declines in the leisure and hospitality industry were about three percent, and employment in education and health services increased by about 4 percent at the same time.

## Fiscal Condition of States Will Affect the Results of Recovery Act Spending

The employment effects of Recovery Act funds allocated to state and local governments will also likely vary with their degree of fiscal stress, as well as with the factors mentioned above. Because recessions manifest in the form of lower output, employment, and income, among other things, reductions in output, employment, and income lead state and local governments to collect less tax revenue and at the same time cause households' demand for publicly provided goods and services to increase. State governments often operate under various constraints, such as balanced budget requirements, so they generally must react to lower tax revenues by raising tax rates, cutting publicly provided programs and services, or drawing down reserve funds, all but the last of which amplify recessionary pressure on households and businesses. Local governments must do the same unless they can borrow to make up for lost tax revenue. By providing funds to state and local governments, the Recovery Act intends to forestall, or at least moderate, their program and service cuts, reserves liquidation, and tax increases.

In addition to the type of spending undertaken, the size of the multiplier and resultant employment effects will depend on the extent to which aid is not diverted to reserves. Generally speaking, states with weaker economies and finances will be more likely to spend Recovery Act dollars. States that may suffer little or no harm from a national downturn are less motivated to make full use of any federal assistance.[31] Rather than increase spending, they may choose to cut taxes or, where permitted by law, add to their reserves. Tax cuts would have some simulative effect, but additions to reserves would reduce any multiplier effect. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the state share for the Medicaid programs. States are prohibited from using any funds directly or indirectly attributable to the increased FMAP for state rainy day funds,[32] but states have reported using funds made available a result of the increased FMAP for a variety of purposes including offset of general fund deficits and tax revenue shortfall.

The availability of reserves and the possibility of borrowing points out the difficulties of gauging the impact of federal policy by the observed timing of aid flows. The expectation of aid could encourage governments to draw more out of reserves or to borrow more than they would otherwise. The rationale is that the expected aid would replace the reserves or liquidate the new debt. In this way, the timing of aid could postdate the impact. Research on individual consumption has long wrestled with the problem of how expectations influence household decisions. State and local governments must also look forward in making fiscal decisions.

The recession has substantially affected the states' fiscal conditions. In recessions, state and local governments are motivated to enact "pro-cyclical" measures that aggravate the downturn. Balanced budget requirements and other constraints cause them to reduce spending and raise taxes, generating what is called "fiscal drag." Federal assistance can reduce the need for such measures. In this way, the negative employment effects of fiscal drag can be precluded and existing jobs can be saved. With sufficient aid, it is possible for state and local governments to go beyond

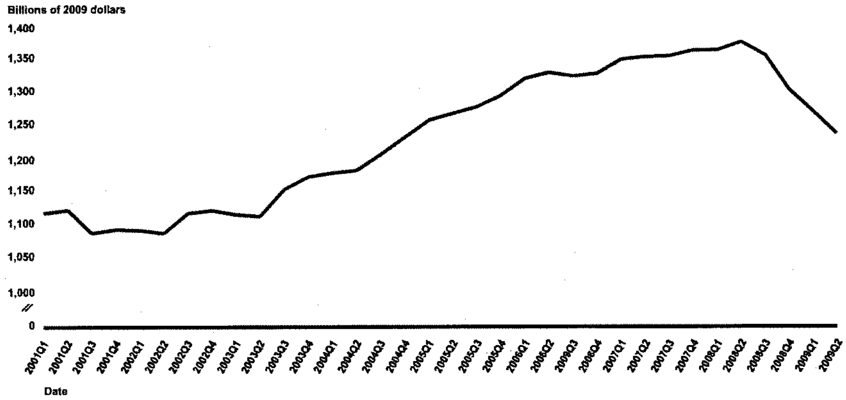
[31] We have ongoing work examining the implementation of maintenance of effort or similar provisions of the Recovery Act. Such provisions are designed to prevent recipients from substituting federal funds for other funds that would have otherwise have been spent. We expect to issue our report later this calendar year.

[32] Recovery Act, div. B, § 5001(f)(3).

saving existing jobs to creating additional ones. However, there are likely to be limits to the abilities of governments to spend aid quickly enough to affect employment

The recession has substantially reduced states' and local governments' combined tax revenues. Figure 8 indicates that tax revenue collected in the second quarter of 2009 fell from the peak in the second quarter of 2008 by more than $130 billion.

**Figure 8: State and Local Tax Receipts**




Source: GAO analysis of U.S. Bureau of Economic Analysis data.

Note: State and local tax receipts are real state and local tax receipts in billions of 2009 dollars, seasonally adjusted at annual rates (the quarterly amount multiplied by four).

State and local revenues are not likely to return to their previous levels until well after the recession has ended. After the 2001 recession, tax receipts did not begin to recover until after second quarter of 2003, well after the 'official' end of the recession in fourth quarter of 2001. However, the fall in receipts after the second quarter of 2008 is dramatic. In a survey of the nation's state governments, the National Governors Association reported that outlays for current services provided through states' general funds decreased by 2.2 percent in fiscal year 2009, which ended in June 2009 for most states. Spending for fiscal year 2010 is projected to fall by

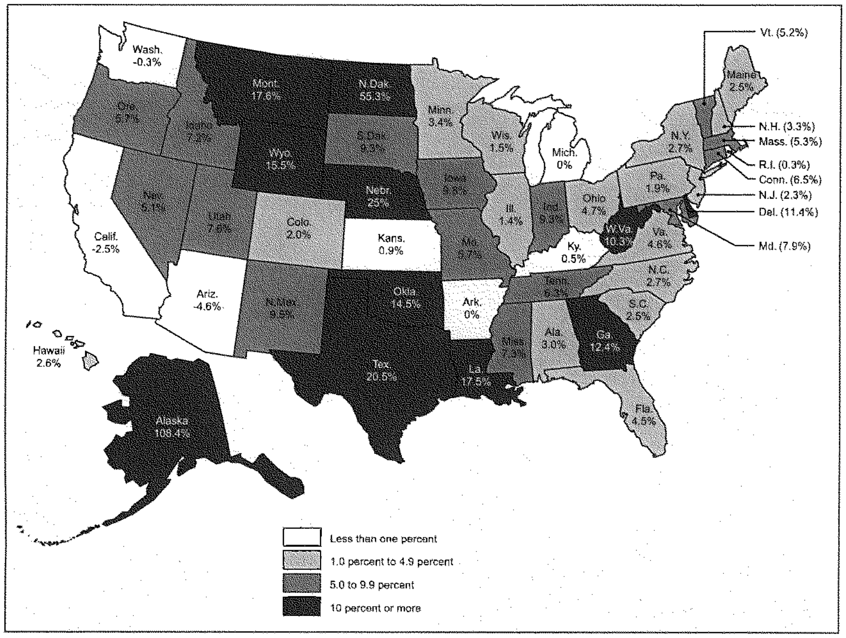
2.5 percent. In light of average annual increases of five percent for total state and local government outlays, any decrease is a significant adjustment.

Most states have some sort of requirement to balance operating budgets. However, most state governments are able to establish reserve funds. Maintenance of a baseline of five percent of annual outlays for a state's fund is regarded by state budget officers as prudent. A lower level could increase a state's borrowing costs. Since 2006 these funds have decreased. In the wake of the 2001 recession, according to an analyst at the Rockefeller Institute of Government, state governments in fiscal year 2002 drew as much as 4.8 percent of their revenues from fund balances.[33] The National Governors Association reports that fund balances peaked in 2006 at $69 billion, at 11 percent of general fund expenditures. The funds declined to 9.1 percent by 2008 and were estimated at 5.5 percent—$36.7 billion—in June 2009. However, by fiscal year 2010, these funds are projected to fall to 5.3 percent of outlays.

In addition, for 2009 there is variation in state government reserves. For example, 11 states had total reserves in excess of 10 percent of outlays, while others, such as California, had total reserves less than 1 percent of outlays. This may be seen in figure 9.

[33]Donald J. Boyd, "Coping with Effects of Recession in the States" (presentation to the Governmental Research Association Annual Conference, Washington, D.C., July 2009), *http://www.rockinst.org/pdf/government_finance/2009-07-Boyd_GRA_Presentation.pdf* (accessed November 13, 2009).

**Figure 9: Total Year-End Balances as a Percentage of Expenditures, Fiscal Year 2009**




Source: Copyright © Corel Corp. All rights reserved (map); GAO analysis of U.S. Bureau of Labor Statistics data.

Diversity in the economic and fiscal conditions of the states and differences in the size and composition of Recovery Act funds they receive suggest that the potential for employment gains varies across states. We will continue work in this area, along with our other work on federal-state fiscal interactions.

## Agency Comments

In commenting on a draft of our report, OMB staff told us that OMB generally accepts the report's recommendations. It has undertaken a lessons learned process for the first round of recipient reporting and will generally address the report's recommendations through that process.

We are sending copies of this report to the Office of Management and Budget and to the Departments of Education, Housing and Urban Development, and Transportation. The report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact J. Christopher Mihm or Susan Offutt at (202) 512-5500. 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 major contributions to this report are listed in appendix III.

Gene L. Dodaro
Acting Comptroller General of the United States

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Speaker of the House of Representatives

The Honorable Robert C. Byrd
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The Honorable Harry Reid
Majority Leader
United States Senate

The Honorable Mitch McConnell
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United States Senate

The Honorable Steny Hoyer
Majority Leader
House of Representatives

The Honorable John Boehner
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United States Senate

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The Honorable Darrell E. Issa
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House of Representatives

# Appendix I: Calculating Full-Time Equivalent Data—Examples of Guidance and Challenges

The Office of Management and Budget (OMB) and federal agencies have provided wide-ranging guidance to states on how to report full-time equivalent (FTE) data—that is, jobs created or retained. OMB staff reported that questions on FTEs dominated the inquiries they fielded during the first round of recipient reporting, and recipients had various understandings of how to report an FTE. Following are selected examples of the challenges of reporting and calculating FTEs, as seen through public housing agencies and four states—California, Florida, Georgia, and Massachusetts.

## Public Housing Agencies Experienced Problems with the Process of Recipient Reporting and the FTE Calculation

As we reported in September 2009, the Department of Housing and Urban Development (HUD) is using two methods to satisfy reporting requirements for public housing agencies under the Recovery Act. First, OMB and the Recovery Act Board have created and manage www.Federalreporting.gov (Federalreporting.gov), a Web site where all Recovery Act recipients can report on the nature of projects undertaken with Recovery Act funds and on jobs created or retained. Second, HUD developed the Recovery Act Management and Performance System (RAMPS) in response to reporting requirements outlined in section 1609 of the Recovery Act.[1] HUD officials said approximately 96 percent of housing agencies had successfully reported into Federalreporting.gov. Initial reports suggested a lower reporting rate, but this was due to a substantial number of housing agencies incorrectly entering values into certain identification fields, such as the award ID number, the awarding agency, or the type of funding received. HUD officials said that the system did not have validation measures in place to ensure the correct award ID numbers were entered. In addition, housing agencies could not edit the award ID number without submitting a new report. According to a HUD official, OMB initially classified reports that could not be matched with a federal agency as "orphaned." The HUD official told us HUD program and Recovery team staff reviewed reports submitted with nonmatching award ID numbers and OMB's list of reports that could not be matched to determine if they matched HUD awards.

[1] Section 1609 of the Recovery Act requires that adequate resources must be devoted to ensuring that applicable environmental reviews under the National Environmental Policy Act are completed on an expeditious basis and that the shortest existing applicable process under the National Environmental Policy Act shall be used. The National Environmental Policy Act protects public health, safety, and environmental quality by ensuring transparency, accountability, and public involvement in federal actions and in the use of public funds.

According to HUD officials, public housing agencies encountered challenges related to registration and system accessibility. For example, a HUD official said the registration process for Federalreporting.gov requires several steps such as obtaining a DUNS number, registering with the Central Contractor Registration (CCR) and obtaining a Federal Reporting Personal Identification Number (FRPIN). The HUD official told us these steps are necessary for validating the recipient reports because they ensure the appropriate points of contact at the appropriate organizations—in this case, public housing agencies—are reporting for each program. The Federalreporting.gov Web site states that each recipient's point of contact information is taken directly from the CCR and if an organization changes its point of contact information it will take 48 hours for Federalreporting.gov to receive the change and e-mail the FRPIN and temporary password to the new point of contact. According to the HUD official, a housing agency's contact information in CCR is sometimes outdated and the systems are often not updated in time for access to be correctly transferred. Additionally, one housing agency official reported he saved his data entry as a draft before being timed out of the system, but was unable to retrieve the data when he reentered the reporting Web site. A HUD official said in the future, HUD and OMB will need to improve the function of the system and the official said that they are working to ensure all housing agencies have access to the reporting systems.

According to a HUD official, there was widespread misunderstanding by public housing agencies about OMB's methodology for calculating the number of jobs created or retained by the Recovery Act, in part because housing agencies are not familiar with reporting jobs information. In a few cases, we found that public housing agencies had reported the number of jobs created or retained into Federalreporting.gov without converting the number into full-time equivalents. For example, officials from one housing agency reported the number of people, by trade, who worked on Recovery Act related projects, but did not apply the full-time equivalent calculation outlined by OMB in the June 22 reporting guidance. Additionally, officials from another public housing agency told us that they based the number of jobs they reported into Federalreporting.gov on letters from their contractors detailing the number of positions rather than full-time equivalents created as a result of their Recovery Act-funded projects. In another case, a housing agency official reported having difficulty locating guidance on calculating job creation. As a result, the housing agency may have underreported jobs data from an architectural firm providing design services for a Recovery Act window replacement project at a public housing complex.

HUD officials cited the fact that OMB and HUD provided additional clarification and guidance close to the deadline for recipient reporting as a factor in housing agencies' confusion about the methodology for counting jobs. According to a HUD official, HUD was in discussions with OMB about finalizing and clarifying portions of the June 22, 2009, job guidance right up to the end of September. In early September, HUD posted the OMB guidance to its Web site and provided information by e-mail to housing agencies on registration for Federalreporting.gov, as well as links to Web seminars and training provided by OMB. HUD issued further guidance to public housing agencies by e-mail on September 25, 2009, approximately 2 weeks before the October 10, 2009, deadline for recipient reporting, providing templates and data dictionaries tailored to the Public Housing Capital Fund. The guidance also reiterated the recipient reporting responsibilities for public housing agencies.

HUD officials told us they did not have enough time to translate some of the terminology into concrete terms that would be clearer to housing agency officials. For example, HUD posted a jobs calculator spreadsheet to its Web site, and HUD field staff would direct housing agencies to this guidance when they asked specific questions about how to calculate jobs. Nonetheless, greater instruction may be needed beyond what was provided to housing agencies on the job calculator's instructions page. A HUD official said it seemed like some housing agencies may have pulled information for the recipient reports from the wrong fields in the job calculator, which produced errors. A HUD official stated they will work with OMB to improve housing agencies' understanding of the methodology for reporting in full-time equivalents prior to the next round of recipient reporting in January 2010.

## California's Experiences with Recipient Reporting Requirements

State officials from the California Recovery Task Force and the California Office of the State Chief Information Officer (CIO) explained that while the centralized reporting structure had several benefits, challenges with changing reporting requirements from federal agencies and technological glitches still occurred.

As a centralized reporting state, each state agency reported directly to the CIO through the California ARRA Accountability tool. The Task Force is responsible for uploading the data to Federalreporting.gov. However, according to state officials, local government agencies that received direct Recovery Act dollars from the federal government are not under the Task Force's purview of the state officials and report to Federalreporting.gov on their own. State officials stated that a centralized reporting structure allows the CIO to act as a liaison between OMB and the state for faster reconciliation of issues. The CIO, on behalf of the task force, was responsible for collecting, validating, and uploading data from state agencies to Federalreporting.gov. The state officials believed the process went well overall and commended their state team for successfully reporting into Federalreporting.gov. The Task Force officials believed the reporting process could be improved if OMB provided a comprehensive list of awards to better crosscheck reporting. California officials stated that many of the challenges in reporting did not come from the additional information requested during October 11 to 20, but from changes immediately prior to the September 30 cut-off date. These changes included issues such as the Department of Education's request to include Central Contract Registration numbers on September 21, and FHWA's changes to four of the data elements, including the award amounts.

California officials have a greater appreciation of what to expect during the reporting process. They believe that the continuous communication with the state agencies, including weekly data group meetings at which as many as 60 people attended, contributed to the overall success of the reporting process. They also have been developing their own internal logic checks to assist with data validation. California officials continue to be concerned that problems at Federalreporting.gov and changing agency requirements will cause subrecipient data, initially correctly collected in accordance with federal guidance, to be rejected, which will result in penalties for late submissions.

## Florida Department of Transportation's Experiences with Reporting and Data Quality Reviews

The Florida Department of Transportation (FDOT) has reporting requirements under both sections 1512 and 1201 of the Recovery Act. Although the state had an existing system in place that could be used for section 1201 reporting, officials decided to develop two additional systems for 1512 reporting. One system was created to assist FDOT in reporting information to the state Recovery Czar and a second system for employment reporting was created to allow subrecipients to enter total number of employees, payroll, and employee hours for Recovery Act-funded highway projects. According to state officials, the system was launched on May 29, 2009, and is currently in use. FDOT officials experienced no significant reporting problems while submitting more than 400 reports.

Florida began preparing for reporting early and conducted extensive training to assist contractors, consultants, and local agencies in the collection of employment data required by the Recovery Act. For example, FDOT's Office of Inspector General (OIG) developed five computer-based training modules to assist department staff and external partners in the use of the electronic reporting system. FDOT also partnered with its OIG and the Florida Division of the Federal Highway Administration (FHWA) to conduct town hall presentations for its seven District Offices and Florida's Turnpike Enterprise. The presentations were designed to ensure consistent use of the electronic employment data application. In September, OIG followed up with a survey to local agencies to determine the levels of proficiency for using the department's electronic employment reporting system and to solicit feedback.

FDOT's electronic employment data reporting system provides for several levels of data review and approval. For example, once the subrecipient enters their monthly employment data into the electronic system, the data is available for review and subsequent approval by the local agency project manager. Once approved, the data is available for review and approval by the department's district office project manager. The district office project manager performs a reasonableness check of the submitted data prior to electronically approving the same.

The electronic employment data is then available for review by OIG where two types of analyses are performed. First, OIG identifies whether the subrecipient should be reporting job data by comparing submitted data (and subrecipient identifiers) against the master list of awarded Recovery Act transportation projects. Second, OIG compares previously submitted subrecipient information against information contained in its current submission to determine any data anomalies or variances. Should any significant data anomalies or variances occur, OIG will contact the appropriate district and local agency.

FDOT did not require subrecipients to submit verification of their job data but subrecipients were advised by FDOT to maintain documentation for review. For two subrecipients we visited, we found the extent to which documentation was being maintained varied. For example, one subrecipient kept time-sheets for all employees associated with Recovery Act projects, while another had documentation for its hourly employees but not its management employees.

## Reporting from a Georgia Highway Contractor's Perspective

**Reporting Process:** In Georgia, one of the highway contractors we visited noted that it was responsible for reporting on about 30 Recovery Act-funded projects with approximately 10 subrecipients for each project. The contractor stated that they are required to fill out a monthly report (FHWA Form 1589) indicating the number of employees, the hours worked, and the dollars charged to the job through a direct portal created by Georgia Department of Transportation (GDOT). According to the contractor, this reporting requirement is in the contract, and GDOT will withhold payment if this report is not completed. As the general contractor, the firm is also responsible for collecting the 1589 information from its subcontractors on each job. Officials with the firm stated that they would withhold payment from the subcontractors if they fail to provide the information. We examined these contracts and confirmed these requirements. In addition to the 1589 report, the contractor also submits certified payroll to GDOT on a monthly basis.

**Guidance and Challenges:** In terms of guidance, the contractor noted that there was not a lot of training provided but that they did not necessarily need much training. The main challenges raised were issues with making changes within the GDOT system and the DUNS number field. For example, officials explained once a report was submitted into GDOT's system, it could not be edited, which made errors in entry or reporting difficult to correct. The contractor has discussed this issue with GDOT and hopes a solution will be reached for the next reporting cycle.

The DUNS number requirement was an issue for several subrecipients since they did not have a number and they were under the impression that a cost was involved in obtaining a number, which there was not. After discussions with GDOT, it was determined that subrecipients did not need a DUNS number, but the field could not be blank. Therefore, GDOT advised the contractor to have its subrecipients complete the file by entering "not applicable." The contractor suggested that improvements in reporting could be achieved by delaying the reporting date to GDOT to allow more time to handle delays in payroll and obtaining supporting information. Overall, the contractor felt that the September report was the most accurate month reported to date and believed greater accuracy will be achieved over time.

**Data Quality:** Officials of the highway contractor told us they think they have a handle on the process and were confident in the data submitted. In their words, "if it's inaccurate, we paid somebody wrong" since the report comes out of their payroll system. In terms of data from subcontractors, the officials noted that their confidence varied somewhat across subcontractors. Officials explained that information varied, based on the capacity and expertise of the subcontractor (that is, experience in reporting and if a certified payroll is in place). Officials explained they had greater confidence in subcontractors that had certified payroll. They provided several examples of subrecipients who were truckers or haulers who are not familiar with reporting and often are a small operation of one employee. Officials noted that the number of truckers or haulers on a project is often large in order to meet disadvantaged business requirements. Officials questioned if truckers and haulers should be part of the job creation or retained count since similar positions may not be counted for subcontractors that provide materials such as pipe. Officials believed over time, subcontractors would become more comfortable and familiar with the process.

## Reporting from a Massachusetts Highway Contractor's Perspective

**Reporting Process:** An official at a major highway contractor we interviewed in Massachusetts explained that one of his primary responsibilities as the Construction Cost Accountant is to certify payroll records and ensure compliance with federal labor standards. This company is the general contractor (or prime contractor) on six Recovery Act highway construction projects.

A company official stated that that there was no additional burden associated with filing the quarterly recipient reports because they routinely report employment data to the Massachusetts Department of Transportation (MassDOT), Highway Division for federal-highway funded projects through the MassDOT Highway Division's Equitable Business Opportunities (EBO) system. Although there were additional data elements required for Recovery Act projects, the company official noted that FHWA Form 1589 specifies these additional reporting elements, and they have been added to the EBO system to make it easier for contractors and subcontractors to report on a monthly basis.

According to the company official, the process was very straightforward. Contractors and subcontractors log into the EBO system and can see detailed information on all the projects they are working on for the MassDOT Highway Division. Typically, by the 15th day of each month, contractors and subcontractors upload their certified payroll files into the EBO system. However, for the September submission, MassDOT's Highway Division required contractors to submit their employment reports early by October 9, so that they could meet the state's October 10 deadline of submitting the quarterly Recovery Act report.

**Guidance and Challenges:** The official noted that the only guidance he received came from the MassDOT Highway Division in the form of training on the EBO system, which he said helped contractors and subcontractors transition from the old employment reporting system to the EBO system. He noted that for contractors that were used to working with complex accounting systems, this training was adequate, but for smaller contractors with little computer experience, the training could have been better. In general, the official observed that most contractors and subcontractors are very pleased with the new system because it interfaces so well with their existing accounting and certified payroll databases and because the cost is low.

**Data Quality:** There are several steps for ensuring data quality. First, a company official explained that most large contractors and many subcontractors have accounting and payroll data systems that interface with the EBO database well, so they are able to upload data from these systems directly into the EBO system, eliminating the need to reenter employment data. However, some smaller contractors don't have these systems and thus must enter the data by hand each month. The company official stated that he is not concerned with the quality of data because it is verified both internally and by the MassDOT Highway Division.

The official explained that the MassDOT Highway Division puts the responsibility for ensuring that subcontractors file monthly reports with the general contractor, and his company ensures subcontractor compliance by withholding their reimbursements. Although it is rarely needed, the official noted that withholding payments to subcontractors is a very effective tool for getting subcontractors to submit their monthly reports. Furthermore, all subcontractor employment reports are verified against the daily duty log that is kept by the project supervisor, who is an employee of the company. The MassDOT Highway Division also posts resident engineers at each job site on a daily basis, and they keep a daily diary of employment and work status that is used to verify the data submitted by general contractors in the MassDOT Highway Division project management system. This is the same system that is used to generate contractor invoices for reimbursement.

# Appendix II: Department of Education Calculations to Determine Full-Time Equivalents (FTE) for Jobs Created or Retained

According to Education's clarifying guidance on jobs estimation, local educational agencies (LEA) are generally required to calculate a baseline number of hours worked, consisting of a hypothetical number of hours that would have been worked in the absence of Recovery Act funds. Once LEA officials derive this number, they then deduct the number from actual hours worked by individuals whose employment is attributable to Recovery Act funding to determine the number of hours created or retained. They then derive the number of full-time equivalents (FTE) for jobs created or retained, as shown in table 10.

**Table 10: Derivation of Number of Hours Created or Retained**

| | | Hypothetical: No Recovery Act funding (baseline) | Actual: Current quarter employees |
|---|---|---|---|
| Direct employees | Employer | Hours employed (estimates) | Hours employed (actual) |
| Employee 1 | Prime recipient | 520 | 520 |
| Employee 2 | Grantee | 300 | 520 |
| Employee 3 | Grantee | 0 | 520 |
| Employee 4 | Grantee | 300 | 300 |
| Employee 5 | Vendor 1 | 200 | 300 |
| Employee 6 | Vendor 2 | 0 | 300 |
| **Total** | | **1320** | **2460** |
| | | | Hours Created or Retained: 1140 |

Source: U.S. Department of Education.

Note: The data were taken from Education's "Clarifying Guidance on American Recovery and Reinvestment Act of 2009 Reporting on Jobs Creation Estimates by Recipients" (September 2009).

Then, they divide the resulting number of hours created or retained by the number of FTE hours in the quarter or reporting period to determine the number of FTEs to report. For example, in the table above, Employees 3 and 6 went from being unemployed (0 hours of employment) in the hypothetical situation where no Recovery Act funds are available to full-time (520 hours) and part-time (300 hours) employment, respectively. Employee 2 went from part-time (300 hours) to full-time (520 hours). Employee 5 remained a part-time employee, but works an additional 100 hours in the reporting quarter. Taking the sum of actual hours worked in the reporting quarter (2460) and subtracting the hours worked in the hypothetical baseline quarter (1320), we are left with 1140 created or retained hours. For the first reporting quarter, LEA officials divided the result by the number of FTE hours in that quarter (520).[1] The total FTEs created or retained in Quarter 1 is 2.19.

Results should be reported cumulatively, so in the second reporting quarter (Q2), the total hours worked in Q2 will be added to the hours worked in Q1 and divided by the hours in a full-time schedule for two quarters (1040 hours). For example, if in quarter 2, all employees reported in quarter 1 are retained and the baseline remains unchanged, we would again have 1140 hours created or retained. To get the final cumulative FTE created or retained, officials would sum 1140 for quarter 1 with 1140 for quarter 2 to get 2280 total hours created or retained. Recipients should divide this by the sum of the hours in a full-time schedule for those two quarters (1040). The result is again 2.19 FTE created or retained in quarter 2.

[1]The value of hours worked in a quarter may vary with the number of full-time hours worked since the beginning of the reporting period and what the recipient regards as a full-time schedule.

# Appendix III: GAO Contacts and Staff Acknowledgments

## GAO Contacts

J. Christopher Mihm or Susan Offutt at (202) 512-5500.

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United States Government Accountability Office

GAO

Report to the Congress

September 2009

# RECOVERY ACT

# Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed

**This report was revised on November 6, 2009, to more accurately reflect the efforts of one local area to gauge the work readiness of youth participating in Recovery Act-funded summer employment activities.**

**On page 76, the description of North Central Texas Workforce Board's methodology, including the use of pre- and post-assessments, was changed.**

**On page 79, the phrase "or was not using required pre- and post-tests at all" was deleted.**

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GAO-09-1016

September 2009

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# Highlights

Highlights of GAO-09-1016, a report to the Congress

## Why GAO Did This Study

This report, the third in response to a mandate under the American Recovery and Reinvestment Act of 2009 (Recovery Act), addresses the following objectives: (1) selected states' and localities' uses of Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of Recovery Act funds. GAO's work for the report is focused on 16 states and certain localities in those jurisdictions as well as the District of Columbia (District)—representing about 65 percent of the U.S. population and two-thirds of the intergovernmental federal assistance available. Under the Recovery Act, GAO collected and analyzed documents and interviewed state and local officials. GAO also analyzed federal agency guidance and spoke with Office of Management and Budget (OMB) officials and with program officials at the federal agencies overseeing Recovery Act programs.

## What GAO Recommends

GAO makes recommendations to federal agencies to address accountability and transparency issues. They are discussed on the next page and in the report. GAO also has recommendations to OMB (on pages 122 and 131-134) and a matter for congressional consideration (on page 123). The report draft was discussed with federal and state officials who generally agreed with its contents.

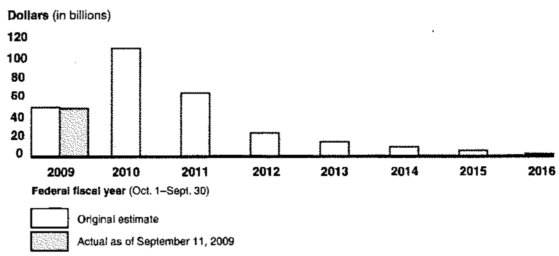
View GAO-09-1016 or key components. For state summaries, see GAO-09-1017SP. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

# RECOVERY ACT

## Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed

### What GAO Found

Across the United States, as of September 11, 2009, the Department of the Treasury had outlayed about $48 billion of the estimated $49 billion in Recovery Act funds projected for use in states and localities in federal fiscal year 2009, as shown in the figure. More than three quarters of the federal outlays has been provided through the increased Medicaid Federal Medical Assistance Percentage (FMAP) and the State Fiscal Stabilization Fund (SFSF) administered by the Department of Education.




Source: GAO analysis of CBO, Federal Funds Information for States, and Recovery.gov data.

Increased Medicaid FMAP Funding

All 16 states and the District have drawn down increased Medicaid FMAP grant awards of just over $20.3 billion for October 1, 2008, through September 15, 2009, which amounted to over 87 percent of funds available. All states and the District experienced Medicaid enrollment growth. States and the District reported they are planning to use the increased federal funds to cover their increased Medicaid caseload and to maintain current benefits and eligibility levels. Most states also reported that they would use freed-up funds to finance general state budget needs. The increased FMAP continues to help states finance their growing Medicaid programs, but state and District officials expressed concern about the longer term sustainability of their Medicaid programs after the increased FMAP funds are no longer available, beginning in January 2011.

Highway Infrastructure Investment and Transit Funding

A substantial portion of the approximately $35 billion the Recovery Act appropriated for highway infrastructure projects and public transit has been obligated nationwide and in the states and the District that are the focus of GAO's review. As of September 1, the Department of Transportation (DOT) had obligated approximately $11 billion for almost 3,800 highway infrastructure and other eligible projects in the 16 states and the District and had reimbursed these 17 jurisdictions about $604 million. Across the nation, almost half of the obligations have been for pavement improvement projects because they did not require extensive environmental clearances, were quick to design, obligate and bid on, and could employ people quickly. For transit funds, GAO focused on the Transit Capital Assistance Program, which received $6.9 billion—or 82 percent—of the Recovery Act public transit funds. Recovery Act funds obligated under this program are primarily being used for upgrading transit facilities, improving bus fleets, and conducting preventive maintenance. Recipients of highway and transit Recovery Act funds, such as state departments of transportation and transit agencies, are subject to multiple reporting requirements. Although some guidance has been provided from OMB and DOT, state highway and transit officials expressed concerns and challenges about reporting requirements. GAO recommends that the Secretary of DOT continue to reach out to state transportation departments and transit agencies to identify common problems in accurately fulfilling reporting requirements and provide additional guidance, as appropriate.

State Fiscal Stabilization Fund

As of September 15, 2009, the District and 15 of the 16 states covered by our review had received approval from Education for their initial SFSF funding applications. Pennsylvania had submitted an application to Education, but it had not yet been approved. As of August 28, 2009, Education had made $21 billion in SFSF grants for education available to the 15 states and the District—of which over $7.7 billion had been drawn down. GAO has previously reported that school districts said they would use SFSF funds to maintain current levels of education funding, particularly for retaining teachers and staff and current education programs. They also told GAO that SFSF funds would help offset state budget cuts. Education has not completed monitoring plans for SFSF, and it is not clear that states have begun to put in place subrecipient monitoring systems that comply with Education's requirements. GAO recommends that Education take further action to ensure states understand and carry out their responsibility to monitor subrecipients of SFSF funds and consider providing training and technical assistance to states to help them develop state monitoring plans for SFSF.

Other Recovery Act Programs

GAO makes recommendations in this report on other Recovery Act programs, as well. While many program officials, employers, and participants believe the Workforce Investment Act summer youth program activities have been successful, measuring actual outcomes has proven challenging and may reveal little about what the program achieved. GAO recommends that the Secretary of Labor provide additional guidance on how to measure work readiness—Labor's indicator to gauge the effect of the summer youth activities. Also, to build on the important steps the Department of Housing and Urban Development (HUD) has already taken to monitor housing agencies' use of Recovery Act funds, GAO recommends that the Secretary of HUD expand criteria for selecting housing agencies for onsite reviews to include housing agencies with open Single Audit findings that may affect the use of and reporting on Recovery Act funds. In addition, the Recovery Act appropriated $5 billion over 3 years for the DOE Weatherization Assistance Program. However, most states have not begun to weatherize homes, partly because of concerns about prevailing wage rate requirements. Labor completed its determination of the wage rates on September 3, 2009.

Accountability

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

Impact

States and localities as nonfederal recipients of Recovery Act funds are required to report quarterly on a number of measures, including the use of funds and estimates of the number of jobs created and retained. This unprecedented level of detailed information to be reported by a large number of recipients into a new centralized reporting system raises possible risk for the quality and reliability of these data. The first of these reports is due in October 2009.

GAO's Crosscutting Recommendations

GAO reports on progress in addressing its prior recommendations that OMB provide

- clearer accountability for recipient financial data,
- program-specific examples of recipient reports, outreach to nonfederal recipients, and further guidance on program performance measures; and
- timely notification of funding provided within a state to key state officials and a master schedule for anticipated new or revised federal agency guidance.

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United States Government Accountability Office
Washington, DC 20548

September 23, 2009

Report to the Congress

The Congressional Budget Office (CBO) has reported that various indicators suggest the recession is likely to end within the next few months; however, the budget outlook for the states continues to indicate signs of stress. The National Conference of State Legislatures reported that states are collectively facing $142.6 billion in budget gaps for fiscal year 2010 as they enacted their budgets. While the availability of increased Recovery Act funds will help, states will continue to be fiscally strained. In addition, states are building new or augmenting existing reporting systems to comply with the unprecedented and complex reporting requirements. The first reporting deadline for prime recipients is October 10, 2009.

The Recovery Act specifies several roles for GAO, including conducting bimonthly reviews of selected states' and localities' use of funds made available under the act. This report, the third in response to the act's mandate, addresses the following: (1) selected states' and localities' uses of Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they received. The report provides overall findings, makes recommendations, and discusses the status of actions in response to the recommendations we made in our earlier reports.

As reported in our April and July 2009 reviews, to address these objectives, we selected a core group of 16 states and the District that we will follow over the next few years. Individual summaries for this core group are compiled into an electronic supplement, GAO-09-1017SP, and are also accessible through GAO's Recovery Act page at www.gao.gov/recovery. Our reviews examine how Recovery Act funds are being used and whether they are achieving the stated purposes of the act. These purposes include

- to preserve and create jobs and promote economic recovery;
- to assist those most impacted by the recession;
- to provide investments needed to increase economic efficiency by spurring technological advances in science and health;

- to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and
- to stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The states selected for our bimonthly reviews contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental federal assistance funds available through the Recovery Act. We selected these states and the District on the basis of federal outlay projections, percentage of the U.S. population represented, unemployment rates and changes, and a mix of states' poverty levels, geographic coverage, and representation of both urban and rural areas. In addition, we visited a nonprobability sample of 168 local entities within the 16 states and the District.

Our work for this report focused on nine federal programs primarily because they have begun disbursing funds to states or have known or potential risks. These risks can include existing programs receiving significant amounts of Recovery Act funds or new programs. We collected documents from and conducted semistructured interviews with executive-level state and local officials and staff from state offices, including governors' offices, recovery leads, state auditors, and controllers. In addition, our work focused on federal, state, and local agencies administering the selected programs receiving Recovery Act funds. We analyzed guidance and interviewed officials from the federal Office of Management and Budget (OMB). We also analyzed other federal agency guidance on programs selected for this review and spoke with relevant program officials at the Centers for Medicare and Medicaid Services (CMS), the U.S. Departments of Commerce, Education, Energy, Housing and Urban Development, Justice, Labor, and Transportation.

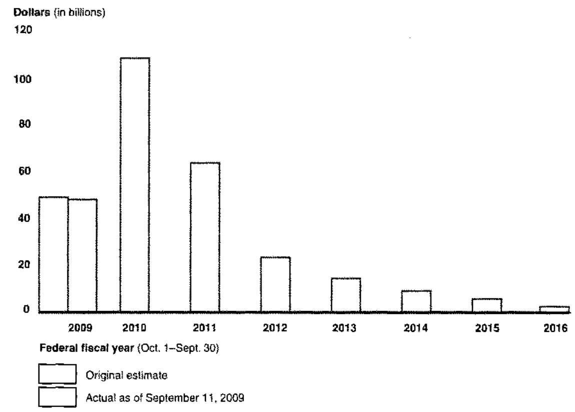
Where attributed to state officials, we did not review state legal materials for this report but relied on state officials and other state sources for description and interpretation of relevant state constitutions, statutes, legislative proposals, and other state legal materials. The information obtained from this review cannot be generalized to all states and localities receiving Recovery Act funding. A detailed description of our scope and methodology can be found in appendix I.

We conducted this performance audit from July 3, to September 18, 2009, 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.

## Background

Our analysis of initial estimates of Recovery Act spending provided by the Congressional Budget Office (CBO) suggested that about $49 billion would be outlayed to states and localities by the federal government in fiscal year 2009, which runs through September 30. As we reported in July, our analysis of actual federal outlays reported on www.recovery.gov suggests that Recovery Act spending is slightly ahead of the initial estimates. In fact, as of September 11, 2009, the federal Treasury has paid out approximately $48 billion to states and localities, which is about 98 percent of payments estimated for fiscal year 2009. Figure 1 shows the original estimate of federal outlays to states and localities under the Recovery Act compared with actual federal outlays as reported by federal agencies on www.recovery.gov.

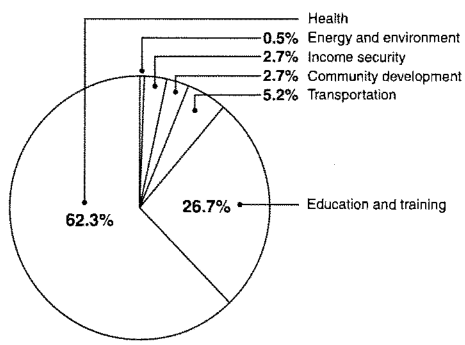
**Figure 1: Estimated versus Actual Federal Outlays to States and Localities under the Recovery Act**




Source: GAO analysis of CBO, Federal Funds Information for States, and Recovery.gov data.

As of September 11, 2009, 84 percent of the $48 billion in federal outlays has been provided through two programs: the increased Federal Medical Assistance Percentage (FMAP) grant awards and the State Fiscal Stabilization Fund administered by the Department of Education. Highway spending accounts for an additional 4 percent. The distribution of total federal outlays to states and localities is shown in figure 2.

**Figure 2: Distribution of Federal Outlays to States and Localities by Function as of September 11, 2009**




Source: GAO analysis of data from CBO and Federal Funds Information for States.

As recipients of Recovery Act funds and as partners with the federal government in achieving Recovery Act goals, states and local units of government are expected to invest Recovery Act funds with a high level of transparency and to be held accountable for results under the Recovery Act. Under the Recovery Act, direct recipients of the funds are expected to report quarterly on a number of measures, including the use of funds and an estimate of the number of jobs created or the number of jobs retained by projects and activities. These measures are part of the recipient reports required under Section 1512(c) of the Recovery Act and will be submitted by recipients starting in October 2009. The Office of Management and Budget (OMB) issued its implementing guidance for recipient reporting on June 22, 2009. These reporting requirements apply only to nonfederal recipients of funding, including all entities receiving Recovery Act funds directly from the federal government such as state and local governments, private companies, educational institutions, nonprofits, and other private organizations. However, the recipient reporting requirement only covers a defined subset of the Recovery Act's funding. OMB's guidance, consistent with the statutory language in the Recovery Act, states that these reporting requirements apply to recipients who receive funding through discretionary appropriations, not recipients receiving funds through entitlement programs, such as Medicaid, or tax programs. Recipient reporting also does not apply to individuals.

Among other things, the guidance clarified that recipients of Recovery Act funds are required to report only on jobs directly created or retained by Recovery Act-funded projects, activities, and contracts. Recipients are not expected to report on the employment impact on materials suppliers ("indirect" jobs) or on the local community ("induced" jobs). The OMB guidance also provided additional instruction on calculating on a full-time-equivalent (FTE) basis the number of jobs created or retained by Recovery Act funding.

The Recovery Act assigns us a range of responsibilities to help promote accountability and transparency. In addition to our bimonthly reviews, we are required to comment on the jobs created and retained as reported by recipients of Recovery Act funding. Section 1512 of the act requires each nonfederal entity that has received Recovery Act funds to report quarterly on the use of the funds, including jobs created and retained by projects and activities. To implement this requirement, which will be effective October 10, 2009, OMB is developing a central collection system. This first report will cover cumulative activity since the Recovery Act's passage in February 2009.

Recipients have 10 days after the end of each calendar quarter to report. OMB has laid out a reporting and quality review process that allows recipients and delegated subrecipients to prepare and enter their information 1 to 10 days following the end of the quarter. During days 11 through 21, prime recipients will be able to review the data to ensure that complete and accurate reporting information is provided prior to a federal agency review and comment period beginning on the 22nd day. During days 22 to 29 following the end of the quarter, federal agencies will perform data quality reviews and will notify the recipients and delegated subrecipients of any data anomalies or questions. The original submitter must complete data corrections no later than the 29th day following the end of the quarter. Since this is a cumulative reporting process, additional corrections can take place on a quarterly basis. We are to comment on the jobs data no later than 45 days after recipients have reported. We expect to issue our report no later than November 24, 2009.

# States Continue Use of Recovery Act Funds While Preparing for First Required Report Cycle

## Increased FMAP Continues to Help States Finance Their Growing Medicaid Programs, but States Expressed Concern about the Longer-Term Sustainability of Their Medicaid Programs

Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures is known as the Federal Medical Assistance Percentage (FMAP), which may range from 50 percent to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months between October 1, 2008, and December 31, 2010.[1] On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act. Generally, for fiscal year 2009 through the first quarter of fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for (1) the maintenance of states' prior year FMAPs, (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs, and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates.

Under the Recovery Act, the FMAP rates in the 16 states and the District were increased an average of 9.01 percentage points for the first two quarters of fiscal year 2009, with increases ranging from 6.2 percentage points in Iowa to 12.24 percentage points in Florida. Further, qualifying increases in unemployment rates in the third and fourth quarters of fiscal year 2009 contributed to additional increases in FMAP rates in 14 states and the District. The FMAP rates for the 2 remaining states—California and Florida—have not changed since the second quarter of fiscal year

[1]Recovery Act, div. B, title V, § 5001.

2009. By the end of fiscal year 2009, FMAP rates in the sample states and the District will have increased an average of 10.57 percentage points when compared to the original fiscal year 2009 FMAP rates.

**Table 1: Original and Increased Quarterly FMAPs for Fiscal Year 2009 for 16 States and the District (Percentage Points)**

| State | Original fiscal year 2009 FMAP[a] | Increased fiscal year 2009 FMAP, first and second quarters[b] | Increased fiscal year 2009 FMAP, third quarter[c] | Increased fiscal year 2009 FMAP, fourth quarter[d] | Difference between original 2009 FMAP and increased first and second quarter FMAPs | Difference between original 2009 FMAP and increased fourth quarter FMAP[d] |
|---|---|---|---|---|---|---|
| Arizona | 65.77 | 75.01 | 75.93 | 75.93 | 9.24 | 10.16 |
| California | 50.00 | 61.59 | 61.59 | 61.59 | 11.59 | 11.59 |
| Colorado | 50.00 | 58.78 | 61.59 | 61.59 | 8.78 | 11.59 |
| District of Columbia | 70.00 | 77.68 | 79.29 | 79.29 | 7.68 | 9.29 |
| Florida | 55.40 | 67.64 | 67.64 | 67.64 | 12.24 | 12.24 |
| Georgia | 64.49 | 73.44 | 74.42 | 74.42 | 8.95 | 9.93 |
| Illinois | 50.32 | 60.48 | 61.88 | 61.88 | 10.16 | 11.56 |
| Iowa | 62.62 | 68.82 | 68.82 | 70.71 | 6.20 | 8.09 |
| Massachusetts | 50.00 | 58.78 | 60.19 | 61.59 | 8.78 | 11.59 |
| Michigan | 60.27 | 69.58 | 70.68 | 70.68 | 9.31 | 10.41 |
| Mississippi | 75.84 | 83.62 | 84.24 | 84.24 | 7.78 | 8.40 |
| New Jersey | 50.00 | 58.78 | 61.59 | 61.59 | 8.78 | 11.59 |
| New York | 50.00 | 58.78 | 60.19 | 61.59 | 8.78 | 11.59 |
| North Carolina | 64.60 | 73.55 | 74.51 | 74.51 | 8.95 | 9.91 |
| Ohio | 62.14 | 70.25 | 72.34 | 72.34 | 8.11 | 10.20 |
| Pennsylvania | 54.52 | 63.05 | 64.32 | 65.59 | 8.53 | 11.07 |
| Texas | 59.44 | 68.76 | 68.76 | 69.85 | 9.32 | 10.41 |
| **Average FMAP increase** | | | | | **9.01** | **10.57** |

Source: GAO analysis of HHS data.

[a]The original fiscal year 2009 FMAP rates were published in the Federal Register on November 28, 2007. A correction for the North Carolina FMAP rate was published on December 7, 2007.

[b]The increased fiscal year 2009 FMAP rates for the first and second quarters were published in the Federal Register on April 21, 2009.

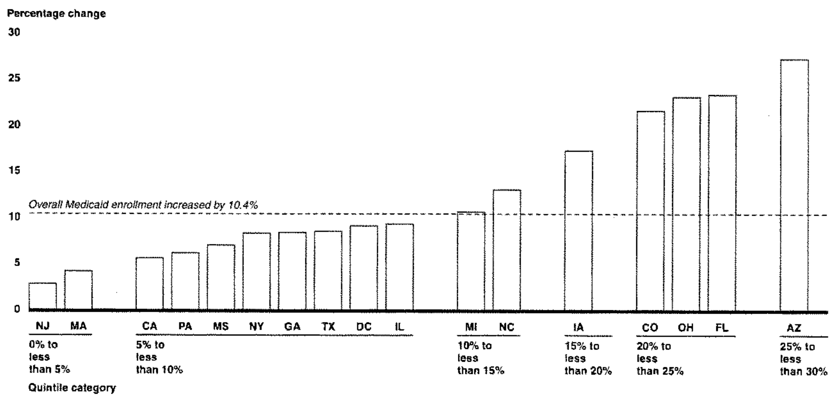
[c]The increased fiscal year 2009 FMAP rates for the third quarter were published in the Federal Register on August 4, 2009. In this notice, the Department of Health and Human Services (HHS) changed the methodology it uses to calculate the increased FMAP rates. Specifically, HHS calculates preliminary FMAP rates prior to the start of each quarter using Bureau of Labor Statistics preliminary unemployment estimates and adjusts these FMAP rates once the final unemployment numbers become available.

[d]The increased FMAP rates listed for the fourth quarter were provided by CMS on September 16, 2009.

From October 2007 to August 2009, overall Medicaid enrollment in the 16 states and the District increased by 10.4 percent,[2] with nearly two-thirds of the increase attributable to the population group of children—a group that is sensitive to economic downturns. In addition, just over one quarter of the overall enrollment increase was attributable to the population group of adults who are nonaged, nonblind, or nondisabled. Each of the states and the District experienced an enrollment increase during this period, with the highest number of programs experiencing an increase of 5 percent to 10 percent. The percentage increase in enrollment, however, varied widely, ranging from just under 3 percent in New Jersey to about 27 percent in Arizona. (See figure 3.) Comparing growth rates within this time period, enrollment grew most rapidly in early 2009, generally from January to April 2009. All states experienced an enrollment increase during this period, and growth was especially pronounced in five states that reported increases between 4 percent and 5 percent. Overall enrollment growth in recent months—from May to August 2009—was less rapid, though variation existed among states. For example, while enrollment in Illinois and Pennsylvania remained relatively stable, changing less than 1 percent from May to August 2009, Arizona experienced over 7 percent growth in Medicaid enrollment during that time.

[2]The percentage increase is based on state reported enrollment data for October 2007 to August 2009. Five states—Colorado, Florida, Georgia, Massachusetts, and Mississippi—did not provide Medicaid enrollment data for August 2009. In addition, two of these states—Massachusetts and Georgia—did not provide enrollment data for July 2009. We estimated enrollment for these states for these months to determine the total change in enrollment for October 2007 to August 2009.

**Figure 3: Percentage Increase in Medicaid Enrollment from October 2007 to August 2009, for 16 States and the District**




Source: GAO analysis of state data.

Note: The percentage increase is based on state reported Medicaid enrollment data for October 2007 to August 2009. Five states—Colorado, Florida, Georgia, Massachusetts, and Mississippi—did not provide estimated Medicaid enrollment data for August 2009. In addition, two of these states—Massachusetts and Georgia—did not provide enrollment data for July 2009.

With regard to the states' receipt of the increased FMAP, all 16 states and the District had drawn down increased FMAP grant awards totaling just over $20.3 billion for October 1, 2008, through September 15, 2009, which amounted to 87.37 percent of funds available. (See table 2.) In addition, except for the initial weeks that increased FMAP funds were available, the weekly rate at which the 16 states and the District have drawn down these funds has remained relatively constant. Nationally, the 50 states, the District, and several of the largest U.S. insular areas combined have drawn down nearly $30 billion as of September 15, 2009, which represents 87.83 percent of the increased FMAP grants awarded for all four quarters of federal fiscal year 2009.

**Table 2: FMAP Grant Awards and Funds Drawn Down, for 16 States and the District, as of September 15, 2009**

Dollars in thousands

| State | FMAP grant awards[a] | Funds drawn | Percentage of funds drawn |
|---|---|---|---|
| Arizona | $796,917 | $731,511 | 91.79 |
| California | 4,369,087 | 3,661,264 | 83.80 |
| Colorado | 347,181 | 248,562 | 71.59 |
| District of Columbia | 139,985 | 121,596 | 86.86 |
| Florida | 1,861,572 | 1,697,990 | 91.21 |
| Georgia | 706,961 | 659,852 | 93.34 |
| Illinois | 1,323,337 | 1,160,455 | 87.69 |
| Iowa | 197,601 | 162,266 | 82.12 |
| Massachusetts | 1,173,742 | 1,161,009 | 98.92 |
| Michigan | 1,007,280 | 933,982 | 92.72 |
| Mississippi | 312,932 | 277,914 | 88.81 |
| New Jersey | 858,931 | 798,119 | 92.92 |
| New York | 4,478,505 | 3,820,719 | 85.31 |
| North Carolina | 904,469 | 904,469 | 100.00 |
| Ohio | 1,228,943 | 1,062,898 | 86.49 |
| Pennsylvania | 1,569,221 | 1,058,644 | 67.46 |
| Texas | 1,985,036 | 1,862,379 | 93.82 |
| **Sample total** | **$23,261,701** | **$20,323,630** | **87.37** |
| **National total** | **$34,141,536** | **$29,988,161** | **87.83** |

Source: GAO analysis of HHS data as of September 15, 2009.

[a]The FMAP grant awards listed are for all four quarters of federal fiscal year 2009, through September 15, 2009.

While the increased FMAP available under the Recovery Act is for state expenditures for Medicaid services, the receipt of these funds may have reduced the funds that states would otherwise have to use for their Medicaid programs, and states have reported using funds that have become freed up as the result of increased FMAP for a variety of purposes. Most commonly, states reported using these funds in fiscal year 2009 to cover increased Medicaid caseloads, maintain Medicaid eligibility, benefits and services, and finance general state budget needs. In addition, more than half of the states reported using these funds to maintain payment rates for practitioners and institutional providers, and five states reported using these funds to meet prompt pay requirements. Three states and the District also reported using these funds to help finance their State

Children's Health Insurance Program (CHIP) or other local or state public health insurance programs. Although virtually all the states and the District reported using these funds for multiple purposes, two states—North Carolina and Ohio—reported using the freed-up funds exclusively to finance general state budget needs—a decrease from the five states that reported doing so in our July 2009 report. When asked about their planned uses of these funds in fiscal year 2010, the states and the District provided similar responses.

For states to qualify for the increased FMAP available under the Recovery Act, they must meet a number of requirements, including the following:

- States generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid programs on July 1, 2008.[3]
- States must comply with prompt payment requirements.[4]
- States cannot deposit or credit amounts attributable (either directly or indirectly) to certain elements of the increased FMAP into any reserve or rainy-day fund of the state.[5]
- States with political subdivisions—such as cities and counties—that contribute to the nonfederal share of Medicaid spending cannot require

[3] In order to qualify for the increased FMAP, states generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid plans or waivers on July 1, 2008. See Recovery Act, div. B, title V, §5001(f)(1)(A).

[4] Under the Recovery Act, states are not eligible to receive the increased FMAP for certain claims for days during any period in which that state has failed to meet the prompt payment requirement under the Medicaid statute as applied to those claims. See Recovery Act, div. B, title V, §5001(f)(2). Prompt payment requires states to pay 90 percent of clean claims from health care practitioners and certain other providers within 30 days of receipt and 99 percent of these claims within 90 days of receipt. See 42 U.S.C. §1396a(a)(37)(A).

[5] A state is not eligible for certain elements of increased FMAP if any amounts attributable directly or indirectly to them are deposited or credited into a state reserve or rainy day fund. Recovery Act, div. B, title V, §5001(f)(3).

the subdivisions to pay a greater percentage of the nonfederal share than would have been required on September 30, 2008.[6]

To comply with these requirements, 12 states reported making adjustments to their Medicaid programs, including rescinding prior program changes or canceling planned changes that conflicted with these requirements. For example, 10 states reported making changes to comply with the act's prompt payment requirement, including modifying payment cycles, reporting processes, or information systems. In addition, 9 states reported making changes to comply with the act's requirement that states may not implement more restrictive eligibility standards, methodologies, or procedures. Most commonly, these states rescinded or canceled programmatic changes that conflicted with this requirement. For example, Arizona had to rescind a programmatic adjustment, which had changed the frequency of Medicaid eligibility determinations for certain individuals from 12 to 6 months, and Ohio did not proceed with a proposal to reduce slots in a waiver program—CMS or the state determined that these changes constituted a more restrictive eligibility standard. In addition, three states—Arizona, Illinois, and New York—made adjustments to meet the requirement related to the contributions of political subdivisions to the nonfederal share. For example, according to New York officials, the local share of the nonfederal share of Medicaid expenditures is based on a statutory formula that provides for a percentage increase each year, subject to an existing cap. New York reported that it reduced the local contribution to the nonfederal share to ensure that the percentage of the local share will remain at the September 30, 2008, level over the course of the recession adjustment period. Regarding the Recovery Act requirement that prohibits states from depositing or crediting amounts attributable to increased FMAP into any reserve or rainy-day fund, none of the states reported making adjustments related to this requirement.

When asked about the difficulty of complying with these requirements, Medicaid officials from over half of the states reported that compliance had been "somewhat difficult" or "difficult," and most commonly cited the

[6]In some states, political subdivisions—such as cities and counties—may be required to help finance the state's share of Medicaid spending. Under the Recovery Act, a state that has such financing arrangements is not eligible for certain elements of the increased FMAP if it requires subdivisions to pay during a quarter of the recession adjustment period a greater percentage of the nonfederal share than the percentage that would have otherwise been required under the state plan on September 30, 2008. See Recovery Act, div. B., title V, § 5001(g)(2). The recession adjustment period is the period beginning October 1, 2008, and ending December 31, 2010.

act's prompt payment requirement as the most problematic.[7] In addition, several states cited the lack of timely agency guidance as a factor complicating their efforts to comply with Recovery Act requirements. To clarify the act's requirements related to prompt payment, CMS issued a State Medicaid Director's letter on July 30, 2009, that defined terms related to prompt payment and described the method states should use to calculate days during a quarter that they have met or not met the prompt payment requirement. CMS officials told us that, in developing the guidance, they sought comments from states and national organizations. In addition, CMS officials said that states will use existing electronic reporting processes to report on the extent to which they comply with this requirement and to adjust for prior period increased FMAP draw down amounts for days they were not in compliance.[8] In addition, CMS published another State Medicaid Director's letter on August 19, 2009, that, among other things, specified programmatic changes that could affect states' eligibility for the increased FMAP.[9]

When asked about whether the increased FMAP funds were sufficient to protect and maintain their Medicaid programs during the economic downturn, the 16 states and the District varied in their responses. Seven states and the District reported that the amount of increased FMAP funds they received in fiscal year 2009 was sufficient to maintain their Medicaid programs, including maintaining eligibility, services, and benefits. In contrast, two states—California and Massachusetts—reported that the amount of increased FMAP they received in fiscal year 2009 was not sufficient for this purpose. For example, Massachusetts reported that even with the increased FMAP, increased caseload and utilization had led the state to reduce its Medicaid expenditures by freezing many provider rates at prior year levels. The remaining seven states reported that the funds were only somewhat sufficient to maintain their Medicaid programs during fiscal year 2009. In looking forward, fewer states characterized the amount of increased FMAP they expect to receive in fiscal year 2010 as sufficient

[7]In contrast to Recovery Act requirements, most states and the District did not report difficulty meeting CMS's requirements that increased FMAP funds must be drawn down, tracked, and reported to CMS separately.

[8]Although states can apply to CMS for a waiver from the act's prompt payment requirement, Massachusetts is the only state in our sample that reported being in the process of applying for a waiver.

[9]As of September 4, 2009, these publications were available on the CMS Web site; see http://www.cms.hhs.gov/SMDL/SMD/list.asp?sortByDID=1a&submit=Go&filterType=none&filterByDID=-99&sortOrder=ascending&intNumPerPage=10.

to maintain their Medicaid programs compared to fiscal year 2009. Specifically, some states indicated that budget conditions in their state are projected to worsen in state fiscal year 2010 and that the increased FMAP would not be sufficient to close Medicaid budget shortfalls or avoid provider rate cuts or other expenditure containment measures.

As for the longer-term outlook for their Medicaid programs, the District and all but one of the sample states reported concerns about the sustainability of their Medicaid programs after the increased FMAP funds are no longer available, beginning in January 2011. When asked about the nature of their concerns, states generally reported doubt that their economies and revenues would fully recover before the increased FMAP funding ended and noted that Medicaid enrollment is continuing to increase. As a result, states were unsure that they could maintain eligibility levels, benefits and services, or provider rates without the increased FMAP. Specifically, several states referred to the loss of increased FMAP funds as a "cliff" over which the state would fall when funding was no longer available or similarly described their concern that the change in the state's share of funds would be substantial. For example, New Jersey estimated that it would need $550 million in order to replace the increased FMAP funds in fiscal year 2011. Most states and the District reported that they did not have definitive plans to address their concerns about sustaining their programs without the increased FMAP. Four states, however, reported considering various Medicaid program reductions, such as reductions in benefits and eligibility, once the increased FMAP funds are no longer available.

## Over Half of All Highway and Transit Recovery Act Funding Has Been Obligated

A substantial portion of the approximately $35 billion the Recovery Act provided for highway infrastructure projects and public transportation has been obligated nationwide and in the 16 states and the District of Columbia (District) that are the focus of our review. For example, $18 billion of Recovery Act highway funds had been obligated for almost 7,000 projects nationwide, and $10.6 billion had been obligated for nearly 3,800 projects in each of the 16 states and the District, as of September 1, 2009.[10] In addition, as of September 1, 2009, $5.95 billion of the Recovery Act

[10]For the Federal Highway Program, the U.S. DOT has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

Transit Capital Assistance Program funds had been obligated nationwide.[11] The total distribution of project funds by improvement type among the 16 selected states and the District closely mirrors the national distribution, with pavement improvement projects accounting for almost half of the obligated funds. However, we found wide differences among selected states in how funds were used, federal reimbursement rates to states for payments made for completed work, and in the rate of obligation of highway funds required by the Recovery Act to be suballocated for metropolitan, regional, and local use.

For Recovery Act transit funds, we focused our review on the Transit Capital Assistance Program, which received approximately 82 percent of Recovery Act transit funds, and eight selected states and the District. Nationwide, Recovery Act funds obligated under this program are primarily being used for improving bus fleets, upgrading transit facilities, and conducting preventive maintenance. The Recovery Act required that 50 percent of Transit Capital Assistance Program funds be obligated by September 1, 2009, and the Federal Transit Administration (FTA) has concluded that all states and urbanized areas met this requirement. Even though the Department of Transportation (DOT) and OMB have issued guidance for recipient reporting of job creation and retention, state highway and transit officials expressed some concern and challenges with meeting the act's reporting requirements, including the calculation of direct jobs and full-time-employee equivalents from work hours.

### States Continuing to Dedicate Most Recovery Act Highway Funds for Pavement Projects, but Differences among States' Approaches in Use of Funds Starting to Emerge

The Recovery Act provides funding to states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must follow existing program requirements, which include ensuring the project

[11]For the Transit Capital Assistance Program, the U.S. DOT has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a grant agreement.

meets all environmental requirements associated with the National Environmental Policy Act (NEPA), paying a prevailing wage in accordance with federal Davis-Bacon Act requirements, complying with goals to ensure disadvantaged businesses are not discriminated against in the awarding of construction contracts, and using American-made iron and steel in accordance with Buy America program requirements. While the maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent, under the Recovery Act, it is 100 percent.

In March 2009, $26.7 billion was apportioned to all 50 states and the District for highway infrastructure and other eligible projects. As of September 1, 2009, $18 billion of the funds had been obligated for almost 7,000 projects nationwide, and $10.6 billion had been obligated for nearly 3,800 projects in the 16 states and the District. (See table 3).

**Table 3: Recovery Act Highway Apportionments and Obligations Nationwide and in Selected States as of September 1, 2009**

Dollars in millions

| State | Apportionment | Obligations[a] Obligated amount | Obligations[a] Percentage of apportionment obligated |
|---|---|---|---|
| Arizona | $522 | $293 | 56 |
| California | 2,570 | 1,978 | 77 |
| Colorado | 404 | 290 | 72 |
| District of Columbia | 124 | 116 | 94 |
| Florida | 1,347 | 1,001 | 74 |
| Georgia | 932 | 546 | 59 |
| Illinois | 936 | 736 | 79 |
| Iowa | 358 | 319 | 89 |
| Massachusetts | 438 | 203 | 46 |
| Michigan | 847 | 575 | 68 |
| Mississippi | 355 | 289 | 82 |
| New Jersey | 652 | 473 | 73 |
| New York | 1,121 | 783 | 70 |
| North Carolina | 736 | 453 | 62 |
| Ohio | 936 | 429 | 46 |
| Pennsylvania | 1,026 | 875 | 85 |
| Texas | 2,250 | 1,195 | 53 |
| **Selected states total** | **$15,551** | **$10,554** | **68** |
| **U.S. total** | **$26,660** | **$17,964** | **67** |

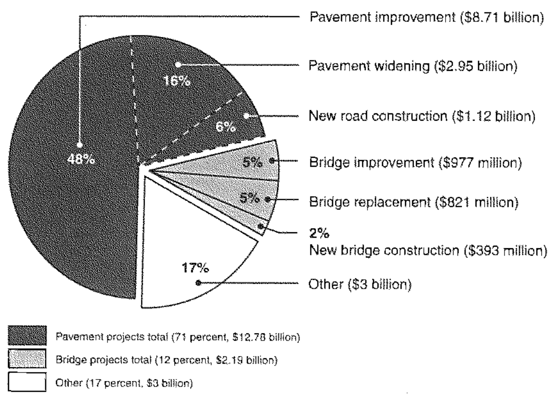
Source: GAO analysis of FHWA data.

Notes: All states have met the Recovery Act requirement that 50 percent of apportioned funds be obligated within 120 days of apportionment (before June 30, 2009). However, this requirement applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use. This table shows the percentage of all apportioned funds that have been obligated, which is why some states show an obligation rate of less than 50 percent.

[a]This does not include obligations associated with $288 million of apportioned funds that were transferred from FHWA to FTA for transit projects in Arizona, California, Colorado, Florida, Georgia, Iowa, Massachusetts, New York, and North Carolina. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

Almost half of Recovery Act highway obligations have been for pavement improvements. Specifically, $8.7 billion of the $18 billion obligated nationwide as of September 1, 2009, is being used for projects such as reconstructing or rehabilitating deteriorated roads, including $4.1 billion for road resurfacing projects. As we reported in July 2009, many state officials told us they selected a large percentage of resurfacing and other pavement improvement projects because those projects did not require extensive environmental clearances, were quick to design, could be quickly obligated and bid, could employ people quickly, and could be completed within 3 years. Figure 4 shows obligations by the types of road and bridge improvements being made.

**Figure 4: National Recovery Act Highway Obligations by Project Improvement Type as of September 1, 2009**




Source: GAO analysis of FHWA data.

Note: Totals may not add due to rounding. "Other" includes safety projects, such as improving safety at railroad grade crossings, and transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

In addition to pavement improvement, other projects that have significant funds obligated include pavement widening, with $3 billion obligated, and bridge replacement and improvements, with $1.8 billion obligated. The total distribution of project funds by improvement type among the 16 states and the District closely mirrors the distribution nationally—however, wide differences in how funds were used exist among states. For example, 40 percent of Florida's funds have been obligated for pavement widening projects (compared with 16 percent nationally) and 21 percent for construction of new roads and bridges (compared with 8 percent nationally), while 17 percent of funds have been obligated for pavement improvements (compared with 48 percent nationally). In Ohio, 37 percent of funds have been obligated for new road and bridge construction. In contrast, roughly 85 percent of funds in both Iowa and Massachusetts have been obligated for pavement improvements. While the states we visited for our July 2009 report had selected pavement improvement projects because they could be quickly implemented, during our recent interviews we found states are beginning to select projects entailing more complexity. For example, Massachusetts has begun selecting more complicated construction and reconstruction projects, including a new $36 million pedestrian bridge project.

As of September 1, 2009, $1.4 billion had been reimbursed nationwide by the Federal Highway Administration (FHWA), including $604 million reimbursed to the 16 states and the District.[12] These amounts represent 8 percent of the $18 billion obligated nationwide and 6 percent of the $10.6 billion obligated in the 16 states and the District. DOT officials told us that although funding has been obligated for almost 7,000 projects, it may be months before states request reimbursement from FHWA. In particular, FHWA told us that once funds are obligated for a project, it may take 2 or more months for a state to bid and award the work to a contractor and have work begin. Once the contract is awarded and contractors mobilize and begin work, states make payments to these contractors for completed work; states may request reimbursement from FHWA. FHWA, through the U.S. Treasury, is required to pay the state promptly after the state pays out of its own funds for project-related purposes. The funds reimbursed to the states as of September 1, 2009, increased over 500 percent in about 2 months. As we reported in July 2009, FHWA had reimbursed $233 million nationwide, including $96.4 million to the 16 states and the District as of June 25, 2009. FHWA officials told us the increased level of reimbursements was expected as the number of contracts awarded and projects currently under construction continue to increase. Table 4 shows the level of reimbursements nationwide and in the 16 states and the District.

[12]States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

**Table 4: Recovery Act Highway Reimbursements Nationwide and in Selected States as of September 1, 2009**

Dollars in millions

| State | Reimbursement | Percentage of obligations reimbursed | Percentage of apportionment reimbursed |
|---|---|---|---|
| District of Columbia | <$1 | <1 | <1 |
| Florida | <1 | <1 | <1 |
| California | 22 | 1 | 1 |
| New Jersey | 4 | 1 | 1 |
| Georgia | 10 | 2 | 1 |
| Massachusetts | 5 | 2 | 1 |
| New York | 23 | 3 | 2 |
| Ohio | 17 | 4 | 2 |
| Texas | 47 | 4 | 2 |
| Arizona | 18 | 6 | 3 |
| Colorado | 16 | 6 | 4 |
| Pennsylvania | 51 | 6 | 5 |
| Michigan | 41 | 7 | 5 |
| Mississippi | 21 | 7 | 6 |
| North Carolina | 38 | 8 | 5 |
| Illinois | 200 | 27 | 21 |
| Iowa | 91 | 28 | 25 |
| **Selected states total** | **604** | **6** | **4** |
| **U.S. total** | **$1,437** | **8** | **5** |

Source: GAO analysis of FHWA data.

Note: This does not include reimbursements associated with $288 million of apportioned funds that were transferred from FHWA to FTA for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

As table 4 shows, wide differences exist in reimbursements across states. Among the 16 states and the District, 2 states—Illinois and Iowa—accounted for nearly half of all reimbursements, while 8 states and the District had reimbursements totaling 5 percent or less of obligations, including 4 states with 1 percent or less. In Massachusetts, which had 2 percent of obligations reimbursed, inclement weather delayed the start of construction on some projects, limiting the extent to which contractors were incurring costs, according to a Massachusetts highway official. We will continue to monitor the rate of reimbursements among the states in our future reviews.

According to state officials, because an increasing number of contractors are looking for work, bids for Recovery Act contracts have come in under estimates. For example, the bids for the two highway contracts we reviewed in Gwinnett County, Georgia, were 30 percent to 35 percent lower than the county's original estimates. Similarly, the awarded bid on the Belleview Avenue project in Colorado, which we reviewed in our July 2009, report, was 30 percent below Colorado Department of Transportation's (CDOT) estimate, partially due to a downward trend in asphalt prices. These lower than anticipated bids are allowing states to redirect Recovery Act funds to other projects, including projects in economically distressed areas. This is consistent with a July 2009 letter from the Secretary of Transportation to the state governors encouraging them to use the "bid savings" for projects in distressed areas. Examples of bid savings from the 16 states and the District of Columbia include the following.

- According to the Arizona Department of Transportation (ADOT), the state had advertised 51 highway projects as of August 30, 2009. The lower than anticipated bids on these projects have resulted in bid savings of $60 million. ADOT is moving forward to use these savings on additional projects.
- CDOT officials reported that bids for 32 of the 41 awarded Recovery Act projects had come in lower than the engineers' estimates. As a result, Colorado had a total bid savings of over $39 million as of August 2009. CDOT plans to fund additional projects with bid savings, including projects in areas of the state that are economically distressed.
- According to Pennsylvania Department of Transportation data, as of August 31, 2009, of 245 bids received, the total costs came in 12 percent (or about $104 million) less than original state estimates.

