

December 2009

# RECOVERY ACT

## Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (North Carolina)



GAO

Accountability \* Integrity \* Reliability

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# Appendix XIV: North Carolina

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## Overview

The following summarizes GAO's work for the fourth of its bimonthly reviews of the American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in North Carolina. The full report covering all of our work in 16 states and the District of Columbia is available at <http://www.gao.gov/recovery>.

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## What We Did

Our work in North Carolina included gathering information about five programs funded under the Recovery Act—Highway Infrastructure Investment administered by the U.S. Department of Transportation's Federal Highway Administration (FHWA), Transit Capital Assistance funds administered by the U.S. Department of Transportation's Federal Transit Administration (FTA), and three education programs administered by the U.S. Department of Education—Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended; Part B of the Individuals with Disabilities Education Act (IDEA), as amended; and the State Fiscal Stabilization Fund (SFSF). For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-232SP](#). We reviewed FHWA obligations of funds for highway infrastructure investment projects and gathered information about the level of state effort for the types of transportation projects funded by the Recovery Act and state oversight of Transit Capital Assistance activities. We also reviewed the largest transit project in an urbanized area—the Charlotte Area Transit System in the City of Charlotte—and in a nonurbanized area—AppalCART in the town of Boone.

We surveyed a representative sample of local education agencies (LEA) nationally and in North Carolina about their planned uses of Recovery Act funds. To obtain more specific information on local uses of Recovery Act funds in North Carolina, we also visited two LEAs—Charlotte-Mecklenburg Schools and Weldon City Schools—that participated in GAO's national survey of LEAs. We gathered information from state educational agency officials about their plans for monitoring local SFSF implementation activities. We also reviewed the state's implementation of recipient reporting requirements under the Recovery Act by interviewing state and local officials about their experiences at [FederalReporting.gov](#) and by gathering information about how the state and local entities estimated jobs created and retained with Recovery Act funds. We also

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat 115 (Feb. 17, 2009).

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gathered information about the state's economic condition and visited two local entities—the City of Durham and Halifax County—to learn about the use and impact of Recovery Act funds in urban and rural areas.

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## What We Found

- **Highway Infrastructure Investment.** As of October 31, 2009, the FHWA had obligated \$600 million of the \$736 million apportioned to North Carolina for highway infrastructure and other eligible projects, and \$110 million had been reimbursed by FHWA to the North Carolina Department of Transportation (NCDOT). Most of these funds have been used to fund pavement projects. NCDOT officials told us that the contract bids, on average, have been approximately 20 percent under NCDOT's cost estimates. NCDOT officials cited challenges in expending approximately \$1.2 billion of state funds required to meet the level of effort the state certified it would expend to meet its Maintenance of Effort (MOE) requirement.
- **Transit Capital Assistance funds.** FTA apportioned \$103.6 million in Recovery Act Transit Capital Assistance funds to the state and urbanized areas located in the state, of which \$70.5 million was apportioned to urbanized areas and \$33.1 million to the state for projects in nonurbanized areas. FTA has obligated \$67.1 million of the amount for urbanized areas in North Carolina. Of the \$33.1 million apportioned to the state for nonurbanized areas, FTA signed a single grant agreement for \$25 million to the state for projects in nonurbanized areas. However, as of November 13, 2009, NCDOT had not allocated any of the \$25 million to individual transit agencies in nonurbanized areas.
- **Local uses of Recovery Act education funds.** We estimate that 37 percent of North Carolina LEAs experienced a total funding decrease of 5 percent or more—more than double the estimate for LEAs nationwide. Also, many North Carolina LEAs reported they plan to use over half of their SFSF, ESEA Title I, or IDEA Recovery Act funds for retaining staff, but an estimated 54 percent of LEAs reported that, even with SFSF funds, they will lose jobs, compared to 32 percent of LEAs nationally. Charlotte-Mecklenburg and Weldon City school officials report using portions of their SFSF, ESEA Title I, and IDEA funding to retain jobs. North Carolina amended its application for SFSF funds to conform to the state's legislatively enacted primary funding formulae, which resulted in a reduction of the required education support level in state funds from nearly \$7 billion to \$5.3 billion. The U.S. Department of Education approved North Carolina's amended SFSF application.

- **Recipient reporting.** North Carolina’s prime recipients met the federal deadline for recipient reports and reported few known errors. The state’s Office of Economic Recovery and Investment (OERI) reviewed every report submitted by state agencies for errors and omissions and reconciled the data with its weekly funding and disbursement report. OERI facilitated information sharing among the state’s prime recipients to ensure recipient reports were complete, accurate, and submitted on time. According to OERI, most reporting problems were administrative in nature.
- **North Carolina’s fiscal condition.** North Carolina’s revenues have not met official state forecasts, and the state has initiated actions to control spending. The state’s first quarter revenues were 1 percent, or \$45 million, below the \$4.2 billion estimated for the first quarter of this fiscal year. North Carolina implemented an approximate 5 percent set-aside of state agencies’ budgets. The City of Durham and Halifax County have both received Recovery Act funding. Durham received a total of approximately \$11 million, most of which was used for transportation, energy efficiency, and workforce development initiatives, among others. Halifax County officials report that the county has received \$517,271 that it has used to reduce the effect of budget cuts in child day care and nutrition programs, nutritional assistance to senior citizens, and public safety.

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**Transportation:  
Highway  
Infrastructure  
Investment**

NCDOT is the primary recipient of all Highway Infrastructure Investment funds in North Carolina. It is responsible for building, repairing, and operating highways, bridges, and other modes of transportation, including ferries, in North Carolina.

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## Recovery Act Fund Obligations Increase and Additional Projects Are Planned

As of October 31, 2009, \$600 million<sup>2</sup> of the \$736 million that was apportioned to North Carolina in March 2009 for highway infrastructure and other eligible projects had been obligated—an increase of \$147 million, or 32 percent, from what we reported in September 2009.<sup>3</sup> The \$600 million includes obligations of suballocated funds,<sup>4</sup> which have increased by almost 60 percent since our September report, to \$184 million. This is in part because NCDOT set a September 1, 2009, deadline for local highway agencies to submit projects to NCDOT for approval. As of October 31, 2009, \$110 million had been reimbursed by FHWA to NCDOT—an increase of \$72 million since September 1, 2009.<sup>5</sup>

About 76 percent of Recovery Act highway obligations—including obligations of suballocated funds—for North Carolina have been for pavement projects. Specifically, \$456 million of the \$600 million obligated as of October 31, 2009, is being used for pavement projects including approximately \$214 million to reconstruct or rehabilitate roads, \$185 million to widen roads, and \$57 million for new roads. As reported in our April 2009 report, NCDOT officials told us they identified these projects based on Recovery Act direction that priority is to be given to projects anticipated to be completed within a 3-year time frame, and are located in economically distressed areas. Figure 1 shows obligations by the types of road and bridge improvements being made.

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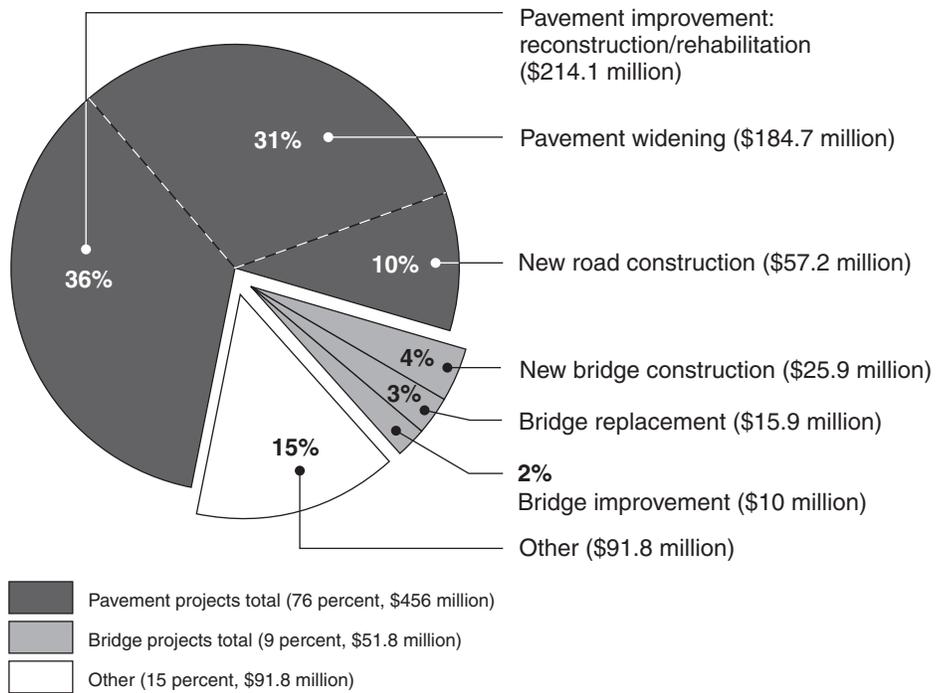
<sup>2</sup>This does not include obligations associated with \$4.9 million of apportioned funds that were transferred from FHWA to the Federal Transit Administration (FTA) for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