Recovery Act highway funding is apportioned under the same rules governing the federal-aid highway program generally and its Surface Transportation Program in particular, and states have wide latitude and flexibility in which projects to select for federal funding. However the Recovery Act tempers that latitude with requirements that do not exist in the regular program, including the following requirements:

- Ensure that 50 percent of apportioned Recovery Act funds are obligated within 120 days of apportionment (before June 30, 2009) and that the remaining apportioned funds are obligated within 1 year. The 50 percent rule applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use. The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames.[13]

- Give priority to projects that can be completed within 3 years and to projects located in economically distressed areas. These areas are defined by the Public Works and Economic Development Act of 1965, as amended.[14] According to the act, to qualify as economically distressed, an area must have (1) a per capita income that is 80 percent or less than the national average or (2) an unemployment rate that is, for the most recent 24-month period for which data are available, at least 1 percent greater than the national average.[15] For areas that do not meet one of these two criteria, the Secretary of Commerce has the authority to determine that an area has experienced or is about to experience a "special need" arising from actual or threatened severe unemployment or economic adjustment problems.
- Certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009, through September 30, 2010.[16]

As we reported in July 2009, all states had met the first Recovery Act requirement that 50 percent of their apportioned funds were obligated within 120 days. As of September 1, 2009, 75 percent of funds covered by this requirement had been obligated. However, fewer funds have been obligated among those funds not covered by this requirement—those required by the Recovery Act to be suballocated for metropolitan,

[13]Recovery Act, div. A, title XII, 123 Stat. 115, 206.

[14]*Id.*

[15]42 U.S.C. § 3161(a). Eligibility must be supported using the most recent federal data available or, in the absence of recent federal data, by the most recent data available through the government of the state in which the area is located. Federal data that may be used include data reported by the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Census Bureau, the Bureau of Indian Affairs, or any other federal source determined by the Secretary of Commerce to be appropriate (42 U.S.C. § 3161((c)).

[16]Recovery Act, div. A, title XII, § 1201(a).

regional, and local use. As of September 1, 2009, 51 percent of those funds had been obligated nationwide. In addition, we found variations in the rate of obligations for the suballocated areas among the 16 states and the District of Columbia, ranging from 19 percent in New Jersey to 97 percent in Pennsylvania. (See table 5.)

**Table 5: Recovery Act Highway Apportionments and Obligations for Suballocated Areas Nationwide and in Selected States as of September 1, 2009**

Dollars in millions

| State | Suballocated 30 percent portion of apportionment | Obligated amount in suballocated area | Percentage of suballocated apportionment obligated |
|---|---|---|---|
| Arizona | 157 | 34 | 22 |
| California | 771 | 563 | 73 |
| Colorado | 121 | 72 | 60 |
| District of Columbia | 37 | 32 | 85 |
| Florida | 404 | 270 | 67 |
| Georgia | 279 | 126 | 45 |
| Illinois | 281 | 119 | 42 |
| Iowa | 107 | 91 | 85 |
| Massachusetts | 131 | 31 | 24 |
| Michigan | 254 | 109 | 43 |
| Mississippi | 106 | 51 | 48 |
| New Jersey | 196 | 37 | 19 |
| New York | 336 | 166 | 50 |
| North Carolina | 221 | 117 | 53 |
| Ohio | 281 | 130 | 46 |
| Pennsylvania | 308 | 300 | 97 |
| Texas | 675 | 197 | 29 |
| **Selected states total** | **$4,665** | **$2,445** | **52** |
| **U.S. total** | **$7,998** | **$4,042** | **51** |

Source: GAO analysis of FHWA data.

Officials in three states with the lowest levels of obligations in suballocated areas told us that the low obligation rates were primarily due to the initial shortage of "ready-to-go" projects eligible for federal funding.[17] Officials from these states attributed the lack of ready-to-go projects to a variety of factors, including the following:

- Officials in Arizona and New Jersey cited the lack of familiarity with federal requirements for the federal-aid highway program as a major factor in the delay in identifying ready-to-go projects. In particular, Arizona Department of Transportation officials told us that suballocated funding is being used for projects that will be administered by local governments and that, in prior years, many of these types of projects were funded using state funds. As such, these local governments did not have to meet federal-aid eligibility and procedural requirements in prior years, and delays in identifying ready-to-go projects resulted when these governments had to both develop projects that are eligible for federal funding and to acclimate themselves with unfamiliar federal procedural requirements. Similarly, New Jersey officials cited unfamiliarity with these same federal requirements as a cause for delay in identifying ready-to-go projects in suballocated areas. For example, officials stated that local staff working on many of the projects needed time to navigate federal requirements such as the National Environmental Policy Act (NEPA), which involves the environmental review process. As noted earlier, states are required to maintain the level of state spending for highway projects during the period of the Recovery Act. According to FHWA officials, Arizona and New Jersey may use Recovery Act funds for activities that were previously state funded, provided that state funds are used for other transportation projects and that the state's overall level of effort is not decreased.
- Officials in Massachusetts said that increased staff workload from the additional projects resulting from both the Recovery Act and the state's new $3 billion program to reduce the growing backlog of structurally deficient bridges contributed to the state's low obligation percentage. Furthermore, based on the advice of FHWA's division office, Massachusetts focused on having funds obligated for the state portion of the apportioned funds before focusing on the suballocated funds to ensure that it met the 50 percent obligation requirement by June 30, 2009. Massachusetts met this requirement, with 59 percent of the state portion of the Recovery Act highway funds obligated as of June 25, 2009.

[17] We interviewed officials from departments of transportation and metropolitan planning organizations in Arizona, New Jersey, and Massachusetts—the three states with the lowest levels of obligations in suballocated areas.

Officials in each of the three states told us that they have taken action to increase obligations in suballocated areas and that they expect to meet 1-year March 2010 deadline for obligating all highway funds apportioned to the states; however, state and local officials in Arizona also said that meeting the deadline could pose significant challenges.

The second Recovery Act requirement is to give priority to projects that can be completed within 3 years and to projects located in economically distressed areas. As we reported in July 2009, while officials from almost all of the states we reviewed said that they considered project readiness, including the 3-year completion requirement, when making project selections, there was substantial variation in the extent to which states prioritized projects in economically distressed areas and how they identified these areas. Many states based their project selections on other factors and only later identified whether these projects were in economically distressed areas. We also reported that DOT and FHWA had not provided clear guidance—while the guidance emphasized the importance of giving priority to these areas, it did not define what giving priority meant and, thus, did not ensure that the act's priority provisions would be consistently applied. We also found instances of states developing their own eligibility requirements for economically distressed areas using data or criteria not specified in the Public Works and Economic Development Act. For example, one state identified these areas based in part on home foreclosure rates—data not specified in the Public Works Act. In each of the cases we identified, the states informed us that FHWA approved the state's use of alternative criteria. However, FHWA did not consult with or seek the approval of the Department of Commerce, and it was not clear under what authority FHWA approved these criteria. As a result we recommended that the Secretary of Transportation, in consultation with the Secretary of Commerce, develop (1) clear guidance on identifying and giving priority to economically distressed areas and (2) more consistent procedures for FHWA to use in reviewing and approving states' criteria for designating distressed areas.

In response to our recommendation, FHWA, in consultation with the Department of Commerce, developed guidance that addresses our recommendation. In particular, FHWA's August 2009 guidance defines "priority," directing states to give priority to projects that are located in an economically distressed area and can be completed within the 3-year time frame over other projects. In addition, FHWA's guidance sets out criteria that states may use to identify economically distressed areas based on "special need." The criteria align closely with special need criteria used by the Department of Commerce's Economic Development Administration

(EDA) in its own grant programs, including factors such as actual or threatened business closures (including job loss thresholds), military base closures, and natural disasters or emergencies. According to EDA officials, while the agency traditionally approves special need designations on a case-by-case basis for its own grant program, it does not have the resources to do so for the purpose of Recovery Act highway funding.[18] Rather, the designation of economically distressed areas based on the special need criteria for Recovery Act highway funding will be "self-executing" by the states, meaning that the states will apply the criteria laid out in the guidance to identify these areas. In its guidance, FHWA directed the states to maintain information as to how they identified, vetted, examined, and selected projects located in economically distressed areas and to provide FHWA's division offices with documentation that demonstrates satisfaction of the special need criteria. We plan to continue to monitor FHWA's and the states' implementation of the economically distressed area requirement, including the states' application of the special need criteria, in our future reviews.

The third Recovery Act requirement is for states to certify that they will maintain the level of state effort for programs covered by the Recovery Act. Most states revised the initial certifications they submitted to DOT. As we reported in April 2009, many states initially submitted explanatory certifications—such as stating that the certification was based on the "best information available at the time"—or conditional certifications, meaning that the certification was subject to conditions or assumptions, future legislative action, future revenues, or other conditions. On April 22, 2009, the Secretary of Transportation sent a letter to each of the nation's governors and provided additional guidance, including that conditional and explanatory certifications were not permitted, and gave states the option of amending their certifications by May 22. Each of the 16 states and the District selected for our review resubmitted their certifications. According to DOT officials, the department has concluded that the form of each certification is consistent with the additional guidance.

While DOT has concluded that the form of the revised certifications is consistent with the additional guidance, it is continuing to review whether the amounts the states reported they planned to expend for covered programs are reasonable and if the methods of calculating these amounts

[18]FHWA's guidance specifies that special need determinations will be solely for Recovery Act highway funding and will not apply to EDA grant programs.

were consistent with DOT guidance. According to DOT officials, FHWA's division offices have completed an initial assessment of the states' certifications. FHWA did not provide these reports for our review as it was reviewing them and obtaining the necessary clarifications when we completed our review. FHWA officials noted that reviewing states' certifications is challenging because differences in state laws affect how states collect and distribute transportation funds, precluding a uniform approach to calculating effort across states. Further complicating this review is the fact that many states changed the amounts they plan to expend for covered programs from their first to their second submission. Our analysis shows that, among the 16 states and the District, the amounts increased an average of 6.4 percent and ranged among states from a 76 percent decrease to a 258 percent increase.

As we have reported, states face drastic fiscal challenges, and most states are estimating that their fiscal year 2009 and 2010 revenue collections will be well below estimates. In the face of these challenges, some states told us that meeting the maintenance-of-effort requirements over time poses significant challenges. FHWA told us it plans to complete its review in September 2009 and, based on this review, plans to issue additional guidance to the states on the methods for calculating level of effort amounts at that time. Once this occurs, FHWA said it plans to monitor states' compliance with their certifications but does not plan to require the states to take corrective action should the states' efforts fall short of the certified amounts. The only consequence of a state not being able to maintain the level of effort certified is that that state will be prohibited from benefiting from the redistribution of federal-aid highway obligations that will occur after August 1 for fiscal year 2011.[19] According to the DOT Deputy Assistant Secretary for Transportation Policy, the department recognizes the potential that many states will not be able to maintain the level of effort specified in their certifications given the continuing decline in their fiscal conditions. The Recovery Act does not provide any waivers or exemptions for the states—for changes in economic condition, for example—from the maintenance-of-effort provision.

[19]As part of the federal-aid highway program, FHWA assesses the ability of the each state to have its apportioned funds obligated by the end of the federal fiscal year (September 30) and adjusts the limitation on obligations for federal-aid highway and highway safety construction programs by reducing for some states the available authority to obligate funds and increasing the authority of other states.

## FTA Reports That Majority of Transit Funds Have Been Obligated, with Most Funding Being Used for Bus Fleets, Transit Facilities, and Preventive Maintenance

The Recovery Act appropriated $8.4 billion to fund public transit throughout the country through three existing FTA grant programs, including the Transit Capital Assistance Program.[20] FTA reported that the majority of the public transit funds—$6.9 billion (82 percent)—was apportioned for the Transit Capital Assistance Program, with $6 billion designated for the urbanized area formula grant program and $766 million designated for the nonurbanized area formula grant program.[21] Under the urbanized area formula grant program, $5.4 billion in Recovery Act funds were apportioned to large and medium-size urbanized areas (areas with populations of at least 200,000) and $572 million for small urbanized areas (areas with populations between 50,000 and 199,999) across the country.[22] Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Up to 10 percent of apportioned Recovery Act funds may also be used for operating expenses.[23] Under the

[20]The other two public transit programs receiving Recovery Act funds are the Fixed Guideway Infrastructure Investment program and the Capital Investment Grant program, each of which was apportioned $750 million. The Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment program are formula grant programs, which allocate funds to states or their subdivisions by law. Grant recipients may then be reimbursed for expenditures for specific projects based on program eligibility guidelines. The Capital Investment Grant program is a discretionary grant program, which provides funds to recipients for projects based on eligibility and selection criteria.

[21]Urbanized areas are areas encompassing a population of not less than 50,000 people that have been defined and designated in the most recent decennial census as an "urbanized area" by the Secretary of Commerce. Nonurbanized areas are areas encompassing a population of fewer then 50,000 people.

[22]The urbanized area program is defined in 49 U.S.C. §5307. Funds for urbanized areas were to be apportioned as provided in 49 U.S.C. §§ 5336 and 5340. According to FTA, there are 152 large and medium sized urbanized areas and 349 small urbanized areas. In some cases, urbanized areas span multiple states. The nonurbanized area program is defined in 49 U.S.C. § 5311.

[23]The 2009 Supplemental Appropriations Act authorizes the use of up to 10 percent of each apportionment for operating expenses. Pub. L. No. 111-32, §1202, 123 Stat. 1859 (June 24, 2009). In contrast, under the existing program, operating assistance is generally not an eligible expense for transit agencies within urbanized areas with populations of 200,000 or more.

Recovery Act, the maximum federal fund share for projects under the Transit Capital Assistance Program is 100 percent.[24]

Working through the state and regional transportation planning process, designated recipients of the apportioned funds—typically public transit agencies and metropolitan planning organizations (MPO)—develop a list of transit projects that project sponsors (typically transit agencies) submit to FTA for Recovery Act funding.[25] FTA reviews the project sponsors' grant applications to ensure that projects meet eligibility requirements and then obligates Recovery Act funds by approving the grant application. Project sponsors must follow the requirements of the existing programs, which include ensuring the projects funded meet all regulations and guidance pertaining to the Americans with Disabilities Act (ADA), pay a prevailing wage in accordance with federal Davis-Bacon Act requirements, and comply with goals to ensure disadvantaged businesses are not discriminated against in the awarding of contracts.

In March 2009, $6.9 billion was apportioned to states and urbanized areas in all 50 states, the District of Columbia (District), and four territories for transit projects and eligible transit expenses under the Transit Capital Assistance Program. As of September 1, 2009, $5.95 billion of the funds had been obligated nationwide.

Similar to Recovery Act funds for highway infrastructure, funds appropriated through the Transit Capital Assistance Program must be used in accordance with Recovery Act requirements, including the following:

[24]The federal share under the existing formula grant program is generally 80 percent.

[25]Designated recipients are entities designated by the chief executive officer of a state, responsible local officials, and publicly owned operators of public transportation to receive and apportion amounts that are attributable to transportation management areas. Transportation management areas are areas designated by the Secretary of Transportation as having an urbanized area population of more than 200,000, or upon request from the governor and metropolitan planning organizations designated for the area. Metropolitan planning organizations are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues including major capital investment projects and priorities. To be eligible for Recovery Act funding, projects must be included in the region's TIP and the approved State Transportation Improvement Program (STIP).

- Fifty percent of Recovery Act funds apportioned to urbanized areas or states were to be obligated within 180 days of apportionment (before Sept. 1, 2009) and the remaining apportioned funds are to be obligated within 1 year. The Secretary of Transportation is to withdraw and redistribute to other urbanized areas or states any amount that is not obligated within these time frames.[26]

- State governors must certify that the state will maintain the level of state spending for the types of transportation projects, including transit projects, funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009, through September 30, 2010.[27] This requirement applies only to state funding for transportation projects. The Department of Transportation will treat this maintenance-of-effort requirement through one consolidated certification from the governor, which must identify state funding for all transportation projects.

With regard to the first requirement, FTA reviewed the amount of funding obligated and concluded that the 50 percent requirement was met in all medium-size and large urbanized areas. FTA also determined that the 50 percent obligation requirement for nonurbanized areas had been met by each state. FTA did not, however, determine obligation rates for each of the 349 small urbanized areas—that is, for areas with populations of less then 200,000 but at least 50,000 people. Instead, it treated funding for small urbanized areas as apportioned to the governors of those states or territories within which the small urbanized areas were located. Using this statewide obligation rate, it determined that at least 50 percent of the total

[26]Recovery Act, div A, title XII, 123 Stat. 115, 209. The Recovery Act states that 180 days following the apportionment of transit capital assistance funds (i.e., on Sept. 1, 2009), the Secretary "shall withdraw from *each urbanized area or State* an amount equal to 50 percent of the funds apportioned to such urbanized areas or States less the amount of funding obligated" by that date. (Emphasis added.)

[27]Recovery Act, div. A, title XII, § 1201(a).

funding apportioned for small urbanized areas was obligated.[28] See table 6.

**Table 6: Percentage of Recovery Act Transit Capital Assistance Program Funds Obligated Nationwide and Selected States and Urbanized Areas as Reported by FTA**

Dollars in millions

| | | | Obligation | |
|---|---|---|---|---|
| | State | Apportionment | Obligated amount | Percentage of apportionment obligated |
| **Large urbanized (populations over 1 million)** | | | | |
| Los Angeles-Long Beach-Santa Ana | CA | $388.5 | $385.1 | 99 |
| Riverside-San Bernardino | CA | 36.4 | 35.5 | 98 |
| Sacramento | CA | 30.1 | 29.6 | 98 |
| San Diego | CA | 80.8 | 80.8 | 100 |
| San Francisco-Oakland | CA | 173.7 | 120.3 | 69 |
| San Jose | CA | 55.2 | 55.2 | 100 |
| Denver-Aurora | CO | 66.6 | 66.6 | 100 |
| Washington, D.C. | DC-MD-VA | 214.6 | 213.0 | 99 |
| Atlanta | GA | 87.7 | 75.5 | 86 |
| Chicago | IL-IN | 327.6 | 325.6 | 99 |
| Boston | MA-NH-RI | 199.8 | 131.7 | 66 |
| St. Louis | IL-MO | 47.2 | 47.2 | 100 |
| New York-Newark | NY-NJ-CT | 1,181.7 | 999.2 | 85 |
| Philadelphia | PA-NJ-DE-MD | 188.5 | 157.5 | 84 |
| Pittsburgh | PA | 49.3 | 48.9 | 99 |
| Providence | MA-RI | 46.9 | 32.7 | 70 |

[28]FTA points to 49 U.S.C. § 5336(e) and (f) as justifying its approach. Section 5336(e) has long authorized states' chief executive officers (Governors) to expend small urbanized area funds for areas for which no designated recipient has been assigned. Among other things, section 5336(f) permits governors to transfer apportionments between small urbanized areas, or to other urbanized or nonurbanized areas, after consulting with responsible local officials and publicly owned operators of public transportation. FTA states that since the inception of the program it has treated each state's small urbanized areas apportionments as one cumulative apportionment to the Governor.

| Dollars in millions | | | Obligation | |
|---|---|---|---|---|
| | State | Apportionment | Obligated amount | Percentage of apportionment obligated |
| **Medium-size urbanized (populations between 200,000 and 999,999)** | | | | |
| Antioch | CA | 8.6 | 5.8 | 68 |
| Bakersfield | CA | 8.1 | 8.1 | 100 |
| Concord | CA | 28.2 | 14.4 | 51 |
| Fresno | CA | 12.1 | 10.9 | 90 |
| Indio-Cathedral City-Palm Springs | CA | 4.7 | 4.7 | 100 |
| Lancaster-Palmdale | CA | 9.8 | 9.8 | 100 |
| Mission Viejo | CA | 13.4 | 13.4 | 100 |
| Modesto | CA | 5.6 | 5.6 | 99 |
| Oxnard | CA | 10.2 | 5.8 | 57 |
| Santa Rosa | CA | 6.2 | 6.2 | 100 |
| Stockton | CA | 10.0 | 10.0 | 100 |
| Temecula-Murrieta | CA | 4.1 | 4.1 | 100 |
| Thousand Oaks | CA | 4.0 | 2.0 | 51 |
| Victorville-Hesperia-Apple Valley | CA | 3.4 | 3.4 | 100 |
| Colorado Springs | CO | 8.8 | 4.6 | 52 |
| Fort Collins | CO | 3.4 | 3.4 | 100 |
| Bridgeport-Stamford | CT-NY | 35.3 | 33.9 | 96 |
| Augusta-Richmond County | GA-SC | 3.3 | 3.3 | 100 |
| Columbus | GA-AL | 3.0 | 3.0 | 100 |
| Savannah | GA | 4.5 | 4.0 | 90 |
| Davenport | IA-IL | 5.2 | 5.2 | 100 |
| Peoria | IL | 4.2 | 4.2 | 100 |
| Rockford | IL | 3.7 | 3.7 | 100 |
| Round Lake Beach-McHenry-Grayslake | IL | 5.5 | 5.4 | 98 |
| Barnstable Town | MA | 7.6 | 7.6 | 100 |
| Springfield | MA-CT | 17.9 | 17.9 | 100 |
| Worcester | MA-CT | 12.4 | 12.4 | 100 |
| Atlantic City | NJ | 14.4 | 7.2 | 50 |
| Trenton | NJ | 15.5 | 7.7 | 50 |
| Albany | NY | 14.7 | 14.7 | 100 |
| Buffalo | NY | 24.4 | 24.4 | 100 |
| Poughkeepsie-Newburgh | NY | 23.4 | 20.3 | 87 |

| Dollars in millions | | | | |
|---|---|---|---|---|
| | | | Obligation | |
| | State | Apportionment | Obligated amount | Percentage of apportionment obligated |
| Rochester | NY | 15.8 | 9.4 | 60 |
| Syracuse | NY | 10.3 | 10.3 | 100 |
| Youngstown | OH-PA | 4.7 | 4.7 | 100 |
| Allentown-Bethlehem | PA-NJ | 10.5 | 8.8 | 84 |
| Harrisburg | PA | 7.0 | 5.0 | 71 |
| Lancaster | PA | 9.8 | 9.8 | 100 |
| Reading | PA | 4.3 | 4.3 | 100 |
| Scranton | PA | 5.7 | 5.7 | 100 |
| Chattanooga | TN-GA | 4.7 | 4.7 | 100 |
| **Small urbanized (populations between 50,000 and 199,999)** | | | | |
| California | | 75.3 | 66.0 | 88 |
| Colorado | | 11.4 | 11.4 | 100 |
| Georgia | | 12.3 | 9.1 | 74 |
| Illinois | | 13.2 | 10.4 | 79 |
| Massachusetts | | 9.2 | 7.9 | 86 |
| New Jersey | | 6.3 | 3.5 | 56 |
| New York | | 13.7 | 12.6 | 93 |
| Pennsylvania | | 17.6 | 12.9 | 73 |
| **Nonurbanized (populations under 50,000)** | | | | |
| California | | 34.0 | 34.0 | 100 |
| Colorado | | 12.5 | 10.3 | 83 |
| Georgia | | 25.6 | 20.8 | 81 |
| Illinois | | 21.2 | 11.5 | 54 |
| Massachusetts | | 5.2 | 3.7 | 70 |
| New Jersey | | 4.8 | 4.8 | 100 |
| New York | | 26.3 | 20.4 | 78 |
| Pennsylvania | | 30.2 | 30.2 | 100 |
| **Selected urbanized and nonurbanized areas total** | | **$3,901.8** | **$3,423.7** | **88** |
| **U.S. total** | | **$6,734** | **$5,950** | **88** |

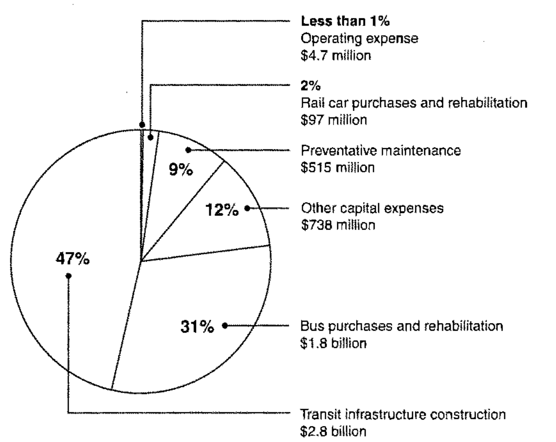
Source: GAO analysis of FTA data.

Notes: Some urbanized areas may cross two or more state borders.

U.S. total includes 50 states, the District, and U.S. territories.

Almost 87 percent of Recovery Act Transit Capital Assistance Program obligations are being used for upgrading transit facilities, improving bus fleets, and conducting preventive maintenance. Many transit agency officials told us they decided to use Recovery Act funding for these types of projects since they are high-priority projects that support their agencies' short- and long-term goals, can be started quickly, improve safety, or would otherwise not have been funded. Specifically, $2.8 billion, or 47 percent, of Recovery Act funds obligated nationally have been for transit infrastructure construction projects and related activities, which range from large-scale projects, such as upgrading power substations, to a series of smaller projects, such as installing improved audio systems for the hearing impaired. The Metropolitan Atlanta Rapid Transit Authority, for example, used Recovery Act funds to comprehensively upgrade and replace the fire protection system at its transit facilities. In New York, the Metropolitan Transportation Authority funded the installation of new locker and rest facilities for transit agency personnel and the rehabilitation of bus buildings. In addition, $1.8 billion, or 31 percent, is being used for improvements to local transit agencies' bus fleets, including purchasing new buses and renovating older buses. For example, with Recovery Act funds, the Pioneer Valley Transit Authority in Massachusetts is purchasing 29 new buses to replace its aging fleet, and the Los Angeles County Metropolitan Transportation Authority in California, according to agency officials, is ordering 140 compressed natural gas buses. Other transit agencies reported using Recovery Act funds for other types of bus fleet improvements, such as replacing fare boxes and installing bicycle racks on buses. Finally, $515 million, or 9 percent, has been obligated for preventive maintenance, which is considered a capital project by FTA, and $738 million for other capital expenses such as leases, training, and finance costs.

**Figure 5: Nationwide Transit Capital Assistance Program Recovery Act Obligations by Project Type as of September 1, 2009**




Source: GAO analysis of Federal Transit Administration data.

Note: Percentages may not add to 100 due to rounding. "Transit infrastructure construction" includes engineering and design, acquisition, construction, and rehabilitation and renovation activities. "Other capital expenses" includes items such as leases, training, finance costs, mobility management project administration and other capital programs.

As previously noted, all states have submitted maintenance-of-effort certifications to DOT, certifying that the state will maintain the level of state spending that it planned to spend the day the Recovery Act was enacted for all transportation projects, including transit projects, funded by the Recovery Act. DOT has concluded that the form of each certification is consistent with the additional guidance. Unlike federal highway infrastructure programs, which are administered through a federal-state partnership, federal transit programs are generally administered through a federal-local partnership, although rural programs are administered at the state level. Therefore, in some states, officials believe that the maintenance-of-effort requirement can be more easily met for transit projects due to the fact that the state does not provide any transit funding, making the requirement irrelevant, or the state transit funding has decreased over the years. For example, in Colorado, officials for the Regional Transit District stated that since their agency did not receive any transit funding from the state annually, officials believed that the maintenance-of-effort requirement did not apply. In addition, Illinois Department of Transportation officials stated that while the state attempts to provide funding for transit operating expenses for some rural areas, it has not been able to provide consistent funding for transit capital projects.

**State Highway and Transit Officials Express Concerns and Confusion about Reporting Requirements**

Recipients of highway and transit Recovery Act funds, such as state DOTs and transit agencies, are subject to multiple reporting requirements. First, under section 1201(c) of the Recovery Act, recipients of transportation funds must submit periodic reports on the amount of federal funds appropriated, allocated, obligated, and reimbursed; the number of projects put out to bid, awarded, or work has begun or completed; project status; and the number of direct and indirect jobs created or sustained, among other things.[28] DOT is required to collect and compile this information for Congress, and it issued its first report to Congress in May 2009. DOT is working to develop a model that will be used to estimate indirect jobs created and sustained rather than have individual recipients develop these estimates. DOT, through FTA, conducted a training session consisting of three webinars to provide information on the 1201(c) reporting requirements, such as who should submit these reports and what information is required. FTA is planning on conducting another three webinars and providing additional guidance before the end of September 2009. Second, under section 1512, recipients of Recovery Act funds, including but not limited to transportation funds, are to report quarterly on a number of measures, such as the use of funds and the number of jobs created or retained. OMB has issued implementing guidance for recipient reporting. For example, on June 22, 2009, OMB issued guidance to dispel some confusion related to reporting on jobs created and retained by providing, among other information, additional detail on how to calculate the relevant numbers.

Despite the OMB and DOT guidance, both highway and transit officials expressed concerns and challenges with meeting the recipient reporting

[28]The first periodic report was due no later than 90 days after the date of enactment of the act, with updated reports due no later than 180 days, 1 year, 2 years, and 3 years after enactment.

requirements. While both highway and transit officials raised concerns, transit officials tended to raise more specific concerns than their highway counterparts. This may reflect differing experiences collecting this type of information. FTA officials noted that recipients of transit grants have not had to collect similar information in the past. Conversely, while FHWA does not routinely require state DOTs to provide information on jobs created or sustained for highway projects, it has collected such information in the past. The specific concerns raised by transit officials include the following:

- **Calculation of direct jobs:** A number of agencies expressed confusion about calculating the number of direct jobs resulting from Recovery Act funding, especially with regard to using Recovery Act funds for purchasing equipment. For example, officials from the New York Department of Transportation and Greater Glens Fall Transit Agency, located in upstate New York, had questions concerning how to calculate direct jobs created from the purchase of buses made with Recovery Act funding versus how to count jobs created from Recovery Act-funded construction projects. Officials in Georgia noted that while FTA guidance on its reporting requirements indicated that transit providers did not need to report jobs associated with the vehicle replacements because they were indirect jobs, OMB's guidance did not indicate that jobs associated with vehicle replacements were indirect jobs. Transit agencies in Massachusetts reported similar concerns.
- **Contractors and subcontractors:** Another issue that caused confusion at a number of transit agencies we visited involved how transit agencies were required to report project contractors and subcontractors. During our review, we found that there were significant differences in how transit agencies were counting contractors. For example, in California, officials at the Orange County Transportation Authority stated that they only plan to include direct hours worked by contractors in their jobs estimates. By contrast, officials from California's San Joaquin Regional Transit District plan to include in their direct job estimates all hours of contractors working on Recovery Act-funded projects by basing job estimates on specific hours and pay data pulled from the internal payroll systems and certified payroll documents completed by contractors and subcontractors. There was also some confusion in how to count subcontractors. For example, some officials from transit agencies in Pennsylvania explained that language in the OMB guidance seemed to them to require that "subrecipients" submit the names and salaries of the five highest paid executives in their organization but was unclear whether this referred to Recovery Act project subrecipients or subcontractors. However, officials subsequently told us that they had resolved their questions.

- **Calculating the number of full-time-employee equivalents (FTE) from work hours:** Finally, one transit agency highlighted that they had concerns about the process for calculating the number of FTEs based on the number of hours worked on a project. In New York, Metropolitan Transit Authority officials said they will need to take the job title, figure out the "normal" hours worked in a year, and divide the number of these hours by four to figure out the hours worked in that reportable quarter.

**Agency actions on identifying recipient reporting challenges and providing additional guidance:** Recipients of highway and transit Recovery Act funds, such as state DOTs and transit agencies, are subject to multiple reporting requirements. Both DOT and OMB have issued implementation guidance for recipient reporting. For example, DOT, through FHWA and FTA, has provided training and guidance to recipients. Despite these efforts, highway and transit officials expressed concerns and challenges with meeting these reporting requirements. While both highway and transit officials raised concerns, transit officials tended to raise more specific concerns than their highway counterparts, which may reflect differing experiences collecting this type of information.

**Recommendation:** The Secretary of Transportation should continue the Department's outreach to state DOTs and transit agencies to identify common problems in accurately fulfilling reporting requirements and provide additional guidance, as appropriate.

**Agency comments and our evalnation:** We provided DOT with a draft of the transportation section of this report for its review and comment. With regard to our recommendation, DOT noted that it has conducted outreach, including providing training and guidance, to recipients and will continue to assess the need to provide additional information. We revised the draft report and recommendation to reflect DOT's ongoing and planned outreach efforts. DOT also provided technical comments on the draft report, which we incorporated as appropriate.

## States Have Begun to Draw Down Recovery Act Funds for Education Programs

Our review of states' use of Recovery Act funds covers three programs administered by the U.S. Department of Education (Education)—State Fiscal Stabilization Fund (SFSF); Elementary and Secondary Education Act (ESEA) Title I, Part A; and the Individuals with Disabilities Education Act (IDEA), Parts B and C.

- **State Fiscal Stabilization Fund.** The State Fiscal Stabilization Fund (SFSF) included approximately $48.6 billion to award to governors by formula and another $5 billion to award to states or school districts as competitive grants. The Recovery Act created the SFSF 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. Stabilization funds for education distributed under the Recovery Act must be used to alleviate shortfalls in state support for education to school districts and public institutions of higher education (IHE). States must allocate 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must 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). For the initial award of SFSF formula grant funds, Education made available at least 67 percent of the total amount allocated to each state,[30] but states had to submit an application to Education to receive the funds. The application required each state to provide several assurances, including that the state will meet maintenance-of-effort requirements (or will be able to comply with waiver provisions) and that it will implement strategies to advance four core areas of education reform as described by Education: (1) increase teacher effectiveness and address inequities in the distribution of highly qualified teachers; (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 students with disabilities; and (4) provide targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring.[31] In addition, states were required to make assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. After maintaining state support for education at fiscal year 2006 levels, states must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to school districts or public IHEs. When distributing these funds to school districts, states must use their primary education funding formula, but they can determine how to allocate funds to public IHEs. In general, school districts maintain broad discretion in how they can use education

[30]Beginning on July 1, 2009, Education released the remaining 33 percent of government services funds to states with approved applications.

[31]Schools identified for corrective action have missed academic targets for 4 consecutive years, and schools implementing restructuring have missed academic targets for 6 consecutive years.

stabilization funds, but states have some ability to direct IHEs in how to use these funds.

- **ESEA Title I.** The Recovery Act provides $10 billion to help local educational agencies (LEA) educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act (ESEA) of 1965. The Recovery Act requires these additional funds to be 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. In using the funds, LEAs are required to comply with current statutory and regulatory requirements and must obligate 85 percent of the funds by September 30, 2010.[32] Education is advising LEAs to use the funds in ways that will build the agencies' long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. Education made the first half of states' Recovery Act ESEA Title I, Part A funding available on April 1, 2009, and announced on September 4, 2009, that it had made the second half available.

- **IDEA.** The Recovery Act provided supplemental funding for programs authorized by Parts B and C of the Individuals with Disabilities Education Act (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 funds programs that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education and is divided into two separate grants—Part B grants to states (for school-age children) and Part B preschool grants (section 619). Part C funds programs that provide early intervention and related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families. Education made the first half of states' Recovery Act IDEA funding available to state agencies on April 1, 2009, and announced on September 4, 2009, that it had made the second half available.

[32]LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and must obligate all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

## Most States Have Begun Drawing Down Recovery Act Funds for Education Programs, but Expenditures Sometimes Differ from Amounts Drawn Down by States

As of September 18, 2009, Pennsylvania was the only state covered by our review that had not received approval from Education for its initial SFSF application. For the other 15 states and the District of Columbia in our review, Education approved their initial applications and made available a total of about $16 billion in initial education stabilization funds. As of August 28, 2009, all but 4 of these had drawn down some of these funds. In total, about 36 percent of the funds initially made available had been drawn down by these states, as shown in table 7.[33]

**Table 7: SFSF Education Stabilization Funds Made Available by the U.S. Department of Education and Funds Drawn Down by States**

| State | Total state allocation for education stabilization funds | Phase I education stabilization funds made available as of August 28, 2009 | Funds drawn down by states as of August 28, 2009 | Percentage of available funds drawn down |
|---|---|---|---|---|
| Arizona | $831,869,331 | $557,352,452 | $154,138,300 | 28 |
| California | 4,875,498,758 | 3,266,584,168 | 3,020,198,909 | 92 |
| Colorado | 621,878,397 | 416,658,526 | 154,811,775 | 37 |
| District of Columbia | 73,110,443 | 48,983,997 | 0 | 0 |
| Florida | 2,208,839,245 | 1,479,922,294 | 8,438,521 | 1 |
| Georgia | 1,260,799,096 | 844,735,394 | 238,773,562 | 28 |
| Illinois | 1,681,130,685 | 1,126,357,559 | 1,038,987,579 | 92 |
| Iowa | 386,373,745 | 258,870,409 | 57,230,002 | 22 |
| Massachusetts | 813,303,212 | 544,913,152 | 322,002,904 | 59 |
| Michigan | 1,302,368,993 | 872,587,225 | 573,635,420 | 66 |
| Mississippi | 392,067,945 | 262,685,523 | 0 | 0 |
| New Jersey | 1,088,335,775 | 729,184,969 | 0 | 0 |
| New York | 2,468,557,791 | 1,653,933,720 | 49,900,000 | 3 |
| North Carolina | 1,161,931,564 | 778,494,148 | 136,095,123 | 17 |
| Ohio | 1,463,709,963 | 980,685,675 | 61,096,405 | 6 |
| Pennsylvania | 0 | 0 | 0 | — |
| Texas | 3,250,272,133 | 2,177,682,329 | 0 | 0 |
| **Total** | **$23,880,047,075** | **$15,999,631,540** | **$5,815,308,499** | **36** |

Source: U.S. Department of Education.

[33]As of August 28, 2009, Education had made $21 billion in SFSF grants for education, including government services funds, available to the 15 states and the District of Columbia—of which over $7.7 billion had been drawn down.

Education did not approve Pennsylvania's initial SFSF application because the application did not include data for some public institutions of higher education in the calculations for the state's maintenance-of-effort for education funding and amounts needed to restore education funding to prior year levels. Education officials said they asked Pennsylvania to revise the application to include data for those institutions, but as of September 18, Pennsylvania had not submitted a revised application to Education.

Because states have been finalizing and revising their budgets since submitting their initial SFSF applications, some will need to amend their SFSF applications to reflect the new budget figures for state support for education. According to Education guidance, a state must amend its SFSF application if there are changes to the reported levels of state support for education that were used to determine maintenance-of-effort or to calculate the amounts needed to restore state support for education to prior year levels. For example, California has amended its SFSF application to change its calculations of state support for education. Mississippi submitted its initial SFSF application before passing its fiscal year 2010 budget and plans to amend it to include the enacted budget information. The District of Columbia plans to amend its application to increase the amount needed to restore the District's support for elementary and secondary education to the fiscal year 2008 funding level. Due to recent budget cuts to higher education for fiscal year 2010, Colorado amended its SFSF application to reduce the amount reported as state support for higher education and requested a waiver from the maintenance-of-effort requirements for SFSF for fiscal year 2010.

Of the 15 states and the District of Columbia covered by our review to which Education has made SFSF funds available, 12 states had drawn down education stabilization funds as of August 28, 2009. Of these 12 states, 9 were able to provide expenditure data from their LEAs for this report, as shown in table 8. Also, of the six states that had made education stabilization funds available to their IHEs and from which we attempted to collect education stabilization expenditure data for IHEs—Arizona, Colorado, Illinois, Iowa, North Carolina, and Ohio—five were able to report expenditures. When expenditures by LEAs and IHEs are substantially less than the amounts drawndown by the state, such as in Illinois, the state may be experiencing problems with its cash management. Illinois has distributed SFSF funds to LEAs in semi-monthly payments, but according to state officials, the state does not have the ability to identify specific cash needs from LEAs prior to distributing these funds. Table 8 shows the amounts of SFSF education stabilization funds drawn down by states, the reported expenditures by LEAs in those states that could provide this information, and the reported expenditures by IHEs in the 5 states that provided the information.

**Table 8: State Drawdowns of Education Stabilization Funds Compared to Reported Expenditures by LEAs and IHEs in States We Reviewed That Could Provide the Information**

Dollars in millions

| State | Funds drawn down as of August 28, 2009 | Expenditures by LEAs | Expenditures by IHEs[a] |
|---|---|---|---|
| Arizona | 154.1 | 0 | 154.1 |
| California | 3,020.2 | -[b] | - |
| Colorado | 154.8 | 0 | 154.8 |
| District of Columbia | 0 | 0 | - |
| Florida | 8.4 | 7.2 | - |
| Georgia | 238.8 | 157.9 | - |
| Illinois | 1,039.0 | 165.6 | 0 |
| Iowa | 57.2 | -[b] | -[b] |
| Massachusetts | 322.0 | -[b] | - |
| Michigan | 573.6 | 0 | - |
| Mississippi | 0 | 0 | - |
| New Jersey | 0 | -[b] | - |
| New York | 49.9 | 0 | - |
| North Carolina | 136.1 | 14.3 | 127.0 |
| Ohio | 61.1 | 54.6 | 56.3 |
| Pennsylvania[c] | 0 | 0 | - |
| Texas | 0 | 0 | - |

Sources: U.S. Department of Education and state educational agencies.

Notes: Expenditures shown in the table are as of the following dates: June 30, 2009—Georgia; August 31, 2009—Colorado (LEAs), Florida, New York, North Carolina (LEAs) and Texas; September 1, 2009-Michigan; September 2, 2009-Colorado (IHEs), Illinois (LEAs); September 4, 2009-Mississippi; September 11, 2009-District of Columbia; September 15, 2009-Ohio; September 16, 2009-Illinois (IHEs) and Arizona; September 18, 2009—North Carolina (IHEs).

[a]GAO attempted to collect expenditure data for IHEs from six states—Arizona, Colorado, Illinois, Iowa, North Carolina, and Ohio.

[b]State could not provide data on expenditures by LEA or IHEs for the time period covered by our report.

[c]Pennsylvania's application for SFSF funds is pending; therefore, Pennsylvania has not received SFSF funds from Education.

As of August 28, 2009, 11 of the states we reviewed had drawn down Title I, Part A Recovery Act funds, and reported LEA expenditures from the states were generally higher than the amounts drawn down. In total, these 11 states have drawn down 15 percent of the first half of Title I Recovery Act funds, which Education made available to the states on April 1, 2009.[34] For eight states, reported expenditure figures for LEAs were larger than the amounts drawn down. Massachusetts, as an example, reported that LEAs have spent over $2 million in Title I funding, but the state had only drawn down $1.5 million as of August 28, 2009. This is because in Massachusetts, according to state officials, the state draws down funds according to its agreement with the U.S. Department of Treasury, and it is not unusual for drawdowns to lag behind expenditures.

However, three states were unable to report LEA expenditure information for the period covered by this report, including California, which accounts for the vast majority of ESEA Title I, Part A Recovery Act funds drawn down to date. As we reported in July, according to Education officials, California officials informed the department that the drawdown of Title I Recovery Act funds was in lieu of the state's normally scheduled drawdown of school year 2008-2009 Title I funds. However, in California, we found that, as of August 7, 2009, 7 of the 10 California LEAs receiving the largest Title I allocations had not spent any Title I, Part A Recovery Act funds and, therefore, had cash balances. Further, California officials told us that they had conducted an informal survey of 180 LEAs in July 2009 to determine whether LEAs were maintaining regular ESEA Title I cash balances, and nearly all of the 64 LEAs responding reported unreimbursed expenses—having spent more regular ESEA Title I funds than they received. The officials told us they determined that these unreimbursed expenses would largely offset the ESEA Title I Recovery Act fund cash balances for the majority of these LEAs, and they believe that the calculation of interest due to the federal government on the Recovery Act balances would incorporate this offset. Therefore, they did not view the Title I Recovery Act balances as a problem. We discussed this issue with Education officials, but they have yet to make a final determination of whether such unreimbursed expenses can be offset against Title I Recovery Act balances for the purpose of calculating interest due to the federal government. Table 9 shows Title I, Part A Recovery Act drawdowns and expenditures.

[34]On September 4, 2009, Education announced that it had made the second half of Title I, Part A funds available to states.

**Table 9: ESEA Title I, Part A Recovery Act Funds Made Available to and Drawn Down by States We Reviewed, and Funds Expended by LEAs in States That Could Provide the Information**

Dollars in millions

| State | Title I Recovery Act funds made available as of August 28, 2009 | Funds drawn down as of August 28, 2009 | Percentage of available funds drawn down | Expenditures by LEAs | Drawdowns minus expenditures (negative totals in parentheses) |
|---|---|---|---|---|---|
| Arizona | $97.5 | $1.1 | 1.1 | $3 | $(1.9) |
| California | 562.5 | 450.3 | 80.1 | -a | - |
| Colorado | 55.6 | 0.3 | 0.5 | 0.3 | 0 |
| District of Columbia | 18.8 | 0 | 0 | 0 | 0 |
| Florida | 245.3 | 18.1 | 7.4 | 18.6 | (0.5) |
| Georgia | 175.5 | 0.4 | 0.2 | 3.6 | (3.2) |
| Illinois | 210.1 | 0.4 | 0.2 | 0.4 | 0 |
| Iowa | 25.7 | 8.1 | 31.5 | -a | - |
| Massachusetts | 81.8 | 1.5 | 1.8 | 2.2 | (0.7) |
| Michigan | 195.0 | 0 | 0 | 0 | 0 |
| Mississippi | 66.4 | 0 | 0 | 0 | 0 |
| New Jersey | 91.5 | 0 | 0 | -a | 0 |
| New York | 453.6 | 0 | 0 | 0 | 0 |
| North Carolina | 128.7 | 6.2 | 4.8 | 9.6 | (3.4) |
| Ohio | 186.3 | 0.5 | 0.3 | 2.8 | (2.3) |
| Pennsylvania | 200.3 | 0 | 0 | 23.0 | (23.0) |
| Texas | 474.4 | 2.4 | 0.5 | 2.8 | (0.4) |
| **Total** | **$3,269.0** | **$489.3** | **15.0** | **$66.3** | |

Sources: U.S. Department of Education and state educational agencies.

Notes: Expenditures are as of the following dates: August 31, 2009-Florida, North Carolina, and Texas; September 1, 2009- Colorado, Michigan, New Jersey, and New York; September 2, 2009-Georgia and Illinois; September 3, 2009-Pennsylvania; September 4, 2009- Massachusetts; September 8, 2009-Mississippi; September 9, 2009-Arizona; September 11, 2009- District of Columbia; and September 15, 2009-Ohio.

[a]State could not provide data on expenditures by LEAs for the time period covered by our report.

As of August 28, 12 of the states we reviewed had drawn down IDEA, Part B Recovery Act funds, and reported expenditures from the states were generally higher than the amounts drawn down. In total, these 12 states have drawn down about 10 percent of the first half of IDEA, Part B Recovery Act funds, which Education made available to the states on April

1, 2009.[35] For eight states, reported expenditure figures for LEAs were larger than the amounts drawn down. Table 10 shows the total IDEA, Part B Recovery Act funds drawn down by states as of August 28, 2009, and expenditures by LEAs for states that were able to report that information.

**Table 10: IDEA, Part B Recovery Act Funds Made Available to and Drawn Down by States We Reviewed, and Funds Expended by LEAs in States That Could Provide the Information**

Dollars in millions

| State | IDEA, Part B Recovery Act funds made available as of August 28, 2009 | Funds drawn down as of August 28, 2009 | Percentage of available funds drawn down | Expenditures by LEAs | Drawdowns minus expenditures (negative totals in parentheses) |
|---|---|---|---|---|---|
| Arizona | 92.1 | 0.1 | 0.1 | 1.8 | (1.7) |
| California | 634.0 | 269.0 | 42.4 | -a | - |
| Colorado | 77.0 | 4.0 | 5.2 | 4.1 | (0.1) |
| District of Columbia | 8.4 | 0 | 0 | 0 | 0 |
| Florida | 323.5 | 39.4 | 12.2 | 42.7 | (3.3) |
| Georgia | 162.1 | 0.2 | 0.1 | 0.5 | (0.3) |
| Illinois | 262.4 | 1.5 | 0.6 | 1.2 | 0.3 |
| Iowa | 63.1 | 25.2 | 39.9 | -a | - |
| Massachusetts | 145.4 | 6.2 | 4.3 | 9.4b | (3.2) |
| Michigan | 207.0 | 5.4 | 2.6 | 0 | 5.4 |
| Mississippi | 61.2 | 0 | 0 | 0 | 0 |
| New Jersey | 186.2 | 0 | 0 | -a | - |
| New York | 397.1 | 0 | 0 | 0 | 0 |
| North Carolina | 163.2 | 21.8 | 13.4 | 26.8 | (5.0) |
| Ohio | 225.5 | 0.7 | 0.3 | 4.0 | (3.3) |
| Pennsylvania | 220.8 | 0 | 0 | 0 | 0 |
| Texas | 485.0 | 2.2 | 0.5 | 3.6 | (1.4) |
| **Total** | **3714.0** | **375.7** | **10.1** | **94.1** | |

Sources: U.S. Department of Education and state educational agencies.

Notes: Expenditures are as of the following dates: August 31, 2009-Florida and Texas; September 1, 2009-Colorado, New Jersey, and New York; September 2, 2009-Georgia and Michigan; September 3, 2009-Illinois and Pennsylvania; September 4, 2009-Massachusetts; September 9, 2009-Arizona; September 11, 2009-District of Columbia; and September 15, 2009-Ohio.

[35] On September 4, 2009, Education announced that it had made the second half of IDEA Recovery Act funds available to states.

[a]State could not provide data on expenditures by LEAs for the time period covered by our report.
[b]Massachusetts expenditures do not include IDEA Part B Preschool Grants.

## Education Continues to Issue Guidance, Has Increased Technical Assistance, and Has Modified Some Monitoring Procedures to Address Recovery Act Issues but Has Not Completed Monitoring Plans for SFSF Funds

**Education Has Issued Additional Recovery Act Guidance and Proposed Guidance**

Over the summer of 2009, Education issued and proposed guidance on a wide range of Recovery Act provisions and is in the process of finalizing the proposed guidance after reviewing public comments. The department issued proposed guidance on the application process for the remaining SFSF education stabilization funds as well as for the Race to the Top funds. The department has also issued proposed guidance on administrative costs and guidance on Title I waivers; allowable uses of Title I, Part A and IDEA, Parts B and C funds; the use of SFSF education stabilization funds to meet IDEA maintenance-of-effort requirements; and recipient reporting.

**Remaining SFSF education stabilization funds.** On July 29, 2009, Education issued proposed requirements, definitions, and approval criteria pertinent to application for the remaining SFSF education stabilization funds that Education will release to states in fiscal year 2010. To obtain the remaining funds, Education proposed that states will have to submit applications that include a number of specific information requirements, including indicators. Education would require states to provide data that would show the extent to which they are implementing educational reforms in each of the four core areas. For example, with respect to increasing teacher effectiveness and addressing inequities in the distribution of highly qualified teachers, states would be required to provide (1) a description of teacher performance evaluation systems used in the states' LEAs, (2) data on the distribution of performance ratings or levels in the LEAs, and (3) a statement about whether performance ratings or levels are available to the public by school for each LEA. Some of the indicators included in the proposal relate to data states already collect and report to Education, and for these indicators, states will not need to provide additional data but would have to confirm the data and make it publicly available. In addition to the information requirements, the proposal includes a requirement that each state submit a plan describing the state's ability to collect and make the data easily available to the public. The proposal was open for comments through August 28, 2009, and Education anticipates issuing final guidance in the fall of 2009 after it has reviewed the public comments.

**Race to the Top funds.** On July 29, 2009, Education issued proposed requirements and selection criteria for the competitive Race to the Top (RTT) grant program, and announced that $4.35 billion would be awarded to states.[36] According to Education, the program is designed to encourage and reward states that are creating conditions for educational reform, achieving significant improvement in student outcomes, and implementing ambitious plans related to the four core reform areas. Education plans to award RTT grants in two phases--phase 1 will be for states that are already prepared to apply, and phase 2 will be for states that need more time to plan their reform efforts. Under Education's proposal, to be eligible to apply for an RTT grant, a state must have an approved SFSF application and must not have any legal, statutory, or regulatory barriers to linking data on student achievement or student growth to teachers for the purpose of teacher and principal evaluations. Education also proposed that states describe in their applications how the additional RTT funds would be used to implement policies and practices related to the four educational reform areas. According to the proposal, states will be judged according to 19 selection criteria that fall into two categories:

(1) state reform conditions criteria—used to assess a state's past progress and its success in creating conditions for reform in specific areas related to the four educational reform areas; and

(2) reform plan criteria—used to assess a state's plans for future efforts in the four educational reform areas.

In addition, the proposal includes a competitive preference for state applications that address certain issues related to science, technology, engineering, and mathematics. The proposal was open for comments through August 28, 2009, and over 1,100 individuals and organizations submitted comments. Education anticipates issuing final guidance in the fall of 2009 or winter of 2010 prior to making RTT Phase 1 applications available.

[36]The Race to the Top grant program is also referred to as the State Incentive Grant Fund. Education has indicated that it will issue proposed requirements in the winter of 2009-2010 and award up to $650 million for a related program for LEAs—the Innovation Fund.

**Administrative costs.** The Secretary of Education recently proposed[37] to allow states to reserve more Title I, Part A and IDEA, Part B[38] funds for administrative costs incurred in meeting Recovery Act data collection requirements, including costs related to administering, monitoring, and reporting on the use of these funds.[39] In its announcement of the proposed change, the department noted that, while the Recovery Act imposed new requirements on states under Title I, Part A and IDEA, Part B, the statutory limits on the amount of funds states may reserve for administering these programs were set before the Recovery Act was passed. Based on the proposal, the 16 states and the District of Columbia covered by our review would be able to use between \$14 million and \$20 million in total to help defray the costs of administering Title I, Part A and IDEA, Parts B Recovery Act funds.[40] The 30-day comment period closed on September 16, 2009. Education officials expect the proposal will take effect by the end of calendar year 2009.

**ESEA Title I waivers.** In July, the department issued guidance on Title I, Part A waivers, including waivers related to Recovery Act funds. This guidance clarified and expanded the department's Recovery Act fact sheet and guidance issued in April 2009. In addition, although individual LEAs can still apply for waivers directly from the department, the July 2009 guidance encouraged states to apply for waivers on behalf of their LEAs,

[37] 74 Fed. Reg. 41402 (August 17, 2009).

[38] According to officials, the proposal increases funds for IDEA, Part B, Grants to States (IDEA Section 611).

[39] The amount of Title 1, Part A funds that a state educational agency (SEA) may currently reserve for state administration is limited by section 1004(b) of the ESEA to no more than 1 percent of the amount the SEA would receive under Title I, part A, if \$14 billion were appropriated for parts A, C, and D of Title I. Any SEA whose amount under section 1004(b) would be less than \$400,000 is permitted to reserve up to \$400,000. The total amount appropriated in fiscal year 2009 exceeds \$14 billion, triggering this cap. The amount of IDEA, Part B grants to states that an SEA may currently reserve for state administration is limited by section 611(e)(1) of IDEA to not more than the maximum amount the SEA was eligible to reserve for fiscal year 2004 or \$800,000 (adjusted annually for inflation), whichever is greater.

[40] Under the proposal, states that apply for Title I waivers on behalf of their LEAs would be eligible to receive a higher level of funding for administration than if they did not apply for such waivers.

which could in turn apply for waivers from the SEA.[41] For example, states could apply for the authority to grant LEAs' requests for waivers of the carryover limitation[42] more than once every 3 years or to exclude Recovery Act funds in calculating the amount of funds LEAs must reserve for various required activities. To receive the flexibility afforded by waivers, LEAs must provide assurances and information to the SEA as part of the application process. For example, Education's waiver guidance specifies that LEA applications must identify how the funds freed up by the waiver will be used and that LEAs must provide data to show that such activities are needed. In addition, LEA applications must make the case that the effectiveness of strategies proposed is evidence based. As of September 17, 2009, 13 of the states we reviewed and the District of Columbia have applied for at least one Title I, Part A waiver (Arizona, California, Colorado, the District of Columbia, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, and Pennsylvania). Of these, the Secretary had approved Title I Recovery Act related waiver applications from 9 states: Arizona, Colorado, Georgia, Illinois, Iowa, Massachusetts, North Carolina, Ohio, and Pennsylvania.

**Allowable uses of Title I, Part A and IDEA, Parts B and C funds.** On September 2, 2009, Education released guidance on allowable uses of Title I, Part A Recovery Act funds. In our July 2009 report, we noted that local officials we interviewed frequently mentioned wanting more guidance on this issue. The guidance provides answers to a number of specific usage questions and presents allowable uses that LEAs could consider to advance particular types of educational reform. Examples of specific usage issues addressed in the guidance include when it would be appropriate for LEAs to reserve Title I, Part A Recovery Act funds to meet district priorities rather than distributing funds directly to schools, what should happen to equipment purchased with these funds in the future if the school no longer operates a Title I program, and to what extent these funds can be used to hire or retain various types of staff. To help LEAs and schools plan how to use Title I funds, the guidance identifies educational

[41]Unlike LEAs applying directly to Education, LEAs that apply to implement an approved SEA waiver do not have to fulfill various requirements for notice and comment and reporting—the SEA assumes responsibility for these requirements.

[42]Without the waiver, an SEA could waive the carryover limitation for an LEA at most once every three years if (1) it determined that the LEA's request was reasonable and necessary or (2) a supplemental Title I, Part A appropriation became available.

strategies that could be used to help in (1) adopting rigorous standards and assessments, (2) establishing data systems and using data for improvement, (3) increasing teacher and school leader effectiveness and the equitable distribution of effective teachers and school leaders, (4) turning around the lowest achieving Title I Schools, and (5) improving results for students in Title I schools.

Education also released guidance on allowable uses of IDEA, Parts B and C Recovery Act funds. While the IDEA, Part B guidance recognizes that many LEAs may need to use a large portion of Recovery Act funds to support teacher salaries or other critical short-term needs, it also suggests how LEAs can also use these funds to support activities that increase the capacity of LEAs and schools to improve results for students with disabilities, including under certain circumstances using some IDEA, Part B funds to implement schoolwide activities that support students with and without disabilities. The IDEA, Part C guidance includes five questions[43] decision makers should consider in determining how to use Part C Recovery Act funds and provides examples of potential uses to improve outcomes for infants and toddlers with disabilities and their families.

**Using SFSF funds to meet maintenance-of-effort requirements.** Education released revised guidance on treating SFSF education stabilization and government services funds as nonfederal funds for purposes of meeting the IDEA, Part B maintenance-of-effort requirement on July 1, 2009. Once treated as nonfederal funds, these funds can (in certain circumstances) be used toward the IDEA, Part B state-level maintenance-of-effort requirement. This guidance indicates that, with prior approval from Education, a state may use SFSF education stabilization funds toward meeting the IDEA, Part B maintenance-of-effort requirement, if those funds are used to replace state support for special education provided through primary funding formulas. SFSF government services funds can also be used, with prior approval, toward the IDEA, Part B maintenance-of-effort requirement, as long as those funds are used for the education of children with disabilities. Similarly, an LEA may use SFSF funds toward the IDEA, Part B local-level maintenance-of-effort

[43]The questions are: (1) Will the proposed use of funds result in improved outcomes? (2) Will the proposed use of funds increase capacity? (3) Will the proposed use of funds accelerate systems change? (4) Will the proposed use of funds avoid the cliff and serve as a bridge to improve productivity? (5) Will the proposed use of funds foster continuous improvement?

requirement. To do so, the LEA must use the funds for the education of children with disabilities, and it cannot include SFSF funds that the state is using toward meeting the state-level maintenance-of-effort requirement. Officials from Education's Office of Elementary and Secondary Education said they were working on developing similar guidance for treating SFSF funds as nonfederal funds for purposes of meeting Title I, Part A maintenance-of-effort requirements.

**Recipient reporting**. Education, in September, 2009, released two sets of guidance on recipient reporting: *Clarifying Guidance on Section 1512 Quarterly Reporting* and *Clarifying Guidance on Reporting on Jobs Creation Estimates by Recipients*. The guidance on estimating jobs creation covers a range of issues, including specifics on how to convert hours worked into an estimate of a full-time-equivalent job and the requirements for collecting information from vendors on jobs created. Also, the guidance specifies that prime recipients, to the maximum extent practicable, should collect information from all subrecipients and vendors in order to generate the most comprehensive and complete job impact numbers possible. However, in limited circumstances and with prior approval from Education and OMB, a prime recipient can use an approved statistical methodology to generate estimates of job impact, thereby collecting data from a smaller subset of subrecipients or vendors. The guidance states that a statistical methodology should only be used in those cases in which a comprehensive collection of jobs data from all subrecipients and vendors is overly costly or burdensome.

Prior to the issuance of its guidance, the department had provided a variety of other assistance to prime recipients and subrecipients on recipient reporting. For example, Education conducted webinars for state and LEA officials to help them understand different technical requirements related to the Recovery Act. To assist its recipients in meeting Recovery Act reporting requirements, Education developed tip sheets on how to complete the data elements in the quarterly reports for education programs. For example, on August 28, 2009, the Office of Special Education Programs (OSEP) released a Reporting Tip Sheet for its programs, which includes reporting information for IDEA Part B Grants to States, Preschool Grants and Part C Early Intervention programs. The tip sheet provides guidance for each data element on which recipients and subrecipients are to report. OSEP officials said that they conducted a conference call for state staff responsible for Part B and Part C Recovery Act recipient reporting to walk through the tip sheet and respond to questions.

**Education Is Providing Intensive Technical Assistance to Six States Identified as "High Risk" to Help Them Implement Good Practices in Using Recovery Act Funds**

To target technical assistance resources to the states where such help could have the greatest impact, the department used a risk-based approach to identify "high risk" states and territories to receive intensive technical assistance. Five of the six states or territories identified as high risk are part of our review: California, the District of Columbia, Illinois, Michigan, and Texas.[44] Department officials weighed a number of factors when assessing risk, such as the number of monitoring or audit findings in the state and the level of turnover in education leadership within the state. The department's process for identifying these six states included Title I and IDEA program risk analyses.

Education officials from several offices that share an interest in providing coordinated assistance are working together to contribute both programmatic and financial expertise to these high-risk states. For example, Education officials have been scheduling monthly calls with each of these states to help them identify and implement good practices in managing and using Recovery Act funds, according to an Education official. These "open forum" calls help state officials get their questions answered directly by experts in the department and help department officials respond to state-specific concerns and challenges in implementing the Recovery Act. In the future, this intensive technical assistance could include on-site visits to these six high risk states and to their LEAs, for example, to help state officials implement school improvement requirements, according to an Education official.

**Edncation Has Updated ESEA Title I and IDEA Monitoring Plans to Cover Recovery Act Funds and Is Monitoring State Drawdowns of Federal Funds**

**ESEA Title I monitoring and technical assistance**. To respond to the substantial increase in federal funding it oversees as a result of the Recovery Act, the office responsible for overseeing Title I has adapted how it monitors states and provides technical assistance. One of the most significant changes has been moving to a risk-based approach to determine which states to visit for on-site reviews. Specifically, the office

[44]The sixth state/territory, Puerto Rico, is not covered by GAO's review.

used a risk-based assessment to identify the 18 states that will receive monitoring visits during the 2009- 2010 monitoring cycle. States were selected using such factors as the number of previous monitoring findings, state coordinator turnover, and size of the Title I allocation. All six of the states identified as high risk department-wide will receive on-site monitoring during the fiscal year 2010 monitoring cycle, as will an additional 12 states that are considered high risk from a Title I perspective.[45]

Title I officials have also responded to the Recovery Act by changing the monitoring cycle from 3 years to 2 years to coincide with the availability of Recovery Act funds and adding a substantial number of questions related to the Recovery Act to the standardized questions they ask state and LEA officials during monitoring visits. In monitoring the use of Recovery Act funds, Education is also monitoring the rate at which Recovery Act funds are drawn down and spent, how Recovery Act funds are being used, and how reporting requirements are being met.

Title I Education officials are also planning to use the results of their risk assessment to target technical assistance efforts. Specifically, in addition to working with other Education offices to provide coordinated intensive technical assistance to the six high risk states, Title I officials plan to provide customized assistance to Title I Directors in the 12 states they identified as also being high risk from a Title I perspective, six of which are in our review: Colorado, Florida, Massachusetts, New Jersey, New York, and North Carolina. This assistance may include scheduling calls to answer specific questions or to help address outstanding compliance issues, according to an Education official. In addition, Education officials may plan technical assistance meetings for these 12 states in school year 2009-2010 on topics such as uses of Title I, Part A Recovery Act funds and upcoming 2009-2010 monitoring, according to an Education official. The goals of these meetings would be to improve these states' readiness for their 2009-2010 monitoring visit and to increase the capacity of states to support Title I schools and LEAs.

**IDEA monitoring and data collection efforts.** Regarding IDEA, Education will pursue its regular targeted monitoring visits and technical

[45]The 12 states are Arkansas, Colorado, Delaware, Florida, Idaho, Louisiana, Massachusetts, Missouri, New Jersey, New York, North Carolina, and Oklahoma.

assistance in 16 states or territories,[46] and, in response to the Recovery Act, Education's Office of Special Education Programs (OSEP) will also perform a desk review of all states over the next 6 to 8 months. According to Education officials, the department uses annual performance report information and focused monitoring priorities to determine in which states it will conduct monitoring visits.[47] In the course of its monitoring visits, the department verifies the effectiveness of state systems for general supervision, data collection and fiscal management, as well as reviews state progress toward the goals from its state performance plan. This year, the department will also focus on various elements from the Recovery Act, including reporting requirements. According to OSEP officials, certain requirements that have always been in place under IDEA have heightened importance given the larger appropriations under the Recovery Act, including requirements for IDEA funds used for construction or equipment costing more than $5,000—expenditures that might be more common than in past years given the larger appropriations under the Recovery Act. In conducting site visits, Education reviews state records, makes visits to selected LEAs for on-site examination of student records, and assesses state special education systems. Following these visits, Education issues a report on findings and, when noncompliance is found, requires states to demonstrate correction of the non-compliance. OSEP officials said the content of the desk review is still in development, but that it would focus as much on technical assistance for states as it would on reviewing states. Also, OSEP plans to provide guidance to SEAs regarding their Recovery Act monitoring efforts and the reporting of accurate data for recipient reporting under the Recovery Act. OSEP officials said the office will also choose states for targeted technical assistance based on the results of their upcoming Recovery Act desk reviews.

Education also plans to collect more information than it has in the past from states regarding whether LEAs are exercising flexibility in spending their IDEA allocations, in an attempt to better understand how LEAs are adjusting their use of funds with the increased funds they have received.

[46]The 16 states and territories are Arizona, Alaska, Bureau of Indian Education, Delaware, District of Columbia, Federated States of Micronesia, Louisiana, Minnesota, Missouri, Montana, New Hampshire, Ohio, Vermont, Virginia, Washington, and Wisconsin.

[47]OSEP's focused monitoring priorities, which helped determine which states to visit for 2009-2010 are: timely provision of early intervention services; Part C to Part B transition; and placement in the least restrictive environment.

Specifically, Education is planning to collect information on the number of LEAs that are taking advantage of the flexibility to decrease their local IDEA, Part B expenditures by up to 50 percent of the amount of the increase in their overall IDEA, Part B allocation.[48] These "freed up" funds must be spent on activities allowable under the ESEA. This is of potential concern in future years because LEAs are required to maintain their previous year's level of local spending on special education and related services to continue to receive IDEA funds, and by reallocating local funds out of IDEA programs, they will lower the level of local spending the LEA must maintain in subsequent years. Education is also collecting information on the number of school districts that are setting aside funds for Coordinated Early Intervening Services (CEIS).[49] Education officials expect to have this information collected in 2011. As part of its monitoring and desk reviews, OSEP will review whether states are ensuring that only eligible LEAs are taking advantage of the maintenance-of-effort flexibility and that states are collecting information on LEAs that are setting aside funds for CEIS.

**Monitoring of state drawdowns and cash management.** Education is monitoring states' drawdowns of Recovery Act funds and has identified

[48]Generally, in any fiscal year in which an LEA's IDEA, Part B allocation exceeds the amount the LEA received in the previous year, the LEA may reduce its local spending on disabled students by up to 50 percent of the amount of the increase, as long as the LEA (1) uses those freed-up funds for activities that could be supported under the Elementary and Secondary Education Act of 1965, (2) meets the requirements under the Act, and (3) can provide each child a free and appropriate public education.

[49]CEIS are services provided to students in kindergarten through grade 12 (with a particular emphasis on students in kindergarten through grade 3) who are not currently identified as needing special education or related services but who need additional academic and behavioral supports to succeed in a general education environment. IDEA regulations permit LEAs to set aside up to 15 percent of the amount the LEA receives under IDEA Part B to develop and implement CEIS, minus any amount by which the LEA reduces its local maintenance-of-effort, using the flexibility described in the previous footnote. IDEA regulations require an LEA to reserve 15 percent of IDEA Part B funds available for comprehensive CEIS if there is significant disproportionality based on race or ethnicity with respect to the identification of children with disabilities; the identification of children in specific disability categories; the placement of children with disabilities in particular educational settings; or the incidence, duration, and type of disciplinary actions, including suspensions and expulsions.

issues with cash management in some states. To help ensure that states are complying with federal cash management requirements, including that states only draw down federal funds to meet the timing needs of a particular program, Education monitors states' drawdowns of Recovery Act funds.[50] Whenever a state requests a large drawdown of funds, Education officials told us they contact the state before approving the release of the funds to learn why it is drawing down the funds and whether it can document that it has an immediate need for the funds. The department's monitoring of cash management drew officials' attention to a substantial drawdown request of SFSF funds in Arizona that Education ultimately denied. Arizona planned to use the funds to backfill a $250 million reduction in general fund appropriations for LEAs in fiscal year 2009. However, when Arizona tried to draw down the SFSF funds for this purpose, Education denied the drawdown. According to Education officials, Arizona's plans for the funds would have violated Recovery Act requirements because Arizona had not required LEAs to submit applications for the funds and LEAs would not have been aware that the funds they had used in fiscal year 2009 were Recovery Act funds, and, therefore, LEAs would not have been able to properly account for the funds in accordance with Recovery Act requirements.