<sup>3</sup>For the Highway Infrastructure Investment Program, the U.S. Department of Transportation 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.

<sup>4</sup>The Recovery Act apportions funding to the 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.

<sup>5</sup>States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

**Figure 1: Highway Obligations for North Carolina by Project Improvement Type as of October 31, 2009**



Source: GAO analysis of Federal Highway Administration 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.

According to NCDOT, as of October 31, 2009, the department had advertised for bids on 228 contracts, representing a total estimated value of \$493 million in Recovery Act funding. NCDOT data shows that 145 of those contracts have been awarded, for approximately \$435 million; work has begun on 122 of the awarded contracts, representing \$375 million; and 3 of those contracts, representing \$5.7 million, have been completed.

Based on documents provided by NCDOT, contract bids NCDOT received through October 2009 for Recovery Act projects have been, on average, approximately 20 percent under NCDOT's cost estimates—about \$107 million in Recovery Act funds below the original state engineer's cost

estimates.<sup>6</sup> NCDOT officials reported they have, on a monthly basis, requested that FHWA deobligate Recovery Act funds and requested that FHWA obligate approximately \$100 million for additional projects as a result of these below-estimate bids. Because bids continue to be below NCDOT cost estimates and the Recovery Act requires the state to obligate all of its Recovery Act Highway Infrastructure Investment funds within 1 year, NCDOT has identified and submitted to FHWA a list of planned projects exceeding its apportionment by about \$92 million. NCDOT officials told us they do not foresee bid prices increasing anytime soon. Based on their discussions with industry officials, NCDOT officials believe there are many contractors still seeking work, but very little private work is available. NCDOT officials stated they are confident that the North Carolina apportionment can all be obligated in a timely manner, even with the increase in the number of contracts needed because of below-estimate bids.

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**NCDOT Officials  
Concerned about  
Maintenance of Effort  
Requirements**

The Recovery Act requires states to certify that they will maintain the level of state effort (spending level) for the types of transportation projects funded by the Recovery Act that it had planned 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 planned to expend from state sources from February 17, 2009, through September 30, 2010.<sup>7</sup> Federal Highway Administration—North Carolina Division officials told us NCDOT is struggling to expend \$1.2 billion of state funds quickly enough to meet the level of effort it certified that it would meet. Documentation provided by NCDOT shows the state is not meeting its expenditure targets to keep it on track to meet its year-end required expenditures. Specifically, it has spent \$321 million of the \$499 million of the state funds it targeted for expenditure by September 2009. NCDOT officials identified below-estimate bids for projects with state funding as a primary reason the state is having difficulty meeting its required level of effort. NCDOT officials told us they meet every 2 weeks to assess the state's level of highway spending and develop additional projects they plan to get underway in time to spend state funds during the period covered by the maintenance of effort certification. However, awarding contracts, starting construction in the winter, and completing a significant amount of work so funds are

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<sup>6</sup>Does not include nine contracts for which NCDOT indicated complete engineering estimate data were not available.

<sup>7</sup>Recovery Act, div. A, title XII, § 1201(a).

expended by the end of the maintenance of effort period on September 30, 2010, may be difficult. NCDOT officials told us they have a projected \$38 million shortfall in meeting their certification and are working to eliminate the shortfall, but want to make sure they select projects that meet NCDOT's performance goals and that there are sufficient state revenues to support the expenditures.