The substantial increase in federal education funds going to states due to the Recovery Act has increased the importance of cash management issues in some states, including Illinois and California. Specifically, Illinois has distributed SFSF funds to LEAs in semi-monthly payments, but according to state officials, the state does not have the ability to identify specific cash needs from LEAs prior to distributing these funds. However, disbursements of federal funds by states to LEAs when they are not prepared to spend them may result in state or LEA interest liability and reflect an inefficient use of federal cash. To track this issue, Illinois is

[50]The Cash Management Improvement Act of 1990, as amended, requires the Secretary of the Treasury, along with the states, to establish equitable funds transfer procedures so that federal financial assistance is paid to states in a timely manner and funds are not withdrawn from Treasury earlier than they are needed by the states for grant program purposes. The act requires that states pay interest to the federal government if they draw down funds in advance of need and requires the federal government to pay interest to states if federal program agencies do not make program payments in a timely manner. The Department of the Treasury promulgates regulations to implement these requirements. 31 C.F.R. pt. 205. However, cash management by subgrantees, such as LEAs, is subject to Department of Education grant administration regulations, which may require subgrantees to remit to the U.S. government interest earned on excess balances. See 34 C.F.R. §§ 74.22, 80.21.

completing reports designed to identify excess cash balances maintained by LEAs, and according to state officials, LEAs are considered to be maintaining excess cash balances when they do not expend the funds they receive within the established time frame. Cash management by Illinois and its LEAs is an issue we intend to continue addressing in future reports. California drew down 80 percent of its available Title I, Part A Recovery Act funds in May 2009 and immediately distributed them to LEAs. According to Education officials, California Department of Education officials said that the drawdown was in lieu of its normally scheduled drawdown of school year 2008-2009 Title I funds, and therefore the schools would be ready to use the funds quickly. However, in August, we contacted the 10 LEAs in California that had received the largest amounts of Title I, Part A Recovery Act funds and found that 7 had not spent any of these funds and that all 10 reported large cash balances—ranging from \$4.5 million to about \$135 million. The California Department of Education is taking action to improve its overall cash management, including a pilot program to monitor LEA cash balances. Education is providing these states, and others, with targeted technical assistance on cash management, and Education's Office of Inspector General (OIG) is focusing on cash management practices in its work.[51]

**Education Is Developing Plans to Monitor Recipients of SFSF Funds, and Some States Face Challenges Establishing Monitoring Procedures for SFSF Funds**

Because SFSF is a new program established under the Recovery Act, Education has yet to finalize monitoring plans and processes. Education officials said they are developing an approach to monitor SFSF funds, which they anticipate will be completed around the time the department releases the final SFSF guidance in the fall of 2009. In the interim, Education officials said they are taking several steps to monitor information they are receiving from states as well as to provide technical assistance to states. For example, according to Education officials, prior to approving SFSF awards, Education screened each state's application to ensure the state complied with statutory requirements to receive the funds. Now that almost all of the states have been approved for funding, Education officials reported that they have provided written guidance and

[51]The OIG reported in March 2009 that the California Department of Education needed to strengthen controls to ensure that LEAs correctly calculate and promptly remit interest earned on federal cash advances (ED-OIG/A09H0020, March 2009). The OIG plans to issue a report on Illinois's cash management later this fall.

conducted webinars to improve states' and LEAs' awareness of the appropriate uses of SFSF funds and related reporting requirements. Further, Education officials said they are monitoring fund drawdowns and following up with states on any press reports about questionable uses of SFSF funds. Education officials also plan to review information reported by states on SFSF funds in their required quarterly Recovery Act reports.

Regarding requirements for states to monitor subrecipients' use of SFSF funds, Education initially made states aware of this requirement by enumerating administrative requirements in the SFSF application and requiring governors to provide assurances that they will comply with the requirements. To re-emphasize this requirement, Education recently sent an e-mail to states to remind them of their responsibility to thoroughly and effectively monitor subrecipients under SFSF to ensure compliance with applicable federal requirements. The e-mail specified that to comply with these requirements, each state must have a comprehensive monitoring plan for SFSF supported activities and that the monitoring plan should address areas such as the following:

- a monitoring schedule,
- monitoring policies and procedures,
- data collection instruments (e.g., interview guides and review checklists),
- monitoring reports and feedback to subrecipients, and
- processes to verify that required corrective actions are implemented.

However, it is not clear that states have focused on this requirement and begun to put in place subrecipient monitoring systems that comply with Education's requirements. For example, before Education sent the e-mail regarding SFSF monitoring, education officials in North Carolina said they had not developed specific monitoring plans for SFSF funds and they planned to rely on existing procedures for monitoring LEAs' uses of Title I, Part A and IDEA, Parts B and C funds. After receiving the e-mail, state officials told us they are now developing monitoring plans specifically for SFSF funds.

Furthermore, some states face challenges in developing monitoring plans for SFSF funds because of their existing problems in monitoring subrecipients of other education funds. In particular, Education's OIG has identified subrecipient monitoring of education funds as an area of concern, and state auditors have cited problems with subrecipient monitoring. In its reports on education program fiscal issues,[52] the OIG stated that inadequate monitoring by the SEA was one of the most common internal control weaknesses. As an example of state subrecipient challenges, New Jersey's 2008 Single Audit found material weaknesses in the SEA's auditing of IDEA, Part B, including no evidence of state monitoring of LEAs' use of federal funds.[53] Further, Arizona's 2008 Single Audit found that the SEA did not comply with the subrecipient monitoring requirements of ESEA Title I and IDEA because it did not obtain Single Audit reports within 9 months of the subrecipients' fiscal year-end, did not retain documents to support that the SEA tried to ensure audit requirements were met, and it did not issue management decisions within 6 months after receipt of subrecipient Single Audit reports.

Additionally, states may face a number of other challenges in establishing subrecipient monitoring programs for SFSF funds. Because the SFSF program is new, state officials will need to develop new procedures and reallocate or hire new staff and train them to conduct monitoring. Also, SFSF funds may be administered by governors' offices rather than through state agencies with more experience directly monitoring programs. Another potential challenge to developing an effective monitoring program is that the Recovery Act does not designate SFSF funds that may be set aside specifically for administration, which would include monitoring responsibilities. While states could choose to use SFSF government services funds for this purpose, doing so would leave the states with less funds to use for public safety, education, and other purposes. Finally, some states could be challenged in setting up an effective monitoring program due to budget shortfalls that could limit their ability to maintain

[52]U.S. Department of Education Office of Inspector General, *Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs*, ED-OIG/X05J0005 (Washington, D.C.: July 21, 2009).

[53]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. 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.

adequate staff to handle the increased monitoring workload, for SFSF funds as well as other Recovery Act funds.

## Recommendation to the Secretary of Education

We recommend that the Secretary of Education take further action such as collecting and reviewing documentation of state monitoring plans to ensure that states understand and fulfill their responsibility to monitor subrecipients of SFSF funds and consider providing training and technical assistance to states to help them develop and implement state monitoring plans for SFSF.

## Agency Comments

We provided Education a draft of this report section for review and comment. The department did not provide formal written comments, bnt it did provide technical comments, which we incorporated in this section when appropriate.

## States Used Recovery Act WIA Youth Funds to Create Summer Youth Employment and Training Opportunities

The Recovery Act provides an additional $1.2 billion in funds for Workforce Investment Act (WIA) Youth Program activities, including summer employment. Administered by the Department of Labor (Labor), the WIA Youth Program is designed to provide low-income in-school and out-of-school youth 14 to 21 years old, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. Funds for the program are distributed to states based on a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving as much as 15 percent for statewide activities. The local areas, through their local workforce investment boards, have the flexibility to decide how they will use the funds to provide required services.

While the Recovery Act does not require all funds to be used for summer employment, in the conference report accompanying the bill that became the Recovery Act,[54] the conferees stated they were particularly interested in states using these funds to create summer employment opportunities for youth. While the WIA Youth Program requires a summer employment component to be included in its year-round program, Labor has issued guidance indicating that local areas have the flexibility to implement stand-alone summer youth employment activities with Recovery Act

[54] H.R. Rep. No. 111-16, at 448 (2009).

funds.[55] Local areas may design summer employment opportunities to include any set of allowable WIA youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work experience component.

A key goal of a summer employment program, according to Labor's guidance, is to provide participants with the opportunity to (1) experience the rigors, demands, rewards, and sanctions associated with holding a job; (2) learn work readiness skills on the job; and (3) acquire measurable communication, interpersonal, decision-making, and learning skills. Labor has encouraged states and local areas to develop work experiences that introduce youth to opportunities in "green" educational and career pathways. Work experience may be provided at public sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines, as well as federal and state wage laws.[56] Labor's guidance requires that each state and local area conduct regular oversight and monitoring of the program to determine compliance with programmatic, accountability, and transparency provisions of the Recovery Act and Labor's guidance. Each state's plan must discuss specific provisions for conducting its monitoring and oversight requirements.

The Recovery Act made several changes to the WIA Youth Program when youth are served using these funds. It extended eligibility through age 24 for youth receiving services funded by the act, and it made changes to the performance measures, requiring that only the measurement of work readiness gains will be required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. Labor's guidance allows states and local areas to determine the methodology for measuring work readiness gains within certain parameters. States are required to report to Labor monthly on the number of youth participating and on the services provided, including the work readiness attainment rate and the summer employment completion rate. States must also meet quarterly performance and financial reporting requirements.

[55]Department of Labor, Training and Employment Guidance Letter No. 14-08 (Mar. 18, 2009).

[56]Current federal wage law specifies a minimum wage of $7.25 per hour. Where federal and state laws have different minimum wage rates, the higher rate applies.

For this report, we focused on Recovery Act-funded WIA summer youth employment activities in 10 of our 16 states.[57] We did not review the District of Columbia because officials told us they were not using Recovery Act funds for their summer youth employment program. The 10 states in our review represent nearly 60 percent of the $1.2 billion in Recovery Act WIA youth funds allotted by Labor. We supplemented our work in the 10 states by analyzing national data on the characteristics of youth participating in Recovery Act-funded WIA youth activities and the extent to which funds have been drawn down.

## States Were Generally Successful in Serving Increased Numbers of Youth in Summer Activities

As we noted in our July 2009 bimonthly report, the 10 states we reviewed generally planned to use Recovery Act funds to increase the number of youth served through summer activities. The July report also indicated that the limited time frame that states and local areas had to implement a stand-alone summer program presented challenges to officials. Once the Recovery Act was passed, officials had only about 4 months to get their new summer youth employment activities up and running—a process that officials told us would normally begin many months earlier. Moreover, local areas often lacked recent experience in operating such a stand-alone program. Prior to receiving the Recovery Act funds, many states and local areas had greatly reduced their summer youth employment programs and no longer offered a stand-alone summer program—or they had found funding sources other than WIA, such as state, local, or foundation funds, to cover it. Local areas without recent experience had to build the program from the ground up. These areas had to quickly confront many basic decisions—how to structure the program, how to recruit work sites and participants, whether to use contracted providers (and for what functions), or whether to administer the program in house. Some other areas, however, had maintained well-developed summer youth employment programs. These areas already had some of these basic structures in place but still found it daunting to quickly expand their existing programs.

### Most States That Set Targets for Number of Youth to Be Served Have Met or Exceeded Them

In July 2009, we reported that states expected large increases in the number of youth they served. These increases have generally materialized.

[57]We reviewed WIA youth activities in California, Florida, Georgia, Illinois, Massachusetts, Michigan, New York, Ohio, Pennsylvania, and Texas.

Eight of the 10 states in our current review set targets, totaling more than 120,000, for the number of youth they expected to serve this summer, according to our survey.[58] Five of the states—Georgia, Massachusetts, New York, Pennsylvania, and Texas—reported they had met or exceeded their targets by mid-August. Three other states—Florida, Illinois, and Michigan—said they had not yet met their targets but expected to. For example, Florida set a target to serve 16,000 youths this summer, but officials could not report that they had met it due to late reporting by some local areas.

Nationwide, as of July 31, 2009, almost 300,000 youths were participating in Recovery Act-funded WIA youth activities; more than three-fourths were placed in summer employment, according to Labor's data. In our 10 states, over 150,000 youths were served, with just under three-fourths placed in summer employment as of July 31, 2009. Youth 14 to 18 years old comprised the largest category of participants, ranging from 63 percent in Florida to 80 percent in Massachusetts. From 4 percent to 10 percent of participants were age 22 to 24, the new age category authorized under the Recovery Act. The proportion of out-of-school youth, a special focus of the WIA Youth Program, ranged from 24 percent to 45 percent in our 10 states. Nationwide, about 36 percent of the youth served with Recovery Act funds were out of school, compared with just over 42 percent in the most recent data for the regular WIA Youth Program (see table 11).

**Table 11: Recovery Act-Funded WIA Youth Participation in Selected States, as of July 31, 2009**

| State | Number served | Percentage placed in summer employment | Percentage out of school | Percentage 22-24 years old | Percentage 14-18 years old |
|---|---|---|---|---|---|
| California | 33,789 | 42 | 38 | 7 | 69 |
| Florida | 11,902 | 64 | 45 | 10 | 63 |
| Georgia | 9,873 | 100 | 24 | 5 | 77 |
| Illinois | 15,078 | 62 | 43 | 10 | 66 |
| Massachusetts | 5,640 | 93 | 43 | 4 | 80 |
| Michigan | 13,705 | 89 | 35 | 9 | 66 |
| New York | 21,375 | 89 | 27 | 7 | 71 |

[58] California and Ohio reported that they did not set targets for the number of youth they expected to serve in summer activities.

| State | Number served | Percentage placed in summer employment | Percentage out of school | Percentage 22-24 years old | Percentage 14-18 years old |
|---|---|---|---|---|---|
| Ohio | 12,530 | 69 | 28 | 8 | 72 |
| Pennsylvania | 5,102 | 96 | 34 | 7 | 69 |
| Texas | 21,602 | 91 | 25 | 7 | 74 |
| **Total for 10 states** | **150,596** | **73** | **34** | **8** | **70** |
| **Nationwide** | **297,169** | **76** | **36** | **7** | **71** |

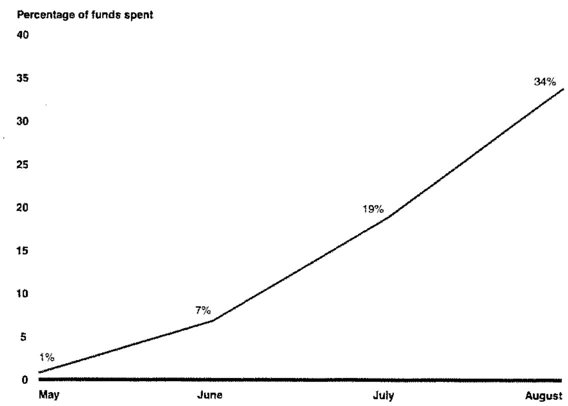
Source: Department of Labor data based on information reported by the states.

### States' Draw Down Rates Have Been Increasing

As of August 31, 2009, about 34 percent of Recovery Act WIA youth funds ($397 million) had been drawn down nationwide, according to Department of Labor data—an increase of 28 percentage points from the 6 percent we reported in July.[59] Across our 10 states, drawdowns have been steadily increasing since June. (See fig. 6.)

[59]Drawdowns represent cash transactions: funds drawn down by states and localities to pay their bills. These are cash drawdowns from the Department of Health and Human Services' Payment Management System. Under the procedures for using these funds, funds are to be drawn down no more than 3 days in advance of paying bills.

**Figure 6: National Draw Down Rates for Recovery Act Funds for the WIA Youth Program, as of August 31, 2009**




Source: GAO analysis of Department of Labor data.

Among the 10 states, the percentage drawn down ranged from 20 percent for California to 51 percent for Georgia and Texas (see table 12).

**Table 12: Selected States' Drawdowns as of August 31, 2009**

Dollars in millions

| State | Allotment | Amount drawn down | Percentage drawn down |
|---|---|---|---|
| California | $186.6 | $38.0 | 20 |
| Florida | 42.9 | 21.2 | 50 |
| Georgia | 31.4 | 16.0 | 51 |
| Illinois | 62.2 | 23.5 | 38 |
| Massachusetts | 24.8 | 8.3 | 33 |
| Michigan | 73.9 | 20.2 | 27 |
| New York | 71.5 | 17.0 | 24 |
| Ohio | 56.2 | 15.8 | 28 |
| Pennsylvania | 40.6 | 9.4 | 23 |

Dollars in millions

| State | Allotment | Amount drawn down | Percentage drawn down |
|---|---|---|---|
| Texas | 82.0 | 41.6 | 51 |
| **Nationwide** | **$1,167.2** | **$397.1** | **34** |

Source: GAO analysis of Department of Labor data.

## Local Areas Used Their Flexibility to Offer a Variety of Summer Youth Employment Activities

Local areas we visited provided WIA youth participants with a range of summer work activities in the public, private, and nonprofit sectors. Some local areas offered academic and occupational skills training.

### Type of Work Experience

Across the public, private, and nonprofit work sites, the specific work activities that youth were assigned ranged from clerical work and custodial work to animal care, customer service, and serving as camp counselors or legislative aides.

Public sector work sites included local government offices; public parks, recreation centers, and camps; public schools and community colleges; public libraries; and animal shelters.

- In **Weatherford, Texas,** for example, a youth who wanted to become a veterinarian was able to gain firsthand experience when she was assigned to work at a city animal shelter. Her responsibilities included working with veterinarians, taking care of animals, cleaning kennels, and completing intake paperwork.

Private-sector work sites included hospitals and retail stores.

- In **Dayton, Ohio,** for example, a local university student and aspiring entrepreneur was placed in a small retail store to shadow a small business owner and learn the various skills needed to operate the store, including customer service, stock duties, product placement, and data entry.

Nonprofit work sites included museums and community action agencies.

- In **Chicago,** for example, the Museum of Science and Industry enrolled youth as peer educators who facilitated children's science activities at various sites across the city, such as at libraries and schools.

**Role of Academic and Occupational Skills Training**

Some youth also received academic and occupational skills training as part of their summer activities. Academic training linked summer employment and academic learning for out-of-school youth and in-school youth. For example:

- **Philadelphia:** All youth participants in Philadelphia were required to complete an academic project that would be evaluated by certified teachers and eligible for academic credit.
- **Oneida County, New York:** Out-of-school youth were allowed to enroll in a General Education Diploma training course for 3 hours a day outside of their work hours and get paid for 2 of the 3 hours.

Occupational training provided youth with exposure to various career fields. For example:

- **Hillsborough County, Florida:** Youth ages 17 to 19 participated in a 4-week Employment and Leadership Exploration program. The instruction covered business ethics and business simulation models. The youth worked in teams and applied the skills learned to create a simulated online magazine of their choice. Participants also completed a skills assessment and participated in one on-site visit to an employer.
- **Atlanta, Georgia:** About 100 youth participated in a summer learning program where they attended classes and workshops to study drama, video production, and other visual arts. These youth worked with industry professionals in these areas and were expected to complete a project related to their area of study. For example, the youth in the drama program were responsible for developing and producing a play that was held at the end of the summer program. They also attended occupational workshops and participated in basic life and career skills training.
- **Columbus, Ohio:** Over 200 youth ages 14 to 17 participated in an information technology program aimed at developing computer skills, exploring career pathways, and accessing college and financial aid information.

## Local Areas Used Different Methods to Distribute Youth Payroll

The local areas we visited used different approaches to pay their youth—direct deposit, prepaid debit cards, or paper checks. For example, in both Columbus and Dayton, Ohio, youth received their pay through direct deposit into a bank account established for the youth at the beginning of the program. Some youth in Broward County, Florida, also received their pay by way of direct deposit or prepaid debit card. Some local areas, however, distributed paper checks.

The paycheck distribution process in one local area did not go smoothly—Detroit youth encountered multiple challenges in getting their paychecks. We observed payroll distribution on three occasions. Initially, the payroll distribution site had long lines, and the process for obtaining the checks was unclear. According to the summer work activities contractor, many youth did not know where to go to get their paychecks or with whom to speak to resolve issues. In subsequent observations, we saw that some problems persisted. For example, we observed youth waiting in lines for up to 4 hours while standing in the rain to receive their paychecks. Local area officials confirmed that wait times were, on average, 3 to 4 hours. Further, on several occasions, local police were called to assist with crowd control. At the time of our site visit, officials told us they were working to correct these problems.

## Local Areas Continued to Face Challenges in Implementing Their Recovery Act-Funded WIA Summer Youth Employment Activities

Local area officials continued to report challenges in some areas as they implemented their summer youth activities. In July, we reported that state and local areas faced challenges in three areas: tight time frames, a lack of staff capacity to meet the expanded needs, and difficulty in determining and documenting youth eligibility. In our current review, we continued to find challenges in determining and documenting youth eligibility. In addition, we found that some local areas faced initial challenges in recruiting sufficient numbers of youths.

### Determining and Documenting Youth Eligibility

As the summer activities got under way, officials still found it challenging to determine youth applicants' eligibility.[60] In seven states, officials mentioned that it was challenging for youth and their parents to provide the proper eligibility documentation in a timely manner. These local officials often said that youth had to come back to the office multiple

[60]To be eligible for services under the WIA Youth Program, an individual must be between the ages of 14 and 21 (24 for services funded by the Recovery Act), be a low-income individual, and have at least one of the following listed barriers: Be (1) deficient in basic literacy skills; (2) a school dropout; (3) homeless, a runaway, or a foster child; (4) pregnant or parenting; (5) an offender; or (6) an individual (including a youth with a disability) who requires additional assistance to complete an educational program, or to secure and hold employment.

times to provide the documentation needed to be eligible to participate.[61] Officials also mentioned that it was especially challenging to determine the eligibility of older youth (18 to 24 years old). Based on their experiences, officials in one local area said that older youth who are not employed or in school often do not have documentation to prove their eligibility for the program, such as a birth certificate or Social Security card, or proof of household income or citizenship. Two states reported they had identified issues with verifying eligibility during their monitoring efforts and in each case took corrective action. Illinois officials found some local areas were not always correctly verifying participants' eligibility, and in California, officials found missing documentation in some participants' case files. Labor is aware of the issues related to eligibility and is conducting an ongoing evaluation of the WIA youth program that includes a focus on the eligibility determination process. Labor contracted with Mathematica Policy Research Inc. to perform this evaluation. The evaluation included site visits to 20 local areas between mid-July and early August 2009. An interim report is due in January 2010 and a final report in 2011.

**Recruiting Youth**

Across the local areas we visited, some officials reported that they initially found it challenging to recruit sufficient numbers of eligible older youth. Local area officials addressed this challenge in several ways. Many local areas used various forms of advertisement—radio, television, and flyers—to inform youth about the summer programs. Some local areas also used a rolling admissions process, so that youth could have more time to apply for the program. A few local areas raised the hourly wage they offered to youth, which attracted many additional applicants. For example, when Broward County, Florida, officials increased the wage from $7.21 to $9 per hour, they received more than 3,000 applications. But the county was forced to reduce the number of participants from 900 to 724 to compensate for the increased wages. Officials in Columbus, Ohio, also reported a similar experience when they increased their wages. Moreover, wages in a local area in Georgia were set up to $14 an hour in some cases

[61] All 10 states reported having statewide requirements for documenting eligibility for the WIA Youth Program. Acceptable forms of eligibility documentation vary depending on the data element. Examples include public assistance identification cards to support total household income, birth certificates for proof of citizenship, and applicant statements to document those items, which, in some cases, are not verifiable or which may cause undue hardship for individuals to obtain, such as residency for homeless individuals not residing in a shelter or income for individuals who claim little to no income.

to bring them on par with unsubsidized employees at the work site who had the same job description.

### Limited Guidance from Labor Contributed to Mixed Local Efforts in Developing Green Work Experiences

Although Labor encouraged states to develop work experiences in green jobs and provided some guidance, officials in several states told us they were not always clear what constituted a green job or how to incorporate it into the summer program. Labor provided some discussion of green jobs in its March 18, 2009, guidance to states on Recovery Act funds. The guidance highlights areas within the energy efficiency and renewable energy industries that will receive large Recovery Act investments, such as energy-efficient home retrofitting and biofuel development, and also provides examples of occupations that could be impacted by green technologies, including power plant operators, roofers, and construction managers. Labor officials told us that their reporting requirements for Recovery Act funds do not require states to provide information on green jobs.

Officials in several of the states we reviewed told us that the lack of clarity in the definition of a green job made it difficult to incorporate green jobs into the summer activities. Some local areas decided not to include green jobs in their summer program at all, while others took steps to define and identify green jobs. However, their definitions varied. For example, local area definitions of green jobs included the following:

- jobs that improved the health of the planet,
- jobs that help with conservation, recycling, or preserving our environment, and
- jobs that build awareness and understanding of the natural environment and encourage careers in environmental sciences and industry.

The methods for defining green jobs also varied. For example, some local areas identified the jobs by allowing employers to self-report whether their jobs were green. Georgia provided its local areas with guidance on how to define green jobs, including summarizing Labor's guidance and listing examples of green jobs. In Michigan, officials in Detroit told us they had developed a task force to define and identify green jobs and planned to place 600 youth in green jobs. In Lansing, Michigan, officials reported they had difficulty identifying significant numbers of green jobs suitable for youths, although they created some green jobs for youths in the Lansing

Board of Water and Light and the School of Agriculture at Michigan State University.

We also found a wide variation in youths' experiences in jobs that were classified as green. In some cases, youth were working toward green educational or career pathways. For example:

- In **Harrisburg, Pennsylvania**, a work site included tours of recycling facilities, discussed how to make homes more energy efficient, and exposed youth to "green" careers, such as electricity consumption auditors.
- Participants at a **Philadelphia** work site tested the permeability of soil samples that were provided to them from the site of a major oil spill in Alaska.
- In **Georgia**, one workforce board worked with a local technical college to develop a 4-week water management camp for youth. This camp combined work experience and classroom activities in bioscience and environmental science to help youth develop marketable skills applicable to the water quality management industry.
- In **Savannah, Georgia**, a nonprofit organization developed a computer recycling program for at-risk youth to learn how to refurbish computers that would have ended up in land fills.

However, in other cases, it is unclear whether youth working in jobs the local area classified as green were actually working toward "green" educational or career pathways. For example:

- In **Columbus, Ohio**, two youth were assigned to an automotive research facility whose projects include researching and designing alternative fuel vehicles. Although they were exposed to green technology, their actual tasks involved clearing brush and painting a fence.
- In **Georgia**, an organic food company was considered a green employer, however, at least one of the youth was performing clerical duties.
- In **Burke County, Georgia**, some youth were working at the forestry commission performing clerical and office work.

Labor officials told us they are aware of the difficulties and confusion that some states and local areas have experienced with respect to providing youth with green work experiences. Labor officials said they expect that their Recovery Act Competitive Grants for Green Jobs Training Initiative will generate substantial information on best practices for training workers for green jobs. Through this initiative, Labor plans to award green training funds for projects that prepare workers for careers in energy efficiency and renewable energy sectors as described in the Green Jobs Act of 2007. Labor officials added that Labor's ongoing evaluation of the WIA Youth Program should shed further light on state and local areas' experiences in developing green jobs for youth.

### States' Monitoring Efforts Built on Existing Structures but Required Additional Resources

The 10 states we reviewed generally reported that they are relying on existing WIA monitoring structures to oversee the use of Recovery Act funds for WIA summer youth activities. State-level monitoring of WIA summer youth programs varied by state, but nearly all state monitoring included financial auditing, site visits, and file reviews, and some also included interviews with work site supervisors and/or program participants. A number of states targeted their monitoring efforts using risk-based approaches. For example, California reported using assessments to focus monitoring on work sites considered high risk, based on factors such as geographic location, type of work being conducted, and the age of the participants. Some states, such as Georgia, have taken a multistage approach to monitoring, with the first stage involving preprogram assessment and a second stage involving program review and financial auditing.

To conduct their monitoring efforts, states and local areas have often found it necessary to add staff in order to meet the steep demands of monitoring the expanded summer youth activities. For example, officials in Oneida County, New York, reported that they temporarily hired 4 employees to manage their summer youth monitoring efforts. In some cases, efforts to bring on new staff fell short. In Detroit, Michigan, for example, where all summer youth employment activities were contracted to an outside organization, city and contractor officials reported that they initially planned to hire 50 work site monitors, but as of September 9, 2009, had 21 work site monitors on staff. Similarly, Michigan state officials' plan to hire additional staff had not yet materialized at the time of our visit because they had been unable to obtain permission to do so. As of mid-August, Michigan had not conducted any oversight reviews of the WIA summer youth employment activities.

## Labor Has Taken a Wide Range of Actions to Support Implementation of Summer Employment Activities for Youth

Labor has provided support for state and local efforts through actions such as issuing guidance, monitoring implementation, providing technical assistance, and conducting a program evaluation. For example, Labor announced its initial plans for implementing Recovery Act programs on March 4, 2009, about 2 weeks after the act was passed. From March to May 2009, Labor announced states' allotments, as well as issued comprehensive implementation guidance and guidance on performance reporting. Its guidance on recipient reporting was issued in August 2009.

In the spring of 2009, as states were planning their summer youth employmeut activities, Labor administered a checklist to gauge each state's readiness for implementing these activities and to help officials target technical assistance. The checklist covered a broad range of topics, including the states' plans for training staff and for monitoring summer youth employment activities. In addition, Labor held conferences in each of its regions to provide a forum for discussing experiences and issues in implementing Recovery Act-funded programs, including WIA summer youth activities.

Starting at the end of June, Labor's regional offices began conducting local site visits in each of their states to monitor and gather information on WIA Youth Program experiences. Labor has also hired a contractor to provide technical assistance to states and local areas. According to Labor officials, the contractor will be holding technical assistance conferences in late fall 2009 to discuss serving older out-of-school youth and green jobs in preparation for implementing services with the remaining Recovery Act funds. Further, as mentioned, Labor has contracted with Mathematica to conduct an evaluation of the WIA Youth Program to better understand the issues and challenges.

## Broad Flexibility for States and Localities to Measure Gains in Work Readiness of Youth May Limit Usefulness of Data

While many program officials, employers, and participants we spoke with believe the summer youth activities have been successful, measuring actual outcomes has proven challenging and may reveal little about what the summer activities achieved. The Recovery Act requires that only the work readiness measure be used to assess the effects of the summer-only youth employment activities. This measure is defined as the percentage of participants in summer employment who attain a work readiness skill goal. Under Labor's guidelines, states and local areas are permitted to determine the specific assessment tools and the methodology they use to determine improvements in work readiness, but it must be measured at the beginning and completion of the summer experience. In implementing the requirements of the Recovery Act, Labor officials told us they had little time to develop a standardized approach. Moreover, because some local areas already had work readiness assessments in place, Labor officials were concerned that requiring a new approach would place additional stress on a workforce system already stretched thin.

In our review of the 10 states, we found that the methodologies used to measure work readiness varied widely, calling into question the comparability and the usefulness of the indicator when rolled up at the national level. Of the 10 states, only Illinois established a single approach to be used statewide in measuring work readiness gains. The approaches used in the other 9 states varied from local area to local area and sometimes from contractor to contractor. For example, in Philadelphia, all work sites administered the same work readiness assessment tool—one that focuses on skills such as oral and written communication, leadership, and teamwork. But in Pennsylvania's South Central workforce area, the decision about how to conduct the pre- and post-assessment was left to the individual contractors. In Columbus, Ohio, officials were using a comprehensive work readiness assessment tool that included questions in such dimensions as collaboration in the workplace, problem solving, and characteristics of good leadership. In addition, youth were required to do an extensive self-evaluation in these and other dimensions. Dayton, Ohio, youth, on the other hand, were given a 20-question true-false survey that included questions such as "I understand the importance of demonstrating a positive attitude in the workplace." The North Central Texas Workforce Board's methodology for identifying work readiness included a variety of components in addition to a pre- and post-assessment administered at the beginning of the work experience activity during the work readiness class. For example, youth were also required to participate in a mock interview with an employer, and obtain a positive evaluation from their supervisor.

Labor officials told us that they are aware of the range of work readiness tools being used and the issues with measuring work readiness and that they view this as an area that could be improved. As part of Mathematica's evaluation of the summer youth activities, Labor has asked researchers to focus on gathering lessons learned related to measuring work readiness.

## Other Efforts May Shed Additional Light on Program Outcomes and Characteristics

Seven of our 10 states reported they plan to track long-term outcomes, such as job placement and employment retention, for at least some of the youth they served this summer, largely through the tracking systems they use for the WIA year-round program. For example, Pennsylvania plans to study the outcomes and employment activities of the older youth (22 to 24 years old). Officials also plan to review placements offered to all participants in the summer program to determine whether certain placements—for example, private sector versus public sector work sites—

provided better employment activities than others. Pennsylvania officials also said they plan to develop and use an evaluation tool to help officials identify best practices in their summer youth employment activities. These best practices will be highlighted at an annual forum of Pennsylvania's local workforce officials and stakeholders.

Beyond these evaluation efforts, states must meet additional reporting requirements under the Recovery Act that may help policymakers at all levels gauge the impact of the summer employment activities.

- Recipients of Recovery Act funding are required to submit detailed information on the use of the funds every quarter, beginning with the quarter ending September 30, 2009, including information on jobs created and retained. According to Labor's August 14, 2009, guidance, Recovery Act-funded employment and training programs are not intended to have a significant job creation component. The guidance specified that recipients should only report job creation/retention numbers for those individuals who are hired or retained to execute program activities, and whose salaries are paid with Recovery Act funds. However, on September 21, 2009, Labor issued additional guidance that clarified the reporting requirements associated with the summer youth employment activities. Labor stated that, consistent with OMB guidance, summer youth employment activities and employment activities occurring outside the summer months funded with the Recovery Act WIA Youth funds are to be included in the job creation estimates.[62]
- To gauge the progress states and local areas are making in implementing Recovery Act-funded activities, Labor has instituted new monthly reporting requirements and is posting information from these reports on its Web site. In the new report, states must provide aggregate counts of all Recovery Act youth participants, including the characteristics of participants, the number of participants in summer employment, services received, attainment of a work readiness skill, and completion of summer youth employment.

[62]The job creation estimates are to include all paid work opportunities funded with the Recovery Act WIA Youth funds and are not to include academic opportunities, according to Labor's guidance.

## Agency-Specific Guidance on Green Jobs and Training Outcomes for Youth Employment

State and local officials charged with implementing the WIA summer youth employment activities reported difficulties in responding to the Recovery Act's focus on green industries without a clear standard for what constitutes a green job. Despite a significant increase in funding under the Recovery Act, flexibilities given to states and local areas in how they measure work readiness—the sole indicator to gauge the effect of the summer work activities—provide little understanding of what the program actually achieved. U.S. Department of Labor officials acknowledge that these are areas for improvement and cite their competitive grants for green job training and ongoing evaluation of the summer youth employment activities as important steps.

## Recommendations

We recommend that the Secretary of Labor take the following two actions:

- 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.
- To enhance the usefulness of data on work readiness outcomes, provide additional guidance on how to measure work readiness of youth, with a goal of improving the comparability and rigor of the measure.

## Agency Comments

We provided Labor a draft of this report section for review. The department provided written comments, which are reprinted in appendix II. Labor agreed with our recommendations to provide additional guidance in two areas: defining green jobs and measuring work readiness. With regard to green jobs, Labor indicated that it recognizes the need to provide assistance to states and local areas to help them prepare youth for careers in green industries, and it highlighted several steps it is taking to better understand and define green jobs. First, it noted that its Bureau of Labor Statistics is developing a definition for green sectors and green jobs that officials hope will inform state and local workforce development efforts to identify and target green jobs and their training needs. Labor also noted that it is planning to hold technical assistance forums in late 2009 that will focus on ways to prepare youth for careers in green industries, and it cited its plans to leverage the results of the Recovery Act-funded competitive grants for green job training to provide insights on delivering services to youth, and others, along green career pathways.

Regarding our recommendation on the work readiness measure for WIA youth summer employment activities, Labor acknowledged that the lack of comparability in the way work readiness gains were measured has led to a less meaningful outcome measure at the state and national level. Labor indicated that it is currently assessing the methodologies used this summer to measure work readiness and plans to further refine the work readiness indicator and determine a more effective way to measure it. In the event that a significant number of local areas have Recovery Act funds available for summer employment in 2010, or if Labor receives funds for future summer employment activities where the work readiness measure is used to gauge effectiveness, Labor indicated that it will issue further guidance that provides for reporting of more consistent and meaningful data.

In addition, Labor commented that it considers the work readiness measure meaningful at the local level and suggested that we qualify our findings to acknowledge this point. In our view, the work readiness measure may be meaningful at the local level to the extent that a local area uses appropriate and consistent measures across worksites. However, it is unclear the extent to which this is occurring. Our work identified instances in which a local area was using measures that varied by contractor. Thus, we did not revise our findings. Labor also provided technical comments, which we incorporated as appropriate.

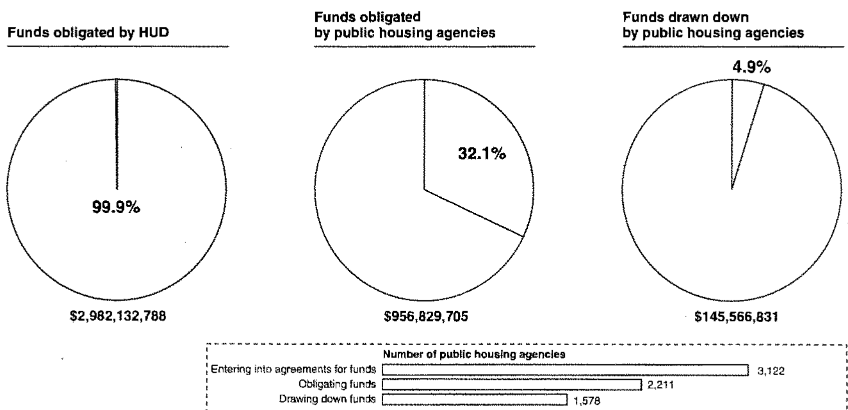
## A Growing Number of Housing Agencies Are Obligating and Beginning to Draw Down Recovery Act Formula Funds

The Recovery Act requires the U.S. Department of Housing and Urban Development (HUD) to allocate $3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. As we noted in our July report, HUD allocated Capital Fund formula dollars to public housing agencies shortly after passage of the Recovery Act and, after entering into agreements with more than 3,100 public housing agencies, obligated these funds to public housing agencies on March 18, 2009.[63] As of September 5, 2009, 2,211 public housing agencies (71 percent of the housing agencies that entered into agreements with HUD for Recovery Act funds) had reported to HUD that they had obligated a total of $957 million, or about 32 percent of the total Capital Fund formula funds HUD allocated to them.

[63]HUD allocated Capital Fund formula dollars from the Recovery Act to 3,134 public housing agencies, but as of September 5, 2009, 12 housing agencies chose not to accept Recovery Act funding, no longer had eligible public housing projects that could utilize the funds, or had not yet entered into an agreement with HUD for the funds. As a result, these funds were not obligated by HUD. HUD officials subsequently stated that one additional housing agency had rejected funds totaling $151,174.

According to HUD officials, housing agencies report obligations when they have entered into binding commitments to undertake specific projects. A majority of housing agencies that had obligated funds—1,578 of 2,211 housing agencies—had also drawn down funds in order to pay for project expenses already incurred. In total, public housing agencies had drawn down almost $146 million, or just less than 5 percent of the total HUD allocated to them. Funds drawn down increased by $114 million from the level reported as of June 20, 2009.

**Figure 7: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down Nationwide, as of September 5, 2009**



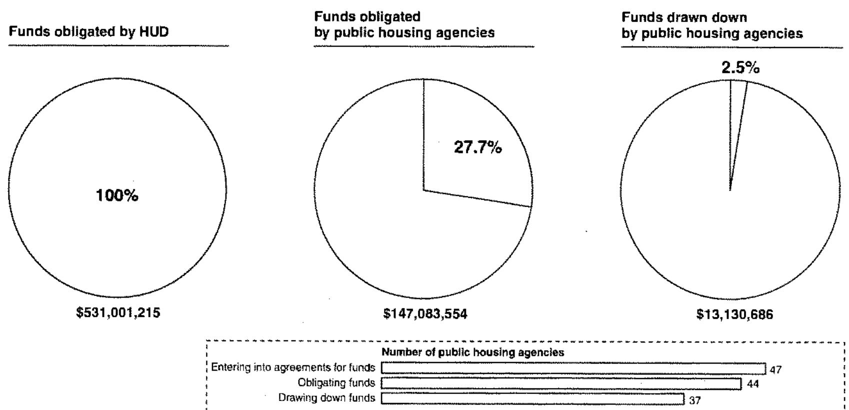

Source: GAO analysis of HUD data.

Note: The 3,122 housing agencies to which HUD obligated funds includes one housing agency that HUD officials subsequently stated had rejected funds totaling $151,174.

The number of housing agencies that had reported any obligations grew by 728 since our July 2009 report. The new obligations by housing agencies that had not previously reported obligations totaled about $178 million. In addition, 710 housing agencies that had previously reported obligations increased the amount they had obligated since our July 2009 report by $322 million. Of note, 744 housing agencies had obligated 100 percent of their funds as of September 5, 2009, placing them well ahead of the Recovery Act's 12-month deadline for public housing agencies to obligate all of their grant funds. The remaining 2,378 housing agencies—including 911 housing agencies that had obligated no funds as of September 5, 2009—have until March 17, 2010, to obligate 100 percent of their funds. HUD will recapture any funds not obligated at that time.

Of the 47 housing agencies we selected for in-depth review throughout our Recovery Act work, 44 had obligated funds totaling $147 million, or about 28 percent of the total Capital Fund formula funds HUD had allocated to them. Obligations increased by about $81 million from the level we reported in July and included obligations by 14 housing agencies that had not previously reported any obligations. A majority of housing agencies that had obligated funds—37 of 44 housing agencies—had also drawn down funds. In total, these housing agencies had drawn down $13.1 million, or about 2.5 percent of the total allocated to them by HUD—an increase of about $10.5 million from the level we reported in July 2009.

**Figure 8: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down by 47 Public Housing Agencies Visited by GAO, as of September 5, 2009**




Source: GAO analysis of HUD data.

HUD officials stated that obligations were being reported at a somewhat slower pace than what they had expected. They cited the "Buy American" provision of the Recovery Act[64] —specifically, the time it took to get clear guidance on how that provision applied to housing agencies—as one factor that may have slowed housing agencies down in obligating Recovery Act funds. According to HUD guidance issued August 21, 2009, unless the size of the Recovery Act grant or the size of a contract funded by the grant is less than $100,000, projects funded with Recovery Act grant funds are subject to this provision, provided no other exceptions are granted. In some cases, HUD officials had heard from public housing agencies that this provision had forced housing agencies to find new vendors and contractors. In other cases, public housing agencies were taking more time to make sure they were in compliance with this and other procurement requirements, given the extra level of scrutiny being given to Recovery Act projects.[65] As we reported previously, public housing agencies we visited had a mixed assessment of the impact of this provision on their ability to obligate funds quickly.

[64]Section 1605(a) of Title XVI of the Recovery Act (Pub. L. 111-5) states, "None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States."

[65]The Secretary of Housing and Urban Development exercised authority granted by the Recovery Act to direct that requirements relating to the procurement of goods and services arising under state and local laws and regulations shall not apply to amounts made available for Capital Fund formula grants. Additional guidance from HUD stated that public housing agencies must follow procurement requirements found in 24 CFR Part 85 and shall amend their procurement policies to remove any requirements that are contrary to these regulations.

## Housing Agencies Receiving Smaller Recovery Act Grants Are Obligating and Drawing Down Funds Faster Than Housing Agencies Receiving Larger Grants

Several factors could explain differences in rates of obligating and drawing down funds among housing agencies, including the size of the grant received, the types of projects being undertaken, or additional monitoring by HUD. We found that housing agencies that received Recovery Act formula grants of less than $100,000 had obligated and drawn down funds at a faster rate than housing agencies that received grants of more than $500,000.[66] We analyzed the rates at which housing agencies had obligated and drawn down funds, grouping housing agencies by the size of the Recovery Act formula grant they had received and calculating the average percentage of funds obligated and drawn down for each group. For housing agencies with smaller grants—that is, less than $100,000—the average percentage of Recovery Act funds obligated was about 48 percent, while for housing agencies with larger grants—that is, more than $500,000—the average percentage of Recovery Act funds obligated was 35 percent (see table 13). Similarly, the average percentage of Recovery Act funds drawn down was 24 percent for housing agencies with smaller grants, compared with 7 percent for housing agencies with larger grants.

**Table 13: Comparison of the Average Percentage of Funds Obligated and Drawn Down among Housing Agencies Grouped by Size of Recovery Act Grant, as of September 5, 2009**

| | Amount of Recovery Act Grant | | | |
|---|---|---|---|---|
| | Less than $100,000 | $100,000 to $500,000 | More than $500,000 | Total |
| Number of housing agencies | 924 | 1398 | 800 | **3,122** |
| Portion of total Recovery Act formula grant funds | 2% | 11% | 87% | **100%** |
| Average percentage of funds obligated | 47.9% | 43.4% | 35.1% | **42.6%** |
| Average percentage of funds drawn down | 24.5% | 15.3% | 7.1% | **15.9%** |

Source: GAO analysis of HUD data.

One reason housing agencies that received smaller grants may be obligating and drawing down funds at a faster rate is that they more often operate under simplified and less formal procurement guidelines, known

[66] We selected these amounts as thresholds for comparing groups of housing agencies because they were more and less than the median grant amount ($192,198). Under 24 CFR Part 85, the "simplified acquisition threshold" is $100,000. We compared various thresholds greater than the median and determined that $500,000—which is the minimum amount of federal funds expended by nonfederal entities to be subject to Single Audits—was an appropriate threshold, in part because the number of housing agencies with grants of more than $500,000 is similar to the number of housing agencies with grants of less than $100,000.

as small purchase procedures, for contracts under the simplified acquisition threshold of $100,000 established by federal regulations. These conditions allow them to enter into contracts with fewer procurement restrictions relative to the restrictions facing housing agencies receiving larger grants, which may be more likely to enter into contracts of more than $100,000 given the resources they have available to them. HUD officials concurred that the difference in the rates of obligating and drawing down funds may be related to these procurement regulations. In the future, agencies receiving smaller grants also may benefit from an exception to the "Buy American" provision of the Recovery Act. That is, HUD guidance specifies that where the size of the Capital Fund formula grant is less than $100,000, the "Buy American" requirement does not apply.

As we reported in July 2009, many of the projects already under way at the housing agencies we visited are small and narrowly focused. Based on our review of housing agency plans and our prior interviews with selected public housing agency officials, we also found that housing agencies that received smaller grants are using Recovery Act funds on a limited number of these types of projects—some that simply involve exchanging old equipment or appliances for new—rather than undertaking complex architectural, engineering, or redesign work on building structures. HUD officials also told us that housing agencies that received smaller grants tend to have fewer people involved in making decisions about projects in order to begin projects and tend to focus on smaller projects. For example, Evansdale Municipal Housing Authority in Iowa planned to use its $77,364 grant on five projects: installing new ceiling lights, replacing carpet and vinyl flooring in several units, reroofing storage sheds and eight duplexes, and replacing hot water heaters. As of September 5, 2009, Evansdale Municipal Housing Authority had obligated 100 percent of its grant funds and drawn down about 60 percent. Similarly, Holyoke Housing Authority in Colorado planned to use its $59,934 grant on four projects: replacing an underground sprinkler system, patio fences, patio doors, and a sewer line camera. As of September 5, 2009, Holyoke Housing Authority had obligated and drawn down 54 percent of its Recovery Act grant funds.

In contrast, the plans of and interviews with selected housing agencies that received larger Recovery Act grants indicate that they are using Recovery Act funds on either a larger number of projects (of various sizes or scopes) or on projects with a broader scope, some of which may involve architectural, engineering, or redesign work on building structures that may be more complex than other projects. HUD officials told us that HUD field office staff automatically review any housing agency's plan that includes funds for development activities—such as constructing new buildings—in order to make sure the plans are sound. This process requires the housing agency to obtain additional approvals. As a result, it can take additional time and may contribute to housing agencies obligating funds at a slower rate. In addition, unless a contract is less than $100,000 or an exception is granted, these projects are subject to the "Buy American" requirement noted previously. As we reported in July, these larger projects generally had not yet begun or were only just beginning, and as a result, very little funding had been obligated or drawn down. For example, the Philadelphia Housing Authority planned to use its $90.6 million grant on six broad projects, including rehabilitating 300 units at scattered sites for $29.5 million, performing mechanical and elevator upgrades at 31 sites for $21 million, and reconfiguring a midrise building from 71 units to at least 53 units for $14.6 million. As of September 5, 2009, the Philadelphia Housing Authority had obligated 32 percent of its Recovery Act grant funds but had drawn down about 2 percent of its funds. Similarly, the Buffalo Municipal Housing Authority planned to use its $14.5 million grant on 42 projects at various sites. As of September 5, 2009, the Buffalo Municipal Housing Authority had obligated about 1 percent of its funds and had drawn down less than 1 percent of its Recovery Act grant funds. Some large housing agencies that received large Recovery Act grants did not undertake a large number of projects or projects with a broader scope. For example, the City of Des Moines Municipal Housing Authority added its $1,455,108 Recovery Act grant to other funds to complete a single project. As of September 5, 2009, it had obligated 100 percent of its Recovery Act funds, although it had not yet drawn down any funds.

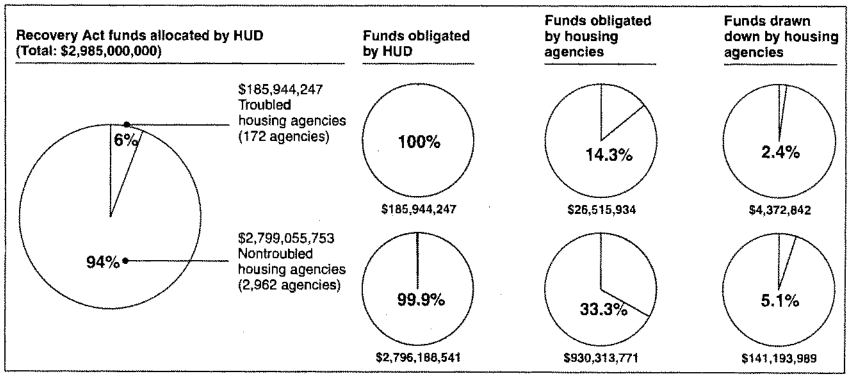
## HUD Continues to Monitor Troubled Housing Agencies' Use of Recovery Act Funds

As we reported in July 2009, HUD has identified 172 housing agencies that it has designated as troubled under its Public Housing Assessment System (PHAS[67]). Of these 172 troubled housing agencies, 106 (61.6 percent) were considered by HUD to be low-risk troubled, 53 (30.8 percent) were considered medium-risk troubled, and the remaining 13 (7.6 percent) were considered high-risk troubled. As of September 5, 2009, these troubled

[67]HUD developed PHAS to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of the housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

housing agencies accounted for 6 percent of all Recovery Act funds provided by HUD, and they continue to obligate and draw down Recovery Act funds at a slower rate than nontroubled housing agencies (see fig. 9).

**Figure 9: Comparison of Troubled Housing Agencies and Nontroubled Housing Agencies' Obligation and Drawdown Rates**




Source: GAO analysis of HUD data.

Note: As of September 5, 2009, 12 of the 2,962 nontroubled housing agencies had not entered into agreements with HUD for Recovery Act funds, and therefore HUD did not obligate funds to them. HUD officials subsequently stated that one additional housing agency had rejected funds totaling $151,174.

One reason for these slower obligation and draw down rates is the additional monitoring that HUD is implementing for housing agencies that are designated as troubled performers under PHAS. For example, according to HUD officials, all 172 troubled public housing agencies—regardless of risk category—have been placed on a "zero threshold" status, which means HUD has not allowed them to draw down Recovery Act funds without HUD field office approval.[68] HUD officials stated to us that

[68]The Recovery Act provided HUD with the authority to decide whether to provide troubled housing agencies with Recovery Act funds. Although HUD determined that troubled housing agencies have a need for Recovery Act funding, it acknowledged that troubled housing agencies would require increased monitoring and oversight in order to meet Recovery Act requirements.

the ability to place housing agencies on "zero threshold" has always been available and had been used for housing agencies that have had problems obligating and expending their Capital Fund grants appropriately prior to the Recovery Act. However, HUD has implemented more extensive monitoring for all troubled housing agencies, including requiring that HUD field office staff review all award documents (i.e., solicitations, contracts, or board resolutions, where applicable) prior to actual obligation of Recovery Act funds.

In addition to reviewing supporting documentation prior to approval of all obligations and drawdowns, HUD's strategy for monitoring troubled housing agencies has included conducting on-site and remote reviews of troubled housing agencies. Specifically, HUD officials stated to us that they have completed on-site and remote reviews of all 13 of the high-risk troubled housing agencies and have completed remote reviews for all of the medium- and low-risk troubled housing agencies. HUD officials stated that they are in the process of completing on-site reviews for the medium-risk troubled housing agencies and the low-risk troubled housing agencies by September 30, 2009 and December 31, 2009 respectively. On-site reviews are conducted on the premises of housing agencies by teams comprised of staff from the Office of Field Operations, both at headquarters and field offices. While on site at housing agency premises, these teams are to conduct various activities including following up on outstanding items from the remote review. In addition, on-site reviews are to assess whether the housing agency is appropriately and effectively administering their Recovery Act Capital Fund grant. On-site reviews are also to include identification of any new open audit findings since the prior review, as well as follow up on annual statement revisions and environmental reviews.

Remote reviews of troubled housing agencies are not conducted on housing agency premises. According to HUD officials, these reviews focus on grant initiation activities, the annual statement, environmental compliance, procurement, and Recovery Act grant performance. Also during on-site reviews, HUD staff are to consider open audit findings related to Capital Fund grants. In reviewing procurement activities, HUD staff are to determine if troubled housing agency procurement procedures ensure compliance with the Recovery Act's "Buy American" provisions. HUD officials stated they are reviewing the results of on-site and remote reviews for consistency before presenting final reports but that field office teams inform housing agencies of any identified deficiencies as a result of the reviews.

## HUD Is Developing a Strategy for Monitoring Nontroubled Housing Agencies

Building on its efforts to more closely monitor the use of Recovery Act funds by troubled housing agencies, HUD is developing a strategy for monitoring nontroubled housing agencies which HUD stated will be effective by October 1, 2009. HUD officials stated that under its draft strategy, they have identified 2,950 nontroubled housing agencies and have separated them into two groups for the purposes of monitoring and oversight: high risk and low risk.[69] The high-risk group is composed of the 332 housing agencies that have been identified as the highest risk based in part on the amount of their Recovery Act funding. The low-risk group consists of the remaining 2,618 nontroubled housing agencies. HUD's draft strategy calls for remote reviews to be completed by January 15, 2010, on all nontroubled housing agencies in both the high- and low-risk groups. In addition, HUD's draft strategy calls for on-site reviews for a sample of nontroubled housing agencies from each of the two risk groups, with the objective of reaching those at greatest risk and ensuring coverage of grantees constituting the greatest amount of formula grant dollars. Under the draft strategy, HUD plans to use Office of Field Operations (OFO) headquarters and field office staff to conduct the reviews. HUD plans to have the remote reviews focus on four main components: grant initiation, environmental compliance, procurement, and grant administration. On-site reviews of a sample of housing agencies will focus on the same four components of the remote reviews and will also include a review of the contract administration of the procurements related to the use of Recovery Act funds. While HUD has not finalized its procedures of on-site and remote reviews of nontroubled housing agencies officials stated that they expect the procedures to be very similar to those for troubled housing agency's remote and on-site reviews.

HUD's draft strategy calls for on-site reviews for a sample of the high-risk nontroubled housing agencies to be completed by February 15, 2010. HUD plans to identify this sample as follows:

[69]The total number of nontroubled housing agencies to be monitored by HUD excludes 12 housing agencies that chose not to accept Recovery Act funding, no longer had eligible public housing projects that could utilize the funds, or had not yet entered into an agreement with HUD for the funds as of September 5, 2009. HUD officials subsequently stated that one additional housing agency had rejected funds, which would bring the total number of nontroubled housing agencies to be monitored to 2,949, of which 2,617 would be low risk.

- housing agencies that represent the top 100 housing agencies in the high-risk group based on the amount of Recovery Act funding received,
- housing agencies that have more than 500 public housing units and are within a 50-mile radius of the field office, and
- housing agencies identified by the field office as having one or more risk factors that warrant an on-site review.

For the remaining 2,618 housing agencies in the low-risk group, HUD's draft strategy calls for on-site reviews for a sample to be completed by February 15, 2010. HUD plans to identify this sample of housing agencies for on-site reviews as follows:

- housing agencies that have more than 500 public housing units and are within a 50-mile radius of the field office, and
- housing agencies identified by the field office as having one or more risk factors that warrant an on-site review.

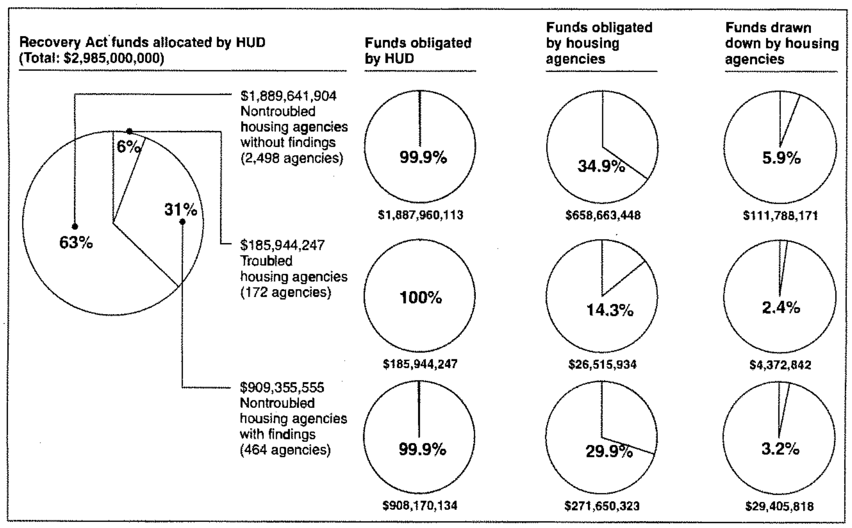
HUD officials stated that one of the risk factors, among others, that field offices may consider in selecting additional nontroubled housing agencies for on-site reviews (in both the high- and low-risk categories) is the status of open Single Audit findings that are related to the Capital Fund program. However, HUD stated that the strategy will not require that field offices target and expedite on-site reviews of housing agencies that have open findings that could affect their use of Recovery Act funds. Open audit findings may indicate housing agencies that have greater risk of misusing Recovery Act funds. Single Audits provide federal agencies with information on the use of federal funds, internal control deficiencies, and compliance with federal program requirements. HUD began tracking the status of Single Audit findings through a centralized system in 2007 and has tracked whether findings have been appropriately addressed and closed by the housing agency in this system since that time.[70] HUD's centralized system does not contain information on the status of audit findings reported prior to 2007. While HUD is working with housing agencies to ensure that appropriate action is taken to resolve and correct findings of deficiency that these audits have identified, many housing

[70] HUD's Monitoring and Planning System (MAPS) is used to track resolution of audit findings.

agencies that have received Recovery Act funds have open findings that appear unresolved in HUD's tracking system.

Housing agencies with recent Single Audit findings have received more than $900 million in Recovery Act funds. Specifically, 31 percent of all Recovery Act Capital Fund grants awarded to housing agencies have been provided to 464 nontroubled housing agencies that had at least one audit finding reported in 2007, 2008, or both. These housing agencies are obligating and drawing down Recovery Act funds at a faster rate than troubled housing agencies but at a slightly slower rate than nontroubled housing agencies that have not had Single Audit findings (see fig. 10).

Figure 10: Comparison of Obligation and Drawdown Rates for Nontroubled Agencies with No Audit Findings, Troubled Agencies, and Nontroubled Agencies with Audit Findings




Source: GAO analysis of HUD data.

An open finding may not necessarily affect the use of Recovery Act funds. HUD officials stated to us that its centralized system for tracking audit findings does not contain information that would allow it to definitively determine if an open finding could directly or indirectly affect Recovery Act funding. For example, HUD's centralized system for tracking findings does not contain budget codes that would identify the specific HUD funds, such as public housing Capital Funds, that the housing agency auditors determined were affected by the finding. Of the 464 nontroubled housing agencies that have had recent findings, we identified 155 that have unresolved deficiency findings identified by recent Single Audits, according to information from HUD's tracking system. These deficiencies were either material weaknesses or significant deficiencies.[71] A material weakness means there is a deficiency or combination of deficiencies in the housing agency's internal control such that there is a reasonable possibility that the housing agency will not prevent, detect, and correct material noncompliance. A significant deficiency is less severe than a material weakness, but it is required to be reported in housing agency Single Audits reporting package. According to HUD officials, after reviewing the status of these findings, HUD Office of Field Operations staff were able to identify 94 housing agencies where audit findings should have been shown as closed in HUD's tracking system, and an additional 13 housing agencies that had audit findings not related to the Capital Fund, leaving 48 housing agencies with open audit findings relevant to administration of the Capital Fund program. HUD's analysis of findings was limited to those housing agencies with findings reported in its tracking system and thus did not include findings that may have been reported prior to 2007. It is important that HUD continue to monitor housing agencies with open audit findings that may have a direct or indirect effect on the housing agencies' use and reporting on the use of Recovery Act funds. We recommended that HUD systematically evaluate the results of audits to identify and understand problems of inappropriate use and mismanagement of public housing funds, identify emerging issues, and evaluate overall monitoring and oversight processes.[72] Identifying and targeting housing agencies with open audit findings related to Recovery Act funds for enhanced monitoring, such as on-site reviews, could achieve this objective. Further, HUD's strategic goals for its public housing program call for the department to resolve issues identified by audits and improve its management of internal controls to, among other things, eliminate fraud, waste, and abuse.

HUD officials stated that they estimate their strategy as currently proposed would allow for on-site reviews at housing agencies that have received at least $2 billion, or two-thirds of the noncompetitive Capital Fund grants provided to housing agencies under the Recovery Act and that its goal was to conduct on-site reviews at those housing agencies with the greatest risk which it has identified as those with the largest amounts of Recovery Act dollars. According to HUD, 18 of the 48 housing agencies

[71]Sixteen of these housing agencies had both a material weakness and a significant deficiency. These were only counted once in the material weakness category.

[72]GAO, Public Housing: HUD's Oversight of Housing Agencies Should Focus More on Inappropriate Use of Program Funds, GAO-09-33 (Washington, D.C.: June 11, 2009).

with outstanding findings have received over $44 million dollars in Recovery Act funds and are already among the agencies targeted to receive on-site reviews, which were selected based on factors such as the size of their Recovery Act grant and the number of housing units they manage. The remaining 30 housing agencies with open findings received almost $11 million of the total Recovery Act funds; however HUD has not currently targeted these housing agencies for on-site reviews. HUD has taken important steps in developing its strategy for monitoring nontroubled housing agencies, including developing a risk-based approach, and reviewing open audit findings to determine whether they may affect the housing agencies' reporting on and use of Recovery Act funds. Expanding its criteria for selecting housing agencies for on-site reviews to include those with open audit findings related to the housing agencies administration of their Capital Fund Grant increases the potential for HUD to detect misuse of funds. This is particularly important for Recovery Act funds because of the accelerated obligation and draw down rates instituted by the Act.

**Recommendation:** To enhance HUD's ability to prevent, detect, and correct noncompliance with the use of Recovery Act funds, we recommend that the Secretary of the Department of Housing and Urban Development expand the criteria for selecting housing agencies for on-site reviews to include housing agencies with open Single Audit findings that may affect the use of and reporting on Recovery Act funds.

## HUD Has Begun to Review Applications for Capital Fund Recovery Competition Grants

HUD is required to award nearly $1 billion to public housing agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofit investments. In a Notice of Funding Availability (NOFA) published May 7, 2009, and revised June 3, 2009, HUD outlined four categories of funding for which public housing agencies could apply:

- creation of energy-efficient communities ($600 million);
- gap financing for projects that are stalled due to financing issues ($200 million);
- public housing transformation ($100 million); and
- improvements addressing the needs of the elderly or persons with disabilities ($95 million).

For the energy-efficient communities category, public housing agencies self-scored their applications—which were due July 21, 2009—according to criteria outlined in the NOFA.[73] The last three categories were threshold based, meaning applications that met all of the threshold requirements will be funded in order of receipt.[74] If funds were available after all applications meeting the thresholds had been funded, HUD could remove thresholds after August 1, 2009, in order to fund additional applications in the order of receipt until all funds have been awarded. Applications in these three categories were accepted until August 18, 2009. If funds remain in a category after all eligible applications have been funded, HUD also has the authority to transfer funds to another category. As of September 9, 2009, HUD officials told us they have not transferred funds between categories.

## Large Response to Capital Fund Recovery Competition Has Slowed HUD's Review Process

HUD has begun reviewing applications for all four funding categories of the Capital Fund Recovery Competition (CFRC) program, which has $995 million available to award. HUD officials told us that as of August 18, 2009, HUD received and is reviewing 1,759 applications.[75] HUD staff review applications in all four funding categories to check that required documents, such as signed antilobbying certifications, project narratives, proposed budgets, and expected timelines, are included in the package. For applications in the energy-efficient communities category only, HUD reviewers allow applicants to correct incomplete applications within five days and resubmit until the deadline. Following the initial check, all

[73] Applications in this category are to be ranked against criteria that increase energy efficiency and the energy performance of public housing properties, thus reducing energy usage, generating cost savings, and reducing greenhouse-gas emissions.

[74] NOFA requirements establish multiple rounds of funding that lift funding limits and threshold requirements one by one over time if there are insufficient successful applications to consume the funding available under each level. See HUD's Fiscal Year (FY) 2009 Notice of Funding Availability (NOFA) for the Capital Fund Recovery Competition Grants; Revised to Incorporate Changes, Corrections, and Clarifications, Docket No. FR-5311-N-02 (June 3, 2009).

[75] HUD accepted applications in the creating energy-efficient communities category from June 22, 2009, until July 21, 2009. HUD accepted applications for the other three categories from June 22, 2009, until August 18, 2009. Before July 6, 2009, HUD staff reviewed applications in the gap financing, transforming public housing, and improvement for the elderly and persons with disabilities categories regardless of the order in which they were received. Applications received after July 6, 2009, were assigned a number in order of receipt and were reviewed based on the assigned order.

applications undergo a three-step process: (1) a reviewer evaluates the project narrative, proposed budget, and timeline; (2) a verifier performs a check for compliance with the NOFA and other regulations; and (3) a designated approver makes an award or ineligibility decision. Applications in the energy-efficient communities category are subject to an additional review process. For these applications, public housing agencies self-certify that their applications meet specific criteria, attest to their accuracy, and develop a detailed narrative about project costs and budgeting prior to submitting their applications. HUD gives points to each application based on the certifications made by public housing agencies and ranks them in descending order by score to determine award funding.

Officials told us that although there have been approximately 40 to 50 staff reviewing applications part time or full time, the review process has been slower than expected. According to officials, this is due to the number of applications with lengthy narratives needing review. Further, HUD officials stated that their staff are reviewing CFRC applications while carrying out their ongoing responsibilities related to managing the public housing capital fund program. Nevertheless, the officials said there are many applications in process. According to program guidance published on HUD's Recovery Act Web site, program officials had set August 31, 2009, as a milestone for awarding all CFRC grants. However, because of the large number of applications received by July 6, 2009, HUD officials determined they needed additional time to complete their reviews; in turn, they decided to award the grants on a category-by-category basis. As of September 3, 2009, HUD had awarded $96 million in the transforming public housing category to 15 public housing agencies. These awards are meant to help redevelop blighted public housing that is distressing the surrounding community. Per the requirements of the Recovery Act, HUD must obligate all CFRC grant funds to public housing agencies by September 30, 2009. According to HUD officials, they anticipate meeting the deadline.

HUD is developing a strategy for monitoring the grants after they are awarded. HUD officials said that developing the strategy would be a joint effort between the interested offices in HUD headquarters. Officials told us there are some challenges to monitoring the competitive grants, relative to monitoring formula fund grants. These include needing more time to assess the use of grant funds because projects must meet specific criteria as outlined in the NOFA and searching for and hiring employees with special skills and expertise, such as in energy usage, to work on monitoring. HUD officials told us that two new headquarters employees dedicated to implementing the Recovery Act have already begun work, and that the Department is in the process of hiring three more of these employees. According a HUD official, criminal and civil penalties for misrepresentation in the applications are likely to deter public housing agencies from such action.

## HUD and Industry Stakeholders Report That Public Housing Agencies Have Encountered Few Challenges during the Application Process

HUD officials told us they are generally satisfied with the CFRC process and that the review process is progressing with relatively few problems, though administering the program solely from HUD headquarters has been a challenge. The officials noted that they received positive feedback from public housing agencies on their handling of the competition, especially on the prepopulated spreadsheets developed for use during the application process. Some of the public housing industry officials we spoke with heard of few challenges or problems from their members regarding the competitive grant application process, though they note that public housing agencies have been reluctant to publicize or share the content of their CFRC applications while the competition is ongoing. However, other public housing industry officials also said they were concerned about the Capital Fund competition on behalf of smaller public housing agencies. HUD officials said some agencies reported problems submitting applications for CFRC grants because of technology challenges, such as access to the Internet only through dial-up service, or misunderstanding the NOFA. For agencies having problems applying, HUD officials dealt directly with agencies' questions in order to ensure agencies could submit their applications on time. The officials noted, however, that public housing agencies that waited until the last minute to submit their applications faced challenges meeting the submission deadline. Representatives from one of the public housing industry groups told us that their members have been largely satisfied with the level of guidance and support provided by HUD during the CFRC application process.

## HUD Guidance on Two Recipient Reporting Solutions Is Forthcoming

HUD is using two ways to satisfy reporting requirements for public housing agencies under the Recovery Act: (1) FederalReporting.gov created and managed by OMB and the Recovery Accountability and Transparency Board (RATB) for all Recovery Act recipients to report on the nature of projects undertaken with Recovery Act funds and on jobs created and retained[76] and (2) the Recovery Act Management and Reporting System (RAMPS) system HUD developed for Recovery Act

[76]Pub. L. 111-5, §Sec. 1512, 123 Stat. 115, 287 (Feb. 17, 2009).

reporting purposes, including public housing agencies' compliance information for the National Environmental Policy Act (NEPA), as required by the Recovery Act.[77] HUD officials told us they have been meeting biweekly with OMB staff, and officials from various federal agencies, to express views on a reasonable level of reporting burden for grantees. HUD officials noted that while public housing agencies have had to comply with NEPA since it was enacted in 1970, reporting on environmental assessments is a new requirement for public housing agencies. They stated they intend to expand measures in RAMPS to accommodate future information requests.

HUD also plans to use RAMPS to perform data quality checks on recipient reports. According to officials, the department is designing a data-quality strategy using RAMPS to pull data from OMB's FederalReporting.gov after they are published. As of September 9, 2009, HUD officials reported that staff is finalizing the data quality strategy.

## HUD Recently Issued Recipient Reporting Guidance for Public Housing Agencies, Though Officials Are Concerned There Is Insufficient Time to Become Familiar with OMB's Reporting Solution

HUD issued guidance to public housing agencies on recipient reporting on September 9, 2009. The guidance, in the form of a letter from the HUD Secretary and addressed to public housing agencies that have received grants under the Recovery Act, provided guidance and instructions on both of their reporting obligations: to OMB for jobs and funding-related activities and to HUD for reporting on NEPA compliance. The letter directed the public housing agencies to the FederalReporting.gov Web site for reporting on jobs and activities under the Recovery Act, and it informed public housing agencies that they will use HUD's RAMPS system for reporting data on NEPA. Lastly, the letter directed public housing agencies to register at FederalReporting.gov as soon as possible, but also said that registration for RAMPS, which is a separate from FederalReporting.gov registration and is a requirement to use the RAMPS system,was not yet available. HUD is working with grantees to identify those who need to be registered in RAMPS. The letter also provided Web site addresses where public housing agencies could find more information

[77] Section 1609 of the Recovery Act requires that adequate resources must be devoted to ensuring that applicable environmental reviews under the National Environmental Policy Act are completed on an expeditious basis and that the shortest existing applicable process under the National Environmental Policy Act shall be utilized. The National Environmental Policy Act protects public health, safety and environmental quality: by ensuring transparency, accountability and public involvement in federal actions and in the use of public funds.

about both reporting requirements and an e-mail address they could use to send e-mails with questions about recipient reporting.

HUD has published several FAQs on recipient reporting but noted that until OMB's reporting system was fully developed and operational, they could not finalize program-level reporting guidance for public housing agencies. OMB has issued various guidance materials for recipient reporting, including a data dictionary explaining each data element required in the reports, a registration guide providing information on registering in the system, and two memorandums detailing recipient reporting requirements—the most recent issued on June 22, 2009. HUD officials said that the June recipient reporting guidance was not posted to HUD's Web site until September 3, 2009. Officials from a housing industry group told us their members were not aware of the OMB guidance on recipient reports until GAO inquired about it. Because the system will not be available for data submission until October 1, 2009, and recipient reports are due by October 10, 2009, both HUD officials and industry stakeholders voiced concern that grantees will not have enough time to become familiar with OMB's reporting system. HUD officials reported that OMB's Web seminars had been available online since mid-summer.

## Though Primarily Relying on OMB Support for Recipient Reporting, HUD Is Taking Additional Steps to Ensure Public Housing Agencies Meet Reporting Requirements

Though HUD plans to provide Recovery Act-specific assistance and training to public housing agencies on recipient reporting, they will reinforce to public housing agencies that they must submit reports through OMB's reporting solution and that all technical questions on recipient reporting must be directed to OMB. The officials also noted that OMB will be the primary agency responsible for issuing all guidance related to recipient reporting requirements and the use of the FederalReporting.gov solution. The officials stated that HUD's role will be to reinforce and assist public housing agencies in complying with OMB's guidance while addressing the HUD-specific reporting requirements related to environmental assessment reports. However, to assist public housing agencies with OMB reporting, HUD officials told us they are working to develop templates with prepopulated "dummy" data to provide public housing agencies with an example of a correct and data-compliant recipient report. Leaders of housing industry groups told us they plan to work with member public housing agencies to educate them about the OMB guidance and troubleshoot problems prior to the October 10, 2009, deadline for recipient reporting.

HUD plans to take other steps to ensure public housing agencies meet the environmental review reporting requirements under the Recovery Act, including assembling a compliance planning team to troubleshoot problems, continuing to issue guidance for using RAMPS, and developing a HUD-wide call center for program-level information and technical questions on environmental assessment reporting requirements (and program-level questions only for the OMB-required jobs and activities reports). HUD headquarters officials have been meeting with field office officials to develop guidance that will allow field offices to instruct public housing agencies on how to comply with environmental assessment requirements. They also plan to conduct Web-based seminars to walk public housing agencies through the environment assessment reporting requirements.

## Housing Industry Stakeholders Are Concerned about the Capacity of Recipient Reporting Systems but Think Public Housing Agencies Will Be Able to Measure Job Creation Easily

Some industry stakeholders were concerned that HUD's information technology systems may not have the capacity to handle the new environmental assessment reporting requirements because of problems public housing agencies have experienced with HUD systems in the past. HUD officials said that although Recovery Act reporting is a major deviation from HUD's regular programmatic reporting, RAMPS is ready to receive increased levels of reports by the first reporting deadline of October 10, 2009. The system's data entry forms and fields are currently able to accept environmental assessment reports; however, HUD officials said they continue to modify the appearance of the reporting module and plan to add functionality through a series of technological updates over the next several months.

Some of the housing industry officials viewed collecting data to count jobs created and retained as relatively straightforward for public housing agencies because they already submit reports in compliance with Department of Labor regulations that include hourly rates of pay and number of hours worked.[78] To meet the OMB requirements, public housing agencies can collect timesheets from contractors to record and measure the number of hours workers spend on a project in terms of full-time equivalents, thus providing a reasonable starting point to estimate the number of jobs created and retained. However, the official from one group also told us that calculating job creation and retention from data they already collect could be a challenge because public housing agencies are

[78]Department of Labor regulations applies to any contract which is subject to Federal wage standards and which is for the construction, prosecution, completion, or repair of public buildings, public works or buildings or works financed by loans or grants from the United States. 29 C.F.R. § 3.1 et seq.

not familiar with using the formulas OMB provided to perform such calculations.[79] HUD published specific guidance for public housing agencies on how to report on jobs created and retained on September 3, 2009; however, according to HUD officials, OMB changed the formula for full-time equivalents and requested modifications to the document after HUD posted it to their Recovery Act Web site. HUD staff plan to finalize and republish the document.

**Agency Comments:**

We provided HUD with excerpts from a draft of this report and received written comments from the HUD Office of Capital Improvements and Office of Field Operations, both of which are within HUD's Office of Public and Indian Housing. HUD generally agreed with our findings and provided technical corrections, which we incorporated as appropriate. In regards to our recommendation, HUD noted its recent actions to identify housing agencies with open findings related to the administration of the Capital Fund Program and HUD's plans to conduct remote reviews of all public housing agencies receiving Recovery Act funds as well as on-site reviews targeting housing agencies that collectively have received more than $2 billion dollars in Recovery Act funds. We have accordingly modified our report to describe recent efforts, and HUD's plans to conduct on-site reviews at some, but not all housing agencies with relevant open audit findings. In addition we modified our recommendation to specify that HUD expand its criteria for selecting housing agencies for on-site reviews to include agencies with open audit findings.

## DOE's Weatherization Assistance Program

The Recovery Act appropriated $5 billion over a 3-year period for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) administers through each of the states, the District of Columbia, and seven territories and Indian tribes. The program enables low-income families to reduce their utility bills by making long-term energy efficiency improvements to their homes by, for example, installing insulation; sealing leaks; and modernizing heating equipment, air circulation fans, or air

[79]OMB uses a simple calculation to convert part-time or temporary jobs into "full-time equivalent" jobs to avoid overstating the number of other than full-time, permanent jobs. To perform the calculation, a recipient divides the total number of hours worked that are funded by the Recovery Act by the number of hours in a full-time schedule for a quarter.

conditioning equipment. Over the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. By reducing the energy bills of low-income families, the program allows these households to spend their money on other needs, according to DOE. The Recovery Act appropriation represents a significant increase for a program that has received about $225 million per year in recent years.

As of September 14, 2009, DOE had approved all but two of the weatherization plans of the states, the District of Columbia, the territories, and Indian tribes—including all 16 states and the District of Columbia in our review. DOE has provided to the states $2.3 billion of the $5 billion in weatherization funding under the Recovery Act. Use of the Recovery Act weatherization funds is subject to Section 1606 of the act, which requires all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wage, including fringe benefits, as determined under the Davis-Bacon Act.[80] Because the Davis-Bacon Act had not previously applied to weatherization, the Department of Labor (Labor) had not established a prevailing wage rate for weatherization work. In July 2009, DOE and Labor issued a joint memorandum to Weatherization Assistance Program grantees authorizing them to begin weatherizing homes using Recovery Act funds, provided they pay construction workers at least Labor's wage rates for residential construction, or an appropriate alternative category, and compensate workers for any differences if Labor establishes a higher local prevailing wage rate for weatherization activities. Labor then surveyed five types of "interested parties" about local labor rates for weatherization work in each of the states.[81] The department completed determining county-by-county prevailing wage rates in each of the 50 states and the District of Columbia by September 3, 2009.

[80]The Weatherization Assistance Program funded through annual appropriations is not subject to the Davis-Bacon Act.

[81]The five types of "interested parties" are state weatherization agencies, local community action agencies, unions, contractors, and congressional offices.

## Most States Have Not Begun to Weatherize Homes Partly Because of Their Concerns about Prevailing Wage Rate Requirements

DOE has provided all 16 states and the District of Columbia in our review with half of their weatherization formula funds under the Recovery Act. (See table 14.) As of June 30, 2009, DOE had provided each with the initial 10 percent of its allocation and had provided 9 states and the District of Columbia with the next 40 percent of their funds based on the department's approval of their weatherization plans.[82] Since that time, DOE has finished approving the weatherization plans of all of the states in our review. DOE has provided the 16 states and the District of Columbia with the second portion of their weatherization funds, giving them access to more than $1.4 billion, or 50 percent of their total allocation. DOE plans to release the final 50 percent of funding to each state based on the department's progress reviews examining each state's performance in spending the first half of its funds and the state's compliance with the Recovery Act's reporting and other requirements.

**Table 14: DOE's Allocation of the Recovery Act's Weatherization Funds for 16 States and the District of Columbia, as of August 31, 2009**

| State | Total allocation | Initial allocation | Date received (2009) | Second allocation | Date received (2009) | Allocation provided to date |
|---|---|---|---|---|---|---|
| Arizona | $57,023,278[a] | $5,702,328 | April 10 | $22,809,311 | June 8 | $28,511,639 |
| California | 185,811,061 | 18,581,106 | April 10 | 74,324,424 | June 18 | 92,905,530 |
| Colorado | 79,531,213 | 7,953,121 | April 1 | 31,812,485 | August 13 | 39,765,606 |
| District of Columbia | 8,089,022 | 808,902 | March 30 | 3,235,609 | June 18 | 4,044,511 |
| Florida | 175,984,474 | 17,598,447 | April 10 | 70,393,790 | June 18 | 87,992,237 |
| Georgia | 124,756,312 | 12,475,631 | April 20 | 49,902,524 | June 26 | 62,378,155 |
| Illinois | 242,526,619 | 24,252,662 | April 1 | 97,010,647 | June 26 | 121,263,309 |
| Iowa | 80,834,411 | 8,083,441 | March 27 | 32,333,764 | July 6 | 40,417,205 |
| Massachusetts | 122,077,457 | 12,207,746 | April 3 | 48,830,983 | July 6 | 61,038,729 |
| Michigan | 243,398,975 | 24,339,898 | March 27 | 97,359,590 | July 6 | 121,699,488 |
| Mississippi | 49,421,193 | 4,942,119 | April 3 | 19,768,477 | June 8 | 24,710,596 |
| New Jersey | 118,821,296 | 11,882,130 | April 7 | 47,528,518 | July 10 | 59,410,648 |
| New York | 394,686,513 | 39,468,651 | April 13 | 157,874,605 | June 26 | 197,343,256 |
| North Carolina | 131,954,536 | 13,195,454 | April 1 | 52,781,814 | June 18 | 65,977,268 |
| Ohio | 266,781,409 | 26,678,141 | March 27 | 106,712,564 | June 18 | 133,390,705 |
| Pennsylvania | 252,793,062 | 25,279,306 | March 27 | 101,117,225 | August 25 | 126,396,531 |

[82]GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, GAO-09-829 (Washington, D.C.: July 8, 2009).

| State | Total allocation | Initial allocation | Date received (2009) | Second allocation | Date received (2009) | Allocation provided to date |
|---|---|---|---|---|---|---|
| Texas | 326,975,732 | 32,697,573 | April 10 | 130,790,293 | July 10 | 163,487,866 |

Source: GAO analysis of DOE information.

Notes: DOE allocated the Recovery Act's weatherization funds among the eligible states, territories, and Indian tribes using (1) a fixed, base allocation and (2) a formula allocation for the remaining funds that is based on each state's low-income households, climate conditions, and expenditures by low-income households on residential energy

[a]DOE allocated an additional $6 million to the Navajo Indian tribal areas in Arizona.

While DOE has provided each of the states in our review with half of their total allocations, 8 of the 14 states for which we collected information had not started weatherizing homes using Recovery Act funds as of August 31, 2009.[83] (See table 15.) However, many of the 14 states had used Recovery Act funds for startup activities such as hiring and training staff, procuring equipment and vehicles, and performing energy audits of eligible homes. Other states told us that they would begin weatherizing homes shortly. For example, Florida officials expected to award final contracts to local agencies to weatherize homes by early September 2009, while Iowa officials had informed local agencies that they could start issuing contracts and begin weatherization activities. Three states—New York, North Carolina, and Pennsylvania—reported not having used any Recovery Act funds for the Weatherization Assistance Program as of August 31, 2009, though they indicated they were using funds from DOE's annual appropriations for weatherization activities in anticipation of using Recovery Act funds. Six states reported having weatherized homes with Recovery Act funds. For example, local agencies in Ohio had weatherized more than 900 homes by the end of July 2009, and local agencies in Colorado reported using Recovery Act funds for basic weatherization activities, such as installing insulation and energy-efficient appliances.

**Table 15: Use of Recovery Act Weatherization Funds by 14 States, as of August 31, 2009**

| State | Funds used for start-up activities? | Funds used for weatherizing homes? |
|---|---|---|
| Arizona | Yes | Yes |
| California | Yes | No |
| Colorado | Yes | Yes |

[83]We did not collect weatherization information from Illinois, Massachusetts, and the District of Columbia.

| State | Funds used for start-up activities? | Funds used for weatherizing homes? |
|---|---|---|
| Florida | Yes | No |
| Georgia | Yes | Yes |
| Iowa | Yes | No |
| Michigan | Yes | Yes |
| Mississippi | Yes | Yes |
| New Jersey | Yes | No |
| New York | No[a] | No |
| North Carolina | No[a] | No |
| Ohio | Yes | Yes |
| Pennsylvania | No[a] | No |
| Texas | Yes | No |

Source: GAO analysis of state information.

[a]The state did not use Recovery Act funds to support its weatherization activities. Instead, the state used funds from DOE's annual weatherization appropriation.

As shown in table 16, many of the states we reviewed reported that Davis-Bacon Act requirements—which have been applied to DOE's Weatherization Assistance Program for the first time under the Recovery Act—are a reason they have not yet started weatherizing homes. Specifically, state weatherization officials expressed concerns about wage rates and administrative requirements under the Recovery Act's Davis-Bacon provision.

**Table 16: Prevailing Wage Rates for Weatherization Work**

| State | Date wage rate available | Weatherization of homes delayed until wage rate available? | Areas of Davis-Bacon Act concerns identified by state and local officials |
|---|---|---|---|
| Arizona | August 30, 2009 | Yes[a] | Administrative requirements[b] |
| California | September 3, 2009 | Yes | Wage rates and administrative requirements[b] |
| Colorado | September 1, 2009 | No | Wage rates |
| District of Columbia | August 24, 2009[c] | n/a[d] | n/a[d] |
| Florida | September 2, 2009 | No | Administrative requirements[b] |
| Georgia | August 29, 2009 | No | Wage rates and administrative requirements[b] |
| Illinois | September 3, 2009 | n/a[e] | n/a[e] |
| Iowa | August 19, 2009 | Yes | Wage rates and administrative requirements[b] |
| Massachusetts | August 17, 2009 | n/a[e] | n/a[e] |
| Michigan | August 12, 2009 | Yes | Wage rates[e] |
| Mississippi | August 24, 2009 | No | None cited |

| State | Date wage rate available | Weatherization of homes delayed until wage rate available? | Areas of Davis-Bacon Act concerns identified by state and local officials |
|---|---|---|---|
| New Jersey | August 17, 2009 | Yes | Wage rates |
| New York | September 3, 2009 | Yes | Wage rates and administrative requirements[b] |
| North Carolina | August 27, 2009 | No | None cited |
| Ohio | September 3, 2009 | No | Administrative requirements[b] |
| Pennsylvania | September 3, 2009 | No | Administrative requirements[b] |
| Texas | September 2, 2009 | Yes | Wage rates and administrative requirements[b] |

Source: GAO analysis of information from the Department of Labor and the states.

[a]All but one locality (city of Phoenix) decided to wait for the wage determination before beginning weatherization activities.

[b]Administrative requirements include paying workers on a weekly basis and submitting weekly certified payroll records.

[c]Labor's General Wage Determination will be used for the District of Columbia because Labor received insufficient information on constructed weatherization projects to enable the issuance of a wage determination.

[d]We did not collect weatherization information from the District of Columbia, Illinois, or Massachusetts.

[e]Michigan officials said their initial concerns about the prevailing wage rates have dissipated now that the actual wage rates are known.

Regarding wage rates, officials in about half of the states we reviewed decided to wait to begin weatherizing homes until Labor had determined county-by-county prevailing wage rates for their state. These officials explained that they wanted to avoid having to pay back wages to weatherization workers who started working before the prevailing wage rates were known.

Arizona officials said all but one of its local service providers decided to wait to weatherize homes until the prevailing wage rates were determined because they were concerned about the time required to reconcile differences in wage rates. Similarly, Iowa officials told us paying back wages would be especially burdensome to smaller contractors. Michigan officials explained that their initial concerns about the prevailing wage rates have been diminished now that Labor has determined wage rates. However, officials in Colorado, which had proceeded with weatherizing homes, told us that their concerns have increased because Labor's county-by-county wage rates are higher than the rates the local administering agencies had previously paid weatherization workers. As a result, Colorado may adjust one of its weatherization performance measures, and one county decided to conduct all Recovery Act weatherization work with county employees rather than awarding contracts.[84] California officials were also concerned about the prevailing wage rates, and they wrote DOE to inquire about the possibility of requesting an exemption from the Davis-Bacon Act requirements for weatherization workers hired through the state's federal, state, and local workforce development partnerships aimed at creating training and employment opportunities for youth and dislocated workers. California officials told us that the Davis-Bacon Act could weaken or eliminate workforce development as a significant component of its weatherization program, stating that paying prevailing wages to the inexperienced, entry-level workers typically hired through these programs would not be appropriate.[85] While officials in about half of the states reviewed were concerned about prevailing wage rates prior to Labor's determination, officials in North Carolina and Mississippi were not concerned because they expected that the prevailing wages rates would be similar to the existing wages being paid to weatherization workers; thus, they were not worried about possibly paying back wages.

Regarding administrative requirements, officials in several states also cited concerns about ensuring weatherization activities funded with Recovery Act funds comply with Davis-Bacon requirements. Specifically, several officials cited concerns about the requirement that contractors and subcontractors pay covered workers weekly and submit weekly certified payroll records to the contracting agency. Florida officials expressed concerns about the increased documentation and administrative tasks required for weekly certified payroll. In Georgia, service providers also expressed concern about the requirements for a weekly payroll and were confused as to which employees would fall under the act's guidelines. New York officials said one strategy that local agencies might use is to subcontract all weatherization work funded by the Recovery Act in order to limit the impact of Davis-Bacon to just those subcontracts. New York officials explained that these weekly payroll requirements are new to the organizations administering weatherization services and represent a new cost to the program.

[84]Davis-Bacon Act prevailing wage requirements do not apply to local government employees. 29 C.F.R. § 5.2(h); *see also* Department of Labor Advisory Letter to Department of Energy, dated June 1, 2009.

[85]According to Labor officials and guidance provided on its Web site, individuals who meet Labor's definition of apprentices and trainees may be paid a percentage of the journeyman rate on the wage determination. To do so, however, these individuals must be participating in a program that has been registered with Labor or with a State Apprenticeship Agency recognized by Labor.

To facilitate better understanding of Davis-Bacon requirements, DOE and Labor have recently hosted conferences that contain sessions pertaining to the Davis-Bacon Act requirements. DOE sponsored the 2009 National Weatherization Conference that included sessions on the Davis-Bacon Act and officials from North Carolina said this conference provided them needed information.[86] Additionally, Labor has hosted four Prevailing Wage Conferences and, according to its Web site, Labor will host three additional Prevailing Wage Conferences in September to address topics such as the administration and enforcement of the Davis-Bacon Act and the labor standards provisions of the Recovery Act. Additional guidance has been provided via memos to the states. For example, Labor's May 29, 2009, memorandum on the applicability of Davis-Bacon labor standards to federal and federally assisted construction work funded in whole or in part under the provision of the Recovery Act states that the department's long-standing view is that a project consists of all construction necessary to complete the building or work regardless of the number of contracts involved so long as all contracts awarded are closely related on purpose, time, and place. The memorandum also states in a footnote that the $2,000 threshold for Davis-Bacon and related act coverage pertains to the amount of the prime construction contract, not to the amount of individual subcontracts. Cognizant Labor officials told us that, for the Weatherization Assistance Program, the prime contract would be the one that a state signed with each of its community action agencies.

## Local Agencies Generally Have Responsibility for Procuring Weatherization Materials

Nearly all of the states we reviewed have left responsibility for the procurement of weatherization materials with local agencies rather than centralizing procurement at the state level. For example, Colorado officials approve local agencies' procurement processes, but the local agencies acquire weatherization materials on their own using a competitive bid process. In Mississippi, local agencies develop their own list of suppliers and purchase materials that meet DOE standards for weatherization, while in North Carolina local agencies are responsible for developing their own fair market price list for materials. An exception is Pennsylvania, where local agencies will be required to purchase materials and equipment through the state's cooperative purchasing program, which has established contracts with qualified suppliers.

[86] The 2009 National Weatherization Training Conference was held July 20-23, 2009.

## DOE Has Issued Guidance to Mitigate Risk in the Weatherization Program, and Some States Have Established Additional Measures

DOE has issued guidance requiring recipients of Recovery Act weatherization funds to implement a number of internal controls to mitigate the risk of fraud, waste, and abuse.[87] Specifically, DOE requires state weatherization agencies to conduct on-site monitoring of all weatherization service providers to inspect the management of funds and the production of weatherized homes. These monitoring visits consist of a financial review of the service provider's records pertaining to salaries, materials, equipment, and indirect costs; program reviews of the service provider's records, contracts, and client files; and a production review, consisting of the inspection of weatherized homes by the state agencies and by the service provider. DOE requires that each state agency inspect at least 5 percent of the weatherized units and each service provider inspect all of the completed units or units in the process of being weatherized. If an inspection reveals reporting inconsistencies, quality control issues, or other problems, the state agency is required to increase the number of units monitored and frequency of inspection. DOE is implementing an enhanced monitoring plan that would allow DOE's weatherization project officers to track each state's performance. As part of this enhanced monitoring, DOE has submitted a deviation request to OMB to require the states to submit monthly, rather than quarterly, reports. As a result of the significant increase in program funding, many of the states are reporting a need to increase staff to implement internal controls. DOE provides state agencies with the discretion to develop and implement these internal controls in accordance with each state's weatherization plan.

State officials can also determine the effectiveness of a recipient's internal controls through assessments conducted as part of the Single Audit Act.[88] These audits review the performance and management of nonfederal entities receiving $500,000 or more in federal awards. Some state weatherization programs, however, have been considered too small to be monitored during the state's Single Audit. Only 1 of the 14 states we reviewed had an unresolved Single Audit issue with its state

[87]See, for example, DOE, "Weatherization Program Notice 09-1B," (Mar. 12, 2009).

[88]The Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507), requires that each state, local government, or nonprofit organization that expends $500,000 or more a year in federal awards must have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in OMB Circular No. A-133, *Audits of States, Local Governments and Non-profit Organizations* (June 27, 2003). If an entity expends federal awards under only one federal program, the entity may elect to have an audit of that program.

weatherization program. State officials told us that the corrective action plan for addressing the Single Audit findings is waiting for federal approval.

Some state weatherization agencies have conducted risk assessments to monitor the use of funds and identify service providers that may need additional help implementing the weatherization program. In Georgia, for example, state officials conducted a risk assessment of all service providers and assigned a risk level to each provider. Risk mitigation activities in other states include annual reviews of independent auditors' reports, increased frequency of on-site monitoring of service providers and weatherized homes, fraud detection training, the requirement of monthly reports from service providers, and the use or proposed use of a Web-based reporting database. Some states, however, believe that current controls are sufficient, but they will need to hire additional staff to accommodate the increase in Recovery Act funding.

## States Are Beginning to Monitor Recovery Act Weatherization Impacts, and Most Plan to Meet Reporting Requirements

In guidance supplied to the states, DOE stated that, as a minimum, states now have to report oversight visits, training, and equipment purchases that exceed $5,000. In addition, state officials must report on the number of housing units weatherized and the resulting impacts to energy savings and jobs created and retained at both the state and local agency level. While state officials have estimated the number of housing units that they expect to weatherize using Recovery Act funds, only a few of the states have begun collecting data about actual impacts. This is primarily because most states are just beginning to use the Recovery Act funds to weatherize homes or because they are waiting for further guidance about how to calculate impacts. Some states plan to use performance measures developed by DOE, while others have developed their own measures. Florida officials, for example, plan to measure energy savings by tracking kilowatts used before and after weatherization, primarily with information from utility companies.

OMB issued guidance in June 2009 describing how prime recipients and subrecipients of Recovery Act funds are to report on their use of those funds.[89] For example, beginning with the quarter ending September 30, 2009, Section 1512 of the Recovery Act requires reports on the use of

[89]OMB memorandum, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. In August 2009, OMB updated its June guidance identifying the data elements for states to report. As a result, every state must, by October 10, 2009, submit to OMB detailed information about their use of Recovery Act funds.[90] Although weatherization officials in most states that we reviewed believe they would be able to meet this deadline, a few were less certain. For example, Colorado officials said that unresolved issues such as uploading consolidated data to OMB and completing the development and testing of the elements that will be used to collect data from grant recipients may affect the completeness and timeliness of the state's report. Michigan officials stated that certain agency data for fiscal year 2009 would not be finalized until October 24 or 25, 2009. To assist local subrecipients in understanding reporting requirements, some state agencies have issued guidance, but most are waiting for further DOE guidance.

## In Response to Significant Risks with the Initial Section 1512 Reporting Process, OMB and the States Are Taking Various Actions

Section 1512 recipient reporting[91] and related OMB guidance, as discussed earlier in this report, requires recipients to report the total amount of Recovery Act funds received, the projects and activities being funded, the completion status of the projects being funded, and the impact on job creation and retention. Section 1512 of the act requires reports on the use of Recovery Act funds by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending Sept. 30, 2009). The first recipient reports are due to be reported to www.federalreporting.gov on October 10, 2009.

This recipient reporting is intended to provide the public with an unprecedented level of transparency into how federal dollars are being spent and help drive accountability for the timely, prudent, and effective spending of recovery dollars. However, significant risks exist that will likely negatively impact the completeness, accuracy, and reliability of the information reported in the initial round of Section 1512 reporting. First, the reporting requirements are new, and many recipients who will be required to report information have never been required to report such

[90]Recipients must report the total amount of funds received and, of that, the amount spent on projects and activities; a list of those projects and activities funded by name to include description, completion status, and estimates on jobs created or retained; and detail on subawards and other payments. See OMB memorandum M-09-21, p. 8.

[91]Pub. L. No. 111-5, Sec. 1512 (c), 123 Stat. 115, 287 (Feb 17, 2009).

information in the past. Recipients' systems and processes have not previously been set up to provide reliable and accurate data for the currently required reporting, and recipients may not have sufficient personnel with the skills needed to provide assurance over the quality of the recipient reporting. The large number of recipients also adds to this risk, as it is difficult for states and the federal government to monitor data quality coming from the recipients. Data quality issues impact the usefulness and reliability of the summarized information at the state and federal levels. Significant risks also exist because two new systems have been implemented at the federal level for collecting, summarizing, and reporting the information.

In our July 2009 report, we noted that challenges exist in tracking the Recovery Act funds in the selected states we reviewed,[92] which could also impact the recipient reporting processes for those states. The states have also expressed concerns about the ability of other entities to track and report on Recovery Act funds. These entities generally have not had experience in reporting to the federal government on an ongoing basis, and numerous Single Audits have raised concerns about subrecipient reporting. In our April 2009 report, we noted that significant concerns exist regarding subrecipient monitoring, as it is an area where limited experience and known vulnerabilities exist.[93] The extent to which these entities have the capacity to accurately report is unknown. Inherent risks also exist with the implementation of new reporting systems at the federal level. The large number of recipients and subrecipients related to Recovery Act reporting presents a huge challenge to OMB and the RATB in the design and activation of the reporting function.

In an effort to address information risks, OMB's June 22nd guidance includes a requirement for data quality reviews. The data quality guidance is intended to emphasize the avoidance of two key data problems—material omissions[94] and significant reporting errors.[95] Material omissions

[92]GAO-09-829.

[93]GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: April 23, 2009).

[94]OMB defines material omissions as instances where required data are not reported or reported information is not otherwise responsive to the data requests, resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity.

and significant reporting errors are risks that the financial information is incomplete and inaccurate. Reliable financial information should be accurate and complete, so that decision makers such as Congress and federal agencies can make informed decisions.

OMB, federal agencies, state agencies, and others have taken various actions in preparation for the October reporting. OMB has issued guidance in February 2009, April 2009, June 2009, and September 2009; presented at conferences; and provided training through webinars.[96] The OMB June 22 memorandum stated that "it is anticipated that federal agencies will, as appropriate, issue clarifying guidance to funding recipients." As noted elsewhere in our report, relevant federal agencies have issued or are planning on issuing guidance. The selected states and the District have issued their own guidance and requirements to state offices, localities, and other recipients in order to prepare for the initial recipient reporting. For example, the New Jersey Governor's Chief of Staff issued a memorandum on July 10, 2009, requiring departments to submit comprehensive outlines of their strategy to comply with Section 1512 reporting.[97]

In order to prepare for recipient reporting, states and their program offices are taking various actions to implement procedures and internal controls for recipient reporting. For example, Colorado has assigned a staff member to focus on Recovery Act reporting requirements to ensure reporting occurs as required by OMB. Also, the New Jersey Recovery Accountability Task Force issued written guidance to both state agencies and local government units concerning Recovery Act issues, such as reporting requirements, project selection criteria, effective contract and grant management. In addition, in New Jersey, the Recovery Accountability Task Force and the State Inspector General have been meeting with departments since May to discuss internal control policies. Similar meetings are beginning with municipalities and cities in New Jersey. The New Jersey Housing and Mortgage Finance Agency has provided seminars to multifamily property owners, developers, and managers, in addition to shifting staff resources. Some states have

[95]OMB defines significant reporting errors as those instances where required data are not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.

[96]http://www.whitehouse.gov/Recovery/WebinarTrainingMaterials/.

[97]The memorandum specifically requested plans identifying likely subrecipients and vendors, the proposed process for entering data into FederalReporting.gov, and comparing current data collected with the data required under Section 1512 of the act.

conducted dry runs as part of their preparation for the first reporting in order to identify areas where additional internal controls and procedures may be necessary. For instance, Florida has performed an initial recipient reporting pilot by having three agencies provide the data to populate the state database. Florida also plans dry runs and submission of test data to OMB once OMB has the capability of receiving the data.

The states and District of Columbia have taken different approaches—centralized and decentralized—for Section 1512 recipient reporting. The 11 states and the District with centralized approaches generally are planning on having the prime recipients provide the reporting information to a state office. For example, Ohio's recipients are providing their information through a reporting hub to Ohio's Office of Budget and Management. Ohio's Office of Budget and Management will then report the information to FederalReporting.gov. Five states are using a decentralized approach and are generally planning on having the prime recipients, such as state departments, report their information directly to FederalReporting.gov. Table 17 indicates our classification of the reporting approaches the selected states and District are planning on using.

**Table 17: Selected states and the District implemented tracking mechanism to identify the state's prime recipients and subrecipients for reporting purposes, in accordance with OMB guidance Section 1512**

| Centralized | Decentralized |
|---|---|
| • Arizona | • Georgia |
| • California | • Mississippi |
| • Colorado | • New Jersey |
| • District of Columbia | • New York |
| • Florida | • Texas |
| • Illinois | |
| • Iowa | |
| • Massachusetts | |
| • Michigan | |
| • North Carolina | |
| • Ohio | |
| • Pennsylvania | |

Source: GAO analysis of interviews of cognizant officials.

The Director of Michigan's Economic Recovery Office said she believes the state will be able to report centrally, but state agencies could report directly through the FederalReporting.gov website if needed. Some states are planning on using their existing accounting systems with some modifications for their reporting. For instance, Colorado is developing a centralized reporting process that primarily uses its existing accounting and contract management systems with certain enhancements, as well as manually generated spreadsheets. Other states, such as Florida, are developing or have developed a new reporting system.

The risk associated with recipient reporting is also reflected in concerns some state representatives have expressed. To address these concerns and clarify the information it has provided, OMB has taken numerous steps. In addition to memorandums, webinars, and conferences, OMB has held several teleconferences with numerous stakeholders at the state and local levels, including recovery czars, budget, information technology, financial, and audit officials. OMB also plans to send federal officials to all states and some other locations to provide a resource during the initial reporting period. At the time of our report, some of the recovery czars and other officials noted that confusion remains regarding the guidance. Generally, OMB has been working with states to resolve issues as it becomes aware of them. For example, in August 2009 an Iowa official said that they wanted to confirm that they could use a single D-U-N-S number to report Section 1512 information centrally. OMB made some changes to better accommodate centralized reporting in response. However, even though OMB's outreach and coordination with the states has been much greater than has occurred in the past, the unprecedented reliance upon recipient reporting calls for such intensive efforts.

Although OMB has moved quickly, concerns have arisen as the reporting deadline looms, reflecting the uncertainty inherent in this new and more transparent way of working together across levels of government. The transparency and expectation for accountability raises the stakes, as issues will be visible to the public, the media, and Congress, and the possibility of misunderstandings related to the data reported are of concern to all involved. Some state representatives noted that conflicting responses have been provided to questions about recipient reporting. For example, New Jersey noted that OMB's June 22nd guidance clarifies that states will not be counting indirect jobs. However, during the webinars, there was discussion from OMB staff that this may not, in fact, be the case. Duplicate reporting is another risk, according to Florida, because some federal agencies informed their state counterpart agencies that they should report information directly to the federal agency, in addition to, or instead of, the federal site for data collection.

## Concluding Observations

Section 1512 recipient reporting is intended to provide the public with an unprecedented level of transparency into how federal dollars are being spent and help drive accountability for the timely, prudent, and effective spending of recovery dollars. However, significant risks are inherent in the upcoming, initial round of reporting that will likely negatively impact the completeness, accuracy, and reliability of the information reported. Although OMB and the states are actively taking steps to mitigate these risks, the first round of recipient reporting will likely present many examples where improvements will be needed. We believe that the Section 1512 process will, by necessity, evolve with future improvements needed after the first round of reporting as OMB and RATB continue to take steps to ensure data quality and the efficiency of Section 1512 reporting process in subsequent quarters.

## OMB Has Taken Some Steps Related to Single Audits' Focus and Reporting on the Recovery Act, but Additional Actions Are Needed

As we reported in both our April and July 2009 reports, effective internal controls over the use of Recovery Act funds are critical to help allow effective and efficient use of resources, compliance with laws and regulations, and in achieving accountability over Recovery Act programs. In its guidance, OMB has stated that Single Audit reports[98] will serve as an important accountability mechanism for Recovery Act programs. A Single Audit report includes the auditor's schedule of findings and questioned costs, internal control and compliance deficiencies, and the auditee's corrective action plans and a summary of prior audit findings that includes planned and completed corrective actions. The Single Audit Act requires that a nonfederal entity subject to the act transmit its reporting package to a federal clearinghouse designated by OMB no later than 9 months after the end of the period audited.

As we reported in April and July 2009, we are concerned that, as federal funding of Recovery Act programs accelerates in the next few months, the Single Audit process may not provide the timely accountability and focus needed to assist recipients in making necessary adjustments to internal controls, so that they achieve sufficient strength and capacity to provide assurances that the money is being spent as effectively as possible to meet program objectives.

[98]The reports are required by the Single Audit Act, 31 U.S.C. § 7502, and prepared in accordance with OMB Cir. No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which provides guidance to auditors on selecting federal programs for audit and the related internal control and compliance audit procedures to be performed.

The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies noted in Recovery Act programs. The Single Audit Act requires that recipients submit their financial reporting packages, including the Single Audit report, to the federal government no later than 9 months after the end of the period being audited.[99] As a result, an audited entity may not receive feedback needed to correct an identified internal control or compliance weakness until the latter part of the subsequent fiscal year. For example, states that have a fiscal year end of June 30 have a reporting deadline of March 31, which leaves program management only 3 months to take corrective action on any audit findings before the end of the subsequent fiscal year. For Recovery Act programs, significant expenditure of funds could occur during the period prior to the audit report being issued.

The timing problem is exacerbated by the extensions to the 9-month deadline that are routinely granted by the awarding agencies, consistent with OMB guidance. According to an HHS OIG official, beginning in May 2009 HHS IG adopted a policy of no longer approving requests for extensions of the due dates of Single Audit reporting package submissions. OMB staff have stated that they are evaluating the elimination of time extensions on the reporting package but have not issued any official guidance or memorandums to the agencies, OIGs, or federal award recipients.

Our April and July 2009 reports on the Recovery Act included recommendations that OMB adjust the current audit process to

- focus the risk assessment auditors use to select programs to test for compliance with 2009 federal program requirements on Recovery Act funding;
- provide for review of the design of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010; and

[99]31 U.S.C. § 7502(b), (h)(2)(B). The guidance provides that under certain conditions, Single Audit auditees may be audited biennially instead of annually. For entities that are audited biennially, it is longer before internal control and compliance weaknesses are identified and remediated.

- evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.

In our July 2009 report, we included a matter for congressional consideration pointing out that Congress is considering a legislative proposal and could address the following issues:

- 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.
- To the extent that additional audit coverage is needed to achieve accountability over Recovery Act programs, Congress should consider mechanisms to provide additional resources to support those charged with carrying out the Single Audit Act and related audits.

Although OMB had taken several steps through August 2009 in response to our recommendations, those actions did not sufficiently address the risks leading to our recommendations. To focus auditor risk assessments on Recovery Act-funded programs and to provide guidance on internal control reviews for Recovery Act programs, OMB was working within the framework defined by existing mechanisms—Circular No. A-133 and the Compliance Supplement. In this context, OMB made limited adjustments to its Single Audit guidance.

On September 10, 2009, OMB announced a proposed pilot project that, if properly implemented with sufficient coverage of Recovery Act-funded programs, could address concerns about the timeliness of Single Audit reporting related to internal control weaknesses in Recovery Act programs. Accordingly, in our September 10, 2009, testimony for the Senate Homeland Security and Governmental Affairs Committee,[100] we recommended that the Director of OMB take steps to achieve sufficient participation and coverage in the pilot project that provides for early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

[100]GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, GAO-09-908T (Washington, D.C.: Sept. 10, 2009).

## Focusing Auditors' Program Risk Assessments on Programs with Recovery Act Funding

On May 26, OMB issued the 2009 edition of the Circular A-133 Compliance Supplement. The new Compliance Supplement is intended to focus auditor risk assessment on Recovery Act funding by, among other things, (1) requiring that auditors specifically ask auditees about and be alert to expenditure of funds provided by the Recovery Act, and (2) providing an appendix that highlights some areas of the Recovery Act impacting Single Audits. The appendix adds a requirement that large programs and program clusters with Recovery Act funding cannot be assessed as low-risk for the purposes of program selection without clear documentation of the reasons they are considered low risk. It also calls for recipients to separately identify expenditures for Recovery Act programs on the Schedule of Expenditures of Federal Awards.

On August 6, 2009, OMB issued Compliance Supplement Addendum No. 1 to provide additional guidance related to specific compliance requirements for some Recovery Act programs (Part 4 of the Addendum). This addendum modified the 2009 Compliance Supplement by indicating the new Recovery Act programs and new program clusters, providing new cross-cutting provisions related to the Recovery Act programs, adding compliance requirements for existing programs as a result of Recovery Act funding, and emphasizing the importance of internal controls for compliance for programs with Recovery Act expenditures (Part 6 of the Addendum).

Even with the two documents issued in May and August, the 2009 Compliance Supplement does not yet provide specific auditor guidance for some new programs funded by the Recovery Act, or for new compliance requirements specific to Recovery Act funding within existing programs, that may be selected as major programs for audit. OMB acknowledges that additional guidance is called for and plans to address specific Recovery Act-related compliance requirements in its guidance to be issued at the end of September 2009 and its 2010 Compliance Supplement.

The audit approach in OMB Circular A-133 relies heavily on the amount of federal expenditures in a program during a fiscal year and whether findings were reported in the previous period to determine whether detailed compliance testing is required for that year. Although OMB is using clusters for Single Audit selection to make it more likely that Recovery Act programs would be selected as major programs subject to internal control and compliance testing, the dollar formulas for determining major programs have not changed. This approach may not provide sufficient assurance that smaller, but nonetheless significant, Recovery Act-funded programs would be selected for audit.

In our discussions with state audit officials, many indicated that the above approach would not result in a significant increase in the number of major programs in the fiscal year 2009 Single Audit of their states. However, these officials are anticipating a much larger increase in the number of major programs for the fiscal year 2010 Single Audit in their respective states as Recovery Act funding is expended.

## Steps toward More Timely Reporting on Internal Controls over Recovery Act-Funded Programs

To provide additional focus on internal control reviews, OMB's August 6 guidance emphasized the importance of prompt corrective action by management. This guidance also encouraged early communication by auditors to management and those charged with governance of identified control deficiencies related to Recovery Act funding that are, or likely to be, significant deficiencies or material weaknesses. Such early communication is intended to allow management to expedite corrective action and mitigate the risk of improper expenditure of federal awards.

In our July 2009 report, we stated that OMB was encouraging communication of weaknesses to management early in the audit process but did not add requirements for auditors to take these actions. This step was insufficient and did not address our concern that internal controls over Recovery Act programs should be reviewed before significant funding is expended. Under the current Single Audit framework and reporting timelines, the auditor evaluation of internal control and related reporting will occur too late—after significant levels of federal expenditures have already occurred.

Auditors vary in the timing and formality of communication of internal control findings during the course of the audit. All of the auditors we interviewed indicated that they inform program management of deficiencies or potential deficiencies prior to the release of the Single Audit report. However, the auditors indicated a variety of means of reporting and of the anticipated level of government to which the reports will be made. One state audit office indicated that it plans to release interim reports on internal control to the governor, state legislature, and the heads of agencies responsible for administering Recovery Act funding. Several state auditors said they release a letter addressing internal control issues, including management responses to findings, after completion of audit fieldwork but before the release of the Single Audit report. Others said that the main means of early communication of audit findings was through verbal comments by auditors to program management.

Under the proposed pilot project announced by OMB on September 10, 2009, a limited number of voluntarily participating auditors performing the

Single Audits for states would communicate in writing internal control deficiencies noted in the Single Audit within 6 months of the 2009 fiscal year-end, rather than the 9 months required by the Single Audit Act. As currently envisioned, an auditor participating in the pilot would formally report internal control deficiencies identified in the course of the Single Audit to state and federal officials within 6 months of the end of the audited entity's fiscal year in order to achieve more timely accountability for selected Recovery Act-funded programs. Most states have a June 30 fiscal year-end; consequently, most of the preliminary internal control communications would be due by December 31, 2009. Participating auditors would be required to focus audit procedures on Recovery Act-funded programs in accordance with guidelines prescribed by OMB. OMB would offer to waive Circular A-133's requirement for risk assessment and audit procedures for smaller programs not receiving Recovery Act funding as an inducement to participate. OMB plans to identify the participating auditors and the programs that will be included by the end of September 2009. GAO believes that, if the pilot is properly implemented and achieves sufficient coverage of Recovery Act-funded programs, it may be effective in addressing concerns about the timeliness of Single Audit reporting related to internal control weaknesses in Recovery Act programs. The pilot is, however, still in its early stages and many surrounding issues are yet to be resolved. It is important to note that the pilot project is dependent on voluntary participation, which could impact OMB's ability to achieve sufficient scope and coverage for the project to meet its objectives.

## Providing Relief to Balance Expected Increased Workload

While OMB has noted the increased responsibilities falling on those responsible for performing Single Audits, it has not issued any proposals or plans to address this recommendation to date. Many state audit officials we talked with told us their offices have experienced severe cutbacks in staff, and several have multiple furlough days for all staff.

States and auditors volunteering to participate in OMB's proposed pilot program will be granted some relief in the workload because the auditor will not be required to perform risk assessments of smaller federal programs. Auditors conduct these risk assessments as part of the planning process to identify which federal programs will be subject to detailed internal control and compliance testing. In addition, OMB has indicated that additional relief may be granted to participants for low-risk programs not receiving Recovery Act funds.

Congress is currently considering a bill that could provide some financial relief to auditors lacking the staff capacity necessary to handle the increased audit responsibilities associated with the Recovery Act. S. 1064, which is currently before the Senate Committee on Homeland Security and Governmental Affairs, and its companion bill that was passed by the House, H.R. 2182, would amend the Recovery Act to provide for enhanced state and local oversight of activities conducted pursuant to the act. One key provision of the legislation would allow state and local governments to set aside 0.5 percent of Recovery Act funds, in addition to funds already allocated to administrative expenditures, to conduct planning and oversight. In its current form, this does not specifically address audit funding needs.

## Conclusions

Although OMB has taken some steps in response to our recommendations, significant uncertainties exist regarding the scope of the pilot project and its effectiveness as an accountability mechanism for reporting on internal controls over Recovery Act programs. Therefore, we are repeating our recommendation from our September 10, 2009, testimony that the Director of OMB take steps to achieve sufficient participation and coverage in the pilot project that provides early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

## Recommendations

**Accountability and Transparency**

To leverage Single Audits as an effective oversight tool for Recovery Act programs, the Director of OMB should

- provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with high risk have audit coverage in the area of internal controls and compliance;
- develop requirements for reporting on internal controls during 2009 before significant Recovery Act expenditures occur, as well as for ongoing reporting after the initial report;
- evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act;
- develop mechanisms to help fund the additional Single Audit costs and efforts for auditing Recovery Act programs; and

- take steps to achieve sufficient participation and coverage in the Single Audit pilot program that provides for early written communication of internal control deficiencies to achieve the objective of more timely accountability over Recovery Act funds.

To reduce the impact of untimely Single Audit reporting, the Director of OMB should

- Formally advise federal cognizant agencies to adopt a policy of no longer approving extensions of the due dates of single audit reporting package submissions beyond the nine month deadline, and

- Widely communicate this revised policy to the state audit community and others who have responsibility for the conducting single audits and submitting the single audit reporting package.

## Matter for Congressional Consideration

Because a significant portion of Recovery Act expenditures will be in the form of federal grants and awards, the Single Audit process could be used as a key accountability tool over these funds. However, in the Single Audit Act, enacted in 1984 and most recently amended in 1996, did not contemplate the risks associated with the current environment where large amounts of federal awards are being expended quickly through new programs, greatly expanded programs, and existing programs. The current Single Audit process is largely driven by the amount of federal funds expended by a recipient in order to determine which federal programs are subject to compliance and internal control testing. Not only does this model potentially miss smaller programs with high risk, but it also relies on audit reporting 9 months after the end of the grantee's fiscal year—far too late to preemptively correct deficiencies and weaknesses before significant expenditures of federal funds. Congress is considering a legislative proposal in this area and could address the following issues:

- 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.

- To the extent that additional coverage is needed to achieve accountability over Recovery Act programs, Congress should consider mechanisms to provide additional resources to support those charged with carrying out the Single Audit act and related audits.

## States Face Actual and Looming Revenue Shortfalls Cushioned by Recovery Act Funding

Since our July report, state revenues continued to decline and state budget officials anticipated continued fiscal stress cushioned by the temporary infusion of Recovery Act funds. Seven of the 16 selected states completed their fiscal year 2010 budgets since our July report and one state, Pennsylvania, continued to work toward agreement on the fiscal year 2010 budget even though its fiscal year began July 1.[101] In addition, Michigan and the District continue to negotiate their budgets in anticipation of fiscal years beginning October 1.[102] Some state budget officials also reported their use or planned use of reserve or rainy-day funds since our July report. State budget officials also discussed actions planned and taken to recover central administrative costs related to Recovery Act oversight implementation. Officials in some states told us they had or plan to seek reimbursement of their central administrative costs through methods outlined in OMB guidance, while officials in one state plan to absorb these costs.

Many of the selected states and the District continued to experience steep declines in revenue. For example, officials in Michigan's Economic Recovery Office said that in each month since our July report, revenue collections dropped below already declining state projections, thus creating the potential for a $2 billion budget shortfall by the end of the current fiscal year—which in Michigan ends September 30, 2009. Officials from Michigan's House Fiscal Agency estimate that the state's general fund revenues for the upcoming fiscal year may fall to levels not seen since the 1960's (after adjusting for inflation). In New York the use of Recovery Act funds, as well as other measures, had already addressed a $20.1 billion budget gap for fiscal years 2008-2009 and 2009-2010. Continued declining revenues have now contributed to an anticipated $2.1 billion budget shortfall by the end of the first quarter of the current fiscal year. According

[101]In July we reported that Mississippi did not have a fiscal year 2010 budget as of early June 2009; Mississippi's legislature approved the state's fiscal year 2010 budget on June 30, 2009.

[102]Not all jurisdictions have the same fiscal year. Most of the states we visited have fiscal years beginning July 1, with the following exceptions: The fiscal year for Texas begins on September 1; the fiscal year for the District of Columbia and Michigan begins October 1; and New York's fiscal year begins April 1.

to New York officials, the state's growing budget gap is due almost entirely to a reduction in state revenues. Officials in the Ohio Governor's Office also said they had revised revenue estimates. According to state officials, Ohio's revenue projections are nearly 6.5 percent below the amount included in the first budget submission developed for the current fiscal year just seven months ago in February 2009. Budget officials in Colorado responded to the current fiscal situation by asking most state agencies to submit revised fiscal year 2009-2010 budgets reflecting a ten percent reduction in expenditures from the appropriated levels. Georgia took similar steps and began fiscal year 2010 with a five percent withholding for all state agencies. Georgia budget officials are now asking agencies to submit budget reduction plans of four, six, and eight percent for the amended fiscal year 2010 and fiscal year 2011 budgets. New Jersey officials reported that projected base income and corporate tax revenues for fiscal year 2010 will likely come in less than the actual fiscal year 2005 collections for those taxes. Preliminary projections by California's Department of Finance indicated that the state's revenues could continue to deteriorate and result in a $7 billion shortfall during the current fiscal year, with potentially greater shortfalls in future years. California's Legislative Analyst's Office also expects the state will have cash flow deficits for the next three to five years.

At least two states, Ohio and Florida, have plans for new revenue sources to address declining tax receipts. Ohio's enacted budget relies on a new revenue source—proceeds from new video lottery terminals, while Florida officials expect cigarette surcharges, motor vehicle fees, and court fees to produce more than $2 billion in new revenues.

Officials in Illinois, Florida and Texas said they were somewhat optimistic that an economic recovery would produce increased revenues later in the current fiscal year or beginning in 2011. Officials from Illinois anticipated that the state will enact legislation that will increase tax revenues and provide the fiscal support necessary to transition into fiscal year 2011 without the need for additional fiscal stabilization funds from the Recovery Act. However, officials from many states did not share this outlook, and instead reported that they foresee continued revenue declines. In a few states, such as Arizona and Colorado, officials also projected increases in expenditures. Colorado officials, for example, anticipate that fiscal year 2011 will be, in their words, "brutal," resulting in additional budget cuts, while expenditures associated with Medicaid, corrections facilities, and higher educational enrollments are expected to increase.

All of the selected states and the District have at least one rainy day or reserve fund and, as reported in our April and July reports, states continued to use these reserve funds to address declining revenues. More than half of the 16 selected states used their rainy-day or reserve funds to address budget shortfalls in either fiscal year 2009, 2010 or both. For example, officials in Massachusetts used $1.39 billion in state rainy-day funds to help stabilize the state's budget during fiscal year 2009, and state officials anticipate using $214 million in rainy-day funds in fiscal year 2010. This would leave Massachusetts' rainy-day fund with a projected balance of $571 million at the end of fiscal year 2010. According to budget officials in a few states it is too soon to tell whether their revenue shortfalls will require them to tap into their reserve funds, sometimes for a second time, for their current fiscal year. New York and Texas, as well as the District of Columbia, specifically decided not to use their rainy-day funds to fill budget gaps—in fiscal year 2009-2010 for New York, in fiscal years 2009-2010 and 2010-2011 for the District or in biennium 2010-2011 for Texas. The reasons for this decision varied—the District, for example, chose not to use the reserves because according to officials, local law requires repayment within a short time frame. The Texas Governor's Office explained that it did not anticipate a need to use the rainy-day fund in their fiscal year 2010-2011 budget, adding that the fund is not a readily available option because approval for its use requires a supermajority vote of the state legislature. Arizona, Ohio, Florida, Michigan, and New Jersey have depleted, or nearly depleted, their formal rainy-day funds. However, while New Jersey used its entire rainy-day reserve to help close a $735 million budget gap for fiscal year 2009, the state also plans to set aside $500 million for fiscal year 2010. New Jersey state budget officials explained that rather than continue to fund their rainy-day fund, which has restricted uses, they plan to maintain the $500 million in a "free balance" account that budget officials can use for any purpose without restrictions.

## States Expressed Concerns Regarding the Feasibility of Recovering Central Administrative Costs and Have Proposed Alternate Methods

States recover administrative costs for federal grant programs pursuant to OMB Circular A-87 guidelines.[103] OMB also issued Memorandum 09-18 which applies A-87 guidelines to recouping central administrative costs related to Recovery Act programs.[104] States generally recover central administrative costs associated with federal grant programs, including the Recovery Act, after expenses are incurred.[105] OMB guidance does not provide additional funds for these costs, rather, it permits central costs to be recovered from program funds. To recover administrative costs, states submit a State-Wide Cost Allocation Plan (SWCAP)[106] annually to the Division of Cost Allocation (DCA) of the U.S. Department of Health and Human Services (HHS). With respect to Recovery Act central administrative costs, states are expected to update their SWCAP to include the costs of administering Recovery Act programs, as indicated in OMB Memorandum M-09-18. The OMB memorandum indicates that states can recover central administrative costs up to 0.5 percent of the total Recovery Act funds received by the state.

The guidance also identifies two alternatives by which states can recover central administrative costs for Recovery Act programs.

- **Allocated cost method:** States can use budgeted or estimated costs for Recovery Act administrative costs in the SWCAP submission, and costs must not total more than 0.5 percent of total Recovery Act funds received by the state. States must justify the services billed and the basis for the amounts estimated. Reconciliation between actual costs and claimed costs

[103]OMB Circular, No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (CFR, Part 225). OMB Circular No. A-87 established principles for determining the allowable administrative costs incurred by state, local and federally recognized Indian tribal governments.

[104]OMB Memorandum, M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Act Activities* (May 11, 2009). This memorandum clarifies and encourages states to utilize existing flexibilities to recover administrative costs related to carrying out Recovery Act programs and activities in a more timely manner.

[105]Other entities, such as colleges and universities, are able to recover administrative costs in an up-front manner pursuant to principles established by OMB Circular, No. A-21, *Cost Principles for Educational Institutions* (2 CFR, Part 220).

[106]The statewide cost allocation plan is a required document that identifies, accumulates, and allocates; or develops billing rates based on the allowable costs of services (e.g., accounting, purchasing, computer services, motor pools, fringe benefits, etc) provided by a governmental unit to its departments and agencies.

will be adjusted in the subsequent year review of the SWCAP by HHS.

- **Billed services method:** States can submit a methodology for identifying, recording, and charging administrative costs within the SWCAP and must detail the services provided and billing rates. Once approved, the methodology can be used to charge administrative program costs to state agencies that would recover these costs through billing the Recovery Act programs. Costs must not total more than 0.5 percent of total Recovery Act funds received by the state.

As shown in table 18, nine states and the District reported that they are moving forward with the administrative cost recovery process described in the OMB guidance. One state reported plans to absorb administrative costs. Iowa officials reported that the state had to absorb administrative costs because Recovery Act funds had already been allocated to programs through the state budget process and it was not possible to re-allocate funds for administrative purposes without state legislative approval. At least four states, Florida, Illinois, New York, and North Carolina are undecided about what they will do while four states, Arizona, California, Colorado, and Massachusetts have proposed alternative methods to HHS, discussed later in this section.

**Table 18: State Approaches to Recouping Recovery Act Administrative Costs**

| Using OMB alternatives | Absorbing costs | Undecided | Proposing alternative to OMB methods |
|---|---|---|---|
| Arizona, District of Columbia, Colorado, Georgia, Massachusetts, Michigan, New Jersey, Ohio, Pennsylvania, Texas | Iowa | Florida, Illinois, New York, North Carolina | Arizona, California, Colorado, Massachusetts |

Source: GAO analysis of interviews with state officials.

Note: Some state officials indicated they are utilizing more than one approach for example, using OMB alternatives and proposing alternative methods to HHS, therefore they are identified in the table in both categories.

Due to state officials' uncertainty regarding the central administrative cost recovery methods outlined in OMB's initial guidance, at least two states, Massachusetts and California, had concerns regarding which Recovery Act programs could be billed or charged to cover central administrative activities such as oversight and reporting. For instance, state officials said it was unclear whether some programs, such as Medicaid FMAP or competitive grant awards, could contribute toward the funding of these central administrative activities. OMB subsequently issued a FAQ on its Web site to clarify the process for recovering administrative costs.[107] This FAQ clarifies that all Recovery Act funds coming to the state as a prime recipient are eligible to be charged for central administrative costs unless otherwise subject to specific limitations or restrictions on central administrative cost recovery.[108] However, the FAQ does not explicitly state which programs are excluded when calculating the 0.5 percent for central administrative costs for Recovery Act programs.

### NASACT submitted a Proposal to Allow Waivers of Some Provisions of the SWCAP Process on Behalf of States; HHS Final Approval is Dependent on OMB

The National Association of State Auditors, Comptrollers, and Treasurers (NASACT) wrote a letter to OMB on August 7 to clarify states' responsibilities and propose a waiver of certain requirements of OMB Circular A-87, which governs the SWCAP process.[109] NASACT outlined two proposals. First, NASACT proposed waiving the requirement that states must depreciate equipment over the life of the equipment.[110] Second, NASACT proposed waiving the requirement that reimbursement be after the funds are expended rather than prior to the expenditures.
As stated in the letter, Recovery Act capital assets are needed primarily to fulfill reporting and compliance with Recovery Act mandates. NASACT's concern is that Recovery Act assets, primarily information technology, are needed for the Recovery Act period, which is shorter than the depreciation life cycle for these assets. In addition, according to the letter, Recovery Act funds have a substantial impact on state budgets and require a commitment of additional state resources for oversight and implementation. Timely reimbursement for these administrative costs is particularly essential for states during a time of fiscal stress.

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[107]See, http://www.whitehouse.gov/omb/recovery_faqs/.

[108]According to OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act* (June 22, 2009), the prime recipients are non-federal entities that receive Recovery Act funding as federal awards in the form of grants, loans, or cooperative agreements directly from the federal government.

[109]The National Association of State Auditors, Comptrollers and Treasurers (NASACT) is an organization of state auditors, comptrollers and treasurers in the 50 states, the District of Columbia, and U.S. territories who deal with the financial management of state government.

[110]Depreciation reflects the use of the asset(s) during specific operating periods in order to match costs with related revenues in measuring income or determining the costs of carrying out program activities.

At least four of the states we spoke with—Arizona, California, Colorado, and Massachusetts—expressed support for these proposals. Arizona and California were concerned that they would not be able to recover the full costs of depreciable equipment dedicated to Recovery Act purposes, since the equipment is expected to last longer than is needed for Recovery Act reporting periods. Many states, Arizona, California, Colorado, Illinois, Massachusetts, Mississippi, New York and Texas, also expressed frustration with using the traditional cost allocation method, whereby states estimate costs for each type of administrative cost using a separate methodology for each. California and Massachusetts proposed two alternate cost allocation methods to allow states to estimate costs and reconcile the differences later, and to allow states to allocate based on budget, respectively. Massachusetts' proposal, which mirrors the NASACT proposal, was submitted as part of its SWCAP addendum. State officials told us that HHS gave provisional approval of the proposal but stated that final approval is contingent on OMB approval of the waiver requested by NASACT. HHS is designated by OMB as the cognizant federal agency for reviewing, negotiating and approving cost allocation plans. According to HHS officials, HHS does not have the authority to grant Recovery Act central administrative cost waivers which are covered by OMB memorandums and circulars. OMB staff said they are continuing to review the NASACT waiver request.

## Concluding Observation and Recommendation

**Administrative cost reimbursement proposals:** State fiscal relief is one of the purposes of the Recovery Act. During a time when states are grappling with unprecedented levels of declining state revenues and fiscal stress, states continue to seek relief from additional pressures created by requirements to implement and comply with the Recovery Act. States play a central role in the prudent, timely and transparent expenditure of Recovery Act funds. To fulfill this role properly, states often take on additional fiscal and administrative burdens. These additional costs can exacerbate states' existing fiscal stress. Therefore it is critical for state governments to quickly and effectively build the necessary capacities to meet their reporting requirements and responsibilities under the Recovery Act. In order to achieve the delicate balance between robust oversight and the smooth flow of funds to Recovery Act programs, states may need timely reimbursement for these activities.

**Recommendation:** To the extent that the Director of OMB has the authority to consider mechanisms to provide additional flexibilities to support state and local officials charged with carrying out Recovery Act responsibilities, it is important to expedite consideration of alternative administrative cost reimbursement proposals.

## Crosscutting Recommendations

In addition to the cross-cutting recommendations to the Office of Management and Budget that follow, we have made recommendations to the Secretaries of Education, Housing and Urban Development, Labor, and Transportation within the body of the report. Recommendations are for Education's State Fiscal Stabilization Fund; HUD's Public Housing Capital Fund; Labor's Workforce Investment Act (WIA) Youth Program; and Transportation's Transit Capital Assistance and federal highways programs. The discussion on federal highways also includes an earlier recommendation on highway projects in economically distressed areas that has been implemented since our last report.

### Accountability and Transparency

Recipients of Recovery Act funding face a number of implementation challenges. The act includes new programs and significant increases in funds out of normal cycles and processes. There is an expectation that many programs and projects will be delivered faster so as to inject funds into the economy, and the administration has indicated its intent to ensure transparency and accountability over the use of Recovery Act funds.

**Recipient financial tracking and reporting:** OMB's guidance calls for the tracking of funds by the prime recipient, recipient vendors, and subrecipients receiving payments. OMB's guidance also allows that "prime recipients may delegate certain reporting requirements to subrecipients." Either the prime or subrecipient must report the D-U-N-S number (or an acceptable alternative) for any vendor or subrecipient receiving payments greater than $25,000. In addition, the prime recipient must report what was purchased and the amount, as well as a total number and amount for subawards of less than $25,000. By reporting the D-U-N-S number, OMB guidance provides a way to identify subrecipients by project, but this alone does not ensure data quality.

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

These concerns also pertain to recipient financial reporting and its federal reporting vehicle, www.federalreporting.gov. OMB guidance does not explicitly mandate a methodology for conducting quality reviews. Rather, federal agencies are directed to identify material omissions and significant reporting errors to "ensure consistency" in the conduct of data quality reviews. Although recipients and federal agency reviewers are required to perform data quality checks, none are required to certify or approve data for publication.

**Recommendation:** In our July 2009 report we recommended that to strengthen the effort to track the use of funds, the Director of OMB should (1) clarify what constitutes appropriate quality control and reconciliation by prime recipients, especially for subrecipient data, and (2) specify who should best provide formal certification and approval of the data reported.

**Status of recommendation:** Although OMB clarified that the prime recipient is responsible for www.federalreporting.gov data in its June 22 guidance, no statement of assurance or certification will be required of prime recipients on the quality of subrecipient data. Moreover, federal agencies are expected to perform data quality checks, but they are not required to certify or approve data for publication. We continue to believe that there needs to be clearer accountability for the data submitted and during the subsequent federal review process.

**Agency comments and our evaluation:** OMB agreed with the recommendation in concept but questioned the cost/benefit of data certification given the tight reporting time frames for recipients and federal agency reviewers. OMB staff stated that grant recipients are already expected to comply with data requirements appropriate to the terms and conditions of a grant. Furthermore, OMB will be monitoring the results of the quarterly recipient reports for data quality issues and would want to determine whether these issues are persistent problems before concluding that certification is needed.

We agree that OMB will need time to assess the data quality of recipient reports and that what it proposes to do is an important first step. We also recognize that there may be more than one way to ensure data quality and that a global requirement may not be the best approach. We will continue to monitor the situation.

## Reporting on Impact

States and localities are expected to report quarterly on a number of measures, including the use of funds and an estimate of the number of jobs created and the number of jobs retained as required by Section 1512 of the Recovery Act. In addition to statutory requirements OMB has directed federal agencies to collect performance information and to assess program accomplishments.

**Section 1512 recipient reporting:** Under the Recovery Act, responsibility for reporting on jobs created and retained falls to nonfederal recipients of Recovery Act funds. As such, states and localities have a critical role in identifying the degree to which Recovery Act goals are achieved. The unprecedented public disclosure on the use of these funds required by the act and the expectation that information will be updated quarterly to the federal government through a newly created system, www.federalreporting.gov, have raised concerns for reporting officials.

**Recommendation:** In our July 2009 report, we recommend that OMB work with federal agencies to provide program-specific examples to increase reporting consistency and to seek opportunities to educate state and local officials through Web- or telephone-based information sessions. Finally, we recommended that OMB and federal agencies clarify which new or existing performance measures should be used and data collected to demonstrate the impact of Recovery Act funding.[111]

**Status of recommendation:** In recent weeks, federal agencies have issued guidance that expands on the OMB June 22 governmentwide recipient reporting guidance and provided education and training opportunities for state and local program officials. Agency-specific guidance includes frequently asked questions—FAQs—and tip sheets. Additionally, agencies are expected to provide examples of recipient reports for their programs, which is consistent with what we recommended. We have not yet assessed the sufficiency of this additional guidance.

[111]According to OMB guidance, rather than establishing a new council, agencies are encouraged to leverage their existing Senior Management Councils to oversee Recovery Act performance across the agency, including risk management. The Senior Management Council should be composed of the Chief Financial Officer, Senior Procurement Executive, Chief Human Capital Officer, Chief Information Officer, Performance Improvement Officer, and managers of programmatic offices. The agency's Senior Accountable Official should also participate and assume a leadership role. Agencies should also consider having their Office of General Counsel and Office of Inspector General serve in advisory roles on the Senior Management Council.

In addition to the federal agency efforts, OMB has issued FAQs on Recovery Act reporting requirements. The June 22 guidance and subsequent actions by OMB are responsive to much of what we said in our April 2009 report. OMB is also preparing to deploy regional federal employees to serve as liaisons to state and local recipients in large population centers. The objective is to provide on-site assistance and, as necessary, direct questions to appropriate federal officials in Washington, D.C. OMB plans to establish a call center for entities that do not have an on-site federal liaison.

## Communications and Guidance

Since enactment of the Recovery Act in February 2009, OMB has issued three sets of guidance—on February 18, April 3, and June 22, 2009[112]—to, among other things, assist recipients of federal Recovery Act funds in complying with reporting requirements. OMB plans to respond as needed to questions that arise through FAQs and other forms of communication, including outreach efforts with the Recovery Accountability and Transparency Board for the first quarterly recipient report. Federal agencies are responsible for program-specific Recovery Act guidance.

**Funding notification and program guidance:** State officials expressed concerns regarding communication on the release of Recovery Act funds and their inability to determine when to expect federal agency program guidance. Once funds are released, there is no easily accessible, real-time procedure for ensuring that appropriate officials in states and localities are notified. Because half of the estimated spending programs in the Recovery Act will be administered by nonfederal entities, states wish to be notified when funds are made available to them for their use as well as when funding is received by other recipients within their state that are not state agencies.

OMB does not have a master timeline for issuing federal agency guidance. OMB's preferred approach is to issue guidance incrementally. This approach potentially produces a more timely response and allows for

[112]OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Apr. 3, 2009). This guidance supplements, amends, and clarifies the initial guidance, OMB Memorandum M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Feb. 18, 2009). OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

midcourse corrections; however, this approach also creates uncertainty among state and local recipients responsible for implementing programs. We continue to believe that OMB can strike a better balance between developing timely and responsive guidance and providing a longer range timeline that gives some structure to states' and localities' planning efforts.

**Recommendation:** In our April report, we recommended that to foster timely and efficient communications, the Director of OMB should develop an approach that provides dependable notification to (1) prime recipients in states and localities when funds are made available for their use, (2) states—where the state is not the primary recipient of funds but has a statewide interest in this information—and (3) all nonfederal recipients on planned releases of federal agency guidance and, if known, whether additional guidance or modifications are recommended.

**Status of recommendation:** OMB has made important progress in notifying recipients when Recovery Act funds are available, communicating the status of these funds at the federal level through agency *Weekly Financial Activity* reports, and disseminating Recovery Act guidance broadly while actively seeking public and stakeholder input. Beginning August 28, OMB has taken the additional step of requiring federal agencies to notify recovery coordinators in states, the District of Columbia, commonwealths, and territories within 48 hours of an award to a grantee or contractor in their jurisdiction. This latest effort may provide the real-time notification we recommend. We will continue to monitor the situation and will report on the effectiveness of OMB's approach in a future report.

We continue to recommend the addition of a master schedule for anticipated new or revised federal Recovery Act program guidance and a more structured, centralized approach to making this information available, such as what is provided at www.recovery.gov on recipient reporting.

We are sending copies of this report to the Office of Management and Budget and to the Departments of Education, Labor, Housing and Urban Development, and Transportation. In addition, we are sending sections of the report to the officials in the 16 states and the District covered in our review. The report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-5500. 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 major contributions to this report are listed in appendix IV.

Gene L. Dodaro
Acting Comptroller General of the United States

*Addressees*

The Honorable Robert C. Byrd
President Pro Tempore of the Senate

The Honorable Harry Reid
Majority Leader
United States Senate

The Honorable Mitch McConnell
Republican Leader
United States Senate

The Honorable Nancy Pelosi
Speaker of the House of Representatives

The Honorable Steny Hoyer
Majority Leader
House of Representatives

The Honorable John Boehner
Minority Leader
House of Representatives

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

The Honorable Dave Obey
Chairman
The Honorable Jerry Lewis
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 Edolphus Towns
Chairman
The Honorable Darrell E. Issa
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

# Appendix I: Objectives, Scope, and Methodology

This appendix describes our objectives, scope, and methodology (OSM) for this second of our bimonthly reviews on the Recovery Act. A detailed description of the criteria used to select the core group of 16 states and the District of Columbia (District) and programs we reviewed is found in appendix I of our April 2009 Recovery Act bimonthly report.[1]

## Objectives and Scope

The Recovery Act specifies several roles for GAO, including conducting bimonthly reviews of selected states' and localities' use of funds made available under the act. As a result, our objectives for this report were to assess (1) selected states' and localities' uses of and planning for Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they have received to date.

Our teams visited the 16 selected states, the District, and a non-probability sample of 168 localities during July and August 2009.[2] As described in our previous Recovery Act report's OSM, our teams met again with a variety of state and local officials from executive-level and program offices. During discussions with state and local officials, teams used a series of program review and semistructured interview guides that addressed state plans for management, tracking, and reporting of Recovery Act funds and activities. We also reviewed state constitutions, statutes, legislative proposals, and other state legal materials for this report. Where attributed, we relied on state officials and other state sources for description and interpretation of state legal materials. Appendix II details the states and localities visited by GAO. Criteria used to select localities within our selected states follow.

## States' and Localities' Uses of Recovery Act Funds

Using criteria described in our earlier bimonthly reports, we selected the following streams of Recovery Act funding flowing to states and localities for review during this report: increased Medicaid Federal Medical Assistance Percentage (FMAP) grant awards; the Federal-Aid Highway Surface Transportation Program; the State Fiscal Stabilization Fund

[1] 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).

[2] States selected for our longitudinal analysis are Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas.

(SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA); Parts B and C of the Individuals with Disabilities Education Act (IDEA); the Workforce Investment Act (WIA) Youth program; the Public Housing Capital Fund; the Transit Capital Assistance Program, and the Weatherization Assistance Program. We also reviewed how Recovery Act funds are being used by states to stabilize their budgets. In addition, we analyzed www.recovery.gov data on federal spending.

## Medicaid Federal Medical Assistance Percentage

For the increased FMAP grant awards, we obtained increased FMAP draw down figures for each state in our sample and the District from the Centers for Medicare & Medicaid Services (CMS). To examine Medicaid enrollment, changes to states' Medicaid programs, states' efforts to comply with the provisions of the Recovery Act, and related information, we relied on our web-based inquiry, asking the 16 states and the District to provide new information as well as to update information they had previously provided to us. We also spoke with CMS officials regarding CMS oversight of increased FMAP grant awards and funds drawn down by states, and guidance to states on Recovery Act provisions.