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## Transit Authorities Using Existing Oversight Processes for Recovery Act Capital Assistance-- Funded Projects Covering Wide Range of Uses

In March 2009, the U.S. Department of Transportation's Federal Transit Administration (FTA) apportioned \$103.6 million in Recovery Act Transit Capital Assistance funds to North Carolina and urbanized areas in the state. Of that total, \$70.5 million was apportioned to urbanized areas and \$33.1 million to the state for spending in nonurbanized areas.<sup>8</sup> As of November 5, 2009, FTA had obligated \$92 million. Of the \$70.5 million apportioned to urbanized areas, FTA had obligated \$67.1 million, or 95 percent, in Recovery Act funds to transit agencies in urbanized areas as of November 5, 2009.<sup>9</sup> Of the \$33.1 million apportioned for nonurbanized areas, FTA signed a single grant agreement for \$25 million on August 26, 2009, which will be subsequently allocated for projects in nonurbanized areas. However, as of November 13, 2009, NCDOT had not yet distributed any of these funds to individual transit agencies in nonurbanized areas because it had not finalized its grant agreements with the transit agencies in the nonurbanized areas. According to an NCDOT official, the \$8.1 million apportioned but not awarded for nonurbanized areas was for transit construction projects that were not approved by FTA because they did not have required environmental documents finalized. However, NCDOT officials responsible for the North Carolina transit program commented that they plan to resubmit these projects with the required environmental documentation on December 30, 2009, for FTA approval.

NCDOT officials reached out to urban, rural, and regional public transportation systems to identify eligible projects for the Transit Capital Assistance funds under the Recovery Act. According to NCDOT officials,

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<sup>8</sup>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 than 50,000 people.

<sup>9</sup>For the Transit Capital Assistance Program, the U.S. Department of Transportation 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.

most of the urbanized area projects selected were unfunded, high-priority projects already on the Statewide Transportation Improvement Plan (STIP). NCDOT worked with the nonurbanized transit agencies to help them prepare their grant applications. According to an NCDOT official, NCDOT required the nonurbanized transit agencies to select projects that were ready-to-go and could be completed in about 3 years. The STIP was amended to include these nonurbanized area projects.

North Carolina transit agencies in urbanized areas are using Transit Capital Assistance funds under the Recovery Act in a variety of ways, including replacement and expansion of transit vehicle fleets, preventive maintenance on existing vehicles, advanced technology and security systems, renovation of transit facilities including bus stops, and new construction for operational space. Based on our review of approved projects in nonurbanized areas, about 75 percent of the nonurbanized transit agencies are using Transit Capital Assistance funds to purchase additional transit vehicles. Other uses included vehicle maintenance, purchase of communications equipment, renovation of existing facilities, and building new transit facilities.

NCDOT officials commented that they provide more assistance to nonurbanized transit agencies than transit agencies in urbanized areas, which have more technical expertise and available resources to meet federally-funded project requirements. For Recovery Act transit projects in urbanized areas, NCDOT is using the same oversight procedures that it would normally use for its other federally-funded transit projects. These oversight procedures generally include periodic site visits, review of project documentation, progress reviews, and providing assistance on project management, contracting, and Recovery Act reporting requirements, if needed. For Recovery Act projects in nonurbanized areas, NCDOT officials commented that they are extensively involved in reviewing and approving project documentation and providing technical assistance. Specifically, NCDOT's oversight procedures in nonurbanized areas include periodic on-site visits, reviewing and approving key steps in the contracting process, reviewing contract documentation and providing assistance on project management and in meeting Recovery Act reporting requirements.

We selected the largest project in an urbanized area and the largest project in a nonurbanized area using Transit Capital Assistance funds under the Recovery Act in North Carolina for review. The Charlotte Area Transit System (CATS) in Charlotte, North Carolina, had the largest project in an urbanized area, and AppalCART in Boone, North Carolina, had the largest

project in a nonurbanized area. According to CATS officials, FTA obligated \$20.8 million for the three-phased renovation project we selected for review. CATS awarded a contract for Phase 1 of the renovation and expansion of the existing North Davidson Bus Operating facility in order to provide an upgraded facility with improved maintenance and operations space. The contract for Phase 1 of the project was awarded on September 14, 2009, for a total estimated value of \$8.7 million with a project start date of November 25, 2009 and a projected completion date of December 16, 2010. According to CATS officials, the fixed-price contract was awarded competitively to the lowest bidder, with nine contractors submitting bids. These officials also indicated that the contract required the prime contractor to provide CATS the recipient reporting information required by the Recovery Act for both the prime contractor's Recovery Act work and for its subcontractors. CATS' officials commented that they used the same contract award and oversight process for this project that they normally use for federally funded projects. Oversight of this project includes a full-time project manager and part-time assistants, contract administrator services involving two staff, and consultant provided inspection services.