## Federal-Aid Highway Surface Transportation Program

For highway infrastructure investment, we reviewed status reports and guidance to the states and discussed these with the U.S. Department of Transportation (DOT) and Federal Highway Administration (FHWA) officials. We obtained data from FHWA on obligations, reimbursements, and types of projects funded with Recovery Act highway infrastructure funds nationally and for the District and each of the 16 states selected for our last Recovery Act report. From state DOT officials, we obtained information on the status of projects and contracts, including the number of projects planned, out for bid, awarded and completed. We interviewed contracting and state highway officials for two highway projects in each selected state, and collected information to assess how states manage and oversee the significant additional amounts of funding they receive for Recovery Act projects.

We interviewed officials from departments of transportation and metropolitan planning organizations in four states—Arizona, Massachusetts, New Jersey, and Ohio—to determine what plans the states have for using Recovery Act funds in metropolitan areas. We selected these four states because they had the lowest obligation rates for suballocated areas among the states we reviewed. To obtain information on the designation of Economically Distressed Areas, we interviewed officials from the U.S. Department of Transportation and the Economic

Development Administration (EDA) within the U.S. Department of Commerce.

## SFSF, ESEA Title I, and IDEA

To understand how the U.S. Department of Education (Education) is implementing SFSF, ESEA Title I, and IDEA under the Recovery Act and monitoring states' use of Recovery Act funds, we reviewed relevant laws, guidance, and communications to the states and interviewed Education officials. For SFSF, Title I, and IDEA, we obtained data from Education on the amount of funds made available to the 16 states and the District of Columbia covered by our review and the amount of funds these states have drawn down from their accounts with Education. Also, from these states we obtained data on local education agencies' (LEAs) expenditures of SFSF, Title I, and IDEA Recovery Act funds. To learn about expenditures of SFSF funds by institutions of higher education (IHEs), we obtained expenditure data from 6 states covered by our review— Arizona, Colorado, Illinois, Iowa, North Carolina, and Ohio. We reviewed relevant documents, spoke with state officials, or visited local areas to learn about specific issues related to Recovery Act funds for education programs in Arizona, California, Colorado, the District of Columbia, Illinois, Iowa, Massachusetts, Mississippi, New Jersey, North Carolina, and Ohio.

## WIA

We reviewed the Recovery Act-funded WIA Youth program in 10 of our 16 states (California, Florida, Georgia, Illinois, Massachusetts, Michigan, New York, Ohio, Pennsylvania, and Texas). We primarily focused on the results of local efforts to provide summer youth employment activities. To learn about program implementation and operation, the use and oversight of funds, and the challenges faced, we interviewed local workforce development officials in all 10 states for a total of 21 local areas. We also designed and implemented an email survey to gather information about state expenditures and spending targets, the number of expected and actual participants and their characteristics, monitoring activities and safeguards, and the measurement of post-program outcomes related to WIA summer youth work activities. We sent our survey to state workforce development officials in all 10 states and achieved a 100 percent response rate. We obtained and reviewed state portions of monitoring plans. We also reviewed relevant documents obtained from state and local officials. In addition, we supplemented our work in the 10 states by analyzing national data on the characteristics of youth participating in Recovery Act-funded WIA youth activities and the extent to which funds have been drawn down. We also reviewed Labor's guidance to states and local areas on Recovery Act funds.

## Public Housing Capital Fund

For Public Housing, we obtained data from HUD's Electronic Line of Credit Control System (ELOCCS) on the amount of Recovery Act funds that have been obligated and drawn down by each housing agency in the country, and calculated rates of obligating and drawing down funds using these data. We reviewed statements made by officials at selected housing agencies during earlier interviews with GAO and the plans for Recovery Act funds submitted to HUD by selected housing agencies in order to understand the nature of Recovery Act projects and to help explain patterns in rates of obligating and drawing down Recovery Act funds. To obtain the current status of HUD's Capital Fund Recovery Competition, we interviewed agency officials and analyzed data on number of applications available on HUD's web site. We also reviewed agency documents, laws, and regulations applicable to the competition. To learn about HUD's initiatives on recipient reporting, we interviewed knowledgeable officials about the Department's plans to develop reporting solutions to enable Recovery Act grant recipients to meet the requirements of the law. To gain knowledge of reporting requirements, we reviewed relevant documentation on recipient reporting from the Office of Management and Budget. We also interviewed officials from public housing industry groups to get their views on the competitive grant application process and the recipient reporting requirements. We obtained information from HUD's Monitoring and Planning System (MAPS) as of June 10, 2009 to identify housing agencies with open Single Audit findings and determine the amount of Recovery Act funds that have been allocated to such housing agencies. We also interviewed HUD officials to understand their procedures for monitoring housing agency use of Recovery Act funds and identify specific actions that are being taken to close open findings.

We assessed the reliability of the data by (1) interviewing agency officials knowledgeable about the data, and (2) examining data elements used in our work by comparing actual with anticipated values and with published data. For the ELOCCS data, we obtained explanations on inconsistencies we found in the data from agency officials. For the MAPS data, we obtained written explanations of the procedures HUD undertakes to determine the accuracy of the data. We determined that the data were sufficiently reliable for the purposes of this report.

## Transit Capital Assistance Program

For Recovery Act public transit investment, we focused on the Federal Transit Administration's (FTA) Transit Capital Assistance Program. Based on Recovery Act funds apportioned to urbanized and nonurbanized areas, we chose to focus our work on a geographically dispersed mix of urbanized and nonurbanized areas in eight states—California, Colorado, Georgia, Illinois, Massachusetts, New Jersey, New York, and Pennsylvania—and the District of Columbia. We reviewed status reports and guidance to the states and discussed these with U.S. Department of Transportation (DOT) and FTA officials. To determine the current status of transit funding, we obtained data from FTA on obligations and unobligated balances for Recovery Act grants nationally and for each of our selected urbanized and nonurbanized areas, and the numbers and types of projects funded. We reviewed information from selected urbanized and nonurbanized areas to include how projects were chosen, how funds were used and how progress was reported and we compared that to project schedules and milestones, when available. To determine how transit agencies and states are ensuring the accountability of funds and addressing reporting requirements, we reviewed the guidance each state uses to meet reporting requirements, including reporting on project status, subcontracts and estimated jobs created.

## Weatherization Assistance Program

For the Weatherization Assistance Program, we reviewed relevant regulations and federal guidance and interviewed Department of Energy officials who administer the program at the federal level. We also coordinated activities with officials from the Department's Office of Inspector General. In addition, we collected information from 14 states. We conducted semi-structured interviews of officials in the states' energy agencies that administer the weatherization program. We collected data about each state's total allocation for weatherization under the Recovery Act, as well as the allocation already provided to the states. We asked DOE officials about the status of state energy plan reviews and met with Department of Labor officials to discuss the status of their prevailing wage survey for weatherization workers. Finally, we reviewed the state weatherization plans to determine how each state intends to allocate their funds and the outcomes they expect.

## State Budget Stabilization

To further understand how states and the District continue to use Recovery Act funds to stabilize government budgets we reviewed enacted and proposed state budgets and revenue estimates for state fiscal years 2008-2009 and 2009-2010. We interviewed state budget and legislative officials to determine how states are using Recovery Act funds to avoid reductions in essential services, using "rainy day" funds, closing budget gaps and developing exit strategies to plan for the end of Recovery Act funding. In addition, we interviewed state and federal officials and analyzed relevant federal guidance to determine how states and the

District are recouping Recovery Act centralized administrative overhead costs.

## Assessing Safeguards and Internal Controls

To determine how states are planning for the recipient reporting requirements of the Recovery Act, the teams for the 16 states and the District asked cognizant officials to describe the responsibility for recipient reporting, guidance that has been issued to state agencies and subrecipients, monitoring plans, and policies and procedures that have been developed for recipient reporting. We also reviewed relevant recipient reporting guidance issued by OMB. For single audit, we reviewed the OMB guidance and discussed with relevant OMB staff the Single Audit reports and guidance. We also discussed Single Audit risks and review of early design of internal control with State Auditors. In addition, we analyzed how OMB was addressing the recommendations related to the Single Audit in the April and July 2009 Recovery Act reports.

# Data and Data Reliability

We collected funding data from www.recovery.gov and federal agencies administering Recovery Act programs for the purpose of providing background information. We used funding data from www.recovery.gov—which is overseen by the Recovery Accountability and Transparency Board—because it is the official source for Recovery Act spending information. We collected data on states' and localities' uses and tracking of Recovery Act funds during interviews and follow-up meetings with state officials. Based on our limited examination of this information thus far, we consider these data sufficiently reliable with attribution to official sources for the purposes of providing background information on Recovery Act funding for this report. Our sample of selected states and localities is not a random selection and therefore cannot be generalized to the total population of state and local governments.

We conducted this performance audit from July 3rd, 2009, to September 18th, 2009, 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.

# Appendix II: Comments from the Department of Labor

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

SEP 18 2009

Mr. J. Christopher Mihm
Managing Director for Strategic Issues
U.S. Government Accountability Office
441 G. Street, N.W.
Washington, D.C. 20548

Dear Mr. Mihm:

Thank you for the opportunity to review and comment on the section pertaining to Workforce Investment Act (WIA) Youth summer employment activities from the Government Accountability Office (GAO)'s September 2009 bi-monthly draft report on the American Recovery Act and Reinvestment Act (Recovery Act).

The U.S. Department of Labor (the Department) has two key roles in the Recovery Act effort: providing worker training for the jobs created or saved; and easing the burden of the recession on workers and employers by providing extended and expanded unemployment benefits and assisting and educating them regarding expanded access to continued health benefits. The Department received $44.9 billion, of which $1.2 billion was designated to provide funds for Workforce Investment Act (WIA) youth activities, including summer youth employment.

Although the Department's timeframe to review and draft a response to the draft report was limited, the Department has done its best to complete its initial review and provide thoughtful responses to GAO's two recommendations.

GAO made two recommendations in this report:

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

**To enhance the usefulness of data on work readiness outcomes, the Secretary of Labor should provide additional guidance on how to measure work readiness of youth, with a goal of improving the comparability and rigor of the measure.**

The Department of Labor agrees with both of these recommendations. In response to the recommendation to provide additional guidance on green jobs, the Department recognizes the need to provide assistance to states and local workforce areas to assist them in preparing youth for careers in green industries. In addition to continuing to work to support the state and local workforce system through guidance and technical assistance, the Department has several significant efforts underway.

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Directly related to WIA Youth, the Department currently is planning two Recovery Act WIA Youth technical assistance forums in November and December of 2009. A primary focus of these forums will be preparing youth for careers in green industries and identifying the necessary training and appropriate work experiences to assist youth in green career pathways.

In addition, the Department of Labor's Bureau of Labor Statistics (BLS) is developing a definition for green sectors and green jobs that will inform state and local workforce development efforts to identify and target the green jobs and their training needs. The Department also has supported occupational research that begins to: define green jobs; review industry sectors impacted by green investments; and gain a better understanding about how new, green technologies and materials will affect various occupational requirements. The Department has funded the Occupational Information Network (O*NET) project which produced a research paper titled, Greening of the World of Work: Implications for O*NET-SOC and New and Emerging Occupations. This study reflects three general categories of occupations, based on different consequences of green economy activities and technologies: (1) existing occupations expected to experience primarily an increase in employment demand; (2) existing occupations with significant change to the work and worker requirements; and (3) new and emerging green occupations. The Department hopes that this research will be used as a starting point for identifying green industries and occupations and informing the development of training and job placement programs.

Finally, the Recovery Act provided the Department of Labor with $500 million to prepare workers to pursue careers in energy efficiency and renewable industries. On June 24, 2009, Secretary Solis announced five grant competitions which made funds available for research, labor exchange and job training projects. One of these competitive opportunities, the State Labor Market Information Improvement Grants, will fund state workforce agencies to collect, analyze and disseminate labor market information to educate individuals about careers in green industries. Sponsored by the Department, the green jobs research conducted by state workforce agencies and consortia of these agencies will provide valuable resources for the delivery of services to youth (and others) along green career pathways. Further, through additional competitive grant opportunities, funded through both the Recovery Act and the proposed FY 2010 Green Jobs Innovation Fund, the Department will provide green job training to individuals 18 and over. The Department will evaluate these experiences, gather examples and models from different grantees, and share what works through technical assistance efforts.

In response to GAO's recommendation on the work readiness measure, the Department recognizes that the flexibility provided by the Department's guidance for measuring work readiness leads to a lack of consistency among states in how the attainment of work readiness skills is measured. Given the short time frame to implement summer employment under the Recovery Act, the Department opted to remain consistent with the definition of a work readiness skill gain as measured under the WIA skill attainment rate. This current definition provides a framework for measuring work readiness, but allows for state and/or local flexibility in assessment instruments and what constitutes a gain so as not to create an additional burden on states and local areas. While the work readiness indicator is meaningful in a specific local area, it becomes less meaningful at the state and national level due to the lack of comparability.

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Through its WIA Youth Recovery Act process evaluation and through regional monitoring visits, the Department currently is assessing the methodologies used this summer to measure work readiness. Based on the information gathered, the Department plans to further refine the work readiness indicator and determine a more effective way of measuring work readiness. In the event that a significant number of local areas have Recovery Act funds available for summer employment in 2010, or if the Department receives funds for future summer employment activities where the work readiness measure is used to assess the effectiveness of summer employment, the Department will issue further guidance for measuring work readiness that allows for the reporting of more consistent and meaningful data. In either case, the Department will provide technical assistance to states and local areas on effective ways to measure work readiness based on the information learned this summer and further research on best practices.

GAO's report asserts that "...flexibilities given to states and local areas in how they measure work readiness ... provide little understanding of what the program actually achieved." While the Department acknowledges that the work readiness measure, when aggregated at the national level, limits comparability, the Department believes the work readiness indicator does offer valuable data on the achievement of work readiness skills gained at the local level. The Department recommends qualifying the finding to state that the while the measure provides challenges with comparability at the national level, it is meaningful at the local level.

If you would like additional information, please do not hesitate to call me at (202) 693-2700.

Sincerely,

Jane Oates

Jane Oates
Assistant Secretary

# Appendix III: Local Entities Visited by GAO in Selected States and the District of Columbia

**Table 19: Location of Highway Projects Visited by GAO**

| States and the District of Columbia | City/location | Name |
|---|---|---|
| Florida | Chipley | Florida Department of Transportation |
| | Lake City | Florida Department of Transportation |
| Georgia | Atlanta | Georgia Department of Transportation |
| | Lawrenceville | Gwinnett County Department of Transportation |
| Illinois | Chicago | Chicago Department of Transportation |
| | Grundy County | Illinois Department of Transportation |
| Iowa | Atlantic | Cass County Engineer's Office |
| | Council Bluffs | Iowa Department of Transportation-District 4 |
| | Des Moines | Polk County Public Works Department |
| | Sioux City | Iowa Department of Transportation-District 3 |
| Massachusetts | Boston | Boston Region Metropolitan Planning Organization |
| | Taunton | Southeastern Massachusetts Metropolitan Planning Organization |
| Michigan | Flint | Genesee County Road Commission |
| Mississippi | Covington | US 49 from N of Seminary |
| | Gulfport | Gulf Regional Planning Commission |
| | Hattiesburg | Hattiesburg-Petal-Forrest-Lamar Metropolitan Planning Organization |
| | Jackson | Central Mississippi Planning and Development District |
| | Panola | Benson-Herron Road Bridge Reconstruction |
| | Panola | Mt. Level Road Bridge Reconstruction |
| New York | Albany | Albany County |
| | Between the Town of Verona and the City of Rome | Oneida County |
| North Carolina | Edenton | North Carolina Department of Transportation Highway Division 1 |
| | Raleigh | Federal Highway Administration-North Carolina Division |
| | Raleigh | North Carolina Department of Transportation |
| | Wilson | North Carolina Department of Transportation Highway Division 4 |
| Ohio | Cincinnati | Ohio-Kentucky-Indiana Regional Council of Governments (OKI) |
| | Cleveland | Northeast Ohio Areawide Coordinating Agency (NOACA) |
| | Columbus | Mid-Ohio Regional Planning Commission (MORPC) |
| | Dayton | Miami Valley Regional Planning Commission (MVRPC) |
| Pennsylvania | Bedford | Bedford County |
| | Chester | Chester County |

Source: GAO.

**Table 20: Location of Transit Projects Visited by GAO**

| States and the District of Columbia | City/county | Name |
|---|---|---|
| California | Los Angeles | Los Angeles County Metropolitan Transportation Authority |
| | Los Angeles | Southern California Association of Governments |
| | Orange | Orange County Transportation Authority |
| | Stockton | San Joaquin Council of Governments |
| | Stockton | San Joaquin Regional Rail Commission |
| | Stockton | San Joaquin Regional Transit District |
| Colorado | Denver | RTD-Denver |
| | Summit County | Summit Stage |
| Georgia | Atlanta | Metropolitan Atlanta Rapid Transit Authority (MARTA) |
| | Lawrenceville | Gwinnett County Transit |
| Illinois | Chicago | Chicago Metropolitan Agency For Planning |
| | Chicago | Chicago Transit Authority |
| | Chicago | Metra |
| Massachusetts | Boston | Massachusetts Bay Transportation Authority |
| | Springfield | Valley Transit Authority |
| New York | Fort Edward | Adirondack/Glens Falls Transportation Council |
| | New York | Metropolitan Transportation Authority |
| | New York | New York Metropolitan Transportation Council |
| | Queensbury | Greater Glens Falls Transit |
| Pennsylvania | Butler | Butler Transit Authority |
| | Philadelphia | Delaware Valley Regional Planning Commission |
| | Philadelphia | Southeastern Pennsylvania Transportation Authority |
| | Pittsburgh | Port Authority of Allegheny County |
| | Pittsburgh | Southwestern Pennsylvania Commission |

Source: GAO.

Table 21: Educational Institutions Visited by GAO (to Review Use of State Fiscal Stabilization Fund)

| States and the District of Columbia | City | Name |
|---|---|---|
| Arizona | Tempe | Arizona State University |
| | Tempe | Maricopa Community College |
| District of Columbia | Washington | District of Columbia Public Schools |
| | Washington | Friendship Public Charter School |
| | Washington | William E. Doar, Jr. Public Charter School |
| Iowa | Ames | Iowa State University |
| | Creston | Southwestern Community College |
| North Carolina | Hertford | Perquimans County Schools |
| | Lincolnton | Lincoln County Schools |
| Ohio | Wilberforce | Central State University |

Source: GAO.

Table 22: School Districts Visited by GAO (Local School Districts: Title I-LEA, IDEA)

| States and the District of Columbia | City | Name |
|---|---|---|
| District of Columbia | Washington | District of Columbia Public Schools |
| | Washington | Friendship Public Charter School |
| | Washington | William E. Doar, Jr. Public Charter School |
| Illinois | Chicago | Chicago Public Schools |
| Michigan | Detroit | Detroit Federation of Teachers |
| | Detroit | Detroit Public Schools |
| | Lansing | MI Association of School Boards |
| | Lansing | MI Education Association |
| | Wayne | Wayne County Regional Educational Service Agency |
| Mississippi | Brandon | Rankin County Public Schools |
| | Greenville | Greenville Public Schools |
| | Jackson | Jackson Public School District |

Source: GAO.

**Table 23: Workforce Investment Act Youth Programs Visited by GAO**

| States and the District of Columbia | City/county | Name |
|---|---|---|
| California | Los Angeles | Boyle Heights Technology Youth Center |
| | Los Angeles | Clean & Green |
| | Los Angeles | Los Angeles Community Development Department |
| | Los Angeles | LA Conservation Corps |
| | Los Angeles | Million Trees LA |
| | San Francisco | African American Art & Culture Complex |
| | San Francisco | Bayview Opera House/Urban YMCA |
| | San Francisco | Larkin Street Youth Services |
| | San Francisco | San Francisco Office of Economic and Workforce Development |
| | San Francisco | TJ Maxx |
| | San Francisco | Vietnamese Youth Development Center |
| Florida | Broward | Workforce One, Employment Solutions |
| | Hillsborough | Tampa Bay WorkForce Alliance |
| Georgia | Atlanta | Atlanta Regional Workforce Board |
| | Atlanta | Ashton Staffing, Inc |
| | Augusta | Richmond/Burke Job Training Authority, Inc |
| | Duluth | CorVel Healthcare Corporation |
| | Riverdale | Hearts to Nourish Hope |
| | Savannah | Coastal Workforce Services |
| | Savannah | The Paxen Group |
| | Savannah | Savannah Impact Program |
| | Savannah | Telamon Corporation |
| Illinois | Chicago | Central States Ser -Jobs for Progress, Inc. |
| | Chicago | Chicago Department of Family Support Services |
| | Chicago | Chicago Workforce Board |
| | Chicago | Museum of Science and Industry |
| | Kankakee | Community Foundation of Kankakee River Valley |
| | Kankakee | Grundy-Livingston-Kankakee Workforce Board |
| | Kankakee | Kankakee Community College |
| | Kankakee | Kankakee Community Resource Center |
| Massachusetts | Lawrence | Merrimack Valley Workforce Investment Board |
| | Worcester | Central Massachusetts Regional Employment Board |
| Michigan | Detroit | CVS/pharmacy |
| | Detroit | Detroit Workforce Development Department |
| | Detroit | Young Detroiter Magazine |

| States and the District of Columbia | City/county | Name |
|---|---|---|
| | Lansing | Eaglevison Ministries |
| | Lansing | Inghan County School Districts |
| | Lansing | Sparrow Health System |
| | Lansing | Spartan Internet Consulting Corporation |
| New York | Rome | Resource Center for Independent Living |
| | Utica | Oneida County Workforce Development |
| | Utica | Mohawk Valley Community College |
| | Utica | Utica Municipal Housing Authority |
| Ohio | Columbus | The Center for Automotive Research (CAR) |
| | Columbus | Central Ohio Workforce Investment Corporation (COWIC) |
| | Columbus | Centro Esperanza Latina |
| | Columbus | Columbus State Community College Center for Workforce Development |
| | Columbus | Godman Guild Association |
| | Columbus | The Publishing Group Ltd. |
| | Dayton | Allstate Insurance Company |
| | Dayton | Area 7 Workforce Investment Board |
| | Dayon | Encore Consignments & More |
| | Dayton | Montgomery County Department of Job and Family Services (MCDJFS) |
| | Marysville | Union County Department of Job and Family Services |
| Pennsylvania | Harrisburg | South Central Workforce Investment Board |
| | Philadelphia | Philadelphia Workforce Investment Board |
| Texas | Arlington | North Central Workforce Development Board |
| | Houston | Gulf Coast Workforce Development Board |

Source: GAO.

**Table 24: Weatherization Programs Visited by GAO**

| States and the District of Columbia | City | Name |
|---|---|---|
| Arizona | Flagstaff | Northern Arizona Council of Governments (NACOG) |
| | Phoenix | Arizona Department of Commerce (ADOC) Energy Office |
| | Phoenix | City of Phoenix, Neighborhood Services Department |
| | Phoenix | FSL Home Improvements Southwest Building Science Training Center |
| Colorado | Denver | Arapahoe County |
| | Grand Junction | Housing Resources of Western Colorado |
| Florida | Live Oak | Suwannee River Economic Council, Inc. |

| States and the District of Columbia | City | Name |
|---|---|---|
| Iowa | Des Moines | Polk County Public Works Department |
| | Harlan | West Central Community Action Agency |
| Mississippi | D'Lo | South Central Community Action Agency |
| | Greenville | Warren Washington Issaquena Sharkey Community Action Agency |
| | Jackson | Mississippi Department of Human Services - Division of Community Services |
| | Jackson | Mississippi Department of Human Services - Division of Program Integrity |
| | Meridian | Multi-County Community Service Agency |
| North Carolina | Raleigh | Department of Health and Human Services Office of Economic Opportunity |
| New Jersey | Burlington | Burlington County Community Action Program |
| | Trenton | New Jersey Housing Mortgage and Finance Agency |
| New York | Centereach | Community Development Corporation of Long Island |
| | Syracuse | People's Equal Action and Community Effort, Inc. |
| Ohio | Columbus | Mid-Ohio Regional Planning Commission (MORPC) |
| | Dayton | Community Action Partnership of the Greater Dayton Area |

Source: GAO.

**Table 25: Localities Visited by GAO to Assess Other Recovery Act Programs and Issues**

| States and the District of Columbia | City | Name |
|---|---|---|
| District of Columbia | Washington | District of Columbia Housing Authority |
| Michigan | Flint | City of Flint |
| North Carolina | Bethel | Bethel |
| | Hendersonville | Hendersonville |
| | Raleigh | North Carolina Office of Economic Recovery and Investment |
| | Williamston | Williamston |
| | Woodfin | Woodfin |

Source: GAO.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

# THE ECONOMIC IMPACT OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

## FIRST QUARTERLY REPORT

SEPTEMBER 10, 2009

## The Economic Impact of the American Recovery and Reinvestment Act of 2009
## First Quarterly Report

### Executive Summary

As part of the unprecedented accountability and transparency provisions included in the American Recovery and Reinvestment Act of 2009 (ARRA), the Council of Economic Advisers was charged with providing to Congress quarterly reports on the effects of the Recovery Act on overall economic activity, and on employment in particular. In this first report, we provide an assessment of the effects of the Act in its first six months.

Evaluating the impact of countercyclical macroeconomic policy is inherently difficult because we do not observe what would have happened to the economy in the absence of policy. And the sooner the evaluation is done after passage, the less data one has about key economic indicators. Any estimates of the impact of the ARRA at this early stage must therefore be regarded as preliminary and understood to be subject to considerable uncertainty. In this regard, it is important to note that there has not yet been any direct reporting by recipients of ARRA funds on job retention and creation. Such direct reporting data will be evaluated and incorporated in future reports.

Because of the inherent difficulties in the analysis, we approach the task of estimating the impact of the Recovery Act from a number of different directions. Our multi-faceted analysis suggests that the ARRA has had a substantial positive impact on the growth of real gross domestic product (GDP) and on employment in the second and third quarters of 2009. That various approaches yield similar estimates increases the confidence one can have in the results.

Among the key finding of the study are:

- As of the end of August, $151.4 billion of the original $787 billion has been outlaid or has gone to American taxpayers and businesses in the form of tax reductions. An additional $128.2 billion has been obligated, which means that the money is available to recipients once they make expenditures. The areas where stimulus has been largest in the first six months are individual tax cuts, state fiscal relief, and aid to those most directly hurt by the recession. That recovery funds have gone out rapidly certainly increases the probability that the Act has been effective in its first six months.

- Following implementation of the ARRA, the trajectory of the economy changed materially toward moderating output decline and job loss. The decomposition of the GDP and employment change by components or sector suggests that the ARRA has played a key role in this change of trajectory.

- Estimates of the impact of the ARRA made by comparing actual economic performance to the predictions of a plausible, statistical baseline suggest that the Recovery Act added roughly 2.3 percentage points to real GDP growth in the second quarter and is likely to add even more to growth in the third quarter.

- This analysis indicates that the ARRA and other policy actions caused employment in August to be slightly more than 1 million jobs higher than it otherwise would have been. We estimate that the Act has had particularly strong effects in manufacturing, construction, retail trade, and temporary employment services. The employment effects are distributed across states, with larger effects in states more severely impacted by the recession.

- In addition to the estimates based on statistical projection, we provide estimates of the effects of the ARRA from standard economic models. Both our multiplier analysis and estimates from a wide range of private and public sector forecasters confirm the estimates from the statistical projection analysis. There is broad agreement that the ARRA has added between 2 and 3 percentage points to baseline real GDP growth in the second quarter of 2009 and around 3 percentage points in the third quarter. There is also broad agreement that it has likely added between 600,000 and 1.1 million to employment (again, relative to what would have happened without stimulus) as of the third quarter.

- Fiscal stimulus appears to be effective in mitigating the worldwide recession. Nearly every industrialized country and many emerging economies responded to the severe financial crisis and recession by enacting fiscal stimulus. However, countries differed greatly in the size of their fiscal actions. We find that countries that adopted larger fiscal stimulus packages have outperformed expectations relative to those adopting smaller packages.

- State fiscal relief was one of the ways in which the Recovery Act was able to provide support for the economy most quickly, and it played a critical role in helping states facing large budget shortfalls because of the recession. Our analysis indicates that state fiscal relief increased employment at the state level relative to what would have happened without stimulus. Thus, this analysis both provides evidence of how one particular type of fiscal stimulus impacts the economy and corroborates the more fundamental finding that fiscal stimulus in general is an effective countercyclical tool.

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## I. Introduction

The American economy slipped into recession in December 2007. What began as a relatively moderate downturn changed dramatically following the severe disruptions in U.S. and world financial markets in the fall of 2008. By November, employment was declining at a rate of more than half a million jobs per month, and credit markets were stretched almost to the breaking point. As the economy entered 2009, the decline accelerated further, with job loss in January reaching almost three-quarters of a million. There were genuine fears that the United States and world economy were on the verge of a depression.

Less than a month after his inauguration, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). This act, together with a number of emergency measures taken by the Treasury and the Federal Reserve to stabilize financial markets, was designed to rescue an economy in freefall and provide a lift to aggregate demand at a time when the economy needed it desperately. The Recovery Act provided $787 billion of fiscal stimulus, concentrated in 2009 and 2010. At roughly 5½ percent of GDP (2 percent in 2009, 2½ percent in 2010, and about 1 percent in 2011 and beyond), the action was the boldest countercyclical fiscal action in American history.[1]

As part of the unprecedented accountability and transparency provisions included in the Act, the Council of Economic Advisers (CEA) was charged with providing to Congress quarterly reports on the effects of the Recovery Act on overall economic activity, and on employment in particular. In this first report, we provide an assessment of the effects of the Act in its first six months of operation.

It is well understood among experts that policy evaluation is difficult. Estimating the impact of countercyclical macroeconomic policy is particularly difficult because we do not observe what would have happened to the economy in the absence of policy. As the prominent economic forecaster Mark Zandi has put it, "It is important to note that estimating the economic impacts of the fiscal stimulus is not an accounting exercise .... It is not feasible to identify and count each job that results from the stimulus."[2] Furthermore, the sooner the evaluation is done after passage, the less data one has about key economic indicators. For these reasons, any estimates of the impact of the ARRA at this early stage must be regarded as preliminary and understood to be subject to substantial uncertainty.

---

[1] The $787 billion figure is from Congressional Budget Office (2009a). Adding their estimate of the stimulus in fiscal year 2009 and one-quarter of the estimate for fiscal 2010 yields $285 billion in calendar year 2009, or about 2 percent of GDP. A similar procedure yields $333 billion in 2010, or about 2½ percent of GDP, and $169 billion in 2011 and beyond, or about 1 percent of annual GDP.

[2] Zandi (2009).

Because of the inherent difficulties in the analysis, we approach the task of estimating the impact of the Recovery Act from a number of different directions. We use evidence from the overall path of the economy, economic models, and cross-country and cross-state comparisons. The goal is to provide a wide range of cross-checks and alternative estimates. That various approaches yield similar estimates increases the confidence one can have in the results.

Our multi-faceted analysis suggests that the ARRA has had a substantial positive impact on real GDP growth and on employment in the second and third quarters of 2009. The ARRA is estimated both by the CEA and a wide range of private analysts to have added 2 to 3 percentage points to real GDP growth (at an annual rate) in the second quarter of 2009, and potentially an even larger amount to growth in the third quarter. Consistent with this, a range of estimation procedures indicates that employment in the second quarter was 300,000 to 500,000 greater than it otherwise would have been because of the Recovery Act. By August, two-thirds of the way through the third quarter, employment is estimated to be between 600,000 and 1.1 million higher than it otherwise would have been.

Of course, current economic indicators show that the U.S. economy is still in recession: real GDP fell at a 1 percent annual rate in the second quarter and the most recent employment report showed that employment declined by 216,000 in August. CEA and others' estimates of the effect of the Recovery Act imply that these declines in output and employment would have been significantly worse in the absence of fiscal stimulus.

As discussed above, the report marshals a wide range of evidence to support these conclusions. We begin with a summary of the spending and tax reductions that have occurred under the ARRA over its first six months. We find that as of the end of August, \$151.4 billion of the original \$787 billion has been outlaid or has gone to American taxpayers and businesses in the form of tax reductions. An additional \$128.2 billion has been obligated, which means that the money is available to recipients once they make expenditures. That recovery funds have gone out rapidly certainly increases the probability that the Act has been effective in its first six months.

We then examine the behavior of GDP and employment in detail. We find that the trajectory of the economy has changed: job loss and output declines have moderated substantially. We also find that the decomposition of GDP and employment by components or sector suggest that the ARRA has played a key role in the change of trajectory. We supplement this analysis with an examination of the behavior of GDP and employment relative to a plausible, statistically-determined baseline. We find that actual and expected behavior is substantially better in the second two quarters of 2009 than would have been predicted based on the past behavior of the two series. This analysis provides strong suggestive evidence that the range of policy actions taken early in the year, including the ARRA, has had a substantial impact on economic conditions.

In the course of this analysis, we use a variety of straightforward statistical procedures to allocate the estimates of job creation and retention to particular sectors and states. This analysis provides a first pass at the important issue of the industrial and geographic impact of the Recovery Act. We estimate that the Act has had particularly strong effects in manufacturing, construction, retail trade, and temporary employment services. The employment effects are distributed across states, with larger effects in states more severely impacted by the recession.

Third, we consider estimates of the impact of the ARRA from standard economic models. We incorporate the data on actual outlays and tax changes under the Act in the second and third quarters of 2009 into the multiplier analysis used by the CEA to predict the impact on GDP and employment. We compare our results with those of prominent private sector and public sector analysts. This analysis indicates that much of the change in macroeconomic behavior in the last six months is attributable to the ARRA.

Fourth, we examine the U.S. experience in international perspective. Nearly every industrialized country and many emerging economies responded to the severe financial crisis and recession by enacting fiscal stimulus. However, countries differed greatly in the size of their fiscal actions. The United States, with a program of roughly 2 percent of GDP in 2009, was above average; China at 2.6 percent and Korea at 3.0 percent were substantially larger; France at 0.6 percent and Italy at 0.1 percent were noticeably smaller. We analyze how the size of the stimulus in a country is correlated with the developments in mid-2009, relative to what was forecast back in November. We find that countries that adopted larger fiscal stimulus packages have outperformed expectations relative to those adopting smaller packages. Thus, the cross-section analysis provides further evidence that fiscal stimulus is leading to improved economic performance both in the United States and abroad.

Fifth, and finally, we look in detail at the impact of one part of the ARRA: state fiscal relief. Because this was an area where funds could be disbursed quickly, fiscal support for the states constituted one-quarter of ARRA spendout through the end of August. CEA analysis indicates that this relief successfully increased employment at the state level relative to the no-stimulus baseline, and that it did so by affecting state budgetary decisions. In this way, our analysis of state fiscal relief both provides evidence of how this particular type of fiscal stimulus impacts the economy, and corroborates the more fundamental finding that fiscal stimulus in general is an effective countercyclical tool.

This report is the first of a series that the Council of Economic Advisers will be preparing on the American Recovery and Reinvestment Act of 2009. Beginning in October, recipients of ARRA funds will begin providing direct reports of job retention and creation. Our next quarterly report will include an evaluation of this direct reporting employment data and consider techniques for incorporating these data into our estimation.[3] Each report will, like this first one, provide rigorous analysis of the impact of the path-breaking Recovery Act of 2009.

## II. The Progress of Spending and Tax Reductions under the Act

The first step in evaluating the effects of the ARRA is to analyze the data on spending and tax reductions that have occurred under the Act. It is certainly possible that the Act could have effects even if no spending or tax changes had actually occurred. For example, its passage could have affected confidence, and expectations of a tax cut in the future could affect spending today. But, it is far more likely that the Act has had significant impact if funds have actually been spent and tax cuts have actually reached consumers.

The data on both spending and tax relief are available on the Recovery.gov website. The outlays and obligations by agency are available weekly and the tax reduction data are available monthly.[4] Outlays represent payments made by the government. Those funds represent spending that has already occurred. Obligations represent funds that have been made available but not necessarily outlaid, such as for a highway project where the builder must complete the work properly to get the final payment. One can certainly make the case the obligations can generate economic activity because recipients may begin spending as soon as they are certain funds are available.

Table 1 shows outlays, obligations, and tax reductions as of the ends of March, June, and August. Not surprisingly, as of the end of March, just six weeks after the Act was passed, only $11.8 billion of outlays and tax reductions had occurred, though an additional $21.9 billion of spending had already been obligated. By the end of June, the sum of outlays and tax reductions was $99.8 billion, with an additional $101.5 billion of spending obligated. As of the end of August, the sum of outlays and tax reductions was $151.4 billion, with another $128.2 billion obligated.

[3] Importantly, recipient reports will not encompass all ARRA spending. Specifically, the reports due to begin in October will provide employment impacts only for those projects and activities funded by state fiscal relief grants and government investment spending. The job impacts associated with the remaining recovery funds, such as funds going to individual tax cuts, business tax incentives, and aid to directly impacted individuals, will not be captured. Furthermore, recipients are only required to report on direct jobs created or retained by the entities receiving recovery funds (for example, the general contractor for a road project) and not additional job impacts that may be occurring beyond that (for example, at sub-contractors or suppliers to the general contractor). And of course, they will not capture jobs created by the additional spending resulting from the higher incomes of the workers hired. Thus, the recipient reports will not provide an easy way of finding the overall effects of the Act.

[4] The outlays and obligations data are based on weekly reports by the relevant ageneies. The tax reduction estimates are based on the Department of the Treasury Office of Tax Analysis (OTA) tax simulation model for the effect of the ARRA tax provisions. The OTA will not have comprehensive data on the 2009 tax filings until June 2010.

Table 1. Outlays, Obligations, and Tax Reductions

| | Through the end of | | |
|---|---|---|---|
| | March[a] | June[b] | August[c] |
| | Billions of Dollars | | |
| Outlays | 8.6 | 56.3 | 88.8 |
| Obligations | 30.5 | 157.8 | 217.0 |
| Tax Reductions | 3.2 | 43.5 | 62.6 |
| Sum of Outlays and Tax Reductions | 11.8 | 99.8 | 151.4 |

Sources: Recovery.gov; Updated simulations from the Department of the Treasury (Office of Tax Analysis) based on the Mid-Session Review.
Notes: a. Data on outlays and obligations are for March 27.
b. Data on outlays and obligations are for June 26.
c. Data on outlays and obligations are for August 28.

The August numbers suggest that total outlays plus tax cuts will equal approximately $75 billion for the third quarter of calendar 2009. If this prediction is met, between one-fifth and one-quarter of the total $787 billion included in the Act will have been spent by the end of the 2009 fiscal year. This is approximately what was projected by the Congressional Budget Office (CBO) when the Act was passed.[5]

To some degree, the categorization of stimulus into outlays versus tax reductions is largely technical. For example, the Making Work Pay tax credit, which reduced taxes for 95 percent of households, is treated as a tax cut, while the $250 extra payment to seniors and veterans is treated as an outlay. Yet, both are thought to affect economic activity by putting more money into the hands of consumers. For this reason, it is useful to consider a more functional decomposition. The decomposition is not only interesting in its own right, but is necessary for our later multiplier analysis of the impact of the program.

We divide the total dollars of stimulus expended to date into six categories: individual tax cuts and similar payments; the tax cut associated with the adjustment of the Alternative Minimum Tax (AMT); business tax incentives; state fiscal relief; aid to those most directly hurt by the recession; and direct government investment spending. The first three are tax changes of some kind and were established at passage to be roughly one-third of the total package; the second two represent emergency measures and were again estimated to be roughly one-third of the total; the last encompasses a range of direct spending and covers the remaining one-third of the total. At passage, it was anticipated that the tax changes and emergency measures would occur more quickly and direct government spending would be a larger fraction of later expenditures.

We divide the outlays and tax reduction data into these functional categories as follows. Individual tax cuts include the Making Work Pay tax credit, the child tax credit, and a number of

[5] Congressional Budget Office (2009a).

smaller individual tax reductions. We also include direct payments (from Recovery.gov) that were made in lieu of a tax cut to certain groups. These include payments of $250 distributed to individuals who receive Social Security and Supplemental Security Income, Railroad Retirement benefits, or veterans' benefits. The business tax incentives and AMT relief are calculated directly by the IRS as part of their simulation process.[6]

We define state fiscal relief to include just the two main programs in this category: a substantial increase in the Federal government's matching percentage for Medicaid spending (FMAP), and formula grants to state governments for education through the State Fiscal Stabilization Fund. Aid to those directly impacted by the recession includes the increase and extension of unemployment benefits, increased funds for nutritional assistance, and increases in the Temporary Aid to Needy Families (TANF) program. It also includes the government's substantial subsidy of continuing health insurance benefits (COBRA), which is technically treated as a tax cut.

Government investment outlays include everything else. The obvious components are spending on infrastructure, health information technology, research on renewable energy, and other forms of direct spending excluding transfers. Also included here are tax credits for particular types of private spending, such as weatherization or research and experimentation, since these credits are functionally similar to the direct government spending.

Table 2 shows our breakdown of aggregate outlays and tax relief into these functional categories. The table shows that the bulk of the stimulus so far has been concentrated in three areas: individual tax cuts and similar payments, state fiscal relief, and aid to those directly hurt by the recession. This concentration is exactly what was intended and expected when the Act was passed. One key purpose of these types of stimulus was to provide immediate help to an economy in freefall. AMT relief and business tax incentives were always expected to be smaller components of the Act. And, it was anticipated that direct government investment spending would mainly provide support over what was expected to be an extended period of economic weakness. Consistent with this, obligations in the area of infrastructure and other investments, indicating future outlays, are substantial.

[6] The monthly estimates of AMT relief are from unpublished analysis by the Office of Tax Analysis of the Department of Treasury.

Table 2. Fiscal Stimulus by Functional Category

| | Through the end of | | |
|---|---|---|---|
| | March[a] | June[b] | August[c] |
| | Billions of Dollars | | |
| Individual Tax Cuts | 2.3 | 29.3 | 40.0 |
| AMT Relief | 0.0 | 7.6 | 8.8 |
| Business Tax Incentives | 0.1 | 14.4 | 17.2 |
| State Fiscal Relief | 8.5 | 28.2 | 38.4 |
| Aid to Directly Impacted Individuals | 0.8 | 14.4 | 30.6 |
| Government Investment Outlays | 0.0 | 5.9 | 16.5 |
| **Total[d]** | **11.8** | **99.8** | **151.4** |

Sources: Recovery.gov; CEA calculations; Updated simulations from the Department of the Treasury (Office of Tax Analysis) based on the Mid-Session Review.
Notes: a. Data on outlays and obligations are for March 27.
b. Data on outlays and obligations are for June 26.
c. Data on outlays and obligations are for August 28.
d. Items may not add to total due to rounding.

## III. Evidence of Effects from the Behavior of GDP and Employment

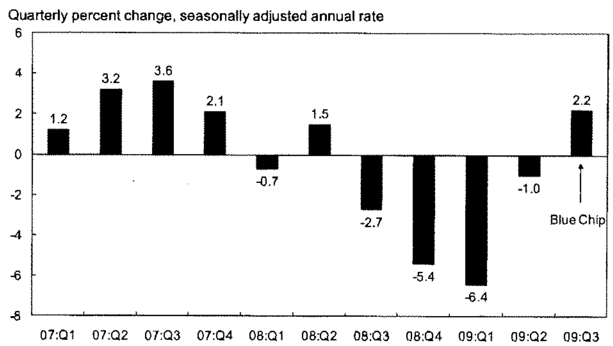
The first way that we investigate the impact of the ARRA is to consider the behavior of real GDP and employment. Are the changes that we have observed in these two key indicators over the past six months consistent with the Recovery Act having a substantial effect?

Before looking at the data, it is important to acknowledge once again that six months is a short period of time for macroeconomic analysis. The only official GDP data that we have under the program is for the second quarter of 2009. While we now have the second estimate of this series, all data are subject to further revision and one observation obviously does not constitute a trend. For employment, we have monthly data through August 2009. These data are again subject to revision, and analysts are well aware that the monthly employment series has a substantial margin of error simply due to inherent sampling difficulties.

### A. Real GDP Growth

Figure 1 shows the growth rate of real GDP. After falling considerably and, indeed, progressively more deeply in each of the three quarters before the most recent one, the fall in GDP moderated substantially. After declining at an annual rate of 6.4 percent in the first quarter of 2009, it fell at a rate of 1.0 percent in the second quarter. Figure 1 also shows the consensus forecast for real GDP growth in the third quarter. The August 10$^{th}$ Blue Chip forecast of 2.2 percent is, if anything, on the low end of current forecasts. Macroeconomic Advisers, Goldman-Sachs, and Moody's Economy.com, three prominent members of the Blue Chip panel, are currently forecasting third quarter growth of more than 3 percent at an annual rate.

Figure 1. Real GDP Growth

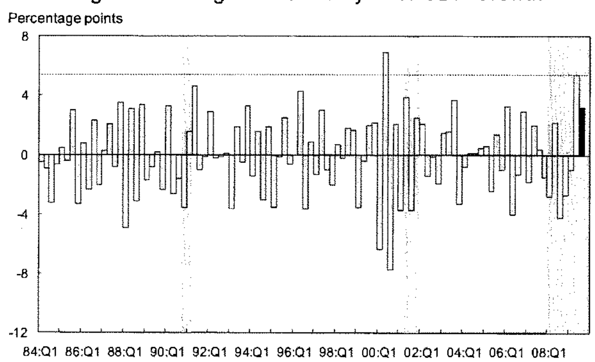



Sources: Department of Commerce (Bureau of Economic Analysis); Blue Chip consensus forecast.
Note: 2009:Q3 datapoint reflects Blue Chip consensus forecast from August 10.

The economy is obviously still far from healthy. Real GDP is far below its previous peak level and millions of Americans are out of work. But economies do not switch from rapid decline to robust growth all at once. Given what we now know about the frightening momentum of economic decline in the first quarter, it would have been hard for the economy to stabilize much faster than it has.

Figure 2 shows the *change* in the growth rate of real GDP over the last 25 years. The rise in GDP growth from the first quarter to the second was the largest in almost a decade, and the second largest in the past quarter century. And, if growth in the third quarter matches the consensus forecast, the turnaround in real GDP growth from the first to the third quarter of 2009 would be the largest in the past 25 years.

Figure 2. Changes in Quarterly Real GDP Growth

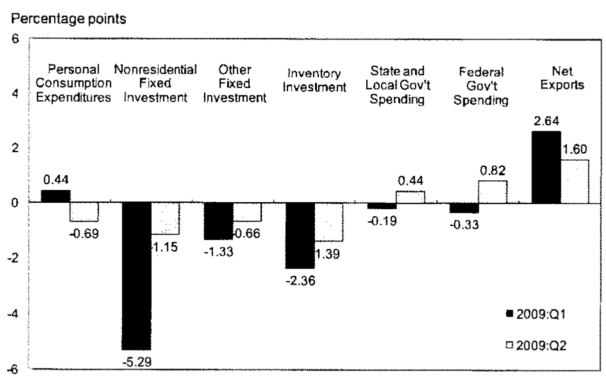



Sources: Department of Commerce (Bureau of Economic Analysis); Blue Chip consensus forecast.
Note: 2009:Q3 datapoint reflects Blue Chip consensus forecast from August 10. NBER recessions are shown in grey.

The timing of the change in trajectory in real GDP growth is certainly suggestive of an important role for the ARRA. An economy in freefall in the months before the ARRA stabilized dramatically in the quarter after, and according to most forecasts will begin growing again two quarters after the stimulus began.

The behavior of key components of GDP is consistent with the ARRA playing a causal role. Figure 3 shows the contributions of each of the main components of GDP to overall growth in the first and second quarters of this year.

Figure 3. Contributions to Real GDP Growth




Source: Department of Commerce (Bureau of Economic Analysis).
Note: Bars sum to quarterly change in GDP growth (-6.4% in Q1; -1.0% in Q2).

The role of the Recovery Act is clearest in state and local spending. Sharp falls in revenues and balanced budget requirements have been forcing state and local governments to reduce spending and raise taxes. But, state and local government spending actually rose at a robust 3.6 percent annual rate in the second quarter of 2009, which helped keep the economy from sinking deeper. This followed two consecutive quarters of decline, and was the highest growth rate in more than five years. The $28 billion of state fiscal relief that had been distributed by the end of the second quarter was almost certainly a key source of this increase.

Another area where the role of the ARRA seems clear is in nonresidential fixed investment – firms' purchases of everything from machines to software to structures. A key source of the more modest decline in GDP is that this type of investment, which fell at a devastating 39 percent annual rate in the first quarter, fell at a much more moderate 11 percent rate in the second quarter. One important component of the Recovery Act was investment incentives, such as bonus depreciation. Businesses received about $14 billion of this type of tax relief in the second quarter, and this may have contributed to slower investment decline.

The behavior of durable goods orders and shipments in July suggest that the stabilization in the second quarter is likely to turn into genuine expansion in this key sector in the third quarter. Core capital goods shipments rose 0.8 percent in July.[7] This component is a direct input to the estimate of equipment and software investment. That orders for durable goods in July were roughly equal to shipments is an indicator that investment is likely to continue at a similar pace later in the quarter.

For the personal consumption component of GDP, the picture is more nuanced. Consumption fell sharply in the second half of last year, but has largely stabilized despite rising unemployment and falling GDP. The Making Work Pay tax credit and the improvements in confidence as a result of the Recovery Act and the Administration's other recovery actions surely contributed to that stabilization.[8] At the same time, the fact that consumption fell slightly in the second quarter after rising slightly in the first quarter could be a sign that households are initially using the tax cut mainly to increase their saving and pay off debt.

Data on real personal consumption expenditures (PCE) for June and July suggest that consumer spending could rise going forward.[9] Real PCE rose 0.1 percent in June and 0.2 percent in July. The Conference Board index of consumer confidence turned sharply upward in August, suggesting that this pattern could continue through the rest of the third quarter.[10] While most analysts expect consumers to remain somewhat cautious going forward and for saving rates to remain elevated, even a modest recovery in consumer spending would be helpful to continued

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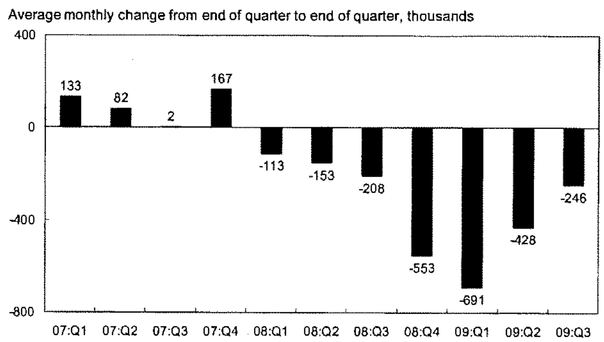
[7] The data are from the U.S. Census Bureau of the Department of Commerce.
[8] The University of Michigan consumer survey showed a sharp increase in approval of government economic policy in April. See Reuters/University of Michigan Surveys of Consumers (2009).
[9] The data are from the Bureau of Economic Analysis of the Department of Commerce.
[10] The University of Michigan index, in contrast, was essentially unchanged in August.

recovery.

**B. Change in Payroll Employment**

Figure 4 shows the change in payroll employment over the recession. A key indicator of the severity of this recession is the fact that in the first quarter of this year, we lost nearly 700,000 jobs per month. In the second quarter, we lost an average of 428,000 jobs per month. Statistics released on September 4 show that job loss was 276,000 in July and 216,000 in August, for a two-month average loss so far this quarter of 246,000. These job losses are obviously unacceptable. But the change does suggest that we are on the right trajectory.

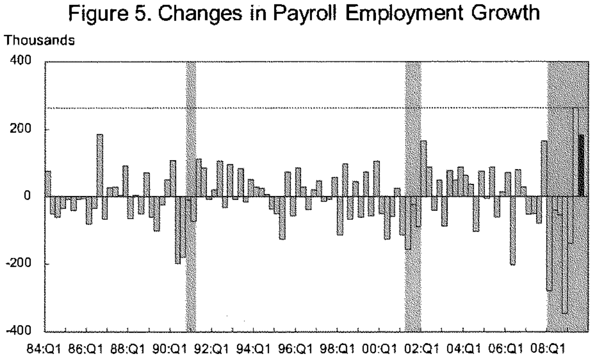
Figure 4. Payroll Employment Growth




Source: Department of Labor (Bureau of Labor Statistics).
Note: 2009:Q3 datapoint reflects the average change in employment in July and August.

Figure 5 shows the *change* in the change in employment. The movement in job loss from the first quarter to the second was the largest in almost 30 years. If the observation for September is equal to the average for July and August, which is a relatively pessimistic assumption, the average monthly job loss for the third quarter would be almost 200,000 less than in the second quarter and 450,000 less than in the first quarter.

Figure 5. Changes in Payroll Employment Growth

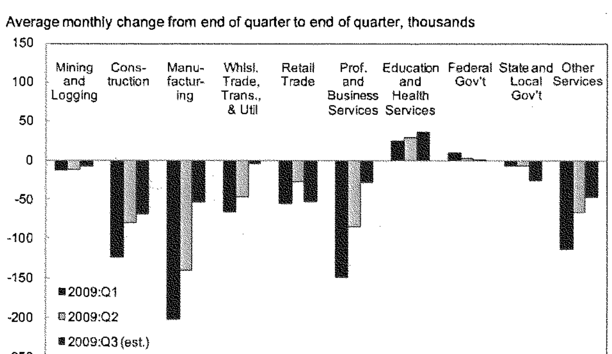



Source: Department of Labor (Bureau of Labor Statistics).
Note: The figure shoes the change from the previous quarter in the average monthly change in employment. 2009:Q3 datapoint reflects the change in average monthly growth in July and August from the average monthly growth in 2009:Q2. NBER recessions are shown in grey.

As with real GDP, the timing of the change in employment behavior is suggestive of a key role for the ARRA and other stabilizing measures taken in February and March. Job losses moderated in the quarter after Recovery Act spending and tax cuts began. They then continued to slow in the subsequent quarter.

Further suggestive evidence is provided by considering the changes in the sectoral composition of job loss between the first, second, and third quarters of 2009. Figure 6 shows the contribution of the change in employment for each quarter in ten key sectors of the economy.

Figure 6. Contributions to Changes in Employment




Sources: Department of Labor (Bureau of Labor Statistics); CEA calculations.
Note: Observations for 2009:Q3 are based on average change in July and August. Bars sum to average monthly change in quarter (-691,000 in Q1; -428,000 in Q2; -246,000 in Q3).

The largest swings in job loss from the first to the third quarters have been in manufacturing and in professional and business services (which includes temporary employment agencies). Since these are both highly cyclical industries, this is the pattern one would expect if the ARRA and other policy actions were moderating the cyclical decline. The pronounced decline in manufacturing job loss could also reflect the effect of business tax incentives on investment.

Another place where there is evidence of the Act's role is in the absence of any acceleration of job losses in state and local government. As described in Section VI, the conjunction of sharp revenue declines and balanced budget requirements created enormous pressures on state and local governments to cut spending and lay off workers. But, as Figure 6 shows, overall state and local government employment has declined relatively little. The obvious candidate explanation is the $38 billion of state fiscal relief provided by the ARRA through August. Similarly, the construction industry, where job losses have moderated substantially despite the fact that the recession has in many ways been centered in residential real estate, could suggest a role for the Recovery Act spending in infrastructure and the First-Time Homebuyer Tax Credit. Some of the moderation of job losses in this sector presumably also reflects other policy actions, such as the Administration's programs to help distressed homeowners and the Federal Reserve's efforts to support the mortgage market.

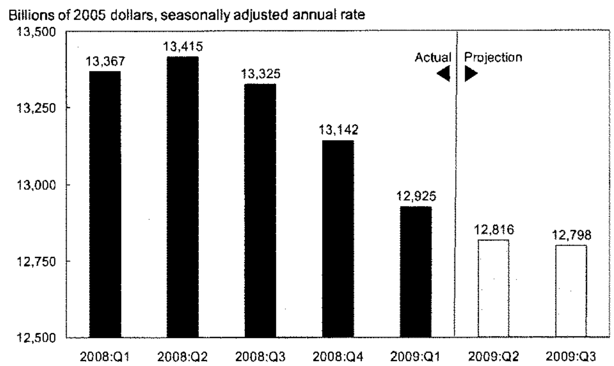
**C. Estimates of Effects of Policy from a Comparison to Baseline Forecasts**

The previous analysis has used the timing and sectoral composition of changes in GDP and employment to suggest an important role for the ARRA. One limitation of this analysis is that it does not attempt to specify what would have happened in the absence of the fiscal stimulus and other recovery actions. It implicitly assumes that in the absence of stimulus, no change would have occurred. To address this issue, in this section we present a sensible statistical forecast of the likely path of GDP and employment in the absence of stimulus. We can then interpret the discrepancy between this forecast and actual developments as a measure of the impact of policy.

There are many ways to construct a statistical baseline forecast. The particular method that we use is to estimate a vector autoregression (or VAR) using the logarithms of real GDP (in billions of chained 2005 dollars) and employment (in thousands, in the final month of the quarter) estimated over the period 1990:Q1-2007:Q4. We include four lags of each variable. Because the estimation ends in 2007:Q4, the coefficient estimates used in the prediction are not influenced by developments in the current recession. Rather, they show the usual joint short-run dynamics of the two series over an extended sample. We then forecast GDP and employment in the second and third quarters of 2009 using actual data through the first quarter of the year. Data through the first quarter include the monetary response to the current crisis, but not the fiscal stimulus or other actions that took effect after the first quarter. We have experimented with a variety of other ways of projecting the no-stimulus path of GDP. The results of those exercises are generally similar to those we report below.

Figure 7 shows the results of this forecasting exercise for real GDP. Past history predicts that real GDP would continue to decline at a substantial rate in the second quarter. The projected decline (at an annual rate) is 3.3 percent. In the third quarter, real GDP would also be projected to decline, but at the more modest rate of 0.5 percent.

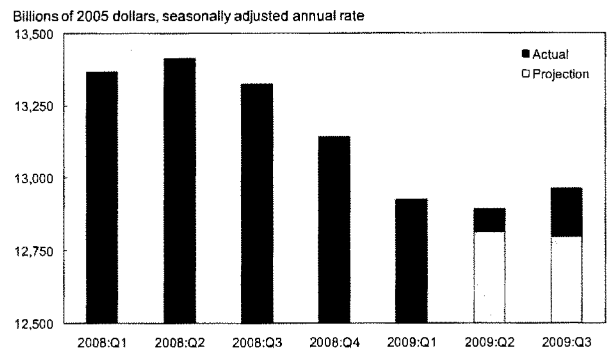
Figure 7. Real GDP: Recent and Projected Levels



Sources: Department of Commerce (Bureau of Economic Analysis); CEA calculations.

Figure 8 superimposes the actual GDP outcome in 2009:Q2 and the consensus forecast outcome in 2009:Q3 on the projections based on past history. The figure shows that real GDP growth in the second quarter, which was -1.0 percent, was 2.3 percentage points higher than the usual time-series behavior would have led one to expect. Assuming that GDP in the third quarter matches the Blue Chip consensus estimate of 2.2 percent, GDP growth in 2009:Q3 will be 2.7 percentage points higher than the statistical baseline prediction. These estimates again suggest that policy actions taken in the winter resulted in large positive innovations to GDP growth.

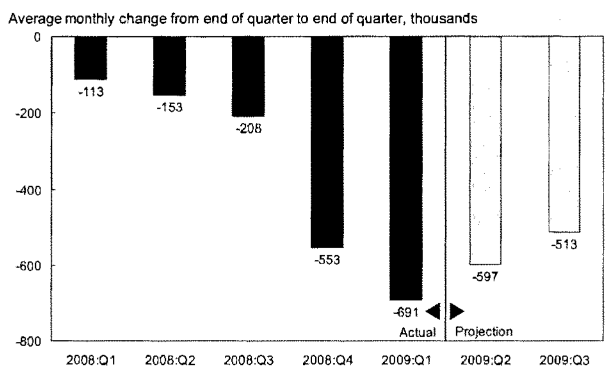
Figure 8. Real GDP: Recent and Projected Levels




Sources: Department of Commerce (Bureau of Economic Analysis); CEA calculations; Blue Chip consensus forecast.
Note: The 2009:Q3 figure for "actual" is the Blue Chip consensus forecast from August 10.

Figure 9 shows the forecast of employment changes using this procedure. The baseline forecast implies further substantial job loss in the second and third quarters. Indeed, the projected average monthly decline in the absence of the Recovery Act is nearly 600,000 jobs in 2009:Q2 and just over 500,000 jobs in 2009:Q3.

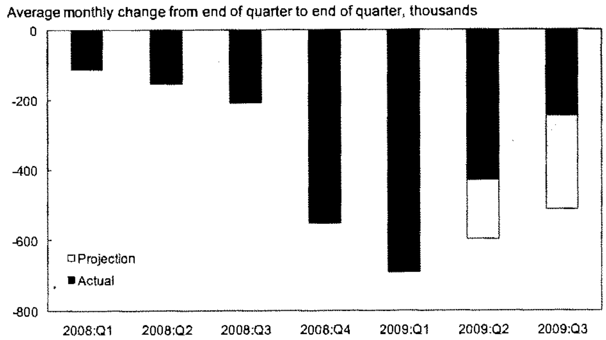
Figure 9. Payroll Employment: Recent and Projected Changes




Sources: Department of Labor (Bureau of Labor Statistics); CEA calculations.

Figure 10 shows that the actual job loss in the second quarter came in substantially lower than the projection. Based on the data to date on employment in 2009:Q3, it appears that job loss will also be substantially smaller in the third quarter than the forecasting model predicts.

Figure 10. Payroll Employment: Recent and Projected Changes




Sources: Department of Labor (Bureau of Labor Statistics); CEA calculations.
Note: 2009:Q3 datapoint for "actual" series reflects the average change in employment in July and August.

The difference between the predicted and actual changes in GDP and employment over the middle two quarters of 2009 can be cumulated to show the difference in the level of the two series as of the third quarter. Table 3 shows this calculation. For real GDP, the finding that growth has been 2.3 percentage points higher than predicted in 2009:Q2 and is likely to be about 2.7 percentage points higher in 2009:Q3 implies that the level of GDP in 2009:Q3 is approximately 1¼ percent higher than a sensible statistical baseline forecast.[11]

Table 3. Estimates of the Effect of the ARRA Using CEA Statistical Projection

| | 2009:Q2 | 2009:Q3 |
|---|---|---|
| | GDP Growth | |
| Actual GDP Growth | -1.0% | 2.2%[a] |
| Baseline Projection | -3.3% | -0.5% |
| Difference | +2.3 p.p. | +2.7 p.p. |
| Estimated Cumulative Impact of Policy on Level | | +1.25% |
| | Employment Change | |
| Actual Employment Change | -428,000 | -246,000[b] |
| Baseline Projection | -597,000 | -513,000 |
| Difference | +169,000 | +267,000 |
| Estimated Cumulative Impact of Policy on Level (August)[c] | | +1,040,000 |

Sources: Department of Commerce (Bureau of Economic Analysis); Department of Labor (Bureau of Labor Statistics); CEA calculations.
Notes: a. Blue Chip, August 2009.
b. Average of July and August only.
c. Items may not add to total due to rounding.

[11] The reason the figure is about 1¼ percent rather than 5 percent is that the figures for quarterly GDP growth are expressed at an annual rate.

For employment, the average change in each of the three months of the second quarter was 169,000 less than the baseline forecast. This implies that the level of employment at the end of the quarter was 507,000 higher than the baseline forecast predicted. For each month of the third quarter, actual employment loss is estimated to be an average of 267,000 less than projected. This implies that as of August, employment relative to the projection is another 534,000 higher than at the end of June. Therefore, the level of employment as of August is 1,040,000 higher than the statistical baseline forecast.[12]

This projection methodology provides one way of estimating the impact of the ARRA on employment and the economy. It shows that using the past history of GDP and employment and actual data through the first quarter of 2009, one would have predicted that employment as of August would be about 1 million lower than it actually was. To ascribe much of this difference to the ARRA, the key policy action taken in the first quarter, is certainly plausible. However, other policy actions, such as the Financial Stabilization Plan, monetary policy, and the Federal Reserve's program of buying agency debt and long-term U.S. government bonds, surely contributed to the difference. Also, any other factors not captured by the past history of GDP and employment, such as unusual moves in foreign demand or asset prices, would also be captured in the difference.

Importantly, there is no reason to assume that the overall effect of these omitted policies and other factors was to contribute positively to actual GDP and employment growth. For example, while the various actions to improve financial conditions have surely had a positive impact, the continuing stringency in credit conditions is a development likely to be holding down actual outcomes relative to usual cyclical patterns. Thus, the forecast residuals could either overestimate or underestimate the impact of the ARRA.

**D. Sectoral Decomposition of the Estimated Impact on Employment**

The previous analysis provides an estimate of the impact of the ARRA on employment relative to the baseline. An obvious question is how those impacts are likely to have been distributed across industrial sectors.

The most important effects of the Recovery Act on the economy to date have been through the general stimulus it has provided. For example, thus far tax cuts and support for those most directly hurt by the recession have been substantial, while direct government spending on specific projects has been relatively small. Thus, the main reason the employment effects of the Act so far have not been evenly distributed across sectors is that some sectors are more sensitive to changes in overall employment than others.

[12] The number is the sum of 507,000 and 534,000. The numbers do not add exactly because of rounding.

The response of employment in individual sectors to changes in overall employment can be decomposed into two components. First, a rising overall level of employment tends to increase employment in each industry in proportion to its share of the overall economy. We refer to this as the "rising tide" effect. Second, some sectors are more sensitive to the state of the business cycle than are others. An example is the employment services industry, most of which is comprised of temporary help services: temporary employment tends to rise much faster than overall employment in business cycle expansions and to decline much faster in recessions. The additional employment due to the Recovery Act has therefore almost certainly produced relative expansion of such procyclical sectors, while countercyclical sectors, such as utilities, health care, and government, have seen their shares of total employment shrink relative to what would have been seen in the absence of stimulus. We refer to the resulting changes in sectoral employment as the "cyclicality effect."[13]

The net effect of the Recovery Act on employment in each sector through its expansionary effects is simply the sum of the rising tide and the cyclicality effects. The rising tide effect is straightforward to measure, as each sector receives a share of the estimated 1.04 million jobs created proportional to the sector's share of overall employment. The first column of Table 4 shows the employment share of each major industrial sector and of selected sub-sectors in August 2009.[14]

Estimation of the cyclicality effect is the more complex part of the decomposition. First, the cyclicality of each sector's employment share must be estimated. Using quarterly data on employment by sector from 1990 through 2007,[15] we estimate the relationship between changes in overall employment and changes in the sectoral employment share. The second column of Table 4 shows the cyclical sensitivity of each sector's employment share. The first few entries indicate that a 1 percent increase in total employment tends to correspond to a 0.29 percent reduction in the share of employment in the mining and logging sector and 1.76 and 0.92 percent increases in the employment shares of the construction and manufacturing sectors, respectively.[16] The cyclicality factors indicate that construction and information are the most procyclical major sectors. The professional and business services and manufacturing sectors are both highly cyclical as well, driven, respectively, by the employment services and durable goods sub-sectors. The most countercyclical sectors are education and health services, government,

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[13] Formally, let $\hat{s}$ and $\hat{E}$ be the sectoral employment share and total non-farm employment, respectively, that would have obtained without the Recovery Act, and let $s$ and $E$ be the values that were actually observed in August 2009. Then the total impact on employment in the sector is $sE - \hat{s}\hat{E} = s(E - \hat{E}) + (s - \hat{s})\hat{E}$. The first term here is the rising tide effect and the second term is the cyclicality effect.

[14] Data are from U.S. Department of Labor (2009).

[15] Data are from U.S. Department of Labor (2009).

[16] These cyclicality factors are the coefficients from regressions of the quarterly change in each sector's share of total non-farm employment on a constant and the quarterly change in log employment, using data from 1990:Q1 through 2007:Q4, divided by the sector's employment share in August 2009.

financial activities, and other services; all of these tend to see rising employment shares when the economy contracts and falling shares when the economy expands.

Table 4. Employment Effects of the Recovery Act by Sector

| | Employment Share | Sector Cyclicality Factor | Effect (Thousands of Jobs) Cyclicality | Rising Tide | Total | Share of Total |
|---|---|---|---|---|---|---|
| Mining and Logging | 1% | -0.29 | -2 | 6 | 4 | 0% |
| Construction | 5% | 1.76 | 85 | 48 | 133 | 13% |
| Manufacturing | 9% | 0.92 | 86 | 93 | 179 | 17% |
| Durable Goods | 5% | 1.78 | 101 | 57 | 158 | 15% |
| Trade, Transportation, and Utilities | 19% | 0.16 | 33 | 199 | 232 | 22% |
| Retail Trade | 11% | 0.16 | 18 | 117 | 135 | 13% |
| Information | 2% | 1.27 | 28 | 22 | 51 | 5% |
| Financial Activities (FIRE) | 6% | -0.51 | -31 | 61 | 30 | 3% |
| Professional and Business Services | 13% | 0.95 | 124 | 132 | 256 | 25% |
| Employment Services | 2% | 4.55 | 88 | 19 | 107 | 10% |
| Education and Health Services | 15% | -0.86 | -132 | 153 | 22 | 2% |
| Leisure and Hospitality | 10% | -0.21 | -21 | 104 | 83 | 8% |
| Other Services | 4% | -0.50 | -21 | 43 | 22 | 2% |
| Government | 17% | -0.84 | -149 | 178 | 29 | 3% |
| **Total Nonfarm Employment** | **100%** | —— | —— | **1,040** | **1,040** | **100%** |

Sources: Department of Labor (Bureau of Labor Statistics); CEA calculations.
Note: Data are from August 2009.

The Recovery Act, by stimulating total employment, has led to increases in the employment shares of procyclical industries and reductions in the shares of countercyclical industries relative to what would have happened otherwise. The resulting cyclicality effects on sectoral employment are shown in the third column of Table 4.[17] Construction and manufacturing have each gained about 85,000 jobs relative to the baseline due to cyclicality factors, while professional and business services has gained nearly 125,000 jobs. More than all of the cyclical manufacturing growth is in the durable goods sector (which gained 101,000 jobs through this channel)[18] while the professional services growth is largely due to the employment services industry (88,000 jobs gained relative to the baseline). By contrast, education and health services and government each saw their job creation reduced by over 130,000 jobs relative to the baseline due to the cyclicality effect, and financial activities by 31,000 jobs.

[17] These are calculated by multiplying the regression coefficients from the previous footnote by the change in log employment attributable to the Recovery Act (from the analysis in the previous section) to obtain the change in the sectoral employment share attributable to the cyclicality effect of the Act. That is, we estimate $(s-\hat{s})$ as $\beta(\ln E - \ln \hat{E})$, where $\beta$ is the regression coefficient. The resulting change in the sectoral employment share is then multiplied by our estimate of the employment level that would have obtained without the act, $\hat{E}$ = 130.2 million, to obtain the cyclicality effect on sectoral employment levels.

[18] The cyclicality effect on durable goods can be larger than that on all manufacturing because non-durable goods employment is (relatively) countercyclical, with declining employment shares in expansions.

The fourth column shows the rising tide effects. These are all necessarily positive, as no industry has a negative share of total employment. In each case, industries with negative cyclicality effects saw those more than offset by positive rising tide effects, leading to a net positive effect on total employment relative to the no-stimulus baseline. These net effects are shown in the fifth column, while the last column shows the distribution across sectors. All major industries were assisted, with the largest shares of jobs created by the Recovery Act in professional and business services; trade, transportation, and utilities; manufacturing; and construction.

Of course, these figures are only estimates. One factor that could cause the distribution of job creation to differ from its normal cyclical pattern is the unusual nature of the recession. For example, the fact that the recession has been unusually concentrated in construction may mean that the fraction of jobs saved or created by fiscal stimulus in this recession that are in construction is different than it usually would be.

Another factor that could cause the actual distribution to differ from our estimates is the specifics of the Recovery Act. Most obviously, the fact that a substantial portion of spending under the Act thus far has consisted of aid to the states suggests that estimates based on normal cyclical behavior are likely to underestimate the effects of the Act on state and local government employment.

**E. State Decomposition of the Estimated Impact on Employment**

Our comparison to baseline projections suggests that the ARRA and other recovery programs have resulted in employment as of August that is just over 1 million higher than it otherwise would have been. There is obviously much interest in how these employment effects have been distributed across states. In this section, we make an initial attempt to provide such a state-by-state breakdown. However, it is important to emphasize that these disaggregate estimates are inherently more speculative and uncertain.

Because there is no perfect way to measure state-level effects, we pursue three approaches to decomposing employment impacts across states. Our first method allocates jobs according to states' shares of national non-farm employment as of March 2009.[19] Georgia, for example, had 3.0 percent of all employment in the country in March, so is allocated 3.0 percent of total job creation. This is akin to the "rising tide" component of job creation discussed above.

Our second method allocates jobs according to the distribution of Recovery Act outlays, as reported by Recovery.gov on August 28, 2009. Georgia has received 2.8 percent of total outlays, so is estimated to receive 2.8 percent of total job creation. This method provides a more

[19] U.S. Department of Labor (2009). We use seasonally adjusted estimates of total nonfarm employment.

direct measure of where ARRA impacts are likely to be felt than does the "rising tide" method, but it has an important drawback. Only a portion of the overall Recovery Act stimulus is included in the Recovery.gov state-level figures. The most important stimulus not included in this approach are the various types of tax relief, which, as discussed earlier, comprise almost half of total spending plus tax cuts to date. Tax cuts are likely more evenly distributed across states than are outlays, so our use of outlays likely overstates the unevenness of employment effects. Similarly, this method assumes that all of the employment effects of spending in a state are felt within the state. In fact, however, there are important spillovers across states. Thus again, this approach is likely to exaggerate the differences among states.

Our third method relies on the sectoral decomposition of employment effects from the previous subsection. We assume that any jobs saved or created in a particular industrial sector (for example, mining and logging) are distributed across states in the same way as are existing jobs in that sector.[20] Georgia has only 1.4 percent of national employment in mining and logging, so is assumed to receive only 1.4 percent of employment effects in that industry. By contrast, Georgia has nearly one-quarter of national textile product mill employment, so any employment impacts in that industry are assigned disproportionately to Georgia. Summing across 42 industries, we obtain the total impact on Georgia employment.[21] The procedure is repeated for each state to obtain the distribution across states.

None of these three approaches does a perfect job of measuring the geographic distribution of employment effects, and each has advantages and disadvantages relative to the others. Thus, to obtain a reasonable estimate of state-level job impacts, we use a simple average of the three approaches. This average indicates that the ARRA has saved or created nearly 31,000 jobs in Georgia, 3.0 percent of the national total. Estimates for all fifty states, plus the District of Columbia, are reported in Table 5.

[20] Employment by state and industry is drawn from data published by the U.S. Department of Labor (2009). We use data from the March 2009 Current Employment Statistics to determine state employment shares and data from the 2008 Quarterly Census of Employment and Wages to determine state-by-industry employment. Because of limitations in the available data, the analysis here (unlike that used for the sectoral analysis above) uses data beginning in 1990:Q2.

[21] For this analysis, we use a finer disaggregation of industries than was reported in Table 4. Manufacturing is divided into 21 sectors (for example, fabricated metal products). Trade, transportation, and utilities are divided into four sectors (wholesale trade, retail trade, utilities, and transportation/warehousing); financial activities into two (finance/insurance, and real estate/rental/leasing); professional and business services into five (professional/technical services, management of companies, employment services, other administrative/support services, and waste management/remediation); education and health into two (educational services and health care/social assistance); leisure and hospitality into two (arts/entertainment/recreation and accommodation/food services). For data sources and methods used in the sectoral decomposition, see the previous subsection.

Table 5. Estimated Impact of the ARRA on Employment by State

| State | Jobs Impact | State | Jobs Impact |
|---|---|---|---|
| | Thousands | | Thousands |
| Alabama | 13.5 | Montana | 2.9 |
| Alaska | 2.2 | Nebraska | 5.6 |
| Arizona | 21.4 | Nevada | 9.1 |
| Arkansas | 8.6 | New Hampshire | 4.0 |
| California | 139.7 | New Jersey | 31.2 |
| Colorado | 16.1 | New Mexico | 5.3 |
| Connecticut | 12.9 | New York | 72.5 |
| Delaware | 3.0 | North Carolina | 31.5 |
| District of Columbia | 4.9 | North Dakota | 2.2 |
| Florida | 55.4 | Ohio | 38.9 |
| Georgia | 30.8 | Oklahoma | 11.8 |
| Hawaii | 4.2 | Oregon | 13.6 |
| Idaho | 4.6 | Pennsylvania | 40.9 |
| Illinois | 50.4 | Rhode Island | 4.1 |
| Indiana | 24.4 | South Carolina | 13.7 |
| Iowa | 10.9 | South Dakota | 2.8 |
| Kansas | 9.1 | Tennessee | 20.0 |
| Kentucky | 13.1 | Texas | 71.9 |
| Louisiana | 12.7 | Utah | 9.5 |
| Maine | 4.8 | Vermont | 2.3 |
| Maryland | 17.4 | Virginia | 24.0 |
| Massachusetts | 27.4 | Washington | 22.6 |
| Michigan | 36.0 | West Virginia | 5.1 |
| Minnesota | 20.1 | Wisconsin | 22.1 |
| Mississippi | 8.3 | Wyoming | 1.8 |
| Missouri | 19.2 | | |

Source: CEA estimates based on data from the Current Employment Statistics and the Quarterly Census of Employment and Wages.

Notes: Entries sum to the estimated cumulative impact of policy on level in Table 3 (1,040,000 jobs impacted). Items may not add to total due to rounding.

Of course, simply because their populations are larger, we estimate that larger states have seen larger jobs impacts. Similarly, because their employment is more cyclically sensitive, industrial states are estimated to have had larger employment effects relative to their populations. Finally, both because of their industrial composition and because state fiscal relief and aid to those directly impacted have been larger in states hit harder by the recession, we estimate that states with higher unemployment rates at the time of passage have seen larger employment effects of the ARRA relative to their populations.

## IV. Estimates of Effects from Economic Models

This section examines estimates of the output and employment effects of the ARRA from macroeconomic models of the effects of various types of fiscal stimulus. The first part of the section describes the Council of Economic Advisers' estimates derived from those models. We then consider the estimates from a wide range of public and private forecasts and analysts.

### A. CEA Model-Based Estimates of the Effect of the ARRA

A natural way to estimate the effects of the ARRA on employment and GDP is to use existing estimates of the macroeconomic effects of fiscal policy. This was one approach used by the CEA to estimate the likely effects of the Act based on the information available soon after the Act was passed.[22] This methodology uses mainstream estimates of economic multipliers for the effects of fiscal stimulus.

The main difference from our earlier analysis is that we can now use figures on actual outlays and tax relief under the Act through August, rather than prospective estimates of what the likely spendout would be. To use the actual spendout figures, we need to address the fact that our approach is designed to work with quarterly data, while at the moment there are data on spendout only through the end of August. We therefore assume that spendout in July and August represents two-thirds of spendout in 2009:Q3. The multipliers are applied to the resulting quarterly figures. This yields estimates of the effects on employment and GDP as of the third quarter of 2009. Because August is the middle month of the quarter, the quarterly employment effect can reasonably be interpreted as an estimate of the employment effect in August.[23]

This exercise, like the one based on statistical projections, will obviously not yield exact figures for the effects of the ARRA. To begin with, there is uncertainty about the size of the economic effects of a "typical" increase in government purchases or a "typical" tax cut. There is

[22] Council of Economic Advisers (2009).

[23] We also make several smaller adjustments to the earlier analysis to reflect the fact that our goal here is largely to estimate the effects at a particular point, rather than to estimate the broad contours of the effects. First, an important component of spending under the Act to date (though not over its entire life) consists of one-time payments to seniors, veterans, and the disabled. These constituted $13 billion of the $29 billion of individual tax cuts and similar payments through the end of June shown in Table 2. In terms of short-run macroeconomic effects, such one-time payments are similar to one-time tax rebates, whose effects are smaller than those of tax cuts that are perceived as permanent. The analysis therefore uses multipliers for the one-time payments equal to one-half the multipliers for conventional tax cuts. Second, we assume that recipients of the various types of aid to those directly impacted by the recession (such as extended unemployment insurance) spend two-thirds of the funds in the quarter they receive them and one-third in the following quarter (rather than spending all of the funds within the quarter). Third, we assume that the impact of state fiscal relief on state budget decisions is spread over the quarter that funds are transferred to the states and the subsequent three quarters (rather than assuming the effects all occur with a one-quarter lag). Finally, we adjust the multipliers for investment incentives to account for the fact that while the size of those incentives is similar to what was assumed in the earlier analysis, the timing of the revenue changes associated with them involves larger reductions in 2009 and 2010 and larger increases in 2011 and beyond.

even more uncertainty about the precise timing of those effects, and modest changes in timing have noticeable effects on the impact at a specific point in time. In addition, the current exceptional economic environment could make the effects of stimulus somewhat larger or smaller than normal, or could cause them to occur somewhat more or less quickly. Finally, the ARRA – appropriately – was not just typical stimulus. For types of stimulus that are used less frequently, there is even greater uncertainty about the size and timing of the macroeconomic effects.

The results of this analysis are shown in Table 6. They imply that the ARRA is having a substantial beneficial effect on production and employment. Specifically, they suggest that the ARRA added roughly 3.1 percentage points to GDP growth in the second quarter and is likely to add roughly 3.6 percentage points to GDP growth in the third quarter. The approach also suggests that the Act increased employment relative to what it otherwise would have been in the second quarter (or May) by about 434,000 jobs, and that it is likely increasing employment in the third quarter (or August) by about 1.159 million jobs. These estimates are broadly similar to the estimates described in Section III obtained by comparing employment and output with projections of how those variables would have behaved in the absence of stimulus. They are also broadly similar to the estimates of many knowledgeable outside observers that we discuss below.

Table 6. Estimates of the Effect of the ARRA Using CEA Multiplier Model

| | 2009:Q2 | 2009:Q3 |
|---|---|---|
| GDP Growth (Percentage Points) | +3.1 | +3.6 |
| Employment | +434,000 | +1,159,000 |

Source: CEA calculations.

**B. Comparison with Other Estimates of the Effects of the ARRA**

Many other economists and forecasters have estimated the likely effects of the Recovery Act. Most of those estimates are based on formal macroeconomic models. These estimates provide further evidence about the effects of the act, and serve as a check on the reasonableness of our own estimates.

Table 7 reports estimates of the contribution of the ARRA to GDP growth in the second and third quarters of 2009 from an array of public and private forecasters.[24] The first row

[24] The sources are as follows. CBO: Congressional Budget Office (2009b, p. 33). Goldman Sachs: Goldman Sachs (2009). IHS/Global Insight: described in IHS/Global Insight (2009); exact numbers from Nigel Gault, email communication, August 28, 2009. James Glassman, J.P.Morgan Chase: Glassman (2009). Macroeconomic Advisers: Macroeconomic Advisers (2009a, 2009b). Moody's economy.com: described in Zandi (2009); exact

repeats the estimates from Section III based on the comparison of actual outcomes with projections of the normal evolution of the economy, and the second row shows our model-based estimates described above. The next two rows show the low and high projections prepared by the Congressional Budget Office.[25] The estimates from both of our approaches are well within the CBO range, and are generally in its lower part. To put the numbers in context, recall the real GDP fell at an annual rate of 1.0 percent in the second quarter. An estimate that the ARRA added 2.3 percentage points to GDP growth in that quarter implies that in the absence of stimulus, real GDP would have fallen at a 3.3 percent annual rate.

Table 7. Estimates of the Effects of the ARRA on GDP Growth

| | 2009:Q2 | 2009:Q3 |
|---|---|---|
| | Percentage Points, Annual Rate | |
| CEA: Projection Approach | +2.3 | +2.7 |
| CEA: Model Approach | +3.1 | +3.6 |
| CBO: Low | +1.9[a] | +1.9[a] |
| CBO: High | +5.1[a] | +5.1[a] |
| Goldman Sachs | +2.2 | +3.3 |
| IHS/Global Insight | +2.3 | +2.3 |
| James Glassman, J.P.Morgan Chase | +3.0 | +4.0 |
| Macroeconomic Advisers | +2.1 | +1.9 |
| Mark Zandi, Moody's Economy.com | +2.8 | +3.6 |
| NABE Survey | +0.5 | +0.8[b] |

Sources: See text for details.

Notes: a. Data reflect the average effect on growth, 2009:Q2 - 2009:Q4.

b. Approximate. NABE reports that about 1/3 of respondents expect the Recovery Act to add less than 0.5 percentage points to growth in the second half of 2009, and slightly over half expect it to add between 0.5 and 1.5 points; the remainder presumably expect it to add more than 1.5 points.

The remaining lines of the table show the private sector estimates that we have been able to gather. These estimates are generally similar to the estimates from our projection-based approach and slightly below those from our model-based approach.

The one set of private sector estimates that stands out as much lower than all the others is that from a survey conducted by the National Association of Business Economics. Since these are the results of a survey, we have no information about the reasoning behind them. The survey reflects the views of a substantial number of economists. At the same time, the average amount of effort devoted to each individual response to the survey was almost certainly much smaller

numbers from Mark Zandi, email communication, September 4, 2009. NABE Survey: National Association of Business Economics (2009).

[25] CBO estimated a range for the likely effects on the level of GDP in 2009:Q4. We convert these into growth projections by assuming that the Recovery Act would have no impact on growth before 2009:Q2 and that the effect on growth would be uniform over 2009:Q2-2009:Q4. Consider, for example, CBO's low estimate that the Act would raise the level of GDP in 2009:Q4 by 1.4 percent. The constant growth rate that would generate a rise of 1.4 percent over three quarters is 0.46 percent per quarter (since $1.0046^3 = 1.014$). At an annual rate, this is 1.9 percent (since $1.0046^4 = 1.019$).

than the effort that went into the other estimates reported in the table.

There are far fewer estimates of the employment effects of the Recovery Act. The ones that we have been able to gather are reported in Table 8, together with the estimates from our two approaches.[26] Again, our estimates are well within the ranges of other projections.

Table 8. Estimates of the Effects of the ARRA on Employment

| | 2009:Q2 | 2009:Q3 |
|---|---|---|
| CEA: Projection Approach | +507,000[a] | +1,040,000[b] |
| CEA: Model Approach | +434,000 | +1,159,000 |
| CBO: Low | +300,000 | +600,000 |
| CBO: High | +767,000 | +1,533,000 |
| IHS/Global Insight | +250,000 | +690,000 |
| Macroeconomic Advisers | +250,000 | +620,000 |
| Moody's Economy.com | +502,000 | +1,073,000 |

Sources: See text for details.
Note: a. Datapoint reflects an estimate for June.
b. Datapoint reflects an estimate for August.

This discussion shows that there is nothing unusual about CEA's estimates of the impact of the Recovery Act on GDP growth and employment: our estimates are consistent with a broad, though not universal, consensus of numerous professional forecasters. The fact such a wide range of public and private forecasters broadly agree with our assessment should increase confidence that the Act is having a substantial stimulative effect.

Given the widespread agreement that the ARRA is contributing strongly to real GDP growth and the change in employment, it is natural to wonder why both GDP and employment have continued to fall since the Act was passed. The answer rests in the baseline trajectory of the economy. The contractionary shocks that hit the U.S. and world economy last fall and winter were so strong that they set in motion an economic decline of nearly unprecedented proportions. Indeed, the downward trajectory was more severe than most forecasters predicted and than economic indicators suggested at the time the ARRA was proposed and passed. In an economy in a severe downward slide, fiscal stimulus naturally first manifests itself as a smaller contraction. Only once recovery is established do the effects show up in GDP increases and employment gains.

[26] The CBO estimates are from Congressional Budget Office (2009c). The estimates from Macroeconomic Advisers are from an email communication, August 10, 2009. The sources for the other estimates are the same as in Table 7.

### V. EVIDENCE OF EFFECTS FROM THE EXPERIENCE OF MANY COUNTRIES[27]

Nearly every industrialized country and many emerging economies undertook fiscal stimulus in response to the financial and economic crisis. By supporting demand throughout the world, these policies have helped to soften the downturn. They also allow us to examine another type of evidence about the effects of stimulus.

#### A. Fiscal Stimulus around the World

As the full onset of the world financial crisis was being realized at the start of 2009, many countries decided that an aggressive fiscal stimulus was necessary. The logic was similar to that behind the ARRA. Aggregate demand was falling rapidly, and in many cases conventional monetary policy was largely out of ammunition. It was hoped that government spending and tax cuts could step into the breach and provide the necessary lift to the economy to prevent a slide into a deep recession or worse.

The stimulus measures used in this analysis are an average of three published estimates of stimulus across countries: an International Monetary Fund (IMF) report on stimulus in G20 countries, a Brookings Institution report on stimulus announcements, and an Organisation for Economic Co-operation and Development (OECD) report on stimulus.[28] The estimates are typically quite close. Table 9 shows the amount of fiscal stimulus estimated to take effect in 2009 as a share of GDP.[29] Although many countries (including the United States) have stimulus that will extend beyond 2009, the estimates below are strictly for the portion of stimulus that will be done in 2009. The strength of the stimulus varied across the world, ranging from Italy's near non-existent stimulus (0.1 percent of GDP) to Korea's 3.0 percent of GDP. The average stimulus for the full sample is 1.6 percent of GDP, and for the OECD is 1.5 percent. The U.S. stimulus was above average, estimated at 2 percent of GDP for 2009.

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[27] Many of the results in this section are developed in greater detail in the CEA report "The Effects of Fiscal Stimulus: A Cross-Country Perspective."

[28] IMF (2009); OECD (2009a); Brookings Institution (2009). Both the IMF and OECD measures include any stimulus announcements up through the middle of June 2009. The Brookings figures were not updated after March, so stimulus announced in the late spring is not included. Including the Brookings estimates in the average thus slightly down-weights any stimulus announced after March. Given that we seek to measure the impact on second quarter GDP, this is appropriate. The Brookings estimates are largely based on a prior IMF report, although they include calculations by Brookings staff as well. A simple average of just the IMF and OECD estimates is correlated with our measure at 0.98, so the decision to include the Brookings estimates does not play a substantial role.

[29] The sample of countries is based on data availability for stimulus, private forecast data, and actual real GDP growth in 2009:Q2. There is a slight difference between this table and that in Romer (2009). Since that speech, we have found a Brookings estimate for stimulus in South Korea. Adding that to our average slightly lowers the estimate of South Korea's stimulus and shifts the accompanying figures slightly. No qualitative conclusions change. In addition, three countries have not released second quarter GDP data and have been dropped from the sample.

Table 9. Discretionary Fiscal Stimulus in 2009 around the Globe

| Country | Share of GDP | Country | Share of GDP |
|---|---|---|---|
| Australia[a] | 2.2% | Korea[a] | 3.0% |
| Canada[a] | 1.7% | Mexico[a] | 1.4% |
| China | 2.6% | Norway[a] | 1.2% |
| Czech Republic[a] | 1.6% | Poland[a] | 0.8% |
| France[a] | 0.6% | Russia | 2.9% |
| Germany[a] | 1.5% | South Africa | 2.2% |
| India | 0.6% | Sweden[a] | 1.4% |
| Indonesia | 1.4% | Switzerland[a] | 0.6% |
| Italy[a] | 0.1% | United Kingdom[a] | 1.5% |
| Japan[a] | 2.4% | United States[a] | 2.0% |

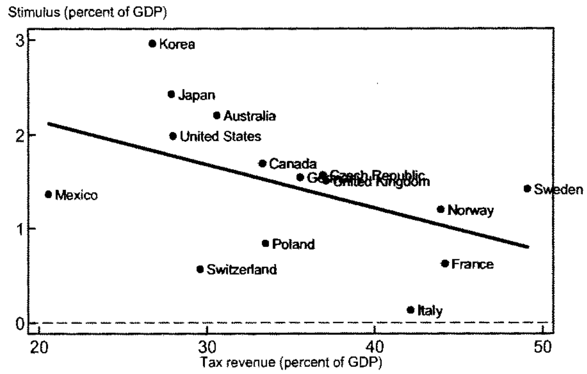
Source: CEA estimates based on IMF, OECD, and Brookings data.
Note: a. Country is an OECD member.

Stimulus plans were not simply a function of how bad the shock in 2009 was expected to be. In fact, there is no correlation between the size of stimulus and forecasts for the performance of the economy in the second quarter of 2009.[30] Countries that experienced a bigger drop in the fourth quarter of 2008 undertook a slightly larger stimulus, but this relationship is not statistically significant and the relationship can explain only a small share of stimulus variation.[31]

The size of discretionary stimulus is correlated with other fiscal policy, however. Discretionary stimulus is not the only way fiscal policy responds to a crisis; automatic stabilizers (unemployment insurance, welfare, reduction in taxes collected due to lower payrolls, and so on) are triggered when an economy slows down. The size of automatic stabilizers present in the economy appears to be negatively correlated with the size of discretionary stimulus. We use the level of taxation in the economy as a proxy for automatic stabilizers. Countries with large levels of taxation see immediate automatic stabilizers as any lost income immediately reduces taxes. Those same countries often tend to have more generous social safety nets (funded by their higher taxes). As Figure 11 shows, those countries that already had large automatic stabilizers in place as of 2006 appear to have done less discretionary fiscal stimulus.[32]

[30] A regression of stimulus size on the difference between predicted growth in 2009:Q2 and average growth in the 2000's generates a coefficient close to zero (-0.07) with a standard error of 0.10 and an $R^2$ of 0.03. The data on forecasts are described in more detail below.
[31] The correlation between fourth quarter GDP growth and size of stimulus is -0.29. Regressing stimulus on fourth quarter GDP growth generates a statistically insignificant coefficient of -0.037, suggesting a 1 standard deviation difference in fourth quarter growth rates (roughly 6 percentage points) leads to a 0.2 percent of GDP larger stimulus. The $R^2$ is 0.09, thus explaining a small amount of the variation. See CEA, "The Effects of Fiscal Stimulus: A Cross-Country Perspective," for more details.
[32] A consistent measure of level of taxation is only available across the OECD countries. We use the measure of taxation in the economy from OECD (OECD, 2009b). The correlation between the stimulus and the tax share is -0.48.

Figure 11. Stimulus and Tax Share of the Economy




Sources: OECD; IMF; Brookings Institution; CEA calculations.
Note: the regression line is stimulus = 3.1 - 0.046 * (tax share).
The coefficient on tax share is significant at the 90% confidence level. The R-squared is 0.23.

## B. The Impact of Stimulus on Growth

Countries have different normal rates of growth, and they have experienced the shock of this crisis to different degrees. Thus, a key element of examining the cross-country evidence about the effects of stimulus is to build a counterfactual: what would we expect to have happened to countries' economies in the absence of stimulus?

We use as our measure of the counterfactual the private sector forecast by J.P.Morgan of GDP growth for the second quarter of 2009 that was made in November 2008.[33] The J.P.Morgan forecast has the advantage over market average expectations of being reported far in advance (before any stimulus is announced) and of having public forecasts for a wide set of countries made on a specific day.[34] We take these expectations and subtract them from current performance to get a measure of whether countries outperformed expectations. Current performance is measured by the actual GDP growth rate in the second quarter of 2009.[35]

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[33] See J.P.Morgan (2008).

[34] As a robustness check, we also explore a simple time-series forecasting model to predict a "no-stimulus" growth rate across countries. Results using this method are consistent with the results provided here. They can be found in the CEA report "The Effects of Fiscal Stimulus: A Cross-Country Perspective."

[35] For Norway we use the Mainland GDP series (which is what J.P.Morgan forecasts), and we use the J.P.Morgan seasonal adjustment of Russia's data given that this is the series that is consistent with their forecast. China and the Czech Republic's flash estimate release only year on year changes at the quarterly frequency, so we use J.P.Morgan's estimate of what those yearly changes imply for quarterly growth. See J.P.Morgan (2009).

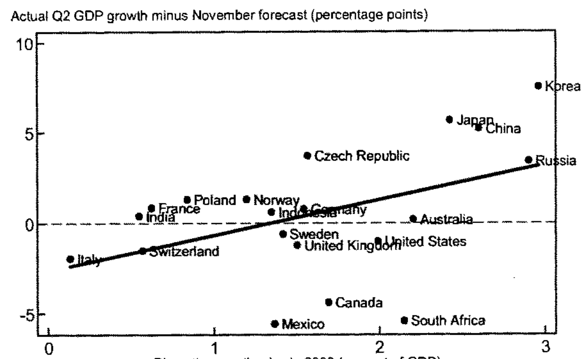
If countries that experienced larger negative shocks adopted greater stimulus, the relationship between stimulus and the difference between actual performance and pre-crisis expectations will tend to understate the benefits of stimulus. As noted above, however, our first effort to look for such an effect – the examination of the relationship between stimulus and pre-stimulus expectations of growth in 2009:Q2 – finds no evidence of such behavior. However, this does not fully eliminate the possibility that one source of the cross-country variation in stimulus was variation in the size of shocks.

A more serious problem is the negative correlation between discretionary stimulus and automatic stabilizers. Countries with smaller discretionary packages tended to have larger swings in automatic policy. As a result, total fiscal stimulus in the countries with low discretionary stimulus is more similar to the countries with high discretionary stimulus than the measure of discretionary stimulus alone suggests. Thus, examining the relationship between discretionary stimulus and growth performance relative to expectations could underestimate the impact of stimulus on growth.

A final possible confounding factor is the possibility of other policies that are correlated with discretionary fiscal policy. If monetary policy stimulus or some other policy that increases growth is positively correlated with discretionary stimulus, we might mistakenly attribute some of the impact of the other policy to fiscal stimulus. Alternatively, if countries that pursued less discretionary stimulus used other policies more, our analysis will understate the effects of stimulus. For all of these reasons, our analysis should be interpreted with caution.

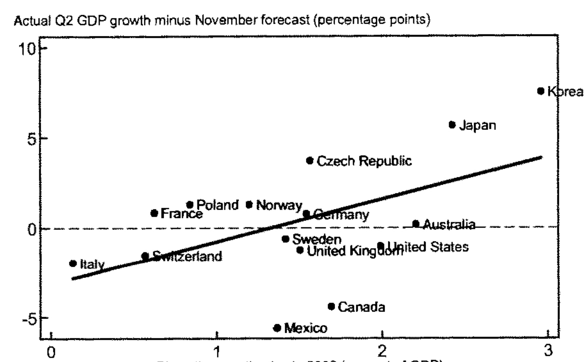
Figures 12 and 13 show the relationship between discretionary stimulus and the difference between actual growth in the second quarter and pre-crisis expectations for the full sample of countries and for OECD countries only. There is a clear upward sloping relationship. Countries that undertook larger stimulus outperformed expectations when compared to countries that undertook smaller stimulus. The relationship is even stronger for the OECD-only sample. Some of the outliers in Figure 12 are non-OECD countries like South Africa. It is sensible that the relationship may be more consistent across the OECD countries, which have more similarities in the way fiscal policy is pursued, the channels through which it affects the economy, and the extent to which the shock of the recession hit them.

Figure 12. Outperforming Expectations and Stimulus, Full Sample




Sources: OECD; IMF; Brookings Institution; J.P.Morgan; CEA calculations.
Note: the regression line is (growth - forecast) = -2.6 + 1.95 * stimulus.
The coefficient on stiumulus is significant at the 95% confidence level. The R-squared is 0.20.

Figure 13. Outperforming Expectations and Stimulus, OECD Sample




Sources: OECD; IMF; Brookings Institution; J.P.Morgan; CEA calculations.
Note: the regression line is (growth - forecast) = -3.1 + 2.34 * stimulus.
The coefficient on stiumulus is significant at the 95% confidence level. The R-squared is 0.26.

In both samples, this relationship is statistically significant. Further, despite including only one explanatory variable – size of stimulus – we can explain a considerable amount of the variation in how well countries performed relative to expectations. The $R^2$ is 0.20 for the full sample and 0.26 for the OECD sample.

The coefficient on stimulus is 1.95 in the full sample and 2.34 for the OECD sample. Taken literally, this would suggest that a stimulus of 1 percent of GDP led to faster growth in the second quarter of 2 percentage points (at an annualized rate).[36] This would be a substantial multiplier. We do not know the precise distribution of stimulus spending by quarter. If more than a quarter of the spending was in 2009:Q2, we might want to interpret the multiplier as somewhat smaller.

The results suggest that rather than having a GDP growth rate of -1 percent in the second quarter of 2009, absent the stimulus of 2 percent of GDP in 2009, the United States may have had a GDP growth rate in the range of -3.1 to -5 percent.[37] This estimate that the stimulus led to a growth rate 2.1 to 4 percentage points higher in the second quarter is consistent with the analysis presented in Sections III and IV suggesting the U.S. growth rate was about 2.3 to 3.1 percentage points higher due to stimulus.

As noted, automatic stabilizers may partially mitigate the estimated relationship between stimulus and growth. If we control for the tax share of the economy in the OECD sample, we find even stronger results. The coefficient on stimulus gets even larger and the picture becomes even clearer.[38]

Observers in many countries see the link between stimulus and the beginnings of recovery. Chinese officials credit stimulus with being crucial to its GDP performance.[39] The German statistical agency reported that not only was government spending higher because of the stimulus there, but personal consumption expenditure's positive contribution to growth was largely a result of stimulus (specifically, Germany's "cash for clunkers").[40] In Japan, according

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[36] To be clear, the growth rate is annualized, meaning if one had higher stimulus of 1 percent of GDP, one would expect higher growth of 2 percentage points over the whole year, suggesting a multiplier of 2. If one-quarter of the stimulus is spent in the second quarter (so 0.25 percent of GDP) and the quarterly growth rate is higher by 0.5 percent, we again get a stimulus multiplier of 2.

[37] The forecast in November 2008 for 2009:Q2 growth for the Unite States was 0 percent. The constant in the OECD sample suggests countries would have fallen short of expectations by 3.1 percentage points if they had done no stimulus. That suggests absent stimulus the United States would have had a growth rate of -3.1 percent. Alternatively, the coefficient in the regression suggests that the 2 percent of GDP stimulus the United States did should have lifted U.S. growth by about 4 percentage points, so without a stimulus the United States would have grown at a rate of roughly -5 percent. The range across these two methods is attributable to the fact that the United States lies slightly below the regression line.

[38] See CEA report "The Effects of Fiscal Stimulus: A Cross-Country Perspective." When we control for the tax share, this helps explain the relatively small stimulus in France and Norway (and hence shifts these points to the right – towards the regression line), and shifts Mexico to the left as it had low stimulus and a low tax share. These adjustments lead to a larger, more significant coefficient.

[39] Zhuang Jian, senior economist with the Asian Development Bank, stated that government-led investment and ample credit are the main reason behind the growth in China. Also, the spokesman for the National Bureau of Statistics in China has stated that the stimulus package was the reason for improving economic performance. For example, extensive government construction has helped fixed asset investment increase 33.5 percent in the last six months, the most in five years. See Xinhua News (2009).

[40] See Statistisches Bundesamt Deutschland (2009).

to government officials, public investment has shown a steady improvement and private consumption has been supported by the effects of the policy packages.[41] And, in Korea, the statistical agency reported that in the second quarter, construction investment and government expenditure showed sustained growth, and construction investment growth was due to an increase in the public sector.[42] Stimulus has not acted alone. In both Germany and Korea, exports have been an important part of a return to growth, but stimulus has played a significant role.

The cross-country evidence relies on a small number of outcomes and the stimulus measures are for a year, and hence not the perfect measure of stimulus in the quarter. As a result, all of these estimates are subject to some revision and substantial uncertainty. But, we do see a consistent positive statistically robust relationship between stimulus and growth performance. Countries with stimulus did better than expected, and did so by a margin that is consistent with a sizable multiplier effect.

## VI. The Impact of State Fiscal Relief[43]

One central feature of the ARRA is that it contains a multitude of different tax cuts and spending increases. In this section, we discuss in more detail the impact of one component that has been particularly significant in the early months of the Act: fiscal relief to the states.

State budget relief has been especially important because states, which normally must end the year with a balanced budget, experienced budget gaps of up to 20 percent of their general funds at some point during the 2009 fiscal year. In response to these gaps, states were already raising taxes and reducing spending by the time the ARRA was passed.[44] These actions not only placed further burdens on families already suffering from the recession and cut crucial services, but also directly contributed to the worsening of the downturn. The aid to states appears to have helped mitigate some of the tax increases and cuts to government social programs and services that otherwise would have taken place.

Another reason that state fiscal relief has been important is that funds can be disbursed quickly. As Table 2 showed, this relief comprised a large majority of the stimulus in the first six weeks of the ARRA. And, through the end of August, $38.4 billion of fiscal relief has been provided to the states. This represents almost half of outlays and one-quarter of total ARRA stimulus (that is, outlays plus tax reductions).

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[41] See Cabinet Office, Government of Japanese (2009).
[42] See Bank of Korea (2009).
[43] Many of the results in this section are developed in greater detail in the CEA report "The Effects of State Fiscal Relief."
[44] National Conference of State Legislatures (2009).

The two main forms the relief has taken are an adjustment in the Federal Medicaid matching rate (FMAP) and an increase in formula grants to state governments for education through the State Fiscal Stabilization Fund.[45] Of the $38.4 billion provided through the end of August, $28.1 billion came through the higher Federal share of Medicaid spending, and the remainder through increased education grants.

All states have received substantial support. The ARRA was designed to provide greater support for states hit harder by the recession. For example, it further increased the Federal component of Medicaid spending in states that have experienced especially large increases in unemployment. Moreover, because Medicaid is a means-tested program, an increase in Medicaid funding naturally provides more funds to states where more workers are unemployed.[46] And indeed, fiscal relief per capita has on average been greater in states that had higher unemployment rates at the time the Act was passed.

Since there is ample evidence that increases in government spending and reductions in taxes help slow economic downturns, there is every reason to think that the state fiscal relief has been one force helping to move the economy from recession to recovery. However, we have little direct evidence that specifically concerns the economic effects of state fiscal relief. For example, there has been little research concerning the macroeconomic effects of the 1972 State and Local Fiscal Assistance Act or the $20 billion state fiscal relief package in 2003. In this section, we therefore look at the effects of state fiscal relief in more detail.

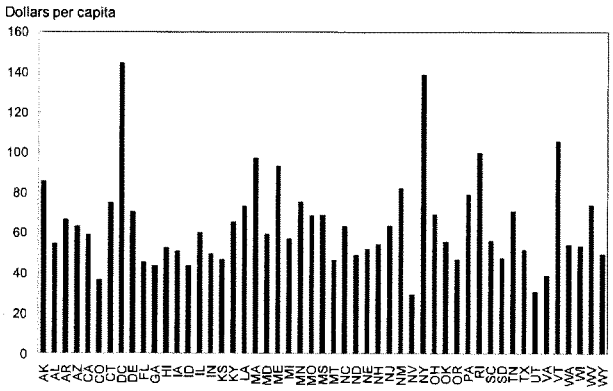
To investigate the effects of state fiscal relief, we clearly cannot simply ask whether states that have received more ARRA funds have generally performed better: as we described, the ARRA was designed so that states that were "sicker" on average received more "medicine." To get evidence about the effects of the fiscal relief, we therefore focus on a particular part of the relief: the increase in Federal Medicaid spending which resulted from typical state Medicaid expenditures *before* the recession. Even in normal times, Medicaid expenditures per capita vary substantially across states. In addition to the increases tied to states' economic circumstances, the ARRA increased by 6.2 percentage points the Federal share of states' Medicaid expenses. As a result, states that spent more on Medicaid per resident before the recession received more recovery dollars per capita from this portion of the package.

We can estimate the fiscal relief to states from this portion of the program by multiplying

[45] Indeed, as discussed in Section II, we include only these two categories of ARRA outlays in computing state fiscal relief. Spending on specific projects and support for individuals hurt by the recession that are paid for via the states are classified as government investment and aid to those directly impacted by the recession, respectively.
[46] A possible effect operating in the opposite direction is that states with larger economic declines might decrease Medicaid generosity to balance their budgets. To ensure that this did not occur, the ARRA specifically mandated that eligibility standards not be tightened, so distressed states could not alter their eligibility rules and still receive ARRA funding.

0.062 times Medicaid spending per person in the state in 2007. Since this component, which we refer to as "estimated non-cyclical ARRA Medicaid payouts," was determined before the recession, it is almost certainly less related to the recession's effects on jobs than overall state fiscal relief. Indeed, although we cannot be sure if other factors are responsible for the relationship between this measure and employment changes, we present evidence elsewhere that suggests that this correlation is not driven by some important underlying differences between states that received more money and states that received less.[47] Figure 14 shows the estimated non-cyclical ARRA Medicaid payouts for each state.

Figure 14. Estimated Non-cyclical ARRA Medicaid Payouts




Source: Centers for Medicare and Medicaid Services. Data Compendium. 2008.
Note: Each bar represents 0.062 multiplied by total per capita Medicaid expenditures in 2007.

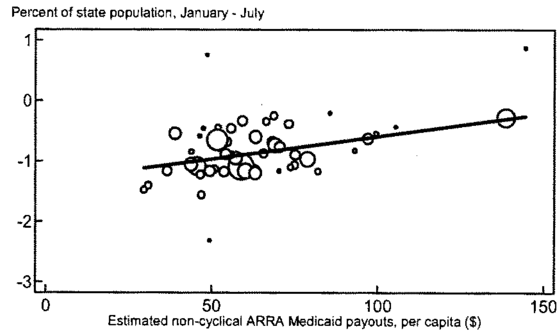
We can then study the relationship between the change in state employment from January to July (the latest month for which we have employment data by state) and the estimated ARRA non-cyclical Medicaid payout. This comparison can show whether the states that received relatively large amounts of this type of fiscal relief saw smaller declines in employment.

Figure 15 shows the relationship between state fiscal relief not tied to economic conditions and economic performance. The horizontal axis plots our estimated non-cyclical ARRA Medicaid payouts (per person) that a state received. The vertical axis shows the change in the percent of the state's population that was employed from January 2009 to July 2009.[48] Because the outcome variable is measured more precisely for states with larger populations, the

[47] See Council of Economic Advisers, "The Effects of State Fiscal Relief."
[48] The outcome variable is the change in the state's seasonally adjusted employment from January to July 2009, divided by its 2008 population. The data come from the Bureau of Labor Statistics (BLS) of the Department of Labor, Current Employment Statistics (CES).

best-fit line weights states by their population. However, the weighting affects the results little. The size of the circle represents the size of a state's population.[49]

Figure 15. Change in Nonfarm Employment




Sources: Centers for Medicare and Medicaid Services. Data Compendium; Bureau of Labor Statistics; CEA calculations.

Note: Size of circle proportional to 2008 state population.
The regression line is (change in employment) = -1.3 + 0.0076 * (estimated payouts).
The coefficient on estimated payouts is significant at the 99% confidence level.
The R-squared is 0.29.

The clear message from the figure is that states that received more of this type of relief experienced better labor market outcomes than states that received less. The magnitude of this relationship is large: the figure implies that receiving $120 per capita instead of $60 per capita is related to a state the size of Michigan gaining about 45,600 jobs relative to what otherwise would have occurred.[50] Although our use of Medicaid payouts based upon past Medicaid expenditures reduces the concern that correlation does not imply causation, we caution that interpreting this evidence as indicating causality remains problematic. Nonetheless, the picture changes little if we control for variables like region or industry composition.[51]

For fiscal relief to affect economic outcomes, it has to affect state budgetary decisions. One concern with fiscal relief is that states might not spend it but instead use it to bolster their

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[49] Without weights, the coefficient on estimated payouts is 0.0106 and is significant at the 99 percent confidence level. We have also obtained a direct measure of the standard error of the state-level employment from the BLS. When we use this measure to construct weights, the results are very similar to the population-weighted results; the coefficient on estimated payouts is 0.0076 and is significant at the 99 percent level.

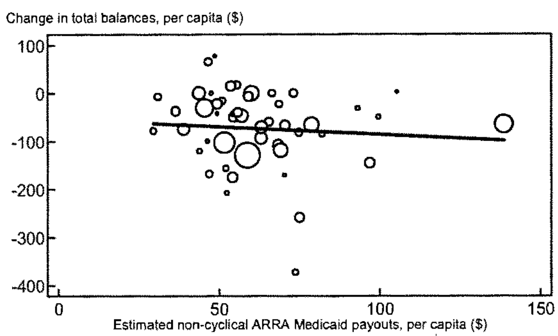
[50] We calculate this number as follows. We multiply the difference between $120 per capita and $60 per capita by the value from the regression line in the scatter plot (0.0076), divided by 100, so that employment changes are also in per capita terms. We then multiply this number by the size of Michigan's population, approximate 10 million, to arrive at 45,600. As stressed in the text, these results are correlations and should not be interpreted as a causal relationship.

[51] See CEA report "The Effects of State Fiscal Relief" for a fuller discussion. The relationship is not sensitive to moving the initial month earlier or later by a month or moving the final month earlier by a month. Furthermore, there is no significant relationship between estimated ARRA Medicaid payments and employment during pre-ARRA periods such as June to December 2008.

"rainy day" funds. Available evidence indicates that this did not occur. By June 2009, 42 states had cut their planned fiscal 2009 budgets by $31.6 billion total.[52] If states increased their rainy day funds, it would mean that they were cutting programs while increasing savings in the same fiscal year, which seems unlikely.

We can also examine directly the relationship between ARRA Medicaid transfers and relative increases in states' total balances, a comprehensive measure of state savings which contains both the rainy day fund and the state's ending balance. Figure 16 plots the estimated non-cyclical ARRA Medicaid payouts against changes in states' total balances, in per capita terms.[53] The best-fit line is slightly downward sloping, the opposite of what one would expect if larger transfers resulted in total balances build-up.

Figure 16. Total Budget Reserve Balances




Sources: Centers for Medicare and Medicaid Services. Data Compendium; National Governors Association and National Association of State Budget Officers; CEA calculations.

Note: Excludes Alaska. Total balances include balances at the end of the fiscal year and balances in budget stabilization funds. Size of circle proportional to 2008 state population. The regression line is (change in balances) = -53.1 - 0.3 * (estimated payouts). The coefficient on estimated payouts is not significant. The R-squared is 0.01.

Many state governors have described how they have used the fiscal aid to avoid expenditure reductions. For example, Governor Jan Brewer of Arizona noted her commitment to use "Arizona's portion of federal funds to help avoid massive cuts to [its] higher education system."[54] Governor Martin O'Malley of Maryland told of "looking down the barrel of those

[52] Budget cut data are from National Governors Association and National Association of State Budget Officers (2009).

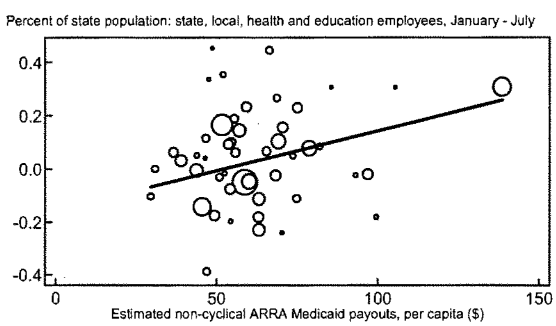
[53] For this analysis, we exclude Alaska because the change in its total balances was more than ten times larger than any other state on a per capita basis. When we include Alaska, we have a similar negative correlation. Data for a state's rainy day funds are taken from National Governors Association and National Association of State Budget Officers (2009).

[54] Brewer (2009).

hard budget decisions" and being "forced to articulate a budget that proposed devastating cuts" until the ARRA passed and allowed the state to "maintain [its] programmatic funding levels."[55] Governor Deval Patrick of Massachusetts described how the fiscal relief would help "Massachusetts sustain critical safety net programs and services while avoiding laying off thousands of teachers, public safety workers, human service providers and other government employees."[56]

Employment data confirm this narrative evidence. As states reduced budget cuts, we would expect to see fewer layoffs in the areas of public safety, education, health care and other sectors where state governments provide a large amount of financial support. Figure 17 shows the relationship between the estimated amount of fiscal relief and the change in the percent of the population employed in state and local government, education, and health care.[57]

Figure 17. Change in Government Employment




Sources: Centers for Medicare and Medicaid Services. Data Compendium; Bureau of Labor Statistics; CEA calculations.

Note: Excludes Louisiana and Wyoming due to data availability. Size of circle proportional to 2008 state population.
The regression line is (change in employment) = -0.2 + 0.003 * (estimated payouts).
The coefficient on estimated payouts is significant at the 99% confidence level.
The R-squared is 0.20.

The figure shows that states that received more dollars in fiscal transfers added or saved more jobs in these sectors. Comparing Figure 17 to Figure 15, about one-quarter to one-half of the relationship between estimated non-cyclical ARRA Medicaid payouts and total employment results from jobs created or saved in government-related sectors.

Of course, this analysis is not a definitive examination of the effects of state fiscal relief. For example, it is based on only six months of data. As more data become available and the existing data are revised, the jobs picture may become clearer. And, importantly, looking at

[55] O'Malley (2009).
[56] Patrick (2009).
[57] There is a similar correlation if we restrict attention to government employees only.

state-level outcomes gives only a partial picture of the economic benefits of state fiscal relief. Because there are spillovers across states, important parts of the effects of relief to one state will be felt in other states. Our analysis does not incorporate these spillover effects.

Despite these caveats, this preliminary analysis adds to the general evidence that fiscal stimulus improves short-term economic outcomes, and provides some direct evidence that stimulus remains effective when it takes the form of fiscal aid to the states.

## VII. Conclusion

This report provides an initial assessment of the economic impact of the American Recovery and Reinvestment Act of 2009. Because we are still in the early stages of the Act, it must be reiterated that all of are findings are preliminary and subject to substantial uncertainty. Later reports will be able to examine a longer and richer set of economic indicators, including the estimates of jobs retained or created reported by ARRA recipients, and will surely lead to new findings and refinements to our analysis.

Because of this inherent uncertainty, we have approached the task of evaluating the impact of the ARRA from a wide range of perspectives. Importantly, the different approaches yield remarkably consistent findings. Both time-series econometric analysis and standard economic model-based analysis indicate that the Recovery Act has helped to change the trajectory of the economy. The estimates suggest that the ARRA will likely add about 3 percentage points to real GDP growth in the third quarter and will have raised employment by roughly 1 million relative to what would have happened without stimulus.

Further evidence on the impact of fiscal stimulus is provided by examining the experience of a number of countries. Countries throughout the world have responded to the crisis by enacting stimulus packages. However, they have differed substantially in the size of those packages. Our analysis suggests that countries with larger fiscal stimulus measures have experienced better outcomes relative to expectations than those with smaller packages. And, the estimated sensitivity is consistent with other estimates of the impact of the ARRA in the United States.

Because fiscal relief to the states has been a key component of the early months of the stimulus, we look in more detail at how states have responded. We find no evidence of the Recovery Act funds being squirreled away in state rainy day funds. Instead, as governors throughout the country have emphasized, the money has gone into maintaining state and local employment and hence crucial state services. We find that state fiscal relief has helped raise state employment relative to what it otherwise would have been.

In this context, it is useful to mention the Car Allowance Rebate System (CARS), the program commonly referred to as "Cash for Clunkers." Though not part of the original ARRA, the popular CARS program was funded largely with ARRA funds that were reallocated by supplemental legislation. As described in a separate report, the CEA has conducted an analysis of the evidence to date on the effects of the program.[58] The surge in automobile sales in July and August was one of the largest two-month increases in history. Our estimates suggest that the program likely added between 0.1and 0.4 percentage points to real GDP growth in the third quarter of 2009. It is likely increasing employment relative to the baseline by roughly 40,000 to 120,000 in the second half of 2009.

While important in its own right, the CARS program also has much in common with a range of initiatives in the ARRA. The First-Time Homebuyer Tax Credit, the business investment incentives, and the weatherization subsidies are all programs designed to move demand from the future, when it is likely to be less crucial, to today, when it is clearly vital to generating recovery. That the CARS program has had beneficial effects is suggestive that these elements of the ARRA will as well.

In the quarters to come, the Council of Economic Advisers will continue to investigate the impact of the individual components and the overall effectiveness of the American Recovery and Reinvestment Act of 2009. In this way, we hope to provide Congress and the American people with the accountability they expect and deserve, and future policymakers with information about the impact of this bold action to rescue the American economy.

[58] CEA Report, "Economic Analysis of the Car Allowance Rebate System."

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D1V25A1-R2C1

# Federal Railroad Administration

*Section 1512 AMTRAK Data Validation Plan*

11/10/2009

***Background***

In February 2009, the American Recovery and Reinvestment Act (ARRA) appropriated the Federal Railroad Administration (FRA) an unprecedented $11.3 billion in grant resources. Of this total, $1.3 billion was for the National Railroad Passenger Corporation (AMTRAK) and $8 billion was provided for competitive grants under the Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service program. Pursuant to ARRA requirements, the FRA has awarded $1.3 billion to AMTRAK by March 19, as mandated in ARRA. It is important to note that ARRA did not have as stringent award terms associated with the $8 billion high-speed rail program. However, FRA expects to begin awarding these grants during the first quarter of FY 2010. Both of these programs, however, are mandated to track a variety of program and grantee specific data, including the creation of new jobs.

Two specific reporting requirements include (1) ARRA section 1201(c) and (2) the OST Monthly Expense and Work Hours (OMEWH) reports have been already assembled and disseminated since May 2009. The ARRA section 1201(c) report requires for each grantee participating in a DOT ARRA grant program a single record including the total of all the grant awards received under it, the amounts committed, projects numbers and associated dollars (out for bid, awarded, ongoing and closed), plus the federal and local cost share. The OMEWH Report requires all ARRA grants to report direct work hours and expenses per place of performance. A third requirement, the 1512 report, is somewhat similar in nature and was to include particulars of the sub-awards and subcontractors. AMTRAK submitted an aggregate report on October 20, 2009. Over $1 billion has been obligated to AMTRAK for hundreds of projects across the country, including the northeast corridor and other AMTRAK locations, however all jobs are currently reporting in the District of Columbia. FRA and AMTRAK are working collaboratively to develop a methodology to identify expenditures by project/location.

***AMTRAK Recipient Data***

Financial data is reported from AMTRAK's regular financial systems including the general ledger. AMTRAK has established specific accounting procedures for ARRA expenditures to be separate from other AMTRAK operating and capital expenditures; however transaction processes are performed in exactly the same way as all other transactions, avoiding new processes and untested, unaudited controls. AMTRAK's financial transactions are audited by an outside auditor annually. AMTRAK financial reports for Section 1512 will be reconciled to other financial reports submitted to DOT/FRA.

Non-financial data such as jobs created is reported from AMTRAK's payroll and human resources data using special key codes established for reporting purposes. This data falls into two categories; 1) wage earners and 2) salaried personnel. Wage earner man-hour data originates with employee timekeeping that feeds payroll. At this time, salaried time data is not recorded in payroll and labor data systems, therefore, only employees who are 100% dedicated to ARRA activities are reported allowing AMTRAK to use calculations employing full-time FTE logic as described in the guidance. Calculations for FTE for both wage and salaried personnel will be prepared by one individual in AMTRAK's Finance office and reviewed by at least one other. The accompanying expenditures for these personnel are also captured and compared to expenditure reports.

Jobs created and retained by vendors are captured directly from vendor invoices and supporting documentation. AMTRAK has specific personnel from the accounts payable function who are assigned to reviewing vendor invoices and inputting the ARRA data to AMTRAK's procurement system, Ariba. Ariba data includes data capture for reporting and is the front end of the process to create vendor payments. This is a system that is also reviewed annually by outside auditors. Data captured from vendors includes designation of labor categories to provide the descriptions of jobs created.

***AMTRAK Recipient Data***

Financial data will be reported from AMTRAK's Ariba system. These systems include vendor master data for vendor identification as well as to report payment transactions. This data will be reconciled to accounts payable system and expenditure totals.

# *Data Validation Rules - ARRA Section 1512*

## Section 1: Report Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Grant Agreement | | | | |
| **Label:** | Award Type | | | | |
| **Type:** | varchar(8) | **Source:** | User | **Required:** | True |
| **Description:** | | | | | |
| | Award Type—Grant, Loan, or Federally Awarded Contract<br><br>Other types of federal financial assistance not specifically identified above should be reported under the award type of Grant | | | | |
| **Steward:** | Trimble, Mark | | | | |
| **Validation Key:** | Equals Award Type in Grant Agreement | | | | |

*FAA: Grant; Match to word "Grant".*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

## Section 1: Report Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Grant Agreement | | | | |
| **Label:** | Award Number | | | | |
| **Type:** | varchar(50) | **Source:** | User | **Required:** | True |
| **Description:** | The identifying num¬ber assigned by the awarding Federal Agency, such as the federal grant number, federal contract number or the federal loan number. | | | | |
| **Steward:** | Trimble, Mark | | | | |
| **Validation Key:** | Equals Award Number in Grant Agreement. | | | | |

*FAA:* *Numeric for non state block grants i.e. "9-99-9999-999-2009". For state block grants, "9-99-SBGP-999-2009". The last four digits represent the year); Match to SOAR Grant Number*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Error | Submitted Award Number: DTFRDV-09-G-00002 Correct Award Number: DTFRDV-09-G-00003 | |

## Section 2: Award Recipient Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient DUNS Number | | | | |
| **Type:** | varchar(9) | **Source:** | User | **Required:** | True |
| **Description:** | Recipient organization's Data Universal Numbering System (DUNS) number.<br>Format: 9 digits.<br>The prime recipient organization's 9-digit Data Universal Numbering System (DUNS) number | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient DUNS Number in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/26/2009 | Capps, Jennifer | Passed | | |

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient Account Number | | | | |
| **Type:** | varchar(255) | **Source:** | User | **Required:** | |
| **Description:** | Recipient's internal account number for award. Strictly for Recipient organization's use.<br>Recipient's internal account number for award. The account number or any other identifying number assigned by the recipient to the award. This number is strictly for the recipient's use only and is not required by the awarding Federal agency. | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient Account Number in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/26/2009 | Capps, Jennifer | Null | | |

## Section 2: Award Recipient Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient Congressional District | | | | |
| **Type:** | varchar(2) | **Source:** | User | **Required:** | True |
| **Description:** | Congressional District of the Recipient. For single-digit Congressional Districts, enter a '0' prior to the digit (e.g., '04') '00' is a valid entry. Territories or Minor Outlying Islands, use '99'. Format: 2 digit code. | | | | |
| | Congressional District of the Recipient. For single-digit Congressional Districts, enter a '0' prior to the digit (e.g., '04') '00' is a valid entry. Territories or Minor Outlying Islands, use '99'. Format: 2 digit code. | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient Congressional District in CCR. | | | | |

FAA: *Numeric; Match to SOAR Sponsor Congressional District*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/26/2009 | Capps, Jennifer | Passed | | |

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Parent DUNS Number | | | | |
| **Type:** | varchar(9) | **Source:** | System | **Required:** | |
| **Description:** | Code for the Federal Agency that is responsible for funding/distributing the ARRA funds to Recipients. | | | | |
| | Unique Identifier of Parent Organization / Company (DUNS No.) | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Parent DUNS Number in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/26/2009 | Capps, Jennifer | Passed | | |

## Section 2: Award Recipient Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Recipient Type | | | | |
| **Type:** | varchar(300) | **Source:** | System | **Required:** | |
| **Description:** | | | | | |
| | This data element is inferred from CCR. The field inferred is "Business Type" in CCR. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient Legal Name | | | | |
| **Type:** | varchar(120) | **Source:** | System | **Required:** | |
| **Description:** | | | | | |
| | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient Legal Name in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

## Section 2: Award Recipient Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient DBA Name | | | | |
| **Type:** | varchar(120) | **Source:** | System | **Required:** | |
| **Description:** | | | | | |
| | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient DBA Name in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient Address 1 | | | | |
| **Type:** | varchar(55) | **Source:** | System | **Required:** | |
| **Description:** | | | | | |
| | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient Address 1 in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

## Section 2: Award Recipient Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient Address 2 | | | | |
| **Type:** | varchar(55) | **Source:** | System | **Required:** | |
| **Description:** | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient Address 2 in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Null | | |

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient City | | | | |
| **Type:** | varchar(35) | **Source:** | System | **Required:** | |
| **Description:** | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient City in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

## Section 2: Award Recipient Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient State | | | | |
| **Type:** | varchar(2) | **Source:** | System | **Required:** | |
| **Description:** | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient State in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient ZIP Code + 4 | | | | |
| **Type:** | varchar(9) | **Source:** | System | **Required:** | |
| **Description:** | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient ZIP Code in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

## Section 2: Award Recipient Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CCR | | | | |
| **Label:** | Recipient Country | | | | |
| **Type:** | varchar(3) | **Source:** | System | **Required:** | |
| **Description:** | | | | | |
| | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Recipient Country in CCR. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

## Section 3: Project / Award Information

**Notes**

### FederalReporting.gov

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | FederalReporting.gov | | | | |
| **Label:** | Funding Agency Code | | | | |
| **Type:** | varchar(4) | **Source:** | User | **Required:** | True |
| **Description:** | Code for the Federal Agency that is responsible for funding/distributing the ARRA funds to Recipients.<br>Numeric code of Federal Agency that is responsible for funding/distributing the ARRA funds to Recipients. | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Funding Agency Code in FederalReporting.gov | | | | |

*FAA:* *Numeric; Match to "6920" for both fields*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

### FederalReporting.gov

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | FederalReporting.gov | | | | |
| **Label:** | Awarding Agency Code | | | | |
| **Type:** | varchar(4) | **Source:** | User | **Required:** | True |
| **Description:** | Code for the Federal Agency responsible for administering the award on behalf of the Funding Agency.<br>In many cases the Awarding Agency and Funding Agency are the same, although they may also be different.<br>The Federal Agency name corresponding to the Federal Agency Code used. | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals Awarding Agency Code in FederalReporting.gov | | | | |

*FAA:* *Numeric; Match to "6920" for both fields*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Passed | | |

## Section 3: Project / Award Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Delphi : Report PO60721 | | | | |
| **Label:** | Program Source (TAS) Code | | | | |
| **Type:** | varchar(17) | **Source:** | User | **Required:** | True |
| **Description:** | Agency Treasury Account Symbol (TAS) that identifies the funding Program Source. The Program Source is based on the OMB TAS list of ARRA Programs.<br>Federal contractors may find the TAS on their contract or by calling the contracting officer. | | | | |
| | The Agency Treasury Account Symbol (TAS) that identifies the funding Program Source. This Program Source is based out of the OMB TAS list.<br><br>Federal Contractors may find the TAS in their contract or by calling the contracting officer. | | | | |
| **Steward:** | Horn, Brenda | | | | |
| **Validation Key:** | 69 + "-" + Last four digits of "Fund" value (0724) | | | | |

*FAA: Numeric; Match to "69-1306"*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Horn, Brenda | Passed | | |

## Section 3: Project / Award Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | CFDA.gov : FRA Programs | | | | |
| **Label:** | CFDA Number | | | | |
| **Type:** | varchar(6) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: CFDA (Catalog of Federal Domestic Assistance) number associated with the published description of Federal assistance programs in the catalog for the Recipient award. Format: ##.### (6 characters). To search for a CFDA number, go to to www.CFDA.gov | | | | |
| | The Catalog of Federal Domestic Assistance (CFDA) number is the number associated with the published description of Federal assistance program in the Catalog of Federal Domestic Assistance. | | | | |
| **Steward:** | Capps, Jennifer | | | | |
| **Validation Key:** | Equals number (#) listed for appropriate FRA Program Title on CFDA.gov website. | | | | |

*FAA:* *Numeric; Match to "20.106"*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Trimble, Mark | Passed | | |

## Section 3: Project / Award Information

**Notes**

### FederalReporting.gov

| | |
|---|---|
| **Origin:** | Delphi : Report PO60721 |
| **Label:** | Amount of Award |
| **Type:** | money(18,2) **Source:** User **Required:** True |
| **Description:** | Total Federal amount of award. Federally Awarded Contracts: Total amount obligated by the Federal Agency. Grants: Total amount of Federal dollars on the award. Loans: Total amount of the loan obligated by the Federal Agency. This is the face value of the loan. |
| | For Grants: The total amount of Federal dollars on the award. For Loans: The total amount of the loan obligated by the Federal Agency. This is the face value of the loan. For Federally Awarded Contracts: The total amount obligated by the Federal Agency. |
| **Steward:** | Horn, Brenda |
| **Validation Key:** | Equals "PO Report Total" in Delphi Report PO60721 |

*FAA: Numeric; Match to SOAR Grant Amount*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Error | Amount of Award did not include $5 million disbursed to Amtrak IG. | 10/20/2009 |

### FederalReporting.gov

| | |
|---|---|
| **Origin:** | Grant Agreement : Cover |
| **Label:** | Award Date |
| **Type:** | date(8) **Source:** User **Required:** True |
| **Description:** | Date the award was signed. Format: MM/DD/YYYY |
| | The date when the award is signed. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Equals date of Authorizing Official's signature on Grant Agreement. |

*FAA: Date; Match to SOAR Grant Agreement Date*

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Capps, Jennifer | Error | Submitted Award Date: 02/19/2009 | 10/20/2009 |

## Section 3: Project / Award Information

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | Grant Agreement : Article I - Section 104 - Paragraph a |
| **Label:** | Award Description |
| **Type:** | varchar(4000) **Source:** User **Required:** True |
| **Description:** | Federally Awarded Contracts: Description of the overall purpose and expected outcomes, or results of the contract or action under the contract funded by the Recovery Act, including significant deliverables and associated units of measure.<br>Grants and Loans: Award title and description with the purpose of each funding action, if any. The description should capture the overall purpose of the award.<br>Format: 4000 characters or less.<br>For Grants and Loans: Award title and description with purpose of each funding action if any. The description should capture the overall purpose of the award. For example, ''community development,'' ''comprehensive community mental health services to adults with a serious mental illness,'' etc.<br><br>For Federally Awarded Contracts: Provide a description of the overall purpose and expected outcomes, or results of the contract or action under the contract funded by the Recovery Act, including significant deliverables and, if appropriate, associated units of measure |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Consistent with text contained in Article I - Section 104 - Paragraph a. |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Trimble, Mark | Passed | | |

## Section 3: Project / Award Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Total Number of Sub Awards less than $25,000/award | | | | |
| **Type:** | varchar(6) | **Source:** | User | **Required:** | True |
| **Description:** | Total Number of Sub Awards less than $25,000/award. | | | | |
| | Total Number of Sub-awards less than $25,000/award. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A. FRA anticipates only having visibility into Prime Recipient financial records. | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Total Amount Sub Awards less than $25,000/award | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | True |
| **Description:** | Total Amount of Sub Awards less than $25,000/award for the reporting quarter. | | | | |
| | Total Amount of Subawards less than $25,000/award.for the reporting quarter. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A. FRA anticipates only having visibility into Prime Recipient financial records. | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Total Number of Sub Awards to Individuals | | | | |
| **Type:** | varchar(6) | **Source:** | User | **Required:** | True |
| **Description:** | Total Number of Sub Awards to Individuals. | | | | |
| | Total Number of Sub-awards to individuals. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A. FRA anticipates only having visibility into Prime Recipient financial records. | | | | |

**Validation Log:**

## Section 3: Project / Award Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Total Amount of Sub Awards to Individuals | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | True |
| **Description:** | Total Amount of Sub Awards to Individuals. | | | | |
| | Total Amount of Sub-awards to individuals. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A. FRA anticipates only having visibility into Prime Recipient financial records. | | | | |

**Validation Log:**

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**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Amtrak Monthly Report | | | | |
| **Label:** | Total Number of Payments to Vendors less than $25,000/award | | | | |
| **Type:** | varchar(6) | **Source:** | User | **Required:** | True |
| **Description:** | Total Number of Payments to Vendors less than $25,000/award. | | | | |
| | For Grants and Loans Only<br>Total Number of payments to vendors less than $25,000/award. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

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**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Amtrak Monthly Report | | | | |
| **Label:** | Total Amount of Payments to Vendors less than $25,000/award | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | True |
| **Description:** | Total Amount of Payments to Vendors less than $25,000/award for the reporting quarter. | | | | |
| | For Grants and Loans Only<br>Total Amount of payments to vendors less than $25,000/award.for the reporting quarter. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

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## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | Grant Agreement : Article I - Section 104 - Paragraph a |
| **Label:** | Project Name or Project/Program Title |
| **Type:** | varchar(256) **Source:** User **Required:** |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: Brief descriptive title of the project or activity funded in whole or in part with Recovery Act fund. The title can be found on the Award document/Product or Service code. Format: 256 characters or less. |
| | The brief descriptive title of the project or activity funded in whole or in part with Recovery Act funds |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Equals quoted granted title in Article I - Section 104 - Paragraph a of Grant Agreement. |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Trimble, Mark | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | Grant Agreement : Article I - Section 102 |
| **Label:** | Quarterly Activities/Project Description |
| **Type:** | varchar(2000) **Source:** User **Required:** True |
| **Description:** | Federally Awarded Contracts: Description of all significant services performed/supplies delivered, including construction, invoiced by the prime contractor in this calendar quarter.<br>Grants and Loans: Description of the overall purpose and expected results of the award and first-tier sub award(s) including significant deliverables. If funding multiple projects (block grants) this may be stated in broad terms.<br>Format: 2000 characters or less. |
| | For Grants and Loans<br>A description of the overall purpose and expected outputs and outcomes or results of the award and first-tier Subaward(s), including significant deliverables and, if appropriate, units of measure.<br>For an award that funds multiple projects such as a formula block grant, the purpose and outcomes or results may be stated in broad terms.<br><br>For Federally Awarded Contracts<br>A description of all significant services performed/supplies delivered, including construction, for which the prime contractor invoiced in this calendar quarter. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Consistent with text contained in "Identification of Awarding Agency and Grantee" |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/19/2009 | Trimble, Mark | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Amtrak Monthly Report | | | | |
| **Label:** | Project Status | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Use the descriptions in the Recipient Reporting Data Model (available on the FederalReporting.gov "Downloads" page) to evaluate the completion status of the project work.<br>Valid Project Statuses are: Not Started; Less than 50% Completed; Completed 50% or More; Fully Completed | | | | |
| | Evaluation of completion status of the project, activity, or federally awarded contract action funded by the Recovery Act. The status of the work that has been completed. This evaluation should be based on performance progress reports and other relevant non-financial performance information.<br><br>Options for selection: Not started; Less than 50% completed; Completed 50% or more; Fully Completed.<br><br>For awards funding multiple projects such as formula block grants, provide your best estimate of completion of all projects based on any aggregate data and information | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | FAA: |
|---|---|---|
| **Origin:** | Delphi : Report PO60721 | *Numeric; Confirm that if the Funds Invoiced are Greater than 0, Jobs are greater than 0* |
| **Label:** | Total Federal Amount ARRA Funds Received/Invoiced | |
| **Type:** | money(18,2) **Source:** User **Required:** True | |
| **Description:** | Federally Awarded Contracts: Total Federal Amount ARRA Funds Received/Invoiced (the cumulative amount of Recovery Act funds invoiced by the federal contractor). Grants and Loans: Amount of Recovery Act funds received through draw-down, reimbursement, or invoice.<br>For Grants and Loans: The amount of Recovery Act funds received through draw-down, reimbursement or invoice.<br><br>For Federally Awarded Contracts: The amount of Recovery Act funds invoiced by the federal contractor (cumulative). | |
| **Steward:** | Horn, Brenda | |
| **Validation Key:** | Equals "Invoice Report Total" in Delphi Report PO60721. | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/20/2009 | Capps, Jennifer | Error | Submitted Amount: $93669205.00 Correct Amount: $93669206.00 | 10/20/2009 |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | Amtrak Monthly Report : Question 10 line j column II |
| **Label:** | Number of Jobs |
| **Type:** | int(10) **Source:** User **Required:** True |
| **Description:** | Estimate the number of new jobs created and jobs retained in the US and outlying areas. Refer to the Recipient Reporting Data Model (available on the FederalReporting.gov "Downloads" page) Data Model for guidance on how to calculate this number. |
| | Jobs created and retained. An estimate of the number of jobs created and jobs retained in the United States and outlying areas.<br>At a minimum, this estimate shall include any new positions created and any existing filled positions that were retained to support or carry out Recovery Act projects, activities, or federally awarded contracts managed directly by the recipient or federal contractor. For grants and loans, the number shall include the number of jobs created and retained by sub recipients and vendor. The number shall be expressed as ''full-time equivalent'' (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule, as defined by the recipient or federal contractor.<br><br>For instance, two full-time employees and one part-time employee working half days would be reported as 2.5 FTE in each calendar quarter. A job cannot be reported as both created and retained. As used in this instruction, United States means the 50 States and the District of Columbia, and outlying areas means-<br>(1) Commonwealths.<br>(i) Puerto Rico.<br>(ii) The Northern Mariana Islands;<br>(2) Territories.<br>(i) American Samoa.<br>(ii) Guam.<br>(iii) U.S. Virgin Islands; and<br>(3) Minor outlying islands.<br>(i) Baker Island.<br>(ii) Howland Island.<br>(iii) Jarvis Island.<br>(iv) Johnston Atoll.<br>(v) Kingman Reef.<br>(vi) Midway Islands.<br>(vii) Navassa Island.<br>(viii) Palmyra Atoll.<br>(ix) Wake Atoll. |
| **Steward:** | Greene, Scott |
| **Validation Key:** | Taking the most recently available Amtrak Monthly Report, divide by 7667 the amount reported as Federal share of net outlays for question 10 on line j column II. This number should be consistent with the "Number of Jobs" listed on the 1512 report. |

*FAA:* *Numeric; Confirm that if Funds Invoiced is 0 Jobs equal 0*

*FAA:* *Numeric; Perform Outlier Detection Steps*

## Section 4: Project Information

**Notes**

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/20/2009 | Greene, Scott | Passed | | |

## Section 4: Project Information

**Notes**

### FederalReporting.gov

| | |
|---|---|
| **Origin:** | |
| **Label:** | Description of Jobs Created |
| **Type:** | varchar(4000) **Source:** User **Required:** True |
| **Description:** | Brief description of the types of jobs created and a narrative description of the employment impact resulting using Recovery Act funds.<br>Refer to the Recipient Reporting Data Model (available on the FederalReporting.gov "Downloads" page) for guidance on the detailed information to include.<br>Format: 4000 characters or less. |
| | A narrative description of the employment impact of the Recovery Act funded work. This narrative is cumulative for each calendar quarter and at a minimum, will address the impact on the recipient's or federal contractor's workforce (for grants and loans, recipients shall also include the impact on the workforces of sub recipients and vendors).<br><br>At a minimum, provide a brief description of the types of jobs created and jobs retained in the United States and outlying areas. ''Jobs or positions created'' means those new positions created and filled, or previously existing unfilled positions that are filled, as a result of Recovery Act funding. ''Jobs or positions retained'' means those previously existing filled positions that are retained as a result of Recovery Act funding. This description may rely on job titles, broader labor categories, or the recipient's existing practice for describing jobs as long as the terms used are widely understood and describe the general nature of the work.<br><br>ALTERNATE METHOD FOR GRANT AND LOAN RECIPIENTS: In those circumstances where the recipient employs an approved statistical methodology to generate estimates of job impact, thereby collecting data from a smaller subset of sub-recipients and vendors in order to extrapolate an estimate of job impact to all applicable sub recipients and vendors, the recipient must provide a description of the methodology used. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Consistent with submitted NAICS Activity Codes. |

### Validation Log:

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/20/2009 | Trimble, Mark | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ | | | | |
| **Label:** | Activity Code 1 | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. | | | | |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/13/2009 | Guruswamy, Dharm | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

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|---|---|---|---|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ | | | | |
| **Label:** | Activity Code 2 | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. | | | | |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/13/2009 | Guruswamy, Dharm | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

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|---|---|---|---|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ | | | | |
| **Label:** | Activity Code 3 | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. | | | | |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/13/2009 | Guruswamy, Dharm | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ |
| **Label:** | Activity Code 4 |
| **Type:** | varchar(20) **Source:** User **Required:** True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/13/2009 | Guruswamy, Dharm | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

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|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ |
| **Label:** | Activity Code 5 |
| **Type:** | varchar(20) **Source:** User **Required:** True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/13/2009 | Guruswamy, Dharm | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

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|---|---|---|---|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ | | | | |
| **Label:** | Activity Code 6 | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. | | | | |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. | | | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/13/2009 | Guruswamy, Dharm | Passed | | |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

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|---|---|---|---|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ | | | | |
| **Label:** | Activity Code 7 | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. | | | | |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. | | | | |

**Validation Log:**

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ | | | | |
| **Label:** | Activity Code 8 | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. | | | | |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. | | | | |

**Validation Log:**

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ | | | | |
| **Label:** | Activity Code 9 | | | | |
| **Type:** | varchar(20) | **Source:** | User | **Required:** | True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. | | | | |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. | | | | |

**Validation Log:**

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | NAICS : http://www.census.gov/eos/www/naics/ |
| **Label:** | Activity Code 10 |
| **Type:** | varchar(20) **Source:** User **Required:** True |
| **Description:** | Federally Awarded Contracts: 6 digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br>Grants and Loans: Either NAICS or NTEE-NPC codes.<br>Up to 10 Activity Codes may be entered. |
| | For Federally Awarded Contracts: Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For Grants and Loans:<br>For awards primarily funding infrastructure projects, enter the North American Industry Classification System (NAICS) code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://www.census.gov/naics/.<br><br>For all other awards, provide the National Center for Charitable Statistics ''NTEE-NPC'' code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Equals a valid and reasonable activity code listed on the NAICS website. |

**Validation Log:**

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | | |
|---|---|---|---|
| **Origin:** | Amtrak Monthly Report : Question 10 line j column III | FAA: | *Confirm Funds Invoiced does not exceed amount awarded* |
| **Label:** | Total Federal Amount of ARRA Expenditure | | |
| **Type:** | money(18,2) **Source:** User **Required:** | | |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: Cumulative total amount of Recovery funds received that were expended to projects or activities. Refer to the Recipient Reporting Data Model (available on the FederalReporting.gov "Downloads" page) for details on how to calculate this amount.<br>This is for grants and loans only. Amount of recovery funds received that were expended to projects or activities (''Federal Share of Expenditures''). The cumulative total for the amount of Federal fund expenditures. For reports prepared on a cash basis, expenditures are the sum of cash disbursements for direct charges for property and services; the amount of indirect expense charged; the value of third-party in-kind contributions applied; and the amount of cash advance payments and payments made to subcontractors and Subawardees. For reports prepared on an accrual basis, expenditures are the sum of cash disbursements for direct charges for property and services; the amount of indirect expense incurred; the value of in-kind contributions applied; and the net increase or decrease in the amounts owed by the recipient for (1) goods and other property received; (2) services performed by employees, contractors, subcontractors, Subawardees, and other payees; and (3) programs for which no current services or performance are required. Do not include program income expended. | | |
| **Steward:** | Capps, Jennifer | | |
| **Validation Key:** | Consistent with number reported in most recent Amtrak Monthly Report on Question 10 line j column III. | | |

**Validation Log:**

| Date Checked | Checked By | Result | Notes | Date Remediated |
|---|---|---|---|---|
| 10/20/2009 | Capps, Jennifer | Error | Amount reported did not equal the amounts' sum taken from the Amtrack Monthly Reports for the quarter. Discrepancy due to different preliminary monthly amount values used for the final month of the quarter. | 10/20/2009 |

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Amtrak Monthly Report | | | | |
| **Label:** | Total Federal ARRA Infrastructure Expenditure | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: Cumulative total amount of Recovery funds received that were expended to projects or activities. Refer to the Recipient Reporting Data Model (available on the FederalReporting.gov "Downloads" page) for details on how to calculate this amount. | | | | |
| | This is for grants and loans only Total federal ARRA Infrastructure expenditure | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

## Section 4: Project Information

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | Amtrak Monthly Report | | | | |
| **Label:** | Infrastructure Purpose and Rationale | | | | |
| **Type:** | varchar(4000) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: Explanation about how the infrastructure investment will contribute to one or more purposes of the Recovery Act. Refer to the Recipient Reporting Data Model (available on the FederalReporting.gov "Downloads" page) for details on what to report.<br>Format: 4000 characters or less. | | | | |
| | This is for grants and loans only Purpose and rationale of funds received for infrastructure investment with funds made available under the Recovery Act. Identify the purpose and explain how the infrastructure investment will contribute to one or more purposes of the Recovery Act:<br>Purposes:<br>(1) To preserve and create jobs and promote economic recovery.<br>(2) To assist those most impacted by the recession.<br>(3) To provide investments needed to increase economic efficiency by spurring technological advances in science and health.<br>(4) To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.<br>(5) To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

## Section 5: Infrastructure Contact

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Name | | | | |
| **Type:** | varchar(120) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable.<br>Grants and Loans: Name of the Infrastructure Contact.<br>Format: 120 characters or less.<br>This is for grants and loans only Name, phone number, address and email address of the appropriate contact. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Email | | | | |
| **Type:** | varchar(320) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable.<br>Grants and Loans: Email address for the designated Infrastructure Contact.<br>Format: 320 characters or less.<br>This is for grants and loans only Name, phone number, address and email address of the appropriate contact. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Phone | | | | |
| **Type:** | varchar(30) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable.<br>Grants and Loans: Phone number of the appropriate contact in the state/local government. Enter the phone number without any formatting.<br>Format: 30 characters or less.<br>This is for grants and loans only Name, phone number, address and email address of the appropriate contact. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

## Section 5: Infrastructure Contact

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Ext | | | | |
| **Type:** | varchar(10) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable.<br>Grants and Loans: Phone number extension for the designated Infrastructure Contact.<br>Format: 10 characters or less.<br>This is for grants and loans only Name, phone number, address and email address of the appropriate contact. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Street Address 1 | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable.<br>Grants and Loans: First line of the street address for the Recipient's Primary Place of Performance.<br>Format: 55 characters or less.<br>This is for grants and loans only Name, phone number, address and email address of the appropriate contact. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Street Address 2 | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable.<br>Grants and Loans: Second line of the street address for the Recipient's Primary Place of Performance.<br>Format: 55 characters or less.<br>This is for grants and loans only Name, phone number, address and email address of the appropriate contact. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

## Section 5: Infrastructure Contact

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | |
| **Label:** | Street Address 3 |
| **Type:** | varchar(55) **Source:** User **Required:** |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: Third line of the street address for the Recipient's Primary Place of Performance. Format: 55 characters or less. |
| | This is for grants and loans only Name, phone number, address and email address of the appropriate contact. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Not yet specified |

**Validation Log:**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | |
| **Label:** | City |
| **Type:** | varchar(35) **Source:** User **Required:** |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: Name of the City for the designated Infrastructure Contact. Format: 35 characters or less. |
| | This is for grants and loans only Name, phone number, address and email address of the appropriate contact. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Not yet specified |

**Validation Log:**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | |
| **Label:** | State |
| **Type:** | varchar(2) **Source:** User **Required:** |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: State for the designated Infrastructure Contact. |
| | This is for grants and loans only Name, phone number, address and email address of the appropriate contact. |
| **Steward:** | Guruswamy, Dharm |
| **Validation Key:** | Not yet specified |

**Validation Log:**

## Section 5: Infrastructure Contact

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | ZIP Code + 4 | | | | |
| **Type:** | varchar(9) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Not applicable. Grants and Loans: ZIP Code for the designated Infrastructure Contact. Format: ZIP Code (first field) must be exactly 5 digits. +4 (second field) must be exactly 4 digits. | | | | |
| | This is for grants and loans only Name, phone number, address and email address of the appropriate contact. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

## Section 6: Primary Place of Performance

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Address 1 | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | First line of the street address for the Recipient's Primary Place of Performance. Format: 55 characters or less.<br>Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

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**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Address 2 | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | Second line of the street address for the Recipient's Primary Place of Performance. Format: 55 characters or less.<br>Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

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**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | City | | | | |
| **Type:** | varchar(35) | **Source:** | User | **Required:** | True |
| **Description:** | Name of the city for the Recipient's Primary Place of Performance. Format: 35 characters or less.<br>Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

*FAA:* *Text; Match City to SOAR Worksite*

**Validation Log:**

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## Section 6: Primary Place of Performance

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Country Code | | | | |
| **Type:** | varchar(2) | **Source:** | User | **Required:** | True |
| **Description:** | The 2-letter code for the Recipient's Primary Place of Performance Country.<br>Format: 2-digit code.<br>Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | State | | | | |
| **Type:** | varchar(2) | **Source:** | User | **Required:** | True |
| **Description:** | State of the Recipient's Primary Place of Performance.<br>Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

*FAA:* *Text; Match State to SOAR Worksite*

**Validation Log:**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | ZIP Code + 4 | | | | |
| **Type:** | varchar(9) | **Source:** | User | **Required:** | True |
| **Description:** | ZIP Code for the Recipient's Primary Place of Performance.<br>Format: ZIP Code (first field) must be exactly 5 digits. +4 (second field) must be exactly 4 digits.<br>Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

**Validation Log:**

## Section 6: Primary Place of Performance

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Congressional District | | | | |
| **Type:** | varchar(2) | **Source:** | User | **Required:** | True |
| **Description:** | Congressional District of the Recipient's Primary Place of Performance. For single-digit Congressional Districts, enter a '0' prior to the digit (e.g., '04') '00' is a valid entry. Territories or Minor Outlying Islands, use '99'. Format: 2 digit code. | | | | |
| | Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | | | | |
| **Steward:** | Guruswamy, Dharm | | | | |
| **Validation Key:** | Not yet specified | | | | |

*FAA:* *Numeric; Match Congressional District to SOAR Worksite*

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Prime Recipient Indication of Reporting Applicability | | | | |
| **Type:** | varchar(3) | **Source:** | User | **Required:** | |
| **Description:** | 'Yes' if in the Recipient's preceding fiscal year, the Recipient received 80% or more and $25M or more annual gross revenue from Federal contracts, loans, grants, and cooperative agreements, and public does not have access to senior executive compensation. 'No' otherwise. | | | | |
| | Names and total compensation of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if—<br><br>(i) In the recipient's preceding fiscal year, the recipient received—<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 1 Name | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | Name of the highly compensated officer. Format: 55 characters or less. | | | | |
| | Names of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if–<br><br>(i) In the recipient's preceding fiscal year, the recipient received–<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 1 Compensation | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Enter Total Compensation defined by FAR Clause 52.204-11. Grants and Loans: Compensation for the Highly Compensated Officer. Refer to the Recipient Reporting Data Model for the details on how to calculate Total Compensation for a Highly Compensated Officer.<br>For the five most highly compensated officers of the recipient: total compensation ''Total compensation'' is defined for<br><br>Federally Awarded Contracts:<br>FAR Clause 52.204-11<br><br>Grants and Loans:<br>''Total compensation'' means the cash and noncash dollar value earned by the executive during the sub recipient's past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):<br>(i). Salary and bonus.<br>(ii). Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.<br>(iii). Earnings for services under non-equity incentive plans. Does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.<br>(iv). Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.<br>(v). Above-market earnings on deferred compensation which are not tax-qualified.<br>(vi). Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000. | | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

Notes

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 2 Name | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | Name of the highly compensated officer. Format: 55 characters or less. | | | | |
| | Names of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if–<br><br>(i) In the recipient's preceding fiscal year, the recipient received–<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 2 Compensation | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Enter Total Compensation defined by FAR Clause 52.204-11. Grants and Loans: Compensation for the Highly Compensated Officer. Refer to the Recipient Reporting Data Model for the details on how to calculate Total Compensation for a Highly Compensated Officer.<br>For the five most highly compensated officers of the recipient: total compensation ''Total compensation'' is defined for<br><br>Federally Awarded Contracts:<br>FAR Clause 52.204-11<br><br>Grants and Loans:<br>''Total compensation'' means the cash and noncash dollar value earned by the executive during the sub recipient's past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):<br>(i). Salary and bonus.<br>(ii). Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.<br>(iii). Earnings for services under non-equity incentive plans. Does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.<br>(iv). Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.<br>(v). Above-market earnings on deferred compensation which are not tax-qualified.<br>(vi). Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000. | | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 3 Name | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | Name of the highly compensated officer.<br>Format: 55 characters or less. | | | | |
| | Names of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if–<br><br>(i) In the recipient's preceding fiscal year, the recipient received–<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 3 Compensation | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Enter Total Compensation defined by FAR Clause 52.204-11. Grants and Loans: Compensation for the Highly Compensated Officer. Refer to the Recipient Reporting Data Model for the details on how to calculate Total Compensation for a Highly Compensated Officer.<br>For the five most highly compensated officers of the recipient: total compensation ''Total compensation'' is defined for<br><br>Federally Awarded Contracts:<br>FAR Clause 52.204-11<br><br>Grants and Loans:<br>''Total compensation'' means the cash and noncash dollar value earned by the executive during the sub recipient's past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):<br>(i). Salary and bonus.<br>(ii). Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.<br>(iii). Earnings for services under non-equity incentive plans. Does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.<br>(iv). Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.<br>(v). Above-market earnings on deferred compensation which are not tax-qualified.<br>(vi). Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | |
|---|---|
| **Origin:** | |
| **Label:** | Officer 4 Name |
| **Type:** | varchar(55) **Source:** User **Required:** |
| **Description:** | Name of the highly compensated officer. Format: 55 characters or less. |
| | Names of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if–<br><br>(i) In the recipient's preceding fiscal year, the recipient received–<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. |
| **Steward:** | |
| **Validation Key:** | N/A |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 4 Compensation | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Enter Total Compensation defined by FAR Clause 52.204-11. Grants and Loans: Compensation for the Highly Compensated Officer. Refer to the Recipient Reporting Data Model for the details on how to calculate Total Compensation for a Highly Compensated Officer.<br>For the five most highly compensated officers of the recipient: total compensation ''Total compensation'' is defined for<br><br>Federally Awarded Contracts:<br>FAR Clause 52.204-11<br><br>Grants and Loans:<br>''Total compensation'' means the cash and noncash dollar value earned by the executive during the sub recipient's past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):<br>(i). Salary and bonus.<br>(ii). Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.<br>(iii). Earnings for services under non-equity incentive plans. Does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.<br>(iv). Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.<br>(v). Above-market earnings on deferred compensation which are not tax-qualified.<br>(vi). Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000. | | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 5 Name | | | | |
| **Type:** | varchar(55) | **Source:** | User | **Required:** | |
| **Description:** | Name of the highly compensated officer.<br>Format: 55 characters or less. | | | | |
| | Names of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if–<br><br>(i) In the recipient's preceding fiscal year, the recipient received–<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

## Section 7: Recipient Highly Compensated Officers

**Notes**

**FederalReporting.gov**

| | | | | | |
|---|---|---|---|---|---|
| **Origin:** | | | | | |
| **Label:** | Officer 5 Compensation | | | | |
| **Type:** | money(18,2) | **Source:** | User | **Required:** | |
| **Description:** | Federally Awarded Contracts: Enter Total Compensation defined by FAR Clause 52.204-11. Grants and Loans: Compensation for the Highly Compensated Officer. Refer to the Recipient Reporting Data Model for the details on how to calculate Total Compensation for a Highly Compensated Officer.<br>For the five most highly compensated officers of the recipient: total compensation ''Total compensation'' is defined for<br><br>Federally Awarded Contracts:<br>FAR Clause 52.204-11<br><br>Grants and Loans:<br>''Total compensation'' means the cash and noncash dollar value earned by the executive during the sub recipient's past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):<br>(i). Salary and bonus.<br>(ii). Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.<br>(iii). Earnings for services under non-equity incentive plans. Does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.<br>(iv). Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.<br>(v). Above-market earnings on deferred compensation which are not tax-qualified.<br>(vi). Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000. | | | | |
| **Steward:** | | | | | |
| **Validation Key:** | N/A | | | | |

**Validation Log:**

# Version 1.0

## FAA Data Validation Concept of Operations

## ARRA 1512 Reporting

***Background***

Based on OMB Guidance M-09-21 issued on June 21, 2009, the reporting website FederalReporting.gov was established to collect ARRA funds data that will be publicly available for government transparency on ARRA fund spending. All final data will be available to the public on www.Recovery.com. According to the Memorandum M-09-21, as the Federal Agency the FAA is responsible for:

- Providing advice and programmatic assistance to the recipients for implementing data quality.
- Performing limited data quality reviews intended to identify material omissions and significant reporting errors, and notifying the recipients of the need to make appropriate and timely changes.
- Apply the definitions of material omission and significant reporting error in given programs areas or across programs.

The FAA will fulfill their responsibilities as listed above to support the Sponsor's (Recipient's) data quality by:

- Implementing an automated data quality review tool to detect common reporting errors, such as those listed in Section 4.3 of the Memorandum.

***Data Entry Process***

Sponsors (Recipients) are required to register on the www.FederalReporting.gov website and provide data on a quarterly basis. Registration for the website began on August 17, 2009. The next quarterly reporting cycle ends on September 30, 2009 and the website is open for data collection October 1-10, 2009. The data will be entered in one of 3 formats whose templates and descriptions are available on the website. Additional guidance and downloads, including the OMB Recipient Reporting Data Model v3.0, for recipient data entry for the quarter ending September 30, 2009 are available on the www.FederalReporting.gov. The data in the 1512 report is cumulative. Once the Final data has been confirmed and/or corrected by the sponsor (recipient) by October 29, 2009, any further corrections will be made in the next reporting cycle.

***Agency Validation and Outlier Identifier Processes***

Sponsors (recipients) are responsible for validating their sub-recipient data, even if the reporting is delegated to the sub-recipient. Prime recipients will have the opportunity to review sub-recipient data October 13-21, 2009.

The FAA will be reviewing sponsor entered data for agency validation starting on October 22, 2009. Federal agencies will not be able to make any edits to the data; they may only flag data and input comments on any potential omissions or errors. The FAA will review and classify/flag submitted data as either:

-Reviewed by Agency with no material omissions or significant reporting errors.
-Reviewed by Agency with material omissions or significant reporting errors identified.

FAA Airports will perform an automated review of each Sponsor (Recipient) reported record. Validation rules have been established for this automated review and are detailed below. Due to the short window for Agency validation, FAA Airports will rely on an automated validation process to review all Sponsor (Recipient) records.

Any records that have omissions or significant errors identified by the FAA during the automated review process will be forwarded to the reporting Sponsor (Recipient) requiring review and clarification by the Sponsor (Recipient). In some cases there maybe "top heavy" expenditures reported, such as, an equipment purchase where a lower than expected FTE count would be reasonable. Such a situation would be flagged for follow up but "accepted" based on further review of the situation and conclusion that the data has no significant error.

In addition, the FAA will identify instances where sponsors demonstrate systemic or chronic reporting problems. Findings in this area could result in termination of Federal funding and/or initiation of suspension and debarment proceedings of either the recipient or sub-recipient, or both. Uncorrected data instances will be made public on www.Recovery.gov.

***Validation Rules***

Initial data validation will include verifying fields that are populated, formatted correctly, and there are no significant errors in the data similar to the 1201c/Monthly report. (Amount expended greater than amount allocated, etc.).

| **Field** | **Origin** | **Format** | **Validation Check** |
|---|---|---|---|
| Award Type | Grantee | Grant | Match to word "Grant". |
| Award Number | Grantee, SOAR | Numeric for non state block grants i.e. "9-99-9999-999-2009". For state block grants, "9-99-SBGP-999-2009". The last four digits represent the year) | Match to SOAR Grant Number |
| Recipient Congressional District | Grantee, SOAR | Numeric | Match to SOAR Sponsor Congressional District |
| Funding & Awarding Agency Code | Grantee, Agency Provided | Numeric | Match to "6920" for both fields |
| Award Date | Grantee, SOAR | Date | Match to SOAR Grant Agreement Date |
| Amount of Award | SOAR | Numeric | Match to SOAR Grant Amount |
| CFDA Number | Grantee, Agency Provided | Numeric | Match to "20.106" |
| Program Source (TAS) | Grantee, Agency Provided | Numeric | Match to "69-1306" |
| Total Federal Amount ARRA | Grantee | Numeric | Confirm that if the Funds Invoiced are Greater than 0, Jobs are greater than 0 |

| Field | Origin | Format | Validation Check |
|---|---|---|---|
| Funds Invoiced (Outlays) | | | Confirm Funds Invoiced does not exceed amount awarded |
| Number of Jobs | Grantee | Numeric | Confirm that if Funds Invoiced is 0 Jobs equal 0 |
| | | | Perform Outlier Detection Steps |
| Place of Performance (City) | Grantee, SOAR or FAA Personnel | Text | Match City to SOAR Worksite |
| Place of Performance (State) | Grantee, SOAR or FAA Personnel | Text | Match State to SOAR Worksite |
| Place of Performance (Congressional District) | Grantee, SOAR or FAA Personnel | Numeric | Match Congressional District to SOAR Worksite |

***Statistical Outlier Identification***

After the initial data validation has been completed and fields are populated with no significant errors, the FAA will complete a basic statistical analysis on the entered data to identify potential outliers for investigation. The identification of outliers will utilize the Total Amount of ARRA Expenditure and Number of Jobs data entry fields. The number of jobs field is calculated by the recipient by converting all positions into "full time equivalent" (FTE) jobs. The first round of reporting requires confirmation from DOT on the length of time the project has been underway to date. The length of time could be greater than 1 quarter as some projects have been underway since April (6 months). Until further guidance is provided from DOT, we will assume significant work began in May and the time period for the first reporting is 5 months, or 867 hours.

For the purposes of future quarterly analysis, we will assume for that 1 FTE is equal to 520 work hours in a quarter (2080 hours in a year divided by 4). This is consistent with the OMB example calculation in M-09-21. Additionally, due to the cumulative nature of the reporting periods we will adjust the number of work hours to cumulatively increase with each reporting period.

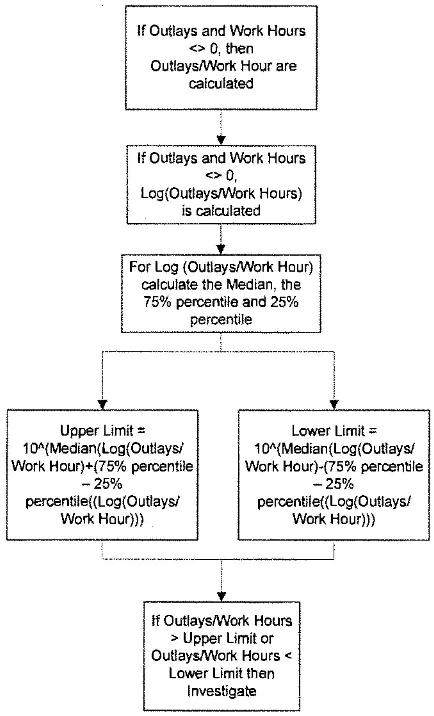
$$Number\ of\ Jobs\,(FTE) \times 520\ work\ hours\ per\ quarter\ per\ job = Number\ of\ Work\ Hours$$

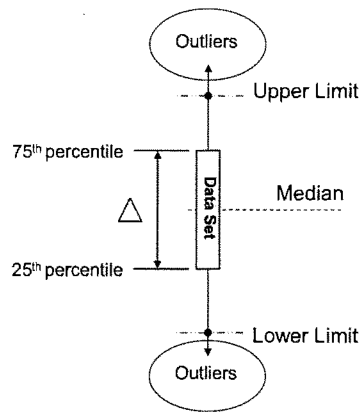
Example: Number of Jobs = 10 x 867 = 8670 Work Hours
Sponsor's data entry in the Number of Jobs field is 10, which would be the equivalent of 8670 work hours.

Following this basic conversion of Number of Jobs to Work Hours, we will complete our statistical analysis in a similar manner as the 1201c/OST reporting. The resulting information will not be exactly representative of the outlays/work hours because of the 520hr work quarter assumption, but it will be useful in identifying any data outliers for further investigation. In the future, the 520hr work quarter assumption could be adjusted based on a comparison of the results to the 1201c/OST statistical analysis.

***Outlier Detection Steps***

Outlays = Total Federal Amount of ARRA Funds Invoiced




This diagram is a graphical representation of our basic statistical analysis of the Recipient data in order to identify data outliers for further investigation.

The following process schedule outlines the tasks, responsibly parties, and projected dates for the 1512 reporting period, data review, and omission and significant error investigations.

FAA AIRPORTS
*1512 ARRA Reporting & Validation Process*

| STEP # | Responsible Party | ACTION | DATES | Comments |
|---|---|---|---|---|
| 1 | Sponsor/Recipients and FAA ARP | Access & Register on FederalReporting.Gov | 8/17-10/1 | No FAA DUNS number required for ARP staff |
| 2 | Sponsors/Recipients | Report on FederalReporting.Gov | 10/1-10 | 10/10 is a Saturday |
| 3 | Sponsors/Recipients | Review Data & Make corrections | 10/12-21 | 10/12 is a Federal Holiday |
| 4 | Federal Agency Review | FAA HQ Downloads data & Runs Internal Validation | 10/22-23 | |
| 5 | APP HQ | Data validation files posted for ARRA Project Manager (PM) on Q Drive | 10/26 | Validation Report by Region/Project Manager (PM). Possible error records identified with generic message. |
| 5a | ARP PMs | Regions/ADOs access Q Drive file | 10/26 | |
| 5b | ARP PMs | Access FederalReporting.gov & Choose validation flag i.e. reviewed no omissions/ errors or possible omissions/errors identified and insert validation comment into textbox. | 10/26-27 | Comments recorded in system by PMs. |
| 5c | ARP PMs | Notify sponsor/recipient POC of any possible errors/omissions via email provided in FederalReporting.gov | 10/26-28 | |
| 6 | Sponsors/Recipients | Corrections/Insertions for any incorrect or missing data. **Deadline Thursday, October 29 FOR ALL CORRECTIONS.** | 10/26-29 | Sponsors/Recipients will only have access to record in system if the omission/error flag is chosen first by the PM. Only 4 business days for Sponsor/Recipient corrections. |

| | | | | |
|---|---|---|---|---|
| 7 | APP HQ | Run report 48 hours prior to reporting close date to confirm all records have been reviewed by a PM or authorized ARP personnel | 10/28 | |
| 8 | APP HQ | Contact any remaining PMs who have not validated recipients records | 10/28 | |
| 9 | OMB Posts Data with corrections to Recovery.Gov | | 10/30 Midnight | |

Notes:

a. All PMs must have a backup to perform validation step Number 5a in FederalReporting.Gov, including their Manager/Asst. Manager.

***FAA Data Validation Concept of Operations Process Modifications***

FAA acknowledges that the 1512 data validation will be an evolving process. Changes could be made in the future to improve the timeliness and accuracy of Recipient data reporting. Data validation rules could be modified to facilitate the accomplishment of the FAA responsibilities outlined in OMB Guidance M-09-21.

FAA Facilities and Equipment
Data Validation Concept of Operations
ARRA 1512 Reporting

## Background

In February 2009, the American Recovery and Reinvestment Act (ARRA) created the Facilities and Equipment program to fund capital projects that will refurbish the aging national airspace (NAS) infrastructure, generate new jobs and stimulate the economy. As directed by ARRA and the Office of the Secretary of Transportation (OST), prime contractors receiving awards will be required to report on the expenses, jobs created, and subcontract data of the ARRA funded projects.

A requirement to report hours worked is in the process of being assembled and disseminated. The Monthly Prime and Subcontractor Employment Report requires all Federal Aviation Administration (FAA) Facilities and Equipment (F&E) ARRA prime contractors to report direct work hours per place of performance monthly. An additional requirement, the 1512 report, is somewhat similar in nature, and includes particulars of the prime contract awards and subcontractors, but will not be due until October 2009.

The FAA F&E, Office of Finance (ATO-F), issued Monthly Prime and Subcontractor Employment data calls to their contractors through the use of e-mails and a standardized spreadsheet that was included in sample form in each contract that was awarded for ARRA. The first response from ARRA prime contractors occurred in the month of August 2009 with July job data. ATO-F consolidated the contractor responses into a final report.

PRISM is the official contract data repository within FAA, DELPHI, the official accounting and finance system for the Department, and Corporate Work Plan (CWP), an official scheduling and monitoring tool used by the ATO. The data required to validate the 1512 information input into OMB's repository, FederalReporting.gov by F&E prime contractors is found to a large extent within the fields of these sources. The opportunities for error are reduced by having the reporting contractors submit their data through a single system and the existing database tool sets provide the means for reviewing the contractor input for reasonableness and completeness.

At the beginning of each month, a report is generated from the DELPHI system at FAA to identify which projects have an obligation by the report cutoff date. The prime contractors that are included within the DELPHI report will be expected to provide a report within the FederalReporting.gov data collector. Data is collected for contractors on a prime contract basis and will include all information aggregated for each project location under that contract vehicle that is funded with ARRA funding.

The Office of Management and Budget (OMB) has directed recipients of ARRA funding to provide required contract information into the official website FederalReporting.gov and promote the goal of transparency on the use of ARRA funding. All final data will be available to the public on www.Recovery.gov. During the reporting process, FAA is responsible for:

- Providing advice on programmatic assistance to the recipients for implementing the data quality
- Performing limited data quality reviews intended to identify material omissions and significant reporting errors, and notifying the recipients of the need to make appropriate and timely changes
- Apply the definitions of material omission and significant reporting error in given program areas or across programs

## Data Entry Process

Prime Contractors are required to obtain a logon and password to the www.FederalReporting.gov website and provide the required information on a quarterly basis. Registration to the website began on august 17, 2009. The first quarter for reporting ends on September 30, 2009 and the website will be open for data collection on October 1 – 10, 2009. The data will be entered in one of three formats that can be found on the website. Additional guidance and downloads, including the OMB Recipient Reporting Data Model v3.0 are available on www.FederalReporting.gov The data in the 1512 report is cumulative since contract award. A revision period between FAA and prime contractor will occur during October 11 – 23, 2009. Information is closed after October 23, 2009 and FAA will conduct a final review from October

24-30, 2009. Any changes required after the system closes will have to be made by the contractor in the next quarterly reporting period.

The FAA review will be classified in one of three ways:

- Not reviewed by Agency (default setting)
- Reviewed by Agency with no material omissions or significant reporting errors
- Reviewed by Agency with material omissions or significant reporting errors identified

FAA will conduct a 100 percent review of each report that is submitted to www.FederalReporting.gov and review each data element with the criteria as indicated in the attached validation table. The initial set of validation rules apply only to the fields that are required for FAA contracts. The validation process will include verifying fields are populated, formatted correctly, and there are no significant errors in the data. Data validation rules could be modified as a result of data trends or problems encountered during the ongoing 1512 reporting process.

## Validation Rules:

| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Funding Agency Code | Numeric code of Federal Agency that is responsible for funding/distributing the ARRA funds to Recipients. | string | 4 | 6920 | 1. Federal Agency code is mandatory for Recipient Reporting.<br>2. The Funding Agency is the agency that receives the ARRA funds through the ARRA funds appropriation.<br>3. Ensure field is populated and in the correct format. | FAA |
| Funding Agency Name | The Federal Agency name corresponding to the Federal Agency Code used. | string | 55 | Federal Aviation Administration | 1. Inferred given the Funding Agency Code and system provided.<br>2. Ensure field is populated and in the correct format. | FAA |
| Awarding Agency Code | Numeric code of the agency that awarded and administering the award on behalf of the Funding Agency. | string | 4 | 6920 | 1. Mandatory for Recipient Reporting.<br>2. The Awarding Agency is the agency that awards administers the ARRA funds on behalf of the Funding Agency.<br>3. Ensure field is populated and in the correct format. | FAA |
| Awarding Agency Name | The Federal Agency name corresponding to the Awarding Agency Code used. | string | 55 | Federal Aviation Administration | 1. Inferred given the Awarding Agency Code and is system provided.<br>2. Ensure field is populated and in the correct format. | FAA |
| Program Source (TAS) | The Agency Treasury Account Symbol (TAS) that identifies the funding Program Source. This Program Source is based out of the OMB TAS list.<br><br>Federal Contractors may find the TAS in their contract or by calling the contracting officer. | string | 17 | 69-1304 | 1. Program Source (TAS) is mandatory for Recipient Reporting.<br>2. Ensure field is populated with F&E TAS # 69-1304 that is obtained from PRISM documentation. | PRISM/ DELPHI |

FAA Facilities and Equipment
Data Validation Concept of Operations
ARRA 1512 Reporting

| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Award Number | The identifying number assigned by the awarding Federal Agency, such as the federal grant number, federal contract number or the federal loan number. | string | 50 | Varies by award and agencies | 1. The award number is case, space and special character sensitive. It should be the same as it appears in the federal award document.<br>2. Award Number is mandatory for Recipient Reporting.<br>3. Verify Contract Award Number from PRISM contract award documentation. (ex:DTFA00-00-A-00000) | PRISM |
| Order Number | This data element only applies to Contracts. | string | 50 | Varies by award and agencies | 1. This is a contract only data element. If applicable, order number should be entered; otherwise the field should be left blank.<br>2. The order number is case, space and special character sensitive. It should be the same as it appears in the federal award document.<br>3. Ensure field is populated and in the correct format if applicable and verified in PRISM. | PRISM |
| Recipient DUNS Number | The prime recipient organization's 9-digit Data Universal Numbering System (DUNS) number | string | 9 | 123456789 | 1. The 9-digit DUNS# is mandatory.<br>2. Ensure field is populated with the number found on the monthly employment report from contractor. | Contractor/ Monthly Prime and Subcontractor Employment Report |
| Parent DUNS Number | Unique Identifier of Parent Organization / Company (DUNS No.) | string | 9 | This field is inferred; obtained through CCR. | 1. The System will pull the parent organization's DUNS# from CCR.<br>2. Ensure field is populated and in correct format. | CCR |
| Recipient Type | This data element is inferred from CCR. The field inferred is "Business Type" in CCR. | string | 300 | 2F - U.S. State Government | 1. The System will pull this field from CCR.<br>2. Ensure field is populated and in correct format. | Fixed list from CCR |
| Government Contracting Office Code | The agency supplied code of the contracting office that executes the transaction. | string | 6 | AMQ240 | 1. This contracting office code can be located on the contract document<br>2. Ensure field is populated and in correct format. | PRISM/ FAA Contracting Officer |
| Government Contracting Office Name | The government contracting office name inferred from the government contracting office code used. | string | 100 | Federal Aviation Administration | 1. Inferred given the Government Contracting Office Code.<br>2. Ensure field is populated and in correct format. | This field only applies to federally awarded contracts. |
| Recipient Legal Name | Recipient name and address of Organization. The legal and DBA (Doing-Business-As) name of recipient organization and address, including zip code. This should be the same name and address that appears in recipient's Central Contractor Registration (CCR) profile. | string | 120 | This field is inferred; obtained through CCR | 1. The System will pull this information from CCR.<br>2. Ensure field is populated and in correct format and correlates with information found on the monthly employment report from contractor. | Data populated from details found in CCR through the Recipient DUNS# look-up |
| Recipient DBA Name | | string | 120 | | | |
| Recipient Address 1 | | string | 55 | | | |
| Recipient Address 2 | | string | 55 | | | |
| Recipient Address 3 | | string | 55 | | | |
| Recipient City | | string | 35 | | | |
| Recipient State | | string | 2 | | | |
| Recipient Zip Code | | string | 9 | | | |
| Recipient Country | | string | 3 | | | |

FAA Facilities and Equipment
Data Validation Concept of Operations
ARRA 1512 Reporting

| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Recipient Congressional District) | | string | 2 | 51 | 1. This field is mandatory.<br>2. Ensure field is populated and in correct format. | DELPHI/ F&E Master Spreadsheet |
| Recipient Account Number | Recipient's internal account number for award. The account number or any other identifying number assigned by the recipient to the award. This number is strictly for the recipient's use only and is not required by the awarding Federal agency. | string | 255 | This field is optional. | 1. This is an internal tracking number for the Prime Recipient community.<br>2. This is an optional field. | N/A |
| Final Report | Final Project Report Indicator (i.e. no future reports) (Y or N). Check "Y" only if this is the final report and there will be no further quarterly reports. | string | 1 | Y | 1. Check "Y" only if this is the final report for the award period specified.<br>2. Ensure field is populated and indicates "N" unless project completed in CWP scheduling system. | CWP |
| Award Type | Award Type—Grant, Loan, or Federally Awarded Contract | string | 8 | Contract | 1. This is a mandatory field.<br>2. Ensure field is populated and in correct format. | PRISM |
| Award Date | The date when the award is signed. | Date (YYYY MMDD) | 8 | 20090530 | 1. This is a mandatory field.<br>2. Ensure project start date the same as ARRA contract/delivery order signature date. | PRISM |
| Award Description | **For Federally Awarded Contracts:** Provide a description of the overall purpose and expected outcomes, or results of the contract or action under the contract funded by the Recovery Act, including significant deliverables and, if appropriate, associated units of measure. | string | 4000 | Construction contract to build and install… | 1. This is a mandatory field.<br>2. Ensure the field is populated and that narrative description of project correlates to contract award documentation in PRISM and project description in CWP. | PRISM/ CWP |
| Project Name or Project/Program Title | The brief descriptive title of the project or activity funded in whole or in part with Recovery Act funds | string | 256 | N/A | Title as indicated on the Award document/Product or Service Code | This field only applies to Grants and Loans. |
| Quarterly Activities/Project Description | **For Federally Awarded Contracts:** A description of all significant services performed/supplies delivered, including construction, for which the prime contractor invoiced in this calendar quarter. | string | 2000 | Procured and installed lighting systems at the following locations | 1. This is a mandatory field.<br>2. Ensure the field is populated and that narrative description of project correlates to contract award documentation in PRISM, project description in CWP and weekly status report information from program offices. | PRISM/ CWP |

FAA Facilities and Equipment
Data Validation Concept of Operations
ARRA 1512 Reporting

| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Project Status | Evaluation of completion status of the project, activity, or federally awarded contract action funded by the Recovery Act. The status of the work that has been completed. This evaluation should be based on performance progress reports and other relevant non-financial performance information.<br><br>Options for selection: Not started; Less than 50% completed; Completed 50% or more; Fully Completed.<br><br>For awards funding multiple projects such as formula block grants, provide your best estimate of completion of all projects based on any aggregate data and information. | string | 20 | Fully Complete d | 1. This is a mandatory field.<br>2. Ensure field contains an entry that corresponds to schedule progress reported by the program offices in CWP. | CWP/ Resident Engineers/ Program Office Reporting |
| Activity Code (NAICS or NTEE-NPC) | **For Federally Awarded Contracts:** Enter the 6-digit North American Industry Classification System (NAICS) code found in the solicitation/contract.<br><br>For all other awards, provide the National Center for Charitable Statistics "NTEE–NPC" code(s) that describe the Recovery Act projects or activities under this award. A searchable code list is at http://nccsdataweb.urban.org/PubApps/nteeSearch. php?gQry=all-core&codeType=NPC. | string | 20 | 238990 | 1. This is a mandatory field.<br>2. Ensure field is populated and in correct format.<br>3. Ensure correlation with CWP project description. (Majority of construction codes are 237990 through 238990) | CWP |
| Activity Description | Description of the Activity Code for NAICS or NTEE-NPC. | string | 2000 | Support Activities for Forestry | 1. This field is inferred from the Activity Code entered/provided.<br>2. Ensure field is populated and correlates with CWP project description. | CWP |

FAA Facilities and Equipment
Data Validation Concept of Operations
ARRA 1512 Reporting

| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Number Of Jobs | Jobs created and retained. An estimate of the number of jobs created and jobs retained in the United States and outlying areas. At a minimum, this estimate shall include any new positions created and any existing filled positions that were retained to support or carry out Recovery Act projects, activities, or federally awarded contracts managed directly by the recipient or federal contractor. For grants and loans, the number shall include the number of jobs created and retained by sub recipients and vendor. The number shall be expressed as "full-time equivalent" (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule, as defined by the recipient or federal contractor.<br><br>For instance, two full-time employees and one part-time employee working half days would be reported as 2.5 FTE in each calendar quarter. A job cannot be reported as both created and retained. As used in this instruction, United States means the 50 States and the District of Columbia, and outlying areas means—<br>(1) Commonwealths.<br>(i) Puerto Rico.<br>(ii) The Northern Mariana Islands;<br>(2) Territories.<br>(i) American Samoa.<br>(ii) Guam.<br>(iii) U.S. Virgin Islands; and<br>(3) Minor outlying islands.<br>(i) Baker Island.<br>(ii) Howland Island.<br>(iii) Jarvis Island.<br>(iv) Johnston Atoll.<br>(v) Kingman Reef.<br>(vi) Midway Islands.<br>(vii) Navassa Island.<br>(viii) Palmyra Atoll.<br>(ix) Wake Atoll. | Number | 10 | 100 | 1. This is a mandatory field.<br>2. Ensure field is populated with job figures that are equal to or are less than the average of one month' of employment data from the monthly Prime and Subcontractor Employment Report. | Contractor/ Monthly Prime and Subcontractor Employment Report |

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Description of Jobs Created | A narrative description of the employment impact of the Recovery Act funded work. This narrative is cumulative for each calendar quarter and at a minimum, will address the impact on the recipient's or federal contractor's workforce (for grants and loans, recipients shall also include the impact on the workforces of sub recipients and vendors).<br><br>At a minimum, provide a brief description of the types of jobs created and jobs retained in the United States and outlying areas. "Jobs or positions created" means those new positions created and filled, or previously existing unfilled positions that are filled, as a result of Recovery Act funding. "Jobs or positions retained" means those previously existing filled positions that are retained as a result of Recovery Act funding. This description may rely on job titles, broader labor categories, or the recipient's existing practice for describing jobs as long as the terms used are widely understood and describe the general nature of the work. | string | 4000 | | 1. This is a mandatory field.<br>2. Ensure narrative field is populated. Ensure job description reflects known project tasks and milestones from CWP. | CWP |
| Amount of Award | **For Federally Awarded Contracts:**<br>The total amount obligated by the Federal Agency. | Curren cy | 18,2[1] | 200000.01 | 1. This is a mandatory field. 2. Ensure field is populated and equal to the total specific federal funding as indicated on the award document. | PRISM/ DELPHI |
| Total Federal Amount ARRA Funds Received/Invoiced | **For Federally Awarded Contracts:** The amount of Recovery Act funds invoiced by the federal contractor (cumulative). | Curren cy | 18,2 | 200000.01 | 1. This is a mandatory field.<br>2. Ensure field is equal to or less than the amount obligated on the contract documentation.<br>3. Ensure amount correlates with amounts shown in DELPHI for the contract. | PRISM/ DELPHI |
| Primary Place of Performance – Street Address 1 | Recipient Primary Place of Performance (city, state, congressional district, and country) physical location of primary place of performance. | string | 55 | | This field is optional. | This field is optional. |
| Primary Place of Performance – Street Address 2 | | string | 55 | | This field is optional | This field is optional |
| Primary Place of Performance – State | | string | 2 | MD | 1. This is a mandatory field.<br>2. Ensure field is populated and in the correct format. | CWP |
| Primary Place of Performance – Country | | string | 2 | US<br>This is the 2 letter alpha code. | 1. This is a mandatory field.<br>2. Ensure field is populated and in the correct format. | CWP |

[1] The data length of 18,2 indicates total length of 18 characters with 2 characters after the decimal.

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Primary Place of Performance – Zip Code + 4 | | string | 9 | 22033490 2 | 1. This is a mandatory field.<br>2. Ensure field is populated and in the correct format. | CWP |
| Primary Place of Performance – City | | string | 35 | Rockville | 1. This is a mandatory field.<br>2. Ensure field is populated and in the correct format. | CWP |
| Primary Place of Performance - Congressional District | | string | 2 | 08 | 1. This is a mandatory field.<br>2. Ensure field is populated and in the correct format. | DELPHI/ Master Spreadshe et |
| Prime Recipient indication of reporting applicability | Names and total compensation of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if—<br><br>(i) In the recipient's preceding fiscal year, the recipient received—<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | string | 3 | Yes | 1. This is a Yes or No field.<br>2. If all of the conditions in the definition apply the recipient must report in the highly compensated fields.<br>3. Ensure an entry is made in the field and that it is in the correct format. | |

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Prime Recipient Highly Compensated Name(5) | Names of each of the five most highly compensated officers of the recipient for the calendar year in which the award is awarded if—<br><br>(i) In the recipient's preceding fiscal year, the recipient received—<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | string array | 55 | Tom Jones<br>John Doe<br>Mary Smith<br>Ivana B. Rich<br>Amanda King | 1. This is a conditional field based on the "Prime Recipient indication of reporting applicability" data element.<br>2. If recipient has indicated yes to meeting the conditions then ensure field is completed and in the correct format. | |

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Prime Recipient Highly Compensated Compensation(5) (Conditional) | For the five most highly compensated officers of the recipient: total compensation "Total compensation" is defined for<br><br>**Federally Awarded Contracts:** FAR Clause 52.204-11<br><br>**Grants and Loans:**<br>"Total compensation" means the cash and noncash dollar value earned by the executive during the sub recipient's past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):<br>(i). Salary and bonus.<br>(ii). Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.<br>(iii). Earnings for services under non-equity incentive plans. Does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.<br>(iv). Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.<br>(v). Above-market earnings on deferred compensation which are not tax-qualified.<br>(vi). Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000. | Currency Array (Dollar value - numeric) | 18,2 | 100000.01<br>500000.01<br>400000.01<br>350000.01<br>700000.01 | 1. This is a conditional field based on the "Prime Recipient indication of reporting applicability" data element.<br>2. If recipient has indicated yes to meeting the conditions then ensure field is completed and in the correct format. | |
| Total Number of Sub-awards to individuals | Total Number of Sub-awards to individuals. | string | 6 | 10 | This is a mandatory field | This is a mandatory field |
| Total Amount of Sub-awards to individuals | Total Amount of Sub-awards to individuals. | Currency (Dollar value - numeric) | 18,2 | 240000.01 | This is a mandatory field | This is a mandatory field |
| Total Number of Sub-awards less than $25,000/award. | Total Number of Sub-awards less than $25,000/award. | string | 6 | 10 | 1. This is a mandatory field | |

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Total Amount of Subawards less than $25,000/award. | Total Amount of Subawards less than $25,000/award.for the reporting quarter. | Currency (Dollar value - numeric) | 18,2 | 20000.01 | 1. This is a mandatory field. 2. No single Sub-award can exceed $24,999 or must be submitted individually.<br>3. Ensure field is populated and entire amount is less than the prime contract award amount. | PRISM/ DELPHI |
| Sub recipient DUNS Number | The sub recipient organization's 9-digit Data Universal Numbering System (DUNS) number | string | 9 | 123456789 | 1. 9 digit DUNS# is mandatory.<br>2. Ensure field is populated and in the correct format. | |
| Subaward Number | Subaward Number or Other Identifying Number Assigned by the Recipient Entity<br><br>Prime Recipient assigns a sub-award number to the Sub Recipient. | string | 55 | Sub-award number provided by Prime Recipient | 1. This is a mandatory field.<br>2. Ensure field is populated and in the correct format. | |
| Sub recipient Legal Name | The legal name of sub recipient as registered in CCR or D&B | string | 120 | This field is inferred; obtained through CCR or D&B. | 1. The System will pull this information from CCR or D&B.<br>2. Ensure field is populated and in the correct format. | |
| Sub recipient DBA Name | The Doing-Business-As (DBA) name of sub recipient as registered in CCR or D&B | string | 120 | | | |
| Sub recipient Address 1 | Sub recipient Location. Physical location as listed in the Central Contractor Registration. | string | 55 | | | |
| Sub recipient Address 2 | | string | 55 | | | |
| Sub recipient Address 3 | | string | 55 | | | |
| Sub recipient City | | string | 35 | | | |
| Sub recipient State | | string | 2 | | | |
| Sub recipient Zip+4 | | string | 9 | | | |
| Sub recipient Country | | string | 3 | | | |
| Sub recipient Congressional District | | string | 2 | 51 | 1. This field is mandatory.<br>2. Ensure field is populated and in the correct format. | |
| Sub recipient Type | This data element is inferred from CCR. The field inferred is "Business Type" in CCR. | string | 300 | 2F - U.S. State Government | 1. The System will pull this field from CCR.<br>2. Ensure field is populated and in the correct format. | |
| Amount of Subaward | The anticipated total amount of funds to be disbursed to the sub-awardee over the life of the award.<br><br>For Federally Awarded Contracts: Total amount of subcontract | Currency (Dollar value - numeric) | 18,2 | 200000.01 | 1. This is a mandatory field.<br>2. Ensure field is populated and in the correct format.<br>3. Ensure amount does not exceed prime contract amount. | PRISM/ DELPHI |
| Subaward Date | Subaward Date. The date the Subaward was signed (mm/dd/yyyy). | Date (YYYY MMDD) | 8 | 20091212 | 1. This field is mandatory.<br>2. The date is found on the sub-award document.<br>3. Ensure field is populated and in the correct format. | |
| Sub recipient Primary Place of Performance – Street Address 1 | Sub recipient Place of Performance (city, state, congressional district, and country). The physical location of | string | 55 | | This field is optional. | This field is optional. |

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Sub recipient Primary Place of Performance – Street Address 2 | primary place of performance. | string | 55 | | This field is optional | This field is optional |
| Sub recipient Place of Performance - State | | string | 2 | MD | 1. This field is mandatory.<br>2. Ensure field is populated and in the correct format.<br>3. Correlate with known sites of prime contractor. | CWP |
| Sub recipient Place of Performance – Country | | string | 2 | US<br><br>This is the 2 letter alpha code. | 1. This field is mandatory.<br>2. Ensure field is populated and in the correct format.<br>3. Correlate with known sites of prime contractor. | CWP |
| Sub recipient Place of Performance – Zip Code + 4 | | string | 9 | 220334902 | 1. This field is mandatory.<br>2. Ensure field is populated and in the correct format.<br>3. Correlate with known sites of prime contractor. | CWP |
| Sub recipient Place of Performance - City | | string | 35 | Rockville | 1. This field is mandatory.<br>2. Ensure field is populated and in the correct format.<br>3. Correlate with known sites of prime contractor. | CWP |
| Sub recipient Place of Performance - Congressional District | | string | 2 | 8 | 1. This field is mandatory.<br>2. Ensure field is populated and in the correct format.<br>3. Correlate with known sites of prime contractor. | CWP/ DELPHI |
| Sub Recipient indication of reporting applicability | Names and total compensation of each of the five most highly compensated officers of the sub recipient for the calendar year in which the awarded is awarded if—<br><br>(i) In the sub recipient's preceding fiscal year, the sub recipient received—<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | string | 3 | Yes | 1. This is a Yes or No field.<br>2. If all of the conditions in the definition apply the recipient or delegated sub recipient must report in the highly compensated fields.<br>3. Ensure an entry is made in the field and that it is in the correct format. | |

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| Sub Recipient Highly Compensated Name(5) | Names of each of the five most highly compensated officers of the sub recipient for the calendar year in which the award is awarded if—<br><br>(i) In the sub recipient's preceding fiscal year, the sub recipient received—<br><br>(A) 80 percent or more of its annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(B) $25,000,000 or more in annual gross revenues from Federal contracts (and subcontracts), loans, grants (and subgrants) and cooperative agreements; and<br><br>(ii) The public does not have access to information about the compensation of the senior executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. | string array | 55 | Tom Jones<br>John Doe<br>Mary Smith<br>Ivana B. Rich<br>Amanda King | 1. This is a conditional field based on the "Sub recipient indication of reporting applicability" data element.<br>2. If recipient has indicated yes to meeting the conditions then ensure field is completed and in the correct format. | |
| Sub Recipient Highly Compensated Compensation(5) | For the five most highly compensated officers of the sub recipient: total compensation "Total compensation" is defined | Curren cy Array (Dollar | 18,2 | 100000.01<br>500000.01<br>400000.01<br>350000.01 | 1. This is a conditional field based on the "Sub recipient indication of reporting applicability" data element.<br>2. If recipient has indicated yes to | |

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| Data Element | Definition | Type | Max Size | FAA F&E Example | Comments/ Validation Rule | FAA Validation and/or Source |
|---|---|---|---|---|---|---|
| (Conditional) | for<br><br>"Total compensation" means the cash and noncash dollar value earned by the executive during the sub recipient's past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):<br>(i). Salary and bonus.<br>(ii). Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.<br>(iii). Earnings for services under non-equity incentive plans. Does not include<br>group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.<br>(iv). Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.<br>(v). Above-market earnings on deferred compensation which are not tax-qualified.<br>(vi). Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000. | value - numeric) | | 700000.01 | meeting the conditions then ensure field is completed and in the correct format. | |

All data elements that pertain to grants and loans have been eliminated from the FAA Facilities and Equipment validation rules table because those fields do not apply to F&E contracts.

# FHWA Data Validation Concept of Operations ARRA 1512 Reporting

**October 8, 2009**

## Background

Based on OMB Guidance M-09-21 issued on June 22, 2009, OMB established the reporting website FederalReporting.gov to collect data on the use of ARRA funds that will be publicly available for the purpose of government transparency. All final data will be available to the public on www.Recovery.com. According to OMB Guidance M-09-21, FHWA is responsible for:

- Providing advice and programmatic assistance to the recipients of ARRA funds for implementing data quality.
- Performing limited data quality reviews intended to identify material omissions and significant reporting errors, and notifying the recipients of the need to make appropriate and timely changes.
- Applying the definitions of material omission and significant reporting error in given programs areas or across programs.
- Identifying and remediating systemic or chronic reporting problems.

The FHWA will fulfill these responsibilities to support the recipient's data quality by:

- Implementing an automated data quality review tool to detect common reporting errors, such as those listed in Section 4.3 of OMB Guidance M-09-21.

## Data Entry Process

Recipients (States) are required to register on the www.FederalReporting.gov website and provide data on a quarterly basis. Registration for the website began on August 17, 2009. The quarterly reporting cycle ended on September 30, 2009, and the website is open for data collection October 1-10, 2009. The data will be entered in one of 3 formats whose templates and descriptions are available on the website. Additional guidance and downloads, including the OMB Recipient Reporting Data Model v3.0, for recipient data entry for the quarter ending September 30, 2009, are available on the www.FederalReporting.gov. The data in the 1512 report is cumulative. Once the final data have been confirmed and/or corrected by the sponsor (recipient) by October 29, 2009, any further corrections will be made in the next reporting cycle. The detailed steps for this process are as follows:

1. State prepares 1512 report (October 1 - 10)
   a. Using RADS, output as XML file
   b. Using State system as either an XML or Excel file
   Note: A number of States have asked if it is acceptable to submit a single file that covers all their ARRA projects. During a recent conference call, OMB indicated that a single file is not acceptable and that they are expecting detailed information for each project. Over a month ago, States and Divisions were provided with the crosswalk that we are using in RADS to produce each 1512 XML file. The crosswalk is on the ARRA Share Point site. Please send an e-mail to ARRA.Questions@dot.gov if you would like a copy e-mailed to you.
2. State uploads file to FederalReporting.gov website (October 1 - 10)
   a. One file at a time; or
   b. As a batch upload
   Note: If the State has not already done so, they can request permission to batch upload their 1512 reports by sending an e-mail to: BatchAccount@ratb.gov.

## Agency Validation and Outlier Identifier Processes

1. Beginning October 11th, FHWA will be able to view and review each 1512 report in Recovery.gov
   a. We recommend that each Division verifies that their State has submitted reports, and reviews the data for obvious errors
   b. The Office of Highway Policy Information ARRA Team (HPPI-AT) already has several people with access to the website and will be monitoring the States' progress
2. As soon as a State has submitted their 1512 reports, the HPPI-AT will download the reports and load them into RADS Note: The process for downloading the data and the format of the data is still unknown. We have requested a batch download process similar to the process that the States can use for uploading their reports. Worst-case scenario, we will have to download each individual file.
3. The HPPI-AT will produce regular reports to help determine which 1512 reports have data that needs to be verified
   a. A summary report will show the number of reports in each State that fall into the following four categories:
      i. Verified (data matches State provided data in RADS)
      ii. Not verified but acceptable (date is reasonably close to what the State has provided in RADS)
      iii. Not verified and not acceptable (data doesn't match what the State has provided in RADS)
      iv. Modified by the State
   b. A list by project will show the difference for each data item between the 1512 report and what has been submitted by the States in RADS
   Note: The difference between the data will likely be shown as a percentage.
4. Both lists will be distributed *as a single document* to the Divisions to verify any data that the HPPI-AT has not been able to verify and deemed unacceptable.
5. Following the data verification, the State will either need to resubmit their 1512 report, or revise their data in RADS. This will initially need to be done by October 20th, although the States will have a second opportunity to revise their data following FHWA's initial review and verification (October 11 - 20).
6. For States that submit revised 1512 reports, steps 2 - 4 will be repeated.

# Data Verification Rules

Data verification, as outlined in OMB Guidance M-09-21, is the responsibility of recipients and the Federal agencies. Below are some examples provided by OMB of how recipients and Federal agencies can ensure the ARRA data quality, completeness, and accuracy.

- Establish control totals (e.g., total number of projects subject to reporting, total dollars allocated to projects) and verify that reported information matches the established control totals;
- Create an estimated distribution of expected data along a "normal&qout; distribution curve and identify outliers;
- Establish a data review protocol or automated process that identifies incongruous results (e.g., total amount spent on a project or activity is equal to or greater than the previous reporting); and
- Establish procedures and/cross-validation of data to identify and/or eliminate potential "double counting" due to delegation of reporting responsibility to sub-recipient.

To comply with OMB Guidance M-09-21, FHWA has implemented two types of data verification on the data submitted by the States in RADS. The first are automated rules in RADS, which are performed at the time the data are uploaded or entered into RADS. The second is currently being developed and once implemented will be performed manually through the aid of a regular report that will be distributed internally within FHWA. Both sets of data verification rules are provided in the following tables:

### Automated Data Verification Tests in RADS

| Table | Variable | Verification Rule |
|---|---|---|
| Projects | Federal Project Number | No dashes, or parenthesis |
| | Total Cost Estimate | cannot be less than Total ARRA Estimate |
| Awards | Federal Project Number | If 'TBD' No award can be added |
| | Federal Project Number | If withdrawn, no award can be added |
| | Work performed by | If 'L' then must enter DUNS number that is entered in the sub-recipient table |
| | Work performed by | If 'V' then must enter a DUNS number, or Vendor name and zip code. |
| | Award Date | Required |
| Sub-Awards | Award Date | Required |
| | | Must enter a DUNS number, or Vendor name and zip code. |
| Monthly Status | Report Month | Must be entered as 'mm/yyyy' |

| | | |
|---|---|---|
| Quarterly Status | Report Quarter | Must be entered as 'q/yyyy' |
| | Federal Project Number | If withdrawn, or 'TBD' can not create a quarterly status |
| Payments | Report Quarter | Must be entered as 'q/yyyy' |
| Sub-Payments | Report Quarter | Must be entered as 'q/yyyy' |
| NEPA Status | Federal Project Number | If withdrawn, or 'TBD' cannot create a record |
| GIS Location | Federal Project Number | If withdrawn, or 'TBD' cannot create a record |

The regular data verification report will highlight any projects or awards that fail one or more of the following verification rules:

| Variable | Verification Rule |
|---|---|
| Federal Project Number | In FMIS, but not in RADS |
| Sum hours / sum payroll | Cannot be less than $3/hr. or greater than $150/hr. |
| If expenditures are present | Job data must be present |
| If job data are present | Expenditures must be present |
| If expenditures / obligations > 0.50 and DBE commitment > 0 | DBE payments must be present |
| Length | Must be present for pavement and safety projects |
| EDA Comment | Must be present if March 13, 2009, map shows county as 'Y' |

# 1512 Validation Rules

Initial data validation will include verifying fields that are populated, formatted correctly, and there are no significant errors in the data.

### 1512 Data Validation Rules

| OMB Field | FHWA RADS Field or Source | Validation Rule |
|---|---|---|
| Funding Agency Code | '6925' | Equals |
| Funding Agency Name | FEDERAL HIGHWAY ADMINISTRATION | |
| Awarding Agency Code | '6925' | Equals |
| Awarding Agency Name | FEDERAL HIGHWAY ADMINISTRATION | |

| | | |
|---|---|---|
| Program Source TAS | 69-0504 | Equals |
| Award Number | Federal_Project_Number | Equals |
| Order Number | | |
| Recipient DUNS Number | State DUNS Number | Equals |
| Parent DUNS Number | | |
| Recipient Type | | |
| CFDA Number | 20.205 | Equals |
| Government Contracting Office Code | | |
| Government Contracting Office Name | | |
| Recipient Legal Name | | |
| Recipient DBA Name | | |
| Recipient Address 1 | | |
| Recipient Address 2 | | |
| Recipient Address 3 | | |
| Recipient City | | |
| Recipient State | | |
| Recipient Zip Code | | |
| Recipient Country | | |
| Recipient Congressional District | Cong_District | Equals |
| Recipient Account Number | | |
| Final Report | Y if Work_Complete_Date is within Quarter | Equals |
| Award Type | GRANT | Equals |
| Award Date | Authorization Date | Equals |
| Award Description | Program Category Code lookup | Equals |
| Project Name | Project_Name | Equals |
| Project Description | Project_Description | Equals |
| Project Status | Calculation from Percent_Complete | Equals |
| Activity Code | NAICS_Code | Equals |
| Activity Description | | |
| Number of Jobs | Total_Employees, Total_Hours | ± 1% |
| Description of Jobs Created | Job_Creation | Equals |
| Amount of Award | Total_Federal_Funds | ± 1% |
| Total Federal Amount ARRA Funds Received | ARRA_Federal_Funds | ± 1% |
| Total Federal Amount ARRA Expenditure | ARRA_Expend_Amount | ± 1% |

| | | |
|---|---|---|
| Total Federal ARRA Infrastructure Expenditure | ARRA_Expend_Amount | ± 1% |
| Infrastructure Purpose Rationale | Project_Rationale | Equals |
| Infrastructure Contact Name | Infra_Contact_Name | Equals |
| Infrastructure Contact Street Address 1 | Infra_Contact_Street_Address 1 | Equals |
| Infrastructure Contact Street Address 2 | Infra_Contact_Street_Address 2 | Equals |
| Infrastructure Contact Street Address 3 | Infra_Contact_Street_Address 3 | Equals |
| Infrastructure Contact City | Infra_Contact_City | Equals |
| Infrastructure Contact State | Infra_Contact_State | Equals |
| Infrastructure Contact Zip Code | Infra_Contact_Zip | Equals |
| Infrastructure Email | Infra_Contact_Email | Equals |
| Infrastructure Contact Phone | Infra_Contact_Phone | Equals |
| Infrastructure Contact EXT | Infra_Contact_EXT | Equals |
| Primary Place of Performance street Address 1 | | |
| Primary Place of Performance street Address 2 | | |
| Primary Place of Performance street Address 3 | | |
| Primary Place of Performance State | POP_State | Equals |
| Primary Place of Performance Country | USA | Equals |
| Primary Place of Performance Zip Code | POP_Zipcode | Equals |
| Primary Place of Performance City | POP_City | Equals |
| Primary Place of Performance Congressional District | POP_Cong_District | Equals |
| Prime Recipient Indication of Reporting Applicability | Report_Highly_Paid | Equals |
| Prime Recipient Highly Compensated Officers | Highly_Paid_Name | Equals |
| Prime Recipient Highly Compensasion | Highly_Paid_Amount | Equals |
| Total Number of Subawards to individuals | 0 | Equals |
| Total Amount of Subawards to individuals | 0 | Equals |
| Total Number of Payments to Vendors Less than 25000/award | Number_Payment_Vendors | Equals |

| | | |
|---|---|---|
| Total Amount of Payments to vendors Less than 25000/award | Amount_Payment_Vendors | Equals |
| Total number of subawards less than 25000/award | 0 | Equals |
| Total amount of subawards less than 25000/award | 0 | Equals |
| Sub recipient DUNS Number | DUNS_Number | Equals |
| SubAwards Number | State_Contract_Number | Equals |
| Sub Recipient Legal Name | | |
| Susb Recipient DBA Name | | |
| Sub Recipient Address 1 | | |
| Sub Recipient Address 2 | | |
| Sub Recipient Address 3 | | |
| Sub Recipient City | | |
| Sub Recpient State | | |
| Sub Recipient Zip | | |
| Sub Recipient Country | USA | Equals |
| Sub Recpient Congressional District | Cong_District | Equals |
| Sub Recipient Type | | |
| Amount of Subaward | ARRA_Award_Amount | ± 1% |
| Total Subaward Funds Dispursed | Payment_Disperse | ± 1% |
| Subaward Date | Award Date | Equals |
| Sub Recipient Primary Place of Performance Street Address 1 | | |
| Sub Recipient Primary Place of Performance Street Address 2 | | |
| Sub Recipient Primary Place of Performance Street Address 3 | | |
| Sub Recipient Place of Performance State | POP_State | Equals |
| Sub Recipient Primary Place of Performance Country | USA | Equals |
| Sub Recipient Place of Performance Zip | POP_Zipcode | Equals |
| Sub Recipient Place of Performance City | POP_City | Equals |
| Sub recipient Place of Performance Congressional District | POP_Cong_District | Equals |
| Sub Recipient Indication of Reporting Applicability | Report_Highly_Paid | Equals |

| | | |
|---|---|---|
| Sub Recipient Highly Compensted Name | Highly_Paid_Name | Equals |
| Sub Recipient Highly compensation | Highly_Paid_Amount | Equals |
| Award Number PrimeRecipient Vendor | Federal_Project_Number | Equals |
| Subaward Number Subrecipient Vendor | State_Project_Number | Equals |
| Vendor Duns Number | DUNS_Number | Equals |
| Vendor HQ Zip Code | Vendor_Zip | Equals |
| Vendor Name | Vendor_Name | Equals |
| Product Service Description | Service_Description | Equals |
| Payment Amount | Payment_Disperse/Vendor_Payment | ± 1% |

**Table Legend**

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|---|---|
| | Only required for Federal Contracts, doesn't apply to Federal Grants |
| | Optional Data |
| | OMB will lookup |

The following process schedule outlines the tasks, responsibly parties, and projected dates for the 1512 reporting period, data review, and omission and significant error investigations.

## FHWA Data Validation Concept of Operations Process Modifications

FHWA acknowledges that the 1512 data validation will be an evolving process. Changes could be made in the future to improve the timeliness and accuracy of recipient data reporting. Data validation rules could be modified to facilitate the accomplishment of the FHWA responsibilities outlined in OMB Guidance M-09-21.

To view PDF files, you can use the Acrobat® Reader®.

# Supplement 1: List of Programs Subject to ARRA Section 1512 Recipient Reporting

Supplement 1 is a list of programs under ARRA that are subject to the reporting requirements found under section 1512 of the Act. Section 1512 reporting requirements apply to programs identified in Division A of the Act. Programs identified in Division B of the Act are not subject to section 1512 reporting requirements. Additional exceptions to the reporting requirements are entitlement or other mandatory programs, loan guarantees (unless 100% FFB financed), and awards to individuals. Additional guidance on Section 1512 reporting can be found in OMB Memorandum M-09-21 and additional Frequently Asked Questions (http://www.whitehouse.gov/omb/recovery_default/).

This list is intended to be a comprehensive list of programs that include federal financial assistance and federally-awarded contracts. The CFDA (www.cfda.gov) column will only pertain to federal financial assistance programs. Programs without a CFDA number are most likely federally-awarded contracts. This list has been updated through feedback from Federal agencies and non-Federal recipients.

| Agency | Program Name | CFDA Number |
|---|---|---|
| **Corporation for National & Community Service** | Americorps | 94.006 |
| | Planning and Program Development Grants | 94.007 |
| | Volunteers in Service to America | 94.013 |
| **Corps of Engineers** | Corps of Engineers: Recreation Management | |
| | Inland Waterways Navigation | |
| | Corps of Engineers: Coastal Ports and Harbors | |
| | Formerly Utilized Sites Remedial Action Program | |
| | Environmental Stewardship | |
| | Aquatic Ecosystem Restoration | |
| | U.S. Army Corps of Engineers (Corps) Civil Works | |
| | Flood Damage Reduction (FDR) | |
| | Water Storage for Water Supply | |
| | Corps of Engineers: Hydropower | |
| **Department of Agriculture** | Rural Business Enterprise Grants | 10.783 |
| | Rural Broadband Access Loans and Loan Guarantees | 10.787 |
| | Single Family Housing Direct Loans | 10.788 |
| | Single Family Housing Guaranteed Loans | 10.789 |

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| | Watershed Protection and Flood Prevention | 10.904 |
| | Watershed Rehabilitation Program | 10.916 |
| | Healthy Forests Reserve Program | 10.922 |
| | Emergency Watershed Protection Program | 10.923 |
| | Aquaculture Assistance Grants (CCC Funds) | 10.086 |
| | Farm Operating Loans | 10.406 |
| | State Child Nutrition Programs, Recovery Act | 10.579 |
| | The Emergency Food Assistance Program (TEFAP) administrative funding | 10.568 |
| | WIC Grants to States | 10.578 |
| | Trade Adjustment Assistance | 10.609 |
| | Recovery Act of 2009: Capital Improvement and Maintenance | 10.687 |
| | Recovery Act of 2009: Wildland Fire Management | 10.688 |
| | Community Facilities Loans and Grants - ARRA | 10.780 |
| | Water and Waste System Loans and Grants | 10.781 |
| | Business and Industry Loans | 10.782 |
| **Department of Commerce** | EDA Economic Adjustment Assistance | 11.307 |
| | NTIA Broadband Technology Opportunities Program | 11.557 |
| | NTIA State Broadband Data and Development Grant Program | 11.558 |
| | NIST Measurement and Engineering Research and Standards | 11.609 |
| | NIST Construction Grant Program | 11.618 |
| | 2010 Census Coverage Follow-up Program | |
| | NTIA Digital to Analog Converter Box Program | |
| | NOAA Operations, Research, and Facilities | |
| | NOAA Procurement, Acquisition, and Construction | |
| | 2010 Census Advertising | |
| | NIST Scientific and Technical Research and | |

## Supplement 1: List of Programs Subject to ARRA Section 1512 Recipient Reporting

| | | |
|---|---|---|
| | Services | |
| | NIST Construction of Research Facilities | |
| | 2010 Census Partnership Program | |
| | 2010 Census Early Operations | |
| **Department of Defense** | Military Construction | |
| | Near Term Energy-Efficient Technologies | |
| | Energy Conservation Investment Program | |
| | Homeowners Assistance Program | |
| | Facilities Sustainment, Restoration, & Modernization | |
| **Department of Education** | Capacity Building for Traditionally Underserved Populations - Voc Rehab Services | 84.406 |
| | Work Study | 84.033 |
| | Statewide Data Systems, Recovery Act | 84.384 |
| | Teacher Incentive Fund, Recovery Act | 84.385 |
| | Education Technology State Grants, Recovery Act | 84.386 |
| | Education of Homeless Children and Youth, Recovery Act | 84.387 |
| | School Improvement Grants, Recovery Act | 84.388 |
| | Title I - Grants to LEAs, Recovery Act | 84.389 |
| | Vocational Rehabilitation State Grants, Recovery Act | 84.390 |
| | Special Education - Grants to States, Recovery Act | 84.391 |
| | Special Education - Preschool Grants, Recovery Act | 84.392 |
| | Special Education - Grants for Infants and Families, Recovery Act | 84.393 |
| | State Fiscal Stabilization Fund - Education State Grants, Recovery Act | 84.394 |
| | State Fiscal Stabilization Fund - State Incentive Grants, Recovery Act | 84.395 |
| | State Fiscal Stabilization Fund - Innovation Fund, Recovery Act | 84.396 |

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| | State Fiscal Stabilization Fund - Government Services, Recovery Act | 84.397 |
| | Independent Living - State Grants, Recovery Act | 84.398 |
| | Independent Living - Services for Older Blind Individuals, Recovery Act | 84.399 |
| | Independent Living - Centers, Recovery Act | 84.400 |
| | Impact Aid School Construction, Recovery Act (this is the non-formula part of the ARRA funding) | 84.401 |
| | Consolidated Grants for Outlying Areas, Recovery Act | 84.402 |
| | Impact Aid Formula Grants, Recovery Act | 84.404 |
| | Teacher Quality Enhancement Partnerships, Recovery Act | 84.405 |
| **Department of Energy** | Office of Science Financial Assistance Program | 81.049 |
| | Weatherization Assistance for Low Income Persons | 81.041 |
| | State Energy Program (SEP) | 81.042 |
| | Conservation Research and Development | 81.086 |
| | Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance | 81.117 |
| | Energy Efficiency and Conservation Block Grant | 81.128 |
| | Renewable Energy Research and Development | 81.087 |
| | Fossil Energy Research and Development | 81.089 |
| | Electricity Delivery and Energy Reliability, Research, Development and Analysis | 81.122 |
| | Loan Guarantee | 81.126 |
| | Energy Efficient Appliance Rebate Program | 81.127 |
| | Energy Efficiency and Renewable Energy Technology Deployment, Demonstration and Commercialization | 81.129 |

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|---|---|---|
| | Stimulus Carbon Capture and Storage | 81.130 |
| | Stimulus Expand and Extend Clean Coal Power Initiative Round III Funding Opportunity Announcement | 81.131 |
| | Stimulus Geologic Sequestration Site Characterization | 81.132 |
| | Stimulus Geologic Sequestration Training and Research Grant Program | 81.133 |
| | Stimulus Industrial Carbon Capture and Storage (CCS) Application | 81.134 |
| | Advance Research and Projects Agency - Energy Financial Assistance Program (ARPA-E) | 81.135 |
| **Department of Health & Human Services** | National Health Service Corps Scholarship Program | 93.400 |
| | National Health Service Corps Loan Repayment | 93.401 |
| | National Health Service Corps State Loan Repayment Program | 93.402 |
| | Health Professions: Training in Primary Care Medicine and Dentistry | 93.403 |
| | Health Professions: Dental Public Health | 93.404 |
| | Health Professions: Public Health Traineeships | 93.405 |
| | Health Professions: Scholarships for Disadvantaged Students | 93.407 |
| | Health Professions: Nurse Faculty Loan Program | 93.408 |
| | Health Professions: Licensing Portability Special Initiative | 93.410 |
| | Health Professions: Equipment to Enhance Training of Health Professionals | 93.411 |
| | Health Professions: Preventive Medicine | 93.412 |
| | Health Professions: Centers of Excellence | 93.415 |
| | Health Professions: Health Careers Opportunity Program | 93.416 |

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|---|---|---|
| | Health Professions: Nursing Workforce Diversity | 93.417 |
| | Trans-NIH Recovery Act Research Support | 93.701 |
| | NCRR Recovery Act Construction Support | 93.702 |
| | Health Center Controlled Network Program | 93.703 |
| | Trans-NIH Recovery Act Loan Repayment Support | 93.704 |
| | Aging Home-Delivered Nutrition Services | 93.705 |
| | Aging Nutrition Services for Native Americans | 93.706 |
| | Aging Congregate Nutrition Services | 93.707 |
| | Head Start | 93.708 |
| | Early Head Start (EHS) | 93.709 |
| | Community Services Block Grant (CSBG) | 93.710 |
| | Strengthening Communities Fund | 93.711 |
| | Childhood Immunization Program | 93.712 |
| | Child Care and Development Block Grant | 93.713 |
| | Recovery Act-Comparative Effectiveness Research-AHQR | 93.715 |
| | Preventing Healthcare-Associated Infections | 93.717 |
| | Community Health Centers - Capital | |
| | Recovery Act-Comparative Effectiveness Research - NIH | |
| | National Institutes of Health - Extramural Research Programs | |
| | NCRR Recovery Act Shared Instrumentation | |
| | Evidence-Based Clinical and Community-Based Prevention and Wellness Strategies | |
| | IHS Health Information Technology | |
| | Community Health Centers - Services | |
| | IHS Sanitation Facilities Construction | |
| | Office of the National Coordinator for Health Information Technology | |
| | IHS Equipment | |
| | IHS Facilities Maintenance and Improvement | |

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| | IHS Health Care Facilities Construction | |
| | Recovery Act-Comparative Effectiveness Research - Office of the Secretary | |
| **Department of Homeland Security** | Rail & Transit Security Grant Program | 97.113 |
| | Emergency Food & Shelter National Board Program | 97.114 |
| | Assistance to Firefighters AFG | 97.115 |
| | Port Security Grant Program | 97.116 |
| | TSA Airport Checked Baggage Inspection System Program | 97.117 |
| | TSA Advanced Surveillance Program | 97.118 |
| | USCG Alterations to Bridges | |
| | USCG Acquisitions, Construction, and Improvement | |
| | ICE Tactical Communications Modernization Program | |
| | Passenger Screening Program | |
| | Construction of CBP-Owned Land Ports of Entry | |
| | SBInet Program | |
| | TSA Non-Intrusive Inspection Systems Program | |
| | Public Transportation and Railroad Security Assistance | |
| | DHS Consolidated HQ Program Specific Recovery Plan | |
| **Department of Housing & Urban Development** | CFDA Community Development Block Grant (CDBG) Entitlement / Recovery Act Funded (CDBG-R) | 14.253 |
| | CFDA Community Development Block Grants Special Purpose Grants/Insular Areas (CDBG) (Recovery Act Funded) | 14.254 |
| | CFDA Community Development Block Grants/States Program and non-Entitlement Grants in Hawaii (CDBG) (Recovery Act Funded) | 14.255 |
| | Neighborhood Stabilization Program (Recovery Act Funded) | 14.256 |
| | Homelessness Prevention and Rapid Re- | 14.257 |

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|---|---|---|
| | Housing Program (Recovery Act Funded) | |
| | Tax Credit Assistance Program (TCAP) (Recovery Act Funded) | 14.258 |
| | Sec8 Housing Assistance Payments Program Special Allocations (Recovery Act Funded) | 14.317 |
| | Assisted Housing Stability and Energy and Green Retrofit Investments Program (Recovery Act Funded) | 14.318 |
| | Native American Housing Block Grants (Formula) (Recovery Act Funded) | 14.882 |
| | Native Hawaiian Housing Block Grants (Recovery Act Funded) | 14.883 |
| | Public Housing Capital Fund Competitive (Recovery Act Funded) | 14.884 |
| | Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded | 14.885 |
| | Indian Community Development Block Grant Program (ICDBG) (Recovery Act Funded) | 14.886 |
| | Native American Housing Block Grants (Competitive) Recovery Act Funded | 14.887 |
| | Lead-Based Paint Hazard Control in Privately-Owned Housing (Recovery Act Funded) | 14.907 |
| | Healthy Homes Demonstration Grants (Recovery Act Funded) | 14.908 |
| | Lead Hazard Reduction Demonstration Grant Program | 14.909 |
| | Healthy Homes Technical Studies Grants | 14.910 |
| **Department of the Interior** | Indian Housing Assistance | 15.141 |
| | Recreation Resource Mgmt | 15.225 |
| | Fish Wildlife Plant Conservation Management | 15.231 |
| | Forests and Woodlands | 15.233 |
| | Environmental Quality | 15.236 |
| | Central Valley Project Improvement Act, Title XXIV | 15.512 |
| | Fort Peck Reservation Rural Water System | 15.516 |
| | Garrison Diversion Unit | 15.518 |

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| | Lewis and Clark Rural Water System | 15.520 |
| | Lower Rio Grande Valley Water Resources Conservation and Improvement Act | 15.521 |
| | Mni Wiconi Rural Water Supply Project | 15.522 |
| | Perkins County Rural Water System | 15.523 |
| | Recreation Resources Management | 15.524 |
| | Rocky Boy's/North Central Montana Regional Water System | 15.525 |
| | St. Mary Storage Unit Facilities Rehabilitation Project | 15.528 |
| | Yakima River Basin Water Enhancement Project (YRBWEP) | 15.531 |
| | Central Valley Project, Trinity River Division, Trinity River Fish and Wildlife Management | 15.532 |
| | Miscellaneous Public Law 93-638 Contracts, Grants, and Cooperative Agreements | 15.534 |
| | Upper Colorado River Basin Fish and Wildlife Mitigation Program | 15.535 |
| | Deschutes Basin Ecosystem Restoration | 15.536 |
| | Middle Rio Grande Endangered Species Collaborative Program | 15.537 |
| | Lower Colorado River Multi-Species Conservation Program | 15.538 |
| | Habitat Enhancement, Restoration and Improvement | 15.656 |
| | Endangered Species Conservation - Recovery Implementation Funds | 15.657 |
| | Earthquake Hazards Program External Research and Monitoring Support | 15.807 |
| | National Geospatial Program: Building The National Map | 15.817 |
| | Volcano Hazards Program Research and Monitoring | 15.818 |
| | Conservation Activities by Youth Service Organizations | 15.931 |

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| | Preservation of Historic Structures on the Campuses of Historically Black Colleges and Universities (HBCUs) | 15.932 |
| | USGS, Surveys, Investigations and Research | |
| | BLM, Construction | |
| | Indian Affairs, Construction - Recovery Act | |
| | FWS, Construction - Recovery Act | |
| | Central Utah Project | |
| | NPS, Construction and Major Maintenance - Recovery Act | |
| | National Park Service - Land and Water Conservation Fund State Grants | |
| | NPS, Historic Preservation Fund - Recovery Act | |
| | Interior Recovery Act - Indian Affairs, Operation of Indian Programs | |
| | BLM, Management of Lands and Resources - Recovery Act | |
| | BOR, Water and Related Resources - Recovery Act | |
| | Wildland Fire Management | |
| | Resource Management - Recovery Act | |
| | Interior Recovery Act - Indian Affairs, Indian Guaranteed Loan Program Account - Recovery Act | |
| | Interior Recovery Act - NPS, Operation of the National Park System - Recovery Act | |
| **Department of Justice** | State Domestic Violence and Sexual Assault Coalitions Grant Program | 16.556 |
| | Tribal Domestic Violence and Sexual Assault Coalitions Grant Program | 16.557 |
| | STOP (Services • Training • Officers • Prosecutors) Violence Against Women Formula Grant Program | 16.588 |
| | Public Safety Partnership and Community Policing Grants | 16.710 |
| | Recovery Act-Internet Crimes Against | 16.800 |

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|---|---|---|
| | Children Task Force Program (ICAC) | |
| | Recovery Act –ICAC Task Force Training and Technical Assistance Grants | 16.800 |
| | Recovery Act-Internet Crimes Against Children Research Grants | 16.800 |
| | Recovery Act-National Internet Crimes Against Children Data System (NIDS) | 16.800 |
| | Recovery Act-Evaluation of Internet Child Safety Materials Used by ICAC Task Forces in School and Community Settings | 16.800 |
| | Recovery Act-State Victim Assistance Formula Grant Program | 16.801 |
| | Recovery Act-State Victim Compensation Formula Grant Program | 16.802 |
| | Recovery Act-Tribal Crime Data Collection, Analysis, and Estimation Project | 16.803 |
| | Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories | 16.803 |
| | Recovery Act-Edward Byrne Memorial Justice Asstance Grant (JAG) Program/Grants to Units of Local Government | 16.804 |
| | Recovery Act-Law Enforcement Technology Research and Development | 16.804 |
| | Transitional Housing Assistance Grants for Victims of Domestic Violence, Stalking, or Sexual Assault Program | 16.805 |
| | Grants to Indian Tribal Governments Program | 16.806 |
| | Recovery Act-VOCA Crime Victim Assistance Discretionary Grant Program | 16.807 |
| | Recovery Act-Edward Byrne Memorial Competitive Grant Program | 16.808 |
| | Recovery Act-National Youth Mentoring Program | 16.808 |
| | Recovery Act-Local Youth Mentoring Initiative | 16.808 |
| | Recovery Act-Research and Evaluation of Recovery Act State and Local Law Enforcement Assistance | 16.808 |
| | Recovery Act-State and Local Law | 16.809 |

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|---|---|---|
| | Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program | |
| | Recovery Act-Research and Evaluation of Recovery Act Combating Criminal Narcotics Activity Stemming From the Southern Border of the U.S. Competive Grant Program | 16.809 |
| | Recovery Act-Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program | 16.810 |
| | Recovery Act: Research and Evaluation of Recovery Act Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program | 16.810 |
| | Recovery Act-Correctional Facilities Tribal Lands | 16.811 |
| | Southwest Border Initiative - ATF's Project Gunrunner | |
| **Department of Labor** | Employment Service/Wagner-Peyser Funded Activities | 17.207 |
| | Senior Community Service Employment Program | 17.235 |
| | WIA Adult Program | 17.258 |
| | WIA Youth Activities | 17.259 |
| | Native American Employment and Training | 17.265 |
| | YouthBuild | 17.274 |
| | Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors | 17.275 |
| | National Emergency Grants - Health Coverage Assistance | 17.276 |
| | Occupational Safety and Health State Program | 17.503 |
| | Job Corps | |
| | EBSA Cobra Premium Assistance | 17.151 |
| | WIA Dislocated Worker Assistance and National Emergency Grants | 17.260 |
| | Non-Discrimination and Affirmative Action by Federal and Federally Assisted | 17.301 |

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|---|---|---|
| | Construction Contractors | |
| | Wage and Hour Standards | 17.303 |
| | OSHA Data Initiative | 17.505 |
| **Department of State** | ARRA Capital Investment Fund: Data Center | |
| | ARRA Diplomatic and Consular Programs: National Foreign Affairs Training Center | |
| | ARRA Diplomatic and Consular Programs: Hard Skills Training Center | |
| | ARRA Diplomatic and Consular Programs: Consular Affairs Passport Facilities | |
| | ARRA Capital Investment Fund: IT Platform | |
| | ARRA Capital Investment Fund: Cyber Security | |
| | ARRA International Boundary and Water Commission | |
| **Department of the Treasury** | Community Development Financial Institutions Program | 21.020 |
| | Native American CDFI Assistance (NACA) Program | |
| **Department of Transportation** | Capital Grants to the National Railroad Passenger Corporation | 20.315 |
| | Transit Capital Assistance | |
| | Transit Investments in Green House Gas and Energy Reduction (TIGGER) | |
| | Highway Infrastructure Investment | |
| | Assistance to Small Shipyards | 20.814 |
| | Secretary's Discretionary program | |
| | Bonding Assistance Program | 20.904 |
| | Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service | |
| | Fixed Guideway Infrastructure Investment | |
| | Grants-in-Aid for Airports | |
| | FAA Facilities and Equipment | |
| | Capital Investment Grants | |
| **Department of Veterans Affairs** | Veterans Benefits Administration Hiring Temporary Claims Processors | |

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|---|---|---|
| | Info Tech Systems - Veterans Benefits Administration Support | |
| | Veterans Health Administration Grants for State Extended Care | |
| | Veterans Health Administration Medical Facilities Non-recurring Maintenance and Energy | |
| | National Cemetery Administration Monument and Memorial Repairs | |
| **Environmental Protection Agency** | ARRA National Clean Diesel Grant Program | 66.039 |
| | ARRA State Clean Diesel Grant Program | 66.040 |
| | ARRA Brownfields Training Research and Technical Assistance Grants and Cooperative Agreements | |
| | ARRA Capitalization Grants for Drinking Water State Revolving Funds | 66.468 |
| | Leaking Underground Storage Tank Trust Fund Program | 66.805 |
| | ARRA Brownfields Job Training Cooperative Agreements | 66.815 |
| | ARRA Brownfields Assessment and Cleanup Cooperative Agreements | 66.818 |
| | Diesel Emissions Reduction Program (DERA) | |
| | Construction Grants for Wastewater Treatment Works | 66.418 |
| | ARRA Water Quality Management Planning (Sections 205(j)(1) & 604(b)) | 66.454 |
| | ARRA Clean Water Tribal Set-Aside Program | 66.458 |
| | ARRA State Revolving Fund | 66.458 |
| | ARRA Wastewater Treatment Construction Programs | 66.458 |
| | Senior Environmental Employment Program | 66.508 |
| | State Senior Environmental Employment | 55.518 |

## Supplement 1: List of Programs Subject to ARRA Section 1512 Recipient Reporting

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|---|---|---|
| | ARRA Leaking Underground Storage Tank Trust Fund Program | 66.805 |
| | ARRA Hazardous Substances Response Trust Fund | 66.802 |
| **Federal Communications Commission** | Digital-to-Analog Converter Box Program | |
| | Broadband Technology Opportunities Program (FCC) | |
| **General Services Administration** | Office of High Performance Green Buildings | |
| | Federal Buildings Fund | |
| | National Support Center Plan | |
| | Energy Efficient Motor Vehicle fleet | |
| **National Aeronautics and Space Administration** | NASA Astronomy and Astrophysics Research | |
| | Cross Agency Support | |
| | NASA Aeronautics Technology | |
| | NASA Earth Science | |
| | NASA Constellation Systems | |
| | NASA Commercial Crew and Cargo | |
| **National Endowment for the Arts** | Promotion of the Arts-Grants to Organizations and Individuals | 45.024 |
| | Promotion of the Arts-partnership Agreements | 45.025 |
| **National Science Foundation** | Trans-NSF Recovery Act Research Group | 47.082 |
| **Small Business Administration** | Microloan Program | |
| | 7(a) Broker dealer direct loan program | |
| **Smithsonian Institution** | Smithsonian Institution-Facilities Capital | |
| **US Agency for International Development** | Capital Investment Fund of the United States Agency for Internatioanl Development | |

# 1512 Reporting Status

| | FTA | FAA | FRA | FHWA | MARAD |
|---|---|---|---|---|---|
| Number of recipients receiving awards | 572 | 257 | 1 | 56 | 70 |
| Number of recipients not reporting | 18 | 23 | 0 | 1 | 0 |
| Number of projects requiring report | 697 | 321 | 1 | 8052 | 70 |
| Number of projects missing | 18 | 27 | 0 | 924 | 0 |
| Number of recipient reports with serious errors | 52 | 11 | 0 | 1 | 0 |

- FHWA noted that Iowa and Indiana uploaded one report that summarized all of their individual project data. This action accounts for 831 of the 924 missing FHWA projects.
- FHWA also discovered that Iowa's lump sum report was done under the wrong Treasury Fund Symbol.
- Almost all of the FTA and FAA missing recipients were attributable to registration and reporting issues with FederalReporting.gov. There are no known recalcitrant reports.
- FRA's data are all reported for the District of Columbia subject to an agreement with AMTRAK to break out the projects across the United States.
- American Samoa was granted a reporting exemption until January 2010.
- Some of FTA and FAA's recipients have multiple awards. All of FHWA's recipients have multiple awards.
- FAA's F&E program is not included above but accounts for 21 contractors and 25 projects requiring reports. Each of the F&E projects contains multiple sub-awards for a total of 275.
- FTA's serious errors include 20 duplicate reports. The remainder are a mix of issues dealing with missing data and non-submissions.

Final Draft 10-22-09

# 1512 Data Analysis Plan

**Summary**
This document describes the data quality review procedures that FTA staff in headquarters and the regions will follow in order to review for errors associated with the first round of 1512 reporting for the reports due October 10, 2009.

## Stage 1: October 1-10

**Task 1: Create a validation database to cross-check recipient quantitative data with FTA TEAM and ECHO data (Sergio Maia).**

**Task 2: TPM-10 provides a table of obligation information from ARRA grants as of 9/30/09 (David Schneider or Kim Sledge).**

**Task 3: TBP provides a table of disbursements from ARRA grants as of 9/30/09 (Katherine Lambert).**

**Task 4: Create a team to review qualitative data and identify the procedure for splitting up the report review task (Michelle Hershman, Katie Rice).**

## Stage 2: October 11-21

**Task 1 (October 11): Obtain recipient data downloads from Federalreporting.gov (Sergio).**

**Task 2 (October 11-21): Conduct test runs of the validation database, which will cross-check 1512 report quantitative fields with FTA obligation and disbursement data (Sergio Maia, John Giorgis, Gary Delorme, Fred May).**

**Task 3 (October 13-14): Conduct sample scan of reports (10) to identify the prevalence of qualitative field issues. No more than 1-2 minutes should be spent on each report (Michelle Hershman, Katie Rice, David Schneider).**

**Task 4 (October 11-21): Continue to provide general technical assistance to recipients as needed (1512 Working Group).**

## Stage 3: October 22-29

**Task 1 (October 22): Obtain recipient data downloads from Federalreporting.gov (Sergio).**

**Task 2 (October 22): Conduct cross-checks on quantitative data fields using the validation database (Sergio Maia, John Giorgis, Gary Delorme, Fred May).**

2a: Cross-Check obligation information reported against TEAM information as of 9/30/09 and flag reports where discrepancies exist between obligation data and obligated funds reported.

Response: The amount you reported for the grant award does not match FTA's obligation amount for this award. Please revise and explain.

2b: Cross-Check expenditure information against reported Federal payments as of 9/30/09 and flag reports where reported payments exceed reported expenditures.

Response: The amount you reported for Total Federal ARRA funds Received/Invoiced is greater than ARRA Total Federal funds expended. Funds expended are paid on a reimbursement basis and therefore should be greater than or equal to funds received/invoiced. Please revise or explain.

2c: Cross-Check the reported payment information against ECHO draws as of 9/30/09 and flag reports where reported drawdowns differ from actual ECHO drawdowns.

: Response: The amount you reported for Total Federal ARRA funds Received/Invoiced does not match FTA disbursement data as of 9/30/09. Please revise and explain."

2d: Review the CFDA information reported and flag any report with a CFDA number that does not correspond with the correct CFDA for the section number of the grant.

Response: The CFDA number you reported does not correspond to the CFDA number associated with the FTA program that funds your grant. Please revise or explain.

2e: Review the Treasury Account Symbols (TAS) and flag any report with a TAS that does not correspond with the grant program of the report.

Response: The Treasury Account Symbol (TAS) that you reported does not correspond to the TAS symbol associated with the FTA program that funds your grant. Please revise or explain.

2f: Review the "Final Report" information and flag any report that is listed as a "final report" but the grant has not been closed out. [In this reporting period, no reports should be marked final because no ARRA grants were closed as of 9/30/2009]

Response: You selected "yes" for this being your final report. However, you should only mark this as your final report if you have closed your grant in TEAM prior to September 30, 2009. Please change this selection to "no", or provide an explanation.

2g: Review the "project status" information and flag any report where grantee entered "not started" but also shows expenditures and/or jobs or grantee entered "completed" but either shows no expenditures and/or no jobs or more than 10% of funds not spent.

Response:

"

*For projects erroneously listed as "not started:"* You identified the projects funded under this grant as "not started" however your report indicates that funds for these projects have been spent and/or jobs have been created or sustained. Please revise or explain.

*For projects erroneously listed as "completed":* You identified the projects funded under this grant as "completed" however over 10% of the funds awarded for projects in this grant have not been expended. Please revise or explain.

2h: Review the NAICS information submitted and flag any report with NAICS not provided in our list of NAICS codes related to transit.

Response: The NAICS codes in your report do not correspond to NAICS codes associated with public transportation projects. Please revise or expend.

2i: Cross-Check award amount with funds expended and flag any grants where the amount expended is greater than the amount obligated.

Response: You reported a greater amount of funds expended than have been obligated in the grant. Funds expended cannot exceed funds obligated. Please revise.

2j: Review the "top 5 most highly compensated officers" information and flag any report that lists this information as we don't believe any FTA grantees would meet these requirements.

Response: Your report indicates that your agency is required to report the top 5 most highly compensated officers, however we believe that very few, if any FTA grantees meet the OMB criteria that would require them to provide this information. Please revise or explain.

2k: Divide the number of jobs reported by the number of dollars expended and flag reports that report expenses of under $7/hour. [Note: it will be necessary to convert the reported FTEs back into hours for this check]

Response: The number of jobs you reported appears to be relatively high in relation to the total Federal ARRA expenditures you reported. Please ensure that you are only reporting the total direct jobs created or retained associated with all of your Federal ARRA expenditures, and that you are not including indirect or induced jobs. Also please ensure that the Federal ARRA expenditures you reported represent the ARRA expenditures actually accrued as of 9/30/2009.

2l: Cross-tabulate jobs information against reports showing $0 expended and flag reports that shows $0 expended and also show jobs.

Response: You reported jobs, however, you did not report any Federal ARRA expenditures. In general, your reported jobs should be created or retained by your Federal ARRA expenditures. Please revise or explain. Also please ensure that the Federal ARRA expenditures you reported represent the ARRA expenditures actually accrued as of 9/30/2009.

2m: Calculate the jobs expected based on grantees expenses and the $92,000 rule and compare to jobs actually reported. Flag any report where jobs actually reported is more than 2 times of jobs expected.

Response:

*Under-reported issue text*: The number of jobs you reported appears to be relatively low in relation to the total Federal ARRA expenditures you reported. Please ensure that you are reporting the total direct jobs created or retained associated with all of your Federal ARRA expenditures. Do not, however, report indirect jobs. Also please ensure that the Federal ARRA expenditures you reported represent the ARRA expenditures actually accrued as of 9/30/2009.

*Over-reported issue text*: The number of jobs you reported appears to be relatively high in relation to the total Federal ARRA expenditures you reported. Please ensure that you are only reporting the total direct jobs created or retained associated with all of your Federal ARRA expenditures, and that you are not including indirect or induced jobs. Also please ensure that the Federal ARRA expenditures you reported represent the ARRA expenditures actually accrued as of 9/30/2009.

Task 2n: Cross reference project ID reported versus project ID in TEAM and flag reports where the project IDs do not match.

Response: our Award Number is not the same as your TEAM grant number. Please change if the system will permit. Otherwise, provide your TEAM grant number in a response to this comment.

Task 2o: Cross reference Federal Award Agency ID reported against FTA's ID (6955) and flag any reports where the award agency code does not match.

Response: Your report includes a Federal Award Agency ID other than 6955, the ID for the Federal Transit Administration. Please revise this information to change to 6955.

Task 2p: Search reports identified as "contracts" and flag any report that is a grant but that is listed as a contract.

Response: Your report indicates that you received a contract instead of a grant from the FTA. Please revise your report to indicate that you received a grant from FTA.

Task 2r: Search and flag any duplicate reports.

Response: You have submitted multiple reports for the same grant. Please contact FederalReporting.gov and ask for assistance in deleting the duplicate report.

Task 2s: Cross-reference reports that show 0 jobs with reports that show funds expended and flag all reports that show 0 jobs but over 10% of funds expended.

Response: Your report shows that you have expended at least 10% of the funds awarded in your grant but that no direct jobs have been created or sustained as of the end of the reporting period. Please revise or explain.

Task 2t: Cross-reference the congressional district reported against our table of congressional districts per state and flag reports where the congressional district number entered exceeds the number of Congressional Districts in the State. (Example: Maryland has 8 Congressional Districts. If a report from a grantee in Maryland reports CD 15, it gets flagged).

Response: The Congressional District number entered in your report does not match any Congressional District number in your state. Please revise.

Task 2u: Identify and flag any reports that used the 6955 agency code but were not submitted by an FTA grantee.

Response: Your report used award agency code 6955, the code for the Federal Transit Administration (FTA), however the information submitted in your report does not appear to correspond to grants made by the FTA. Please revise your report with the correct award agency code.

**Task 3 (October 22-23): Scan reports (approx. 70/person) to identify any blatant narrative issues. The purpose of the scan is to ensure that qualitative fields are transit-related and comprehensible. No more than 1-2 minutes should be spent on each report (1512 Working Group).**

3a: Flag/comment on any report with a serious qualitative issue, not including grammar, spelling, style errors, or substantive content, except to ascertain that content is relevant to a transit grant (e.g. not cut and pasted from an unrelated program grant).

Response: The narrative section(s) of your report contain either incomplete sentences, words that were not comprehensible, or descriptions of projects that appear not to relate to public transportation projects. Please revise.

**Task 4 (October 22-23): Reports with data quality concerns should be flagged as "reviewed with comments" no later than October 25 in order to allow time for grantees to respond by one or more of the following, depending on volume of workload: Sergio Maia, John Giorgis, Fred May, and Gary Delorme**

4a: This will send the grantee an automated message and allow the grantee to review FTA comments, respond to comments, and if necessary, make corrections to the report.

**Task 5 (October 26): Flag all remaining reports as "reviewed with no comments".**

**Task 6 (October 26-29): Regional outreach to correct data quality errors identified.**

6a: Transmit an email to FTA regions identifying reports that have been flagged with data quality concerns, explaining the nature of the concern and asking that regions follow up with these grantees. The email will include a spreadsheet identifying the project number the grantee name and ID, and the nature of the concern. The spreadsheet will include a column for follow-up actions taken.

6b: Regional offices will contact the grantees in question to discuss the data quality concern. Regions ask grantees to either provide an explanation for the information that was submitted and resubmit the report or to correct the report and resubmit the information if the grantee agrees the original submission was not correct (ARRA Regional POCs).

6c: When grantees correct a report and/or respond to comments in Federalreporting.gov and resubmit the report, it is automatically flagged "Reviewed and Resubmitted."

6d: Grantees who need to resubmit information must resubmit by October 29.

## Stage 4: Post-October 30, 2009

**Task 1 (November-January): Identify Grantees who are delinquent and/or have unresolved data quality concerns.**

1a: Data quality review team identifies grantees who have not submitted a report.

1b: Data quality review team identifies grantees that have not resolved data quality concerns even after being contacted by FTA regions.

1c: TPM-10 provides a list of grantees in the above categories to FTA regional offices and TPM-40.

1d: FTA regional offices target these grantees for additional technical assistance prior to the next 1512 report due in January 2010.

1e: TPM-40 may want to target these grantees for additional oversight reviews.

1f: Noncompliance with 1512 reporting requirements will be treated as a violation of the grant award agreement and systematic or chronic reporting problems may result in temporary holds on reimbursement, termination of Federal funding and/or initiation of suspension and disbarment proceedings. Grantees will be informed of the consequence for noncompliance.

**Task 2 (November): Prepare analysis of data submitted.**

2a: Data quality review team prepares a report based on the experience of the data validation effort. Feedback from the data quality review effort will be incorporated in the data quality review plan for the next quarterly cycle.

2b: The Data team will also analyze and report on the content of the final submitted reports. This final report will roll up the data in a format to be determined by FTA...

2c: TPM-10 transmits the reports to FTA senior leadership for review and comment.

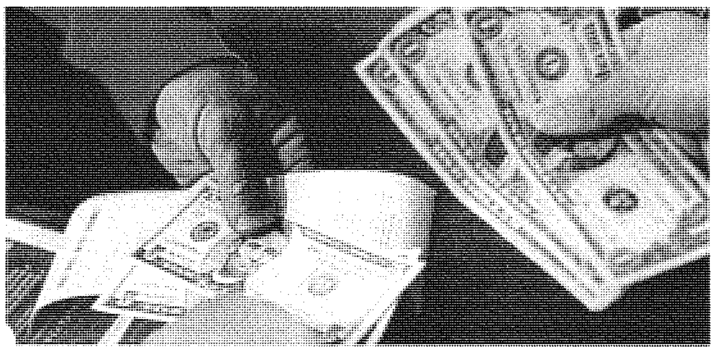
2d: The Administrator will decide whether to transmit the reports to OST.

2e: TCA will publish the 1512 summary report on the FTA website if directed by the Administrator.

Center for American Progress

.< to this item

# Stimulus Aids Strong Economic Rebound
## GDP Numbers Show Growth, But It's Not Sustained Recovery Yet



SOURCE: AP/Paul Sakuma

Consumption spending increased by 3.4 percent this quarter, its strongest growth since the first quarter of 2007. This was largely due to a 22.3 percent jump in spending on consumer durables.

**By Christian E. Weller | October 29, 2009**

There is light at the end of the tunnel, and the American Recovery and Reinvestment Act got the economic engine closer to that light. The economy grew at an annual inflation-adjusted rate of 3.5 percent in the third quarter of 2009, the Bureau of Economic Analysis reported this morning. This is the first time that the economy has expanded after five-quarters of declines, and it is the strongest quarterly growth rate since the third quarter of 2007.

This is the clearest sign to date that the economic contraction and the recession ended some time this summer. Public policy has had a strong hand in getting the economy back from the brink of disaster and moving the economy into positive territory. Additional public policy attention is needed, however, to get the labor market unclogged, jobs growing, and the unemployment rate falling in the near future, after large-scale policy efforts did the same for financial markets and economic production.

The consumer is back. Consumption spending increased hy 3.4 percent this quarter, its strongest growth since the first quarter of

2007. This was largely due to a 22.3 percent jump in spending on consumer durables, such as cars. Car sales jumped 56.4 percent in the third quarter of 2009 with the help of the additional incentives, known as "Cash for Clunkers."

Consumer spending on a number of other items also increased at a healthy rate. Spending on recreational goods grew by 13.8 percent, furniture spending by 6.5 percent, and other goods by a respectable 6.2 percent. Food spending, a non-durable goods item, rose by 5.0 percent in the third quarter.

There are encouraging signs, based on one quarter of data, that the housing slump seems to have come to an end. The housing market expanded for the first time in almost four years. Spending on new homes increased by a strong 23.4 percent in the third quarter, the first increase since the fourth quarter of 2005. This is also the largest gain in more than two decades since the second quarter of 1986. The increase in spending on housing was aided by price declines during the previous years and low interest rates and the momentum in the housing market could thus very well last.

Much of the momentum in consumer spending came from increased after-tax income in the prior quarters. Families had received tax cuts, additional Social Security benefits, and more unemployment insurance benefits since early spring. They spent some of this money in the third quarter, thus contributing to strong economic growth. The personal saving rate fell to 3.3 percent in the third quarter of 2009, down from 4.9 percent in the second quarter, and its lowest level since the second quarter of 2008.

The spending increase and the decline in saving are likely a middle class phenomenon. Wages, Social Security, and unemployment insurance increased slightly before adjusting for inflation. On the other hand, capital income, such as interests and dividends, fell even before inflation, which disproportionately affected higher-income families. Other government transfer payments, which include many assistance programs for the poor, also declined. The resulting decline in total inflation-adjusted after-tax income by 3.4 percent is thus not necessarily reflective of the experience of moderate-income and middle-income families, hut more an indication of cuts to incomes for higher-income families and the poor.

Now that consumers are back in the game, it is critical that businesses start to invest again, so that a labor market recovery can follow the economic gains. Business investment still shrank by 2.5 percent in the third quarter, less than one-third the decrease of 9.6 percent in the second quarter.

There are signs of a burgeoning investment recovery, however. The most recent drop in total investment is the smallest decline since investment began its slide in the second quarter of 2008. This drop was primarily a result of a continuing slump in commercial construction, which fell by 9.0 percent. What's more, business investment spending on equipment, such as computers, trucks, and machinery, grew by 1.1 percent, the first increase since the fourth quarter of 2007. And businesses are beginning to restock their helves. Without inventory rebuilding, the economy would have grown by only 2.6 percent instead of the 3.5 percent that was reported. There is thus hope that business investment will soon gain more momentum as consumers come back, which is also reflected in the fact that industrial production has risen for three months in a row according to the Federal Reserve.

The economy was also aided by growth in government spending in the third quarter. Federal government spending rose by a espectable 7.9 percent. Defense spending increased by 8.4 percent, and non-defense spending by 6.8 percent. These increases were more than enough to offset the decline in state and local government spending of 1.1 percent in the third quarter, which reflects the deteriorating fiscal position of many states.

Not all economic data comes up roses. This is only one-quarter worth of positive economic news and workers who have been waiting for a turnaround in the labor market for the past 21 months need many more quarters like this to see substantial improvements.

And there is enough in today's data signaling that challenges remain. State and local governments are struggling with a fiscal crisis and will likely continue to do so for a while. The trade deficit also increased again to 2.7 percent of gross domestic product as imports increased faster than exports with 16.4 percent compared to 14.7 percent. And wage growth is meager, reflecting the continued job losses that are only partially offset by small wage increases.

The data show that economic stimulus efforts have helped the economy turn the corner. The policy attention now has to shift to creating a sustained, strong recovery that can bring back millions of jobs that were lost in the past 21 months. In the short-term, state and local government spending and the plight of the long-term unemployed are natural targets for additional public policy attention `iat can support the goal of a strong and durable economic recovery.

*Christian E. Weller is Associate Professor, Department of Public Policy and Public Affairs, University of Massachusetts-Boston, and a Senior Fellow at the Center for American Progress.*

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ISSUE BRIEF

EPI ECONOMIC POLICY INSTITUTE ISSUE BRIEF #265 OCTOBER 29, 2009

# HOW WE KNOW THE RECOVERY PACKAGE IS HELPING

BY JOSH BIVENS

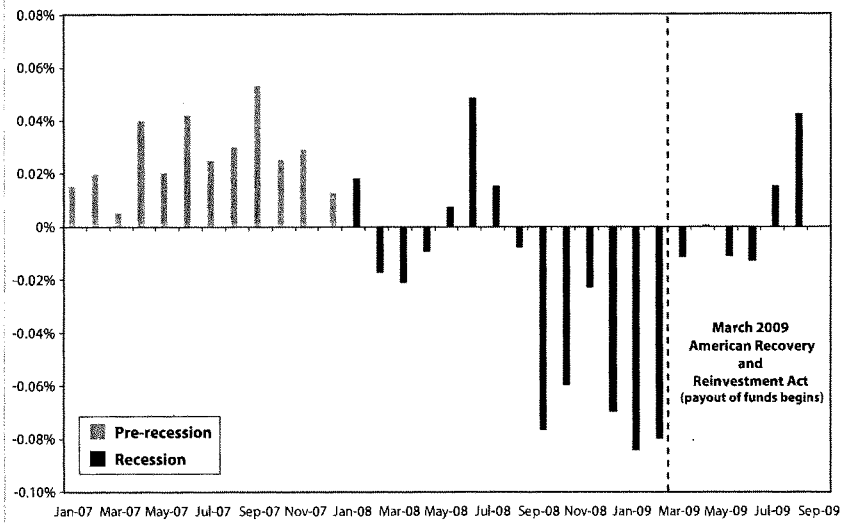
The Bureau of Economic Analysis (BEA) reported today that gross domestic product (GDP) grew by 3.5% in the third quarter of 2009, the first positive growth in more than a year and the largest growth since the third quarter of 2007. GDP is the market value of all goods and services produced in the United States, and it is perhaps the single most-watched barometer of the economy's health.

This third quarter data will almost surely re-ignite debate as to whether or not the American Recovery and Reinvestment Act (ARRA) aided a recovery from the recession that began at the beginning of 2008. A serious look at the evidence argues that this debate should be closed: ARRA has played a starring role in pushing the economy into positive growth. Specifically:

- ARRA provided roughly $81 billion in direct spending, transfers to states and to individuals, and tax cuts in the third quarter;
- This spending added 2.7 percentage points to annualized growth of GDP in the third quarter;
- Cumulatively, ARRA has created or saved between 1.1 and 1.5 million jobs since it was passed into law.

FIGURE A

Monthly percentage change in GDP (rolling three-month average)




**NOTE:** The first stimulus package, the Economic Stimulus Act passed in February 2008, provided a large but temporary boost to both GDP and personal disposable income that appeared in the second quarter of 2008.

**SOURCE:** Macroeconomic Advisors monthly GDP report.

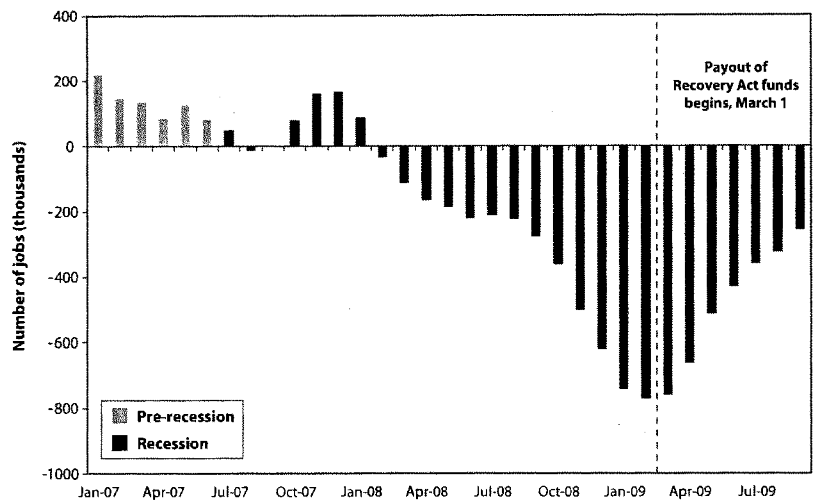
## The timing was right

ARRA was signed into law at the end of February. In the six months spanning February to August, Macroeconomic Advisors (a private-sector consulting firm that is a common source of monthly GDP data) estimates that GDP rose at an annual rate of 1.5%. In the prior six months (from July 2008 to February 2009) they estimate that GDP *contracted* at an annual rate of 7.8% (**Figure A**).

Furthermore, an average of 770,000 jobs a month were lost in the first three months of 2009. But in the first quarter that experienced the full effects of ARRA (April, May, and June of this year), the pace of job loss fell by more than 40%, cut to 428,000 jobs lost each month. The second quarter after ARRA came on-line (July, August, and September) saw this pace of job loss fall by more than 40% again, with 256,000 jobs lost each month. To be sure, continuing job loss is troubling, but it seems clear that the ARRA led to a marked slowdown in the rate of labor market deterioration (**Figure B**).

FIGURE B

Changes in payroll employment, rolling three-month average




**NOTE:** The first stimulus package, the Economic Stimulus Act passed in February 2008, provided a large but temporary boost to both GDP and personal disposable income that appeared in the second quarter of 2008.

**SOURCE:** Bureau of Labor Statistics.

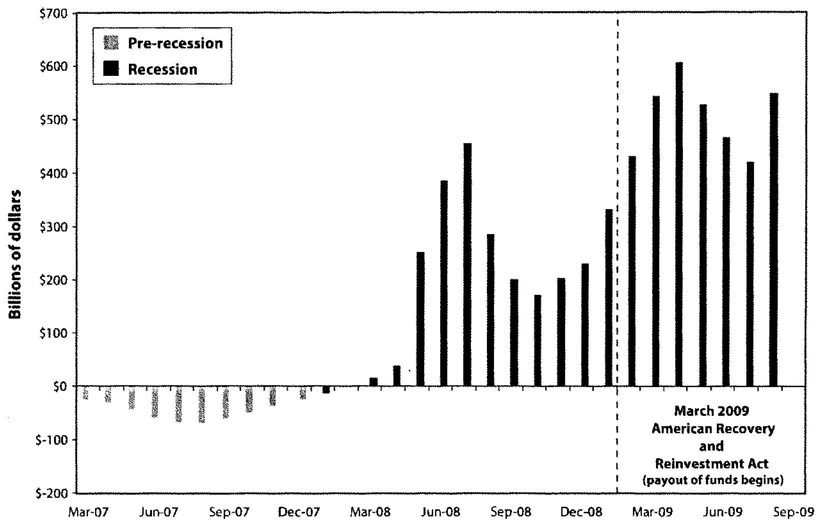
## What has not driven the recovery

How else do we know that the recovery package is responsible for the improving economy? For one, the public policy lever traditionally used to fight recessions—the lowering of short-term interest rates by the Federal Reserve—had been pulled long ago to no avail. In the first two months of 2008, the Federal Reserve began slashing these rates at a historically rapid pace (cutting a full percentage point off the effective federal funds rate in a single month) and continued cutting until they went below 1% in late 2008, where the rate has remained for over a year.

More evidence of the ARRA's effectiveness can be found when comparing the growth in incomes generated by the private sector with the growth in incomes adjusted for the tax cuts and government transfers (tax cuts and transfers were central planks of the ARRA). Such a comparison makes it strikingly apparent that the passage of ARRA greatly increased both tax cuts and transfers to households since February. **Figure C** shows the difference in year-over-year growth in *personal income minus transfers* versus *disposable personal incomes*. The former measure is a decent proxy for what the private sector is churning out in terms of growth of incomes and purchasing power, while the latter factors in the boost to incomes and purchasing power resulting from reduced taxes and greater transfers.

FIGURE C

**Boost to disposable income from tax reductions and transfer payments, rolling three-month average**




**SOURCE:** Difference between personal incomes minus transfers and disposable personal income growth over a 12-month period. Both data sources from the Bureau of Economic Analysis.

These increases in transfers and reductions in taxes *by themselves* added roughly 1.5% of GDP to households' disposable incomes since February. ARRA isn't responsible for all of this—some taxes fall and some transfers rise automatically as incomes fall and safety net spending rises. That said, ARRA did substantially increase taxes and transfers and also spurred recovery through transfers to state governments and direct government spending, neither of which show up directly in the personal income data.

## Direct evidence on ARRA spending, taxes, GDP, and jobs

Relatively precise amounts by which ARRA reduced taxes, increased transfers (both to individuals and to states), and increased direct government spending can be obtained through the Recovery.gov Web site. **Table 1** combines that data with tbe economic multipliers (i.e., the amount that a given dollar of increased spending or reduced taxes spurs in additional economic output) used in standard forecasting models. The result is a rough estimate of the influence of ARRA on GDP growth for the third quarter and on job growth in each quarter since its passage.[1]

TABLE 1

**ARRA spending and impact: GDP and jobs**

| | | Amount, $ billions | | | Contribution to GDP, $ billion | | |
|---|---|---|---|---|---|---|---|
| | *Multiplier* | *1Q* | *2Q* | *3Q* | *1Q* | *2Q* | *3Q* |
| *Direct spending* | 1.6 | $0.0 | $5.2 | $ 9.2 | $0.0 | $8.3 | $14.7 |
| *Aid to states* | 1.4 | 8.6 | 22.6 | 21.0 | 12.0 | 31.6 | 29.4 |
| *Transfers to individuals* | 1.7 | 1.3 | 31.0 | 18.0 | 2.1 | 51.2 | 29.7 |
| *Business tax cuts* | 0.4 | 0.0 | 18.0 | 22.0 | 0.0 | 7.2 | 8.8 |
| *Individual tax cuts* | 1.3 | 0.0 | 8.8 | 10.5 | 0.0 | 11.0 | 13.1 |
| *Total* | | 9.9 | 85.6 | 80.7 | 14.2 | 109.3 | 95.7 |
| *% of GDP* | | 0.3% | 2.4% | 2.3% | 0.4% | 3.1% | 2.7% |
| | | | | | Jobs, thousands | | |
| *Jobs created/saved* | | | | | 96 | 752 | 660 |
| *Jobs created/saved, conservative* | | | | | 69 | 541 | 475 |

**SOURCE:** Data from Recovery.gov, multipliers from Zandi (2009).

These estimates indicate that the recovery package contributed 2.7 percentage points to annualized GDP growth in the third quarter and that it has cumulatively added a full 1.6% to GDP since it was passed. Given that hours have fallen 25% faster than employment since the recession began, if pre-recession levels of average hours worked are targeted, this should translate into a 1.3% (1.6*(1-.25)) increase in employment, or 1.5 million jobs. If one wants to be conservative and note that the last two recoveries following recessions have been accompanied by a 30% rise in the rate of productivity growth (which, all else equal means that less employment is required for a given rate of GDP growth), the 1.6% bump to GDP would translate into something closer to 1.1 million jobs (1.3*(1-.3)) created or saved by the recovery package.

All in all, the combined evidence—the timing of ARRA in relation to subsequent economic performance; the strong influence of taxes and transfers since ARRA; and direct data from Recovery.gov on the timing and composition of ARRA expenditures and tax-cuts—suggests that the recovery package has substantially boosted economic growth and created or saved 1.1 to 1.5 million jobs since its passage.

## Endnotes

1. For the table below, we use the multipliers supplied by Mark Zandi of Moodys Economy.com.

Policy Memorandum

EPI

ECONOMIC POLICY INSTITUTE • OCTOBER 29, 2009 • POLICY MEMORANDUM #154

# RECOVERY.GOV RECIPIENT REPORTING ON JOBS

## Problems and recommendations

BY JOHN S. IRONS

As part of the American Reinvestment and Recovery Act of 2009, Congress and the President established a requirement for recipients of Recovery Act funds to report quarterly on a range of activities, including project status, location, and number of jobs created or saved. This (and other) information was to be tracked on a new Web site, Recovery.gov.

On October 15, 2009, Recovery.gov began posting quarterly reports from fund recipients. The first wave consisted of over 5,000 reports by federal contractors who received Recovery Act project funding. Subsequent waves will include over 100,000 reports from recipients of grants and loans. The reports contain a narrative description of the job impact and an estimated number of jobs created or saved.

These reports are a substantial step toward federal accountability and transparency; however, they will not represent a full accounting of the number of jobs created (see Irons 2009). Further, the estimates of the numbers of job created or retained by individual recipients are deeply flawed in many cases.

This Policy Memo outlines some of the data problems concerning the reporting of jobs created or retained. In particular, it highlights several issues, including 1) inconsistent methodologies across recipients; 2) implausible estimates of job creation relative to the size of the grant and the amount of Recovery Act funds received; and 3) internally inconsistent estimates within individual reports, including inconsistencies between the job narrative and the estimated number of jobs gained. Other problems with the data—including incorrect award dates, missing reports, omitted data, Web site interface, etc.—are beyond the scope of this report.

This Policy Memorandum proposes several options to improve the quality and integrity of the data.

## Data problems

With the release of the first wave of recipient reports, it is apparent that there are a number of issues with the jobs data as reported by federal contractors. While additional reports on grants and loans are not yet available, there are likely to be similar problems in those reports.

Most of the apparent data issues stem from a failure of contractors to follow guidance (See Appendix A for full guidance language). According to the instructions (Data Model 3.0, derived from Office of Management and Budget (OMB) guidance M-09-21), the estimate of the number of jobs created or saved should be calculated as follows (emphasis added):

> At a minimum, this estimate shall include any new positions created and any existing filled positions that were retained to support or carry out Recovery Act projects, activities, or federally awarded contracts managed directly by the recipient or federal contractor. For grants and loans, the number shall include the number of jobs created and retained by sub recipients and vendor. **The number shall be expressed as "full-time equivalent" (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule...**

However, it should be noted that this failure is, at least in part, due to unclear or insufficient guidance from implementing agencies. For example, the spreadsheet templates (e.g., FederalReportingTemplate-Contract.xls) do not include the full OMB language noted above and only state:

> Number of Jobs: Estimate the number of new jobs created and jobs retained in the U.S. and outlying areas. Refer to the Data Model for guidance on how to calculate this number.

Thus, if a contractor only uses the spreadsheet template and does not refer to other guidance (such as OMB M-09-21), they might use their own rule-of-thumb in entering this number. In particular, it is obvious from the first round of reports that many contractors incorrectly assumed that, if work was done with existing workers, then the estimate of the number of jobs would be zero.

While there may be legitimate reasons for some of the data inconsistencies, there appear to be far too many instances where problems arise. Problems include:

- **Inconsistent methodologies across recipients.** Some recipients report jobs saved and created, others report just new jobs. Some report on sub-contractors' jobs, others do not. Some convert hours to FTEs, others count heads.
- **Implausible estimates of job creation relative to the size of the grant and the amount of Recovery Act funds received.** Some contractors show millions of dollars received, yet little or no job impact. Others show little or no funding, but many jobs created.
- **Internally inconsistent estimates within individual reports.** There are many cases where the estimates of jobs created and saved are inconsistent with other data in the reports. For example:
  - o Many contractor reports indicate that the project has been partially or entirely completed, and/or has received significant funding to date, yet no jobs have been created.
  - o Several reports indicate that the project has not yet begun, yet a significant number of jobs have

been created.

- o The narrative often describes the jobs impact in a way that is not reflected in the estimate of the number of jobs created.

- **Contractor reports only jobs created, but omit jobs "saved" or retained.** It appears that many recipients are interpreting the jobs created field as measuring only the number of additional people hired by the firm to work on the project. Many contractors are stating that existing employees were used to work on the project and are reporting zero jobs created or saved.
- **Unclear if sub-recipient (e.g., sub-contractor) jobs estimates are included.** For grants and loans, recipient reports should include these estimates, but contractors don't necessarily need to report on sub-awards. In general, it is impossible to know if the sub-contractors jobs are included or not, unless specifically included in the job creation narrative.

Going forward, it is also likely that recipients may not report cumulative job creation, but only jobs created in the most recent reporting period. The OMB guidance provides some detail on how the cumulative numbers should be reported; however, given the recent experience, recipients may not be sufficiently informed about the proper method for estimating cumulative job creation.

## Classification and examples

Below are some of the main areas in which data appear to be problematic. The first two groupings contain cases that appear to have implausible counts given the ARRA activities, based on simple rules of thumb. The final category contains examples where the narrative does not match the estimate of the number of jobs created. Not every item in these categories is necessarily a problem, and there are problems not captured here; however, these are areas that should be further examined by oversight agencies.

### *Apparent under-reporting*

There are many instances in which contractors report zero jobs, even though they say they have received payments. It is uncommon for federal contractors to receive payments before work has begun, so it is possible that these reflect job-reporting errors.

Moreover, there are many cases in which contractors report zero jobs even though the project status is listed as under way or even completed. Examples of several of these problems are below:

1. Zero jobs reported, but project listed as completed:

   336 reports

| | |
|---|---|
| non_versioned_guid: | 77591 |
| project_description: | As of the end of the calendar quarter (9/30), the project was approximately 100% complete. Only a final inspection remained. A total of 95% complete was invoiced during the calendar quarter. |
| job_creation: | No New Jobs were created as a result of this contract. |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $702,287.49 |

2. Zero jobs reported, but recipient received money (>$0):

   779 reports

3. Zero jobs reported, but recipient received money >$50k:

   334 reports

| | |
|---|---|
| non_versioned_guid: | 89150 |
| project_descriprion: | Expanded parking lot at child care center |
| job_creation: | n/a |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $79,859.34 |

| | |
|---|---|
| non_versioned_guid: | 69251 |
| project_description: | Bat Surveys of a series of abandoned mines in Mojave National Preserve, California. |
| job_creation: | No jobs were created or saved as a result of this project. |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $57,737.71 |

4. Zero jobs reported, but recipient received money >$100k

224 reports

| | |
|---|---|
| non_versioned_guid: | 78727 |
| prime_recipient_name: | Chrysler Group, LLC |
| project_description: | Manufacrure and Deliver Vehicles Ordered Under Stimulus Plan |
| job_creation: | No jobs were created. Existing employees were utilized to fulfill award orders. |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $52,892,867.00 |

| | |
|---|---|
| non_versioned_guid: | 61786 |
| project_descriprion: | Payment for reconstruction of road and assistance to Senior Center for operations. |
| job_creation: | No new jobs were created with this funding. |
| Number_of_jobs: | 0 |
| Total_fed_arra_received: | $102,086.84 |

| | |
|---|---|
| non_versioned_guid: | 89086 |
| project_description: | |

1004AA Remove Curb & Gutter, 1005AA Remove Valley Gutter or SIdewalk, 1007AA Ditch Grading, 1008AA Excavation/Disposal, 1010AA Compacted Fill, 1012AA Curb & Gutter, 1014AA Sidewalk, 1017AA Compacted Sub-base, 1017AB Stablizied Aggregate Base, 1018AA Tack Coat, 1022AA AC Pavement, 1025AA Raise Utility Covers, 1028AB Traffic Striping,1028AE Striping & Reflector Media, 1031AA Landscaping/Hydroseed, 1032AA Soils Test, 1034AA Moisture Density Relationship, 1039AC Asphalt Test, 1039AD Asphalt Tesr, 1064AA Clear & Gurb, 1078AA Traffic Control

| | |
|---|---|
| job_creation: | Operator Engineers; Carpenters; Laborers; Project Managers; Quality Control Personell |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $495,119.85 |

| | | |
|---|---|---|
| 5. Large contract/grant award (>$1 million received), few jobs reported (<2): | non_versioned_guid: | 33916 |
| | job_creation: | construct remainder of earthen closure |
| 50 reports | number_of_jobs: | Quality Control Manager |
| | number_of_jobs: | 1 |
| | total_fed_arra_received: | $1,568,088.04 |
| | non_versioned_guid: | 81571 |
| | project_description: | Boring and electrical lines in progress |
| | job_creation: | Construction manager/office staff |
| | number_of_jobs: | 0.54 |
| | total_fed_arra_received: | $4,300,768 |
| | non_versioned_guid: | 81210 |
| | project_description: | Mobilized lab at Augusta, Georgia location. Prepared tutorials, began hiring and training curation and artifact and records processing staff, purchased all equipment and furnishings. |
| | job_creation: | Created work for senior program manager, senior project managers, laboratory director, laboratory supervisors. |
| | number_of_jobs: | 1.73 |
| | total_fed_arra_received: | $1,247,080 |

6. Sub-contractors have a large sbare of rotal contract (>75%, and $100k), few jobs reported (<1)

35 reports

| | |
|---|---|
| non_versioned_guid: | 46217 |
| project_description: | Project management for the recomissioning process for the Skaggs Research Center. This inculdes working in unison with the firm hired to perform the recomissioning process, which includes communication with them and ensuring dates and deliverables are being met. |
| number_of_jobs: | 0.01 |
| award_amount: | $114,126.54 |
| total_fed_arra_received: | $67,314.32 |

| | |
|---|---|
| non_versioned_guid: | 61568 |
| project_description: | Roofing Repairs, Carpet Replacement, Repaving of Parking Lots, Painting of Facilities, Erecting Facilities and Restroom Renovation |
| job_creation: | No jobs were created under the Prime Contract as a Result of these funds. |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $2,914,255.03 |

| | |
|---|---|
| non_versioned_guid: | (73870) |
| project_description: | Prepped & pressure washed buildings 1867,1869,1835,1830,1831. Repaired, Primed and Painted walls. Currently prepping and pressure washing Building 1840. A snorkel left was delivered on 6 Oct 09 to assist with building 1840. |
| job_creation: | No new jobs created. |
| number_of_jobs: | 0 |
| rotal_fed_arra_received: | $91,730.69 |

### *Apparent over-reporting*

In many cases, firms may have reported "too many" jobs relative to their funding. Some recipients may report on new temporary or part-time hires (rather than converting hours worked to FTEs). Note that these cases may not necessarily indicate problems; it may be the case that firms have hired in anticipation of receiving money.

1. Small contract/grant (<$50k), many jobs reported (>2)

   130 reports

| | |
|---|---|
| non_versioned_guid: | 78845 |
| job_creation: | design, engineering, testing, and construction. |
| number_of_jobs: | 10 |
| award_amount: | $46,072.32 |

| | |
|---|---|
| non_versioned_guid: | 46149 |
| job_creation: | No new jobs created, but all employees and positions are retained. |
| number_of_jobs: | 17 |
| award_amount: | $46,484.4 |

| | | | |
|---|---|---|---|
| 2. | Number of jobs > 0, but recipient received no money:<br><br>925 reports | non_versioned_guid: | 25917 |
| | | job_creation: | Jobs on this project are for the construction of rail track and signal work completed by the Union Pacific Railroad. |
| | | number_of_jobs: | 125 |
| | | total_fed_arra_received: | $0 |
| | | non_versioned_guid: | 79235 |
| | | job_creation: | No new jobs were created, but the Sub-contractor working on the project have employed up to 20 employees. Vanguard employee supervision provided. Materials and equipment rentals were needed for job and ordered through different suppliers. |
| | | number_of_jobs: | 21 |
| | | total_fed_arra_received: | $0 |
| 3. | Number of jobs > 0, but project has not been started:<br><br>399 reports | non_versioned_guid: | 47003 |
| | | job_creation: | jobs created for this project are for three laborers to apply pesticides in the national forest over the course of three weeks time. |
| | | number_of_jobs: | 3 |
| | | project_status: | 1 |
| | | non_versioned_guid: | 66010 |
| | | job_creation: | Four Transparency Advocates - Reports Assistant to support ARRA. |
| | | number_of_jobs: | 4 |
| | | project_status: | 1 |

## *Description does not match count*

Aside from the potential problems noted above, there appear to be many cases in which the narrative description does not match the jobs estimates. This appears to be particularly true in cases in which jobs were saved rather than created.

| | |
|---|---|
| non_versioned_guid: | 48273 |
| job_creation: | Jobs are performed by Berger employees and subcontractor employees. No additional jobs created. |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $81,442.80 |

| | |
|---|---|
| non_versioned_guid: | 6011 |
| job_creation: | Created work to maintain numerous existing positions and delayed or prevented layoff of personnel |
| number_of_jobs: | 0 |
| total_fed_arra_received: | $42,189.54 |

| | |
|---|---|
| non_versioned_guid: | 61509 |
| job_creation: | No jobs created. Retained 0.19 FTEs during the quarter for biologists, scientists and technicians. Employment impact was neglible. |
| number_of_jobs: | 4.19 |
| award_amount: | $16,073.25 |

| | |
|---|---|
| non_versioned_guid: | 16605 |
| job_creation: | installers for water lines and values |
| number_of_jobs: | 0 |
| award_amount: | $1,641,000 |
| total_fed_arra_received: | $2,344,000 |

## Recommendations

It is clear from the recipient reports that either the jobs-reporting instructions are unclear, that recipients are ignoring the guidance, or both. The proposals below would 1) improve the guidance and communications with recipients; 2) help prevent problematic data from being entered into the system; 3) flag potential problems for additional scrutiny; and 4) augment reporting to include data that would be more likely to result in consistent estimates.

- **Improve the reporting process to clarify and re-emphasize jobs-reporting guidance.** In particular, guidance and instructions need to be clarified and emphasize that all hours of work on ARRA projects, whether performed by existing workers or new hires, should go into the job calculations.
    - At a minimum the spreadsheet templates, XML Schema, online forms, etc., should all include the guidance language that states the method for calculating the number of jobs created or retained. In particular, the instructions should include: "The number shall be expressed as "full-time equivalent" (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule."
    - OMB and FederalReporting.gov guidance should he amended to include examples to cover various scenarios, with a particular emphasis on how to report on the number of jobs saved or "retained."
    - Stand-alone materials should be developed to illustrate the methods that should be employed. These materials should again include examples to clarify that the proper method is to first estimate the number of hours worked on the project.
    - The recipients should be given the option to enter the total number of hours worked on the project and an estimate of the total number of hours in a FTE over that period. The FTE hours should also be checked to ensure that the number is plausible (e.g., reported in hours per day, or hours per week, or hours per quarter).
    - FederalReporting.gov should also prepare a supplemental worksheet (either online or downloadable) that walks recipients through the appropriate process for calculating the number of jobs (see Appendix B for a short example).
- **Screen recipient data for obvious errors.** Recipient reports should be automatically screened for obvious errors. The Recovery Board already conducts a first review to ensure that recipient reports do not include, for example, millions of jobs created. This process should continue to be refined and, if not done already, systemized.
- **Flag recipient reports** which are very likely to contain errors or misinterpretations of jobs instructions. The counts of reports below only include the first wave of recipient reports from contractors (and thus do not include loan and grant recipients).

    Red Flag: (High probability of inaccurate jobs data.)

    - Zero jobs reported, but project listed as Completed: 336 reports
    - Zero jobs reported, but recipient received money >$50,000: 334 reports
    - Large contract/grant award (>$1 million received), few jobs reported (<2): 50 reports
    - Sub-contractors have a large share of total contract (>75%, and $100k), few jobs reported (<1): 35 reports

- Jobs narrative contains phrases like: "prevented layoffs," "existing staff," "existing positions," and "current employees," while the number of jobs reported is small relative to grant (<2 or fewer than 1 per $200,000 in received funds).

Yellow Flag: (Substantial probability of inaccurate jobs data).

- Zero jobs reported, but recipient received money >$0, but <$50,000: 445 reports
- Small contract/grant (<$50k), many jobs reported (>2): 130 reports
- Number of jobs > 0, but recipient received no money: 925 reports
- Number of jobs > 0, but project has not been started: 399 reports

- **Improve report validation.** When submitting a report that would trigger a flag as noted above, the recipient should be immediately notified of the potential flag and given the option to revise their reports before submitting a final report. The notice should also include the text of the jobs-reporting guidance:
  - For future quarterly reports, the entries should be checked to ensure that the jobs estimate is at least as large as prior reports. This will provide an initial check on whether the recipient is reporting on cumulative job creation and retention.
- **Modify Recovery.gov to indicate recipient reports that are flagged.** Recovery.gov should augment all reports, downloads, etc., to include Recovery Board flags as noted above. These data should also be provided to agencies for further follow-up if necessary. Separate files of only the flagged reports should be provided to assist public scrutiny of the reports.
- **Add data fields on jobs reporting.** Additional fields would help reduce ambiguities and clarify reporting methodology:
  - Does job estimate include subcontractors' jobs (yes/no)? If yes: how many (#)?
  - Does job estimate include saved jobs (yes/no)? If no, immediately red flag the report and reiterate guidance.
  - Estimated total cumulative number of hours worked on Recovery Act–funded project(s).

## Conclusion

The first wave of recipient reports posted on Recovery.gov provides a wealth of data for observers to sift through on a range of Recovery Act funding. However, it is now apparent that the jobs data are of only limited value because of a range of issues from inconsistent methodologies for estimating jobs to implausible reports of jobs created or retained.

Implementing the recommendations above—from clarifying guidance to flagging and validating reports—would go a long way toward improving the quality of the data, hoth in aggregate aud for individual recipienr reports.

*—The author would like to thank Gary Bass, Craig Jennings, Greg Leroy, Phil Mattera, and Ethan Pollack for helpful comments and discussions.*

## Appendix A: Data model 3.0

*Recipient Reporting Data Model 3.0 (accessed 10/25/09)*

### Number of Jobs

*"Jobs created and retained. An estimate of the number of jobs created and jobs retained in the United States and outlying areas.*

*At a minimum, this estimate shall include any new positions created and any existing filled positions that were retained to support or carry out Recovery Act projects, activities, or federally awarded contracts managed directly by the recipient or federal contractor. For grants and loans, the number shall include the number of jobs created and retained by sub recipients and vendor. The number shall be expressed as "full-time equivalent" (FTE), calculated cumulatively as all hours worked divided by the total number of hours in a full-time schedule, as defined by the recipient or federal contractor.*

*For instance, two full-time employees and one part-time employee working half days would be reported as 2.5 FTE in each calendar quarter. A job cannot be reported as both created and retained. As used in this instruction, United States means the 50 States and the District of Columbia, and outlying areas means..."*

### Description of Jobs Created

*"A narrative description of the employment impact of the Recovery Act funded work. This narrative is cumulative for each calendar quarter and at a minimum, will address the impact on the recipient's or federal contractor's workforce (for grants and loans, recipients shall also include the impact on the workforces of sub recipients and vendors).*

*At a minimum, provide a brief description of the types of jobs created and jobs retained in the United States and outlying areas. "Jobs or positions created" means those new positions created and filled, or previously existing unfilled positions that are filled, as a result of Recovery Act funding. "Jobs or positions retained" means those previously existing filled positions that are retained as a result of Recovery Act funding. This description may rely on job titles, broader labor categories, or the recipient's existing practice for describing jobs as long as the terms used are widely understood and describe the general nature of the work.*

*ALTERNATE METHOD FOR GRANT AND LOAN RECIPIENTS: In those circumstances where the recipient employs an approved statistical methodology to generate estimates of job impact, thereby collecting data from a smaller subset of sub-recipients and vendors in order to extrapolate an estimate of job impact to all applicable sub recipients and vendors, the recipient must provide a description of the methodology used."*

## Appendix B:
## Example worksheet for calculating jobs created or retained.

**Method 1.**

| | |
|---|---|
| Enter the total number of hours of work performed on Recovery Act funded projects | 120 |
| Enter the number of hours in a Full-time job (per week) | 40 |
| Enter the number of weeks in the reporting period | 13 |
| Number of Jobs Created and Retained | **0.23** |

**Method 2. (Colleges and Universities)**

| | |
|---|---|
| Enter the number of FTE employees engaged in Recovery Act funded project(s) | 10 |
| Enter the average percentage of time in the reporting period spent on Recovery Act funded project(s) | 25% |
| Number of Jobs Created and Retained | **2.5** |

## References

Irons, John S. (2009) "Recovery.gov's Jobs Data: A (Very) Partial Monty." Economic Policy Institute, October 14, at http://www.epi.org/analysis_and_opinion/entry/recovery.govs_jobs_data_a_very_partial_monty/.

**National Journal**

**Nov. 14, 2009**

## Stimulus Jobs Undercounted?

Although media reports have focused on exaggerated accounts of jobs created or saved by the Recovery Act, stimulus fund recipients appear to have frequently undercounted the number of jobs supported by the money, according to an analysis by *Government Executive*.

The Office of Management and Budget instructed recipients to provide a brief description of the types of jobs that they, along with any subcontractors, had either saved or added. In a separate column, recipients were told to enter the total number of jobs involved -- a figure that in theory should match the information in the narrative column. The data released on October 30, however, show that recipients often described jobs in the narrative column but listed no actual jobs in the numerical column -- whose numbers were the basis for the Obama administration's claims that the stimulus has already saved or created 640,000 jobs.

OMB spokesman **Tom Gavin** says that the discrepancies "do not impact meaningfully" on the administration's claims, suggesting that the various undercounts and overcounts may eventually balance out. **Ed Pound**, a spokesman for the Recovery Accountability and Transparency Board, which is collecting the reports, concedes that many recipients had difficulty calculating their job totals. But he says that it's not the board's job to fix the data. *--Robert Brodsky/Government Executive*