The AppalCART project we reviewed provides for a new transit facility for bus maintenance and transit operations and the purchase and installation of a transfer station and several passenger shelters. According to AppalCART officials, the contract for the new transit facility was awarded on May 29, 2009, for a total estimated value of \$4.1 million with a project start date of June 15, 2009 and a projected completion date of June 18, 2010. According to AppalCART officials, the fixed-price contract was awarded competitively to the lowest bidder, with 10 contractors submitting bids. Much of the contract award process for this project occurred in the fall of 2008 and early 2009 before enactment of the Recovery Act and prior to the project's selection as a Recovery Act-funded Transit Capital Assistance project. Before the Recovery Act, AppalCART officials had not identified all funding sources for the project. According to AppalCART officials, the contract was awarded prior to funding being available under the Recovery Act based on verbal assurances from NCDOT that funding was approved for the project. As of November 13, 2009, NCDOT had not yet allocated any of the \$6 million in Recovery Act funds AppalCART expects to receive for this project because NCDOT had not finalized its grant agreements for transit agencies in nonurbanized areas. According to AppalCART officials, in the absence of Recovery Act funding, AppalCART has paid all contract costs to date from its own funds and has secured a \$1,000,000 line of credit as a contingency to avoid work stoppages on the project before the onset of

winter. These officials also indicated that the contract required the prime contractor to provide AppalCART the information required for recipient reporting under the Recovery Act for both the prime contractor's Recovery Act work and for its subcontractors. AppalCART project oversight includes a full-time project manager who is on-site multiple times a week, and a contract administrator who is on-site weekly. Both individuals oversee work quality and progress, as well as review the appropriateness of contractor expenditures. The AppalCART director is also on-site frequently and provides overall agency oversight of the project and approves AppalCART periodic payments to the contractor.

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## Recovery Act Funds for Education Address Staffing, Program Needs

We surveyed a representative sample of LEAs—generally school districts—nationally and in North Carolina about their planned uses of Recovery Act funds. To obtain more specific information on local uses of Recovery Act funds in North Carolina, we also visited two LEAs that completed the survey, Weldon City Schools, a non-urban LEA, and Charlotte-Mecklenburg Schools, an urban LEA. In addition, we met with state officials at the Department of Public Instruction (DPI) to discuss state plans and efforts related to three Recovery Act education programs—SFSF; Title I, Part A of ESEA; and Part B of IDEA.

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## Many North Carolina LEAs Reported Total Funding Reductions and Plans to Use Recovery Act Funds to Retain Staff

We estimate that 37 percent of North Carolina LEAs experienced a total funding decrease of 5 percent or more—more than double the national estimate. Also, many North Carolina LEAs reported they plan to use over half of their SFSF, ESEA Title I, or IDEA Recovery Act funds for retaining staff. However, an estimated 54 percent of North Carolina LEAs reported that, even with SFSF funds, they will lose jobs, compared to 32 percent of LEAs nationally. Table 1 shows North Carolina and national GAO survey results on the estimated percentages of LEAs that (1) plan to use more than 50 percent of their Recovery Act funds from three education programs to retain staff, (2) anticipate job losses even with State Fiscal Stabilization Fund monies, and (3) reported a total funding decrease of 5 percent or more since the last school year.

**Table 1: Selected Results from GAO Survey of LEAs**

Responses from GAO survey	Estimated percentages of LEAs	
	North Carolina	Nation
Plan to use more than 50 percent of Recovery Act funds to retain staff		
IDEA funds	52	19
Title I funds	49	25
SFSF funds	73	63
Anticipated job losses, even with SFSF funds	54	32
Reported total funding decrease of 5 percent or more since school year 2008-2009	37	17

Source: GAO survey of LEAs.

Note: Percentage estimates for North Carolina have margins of error, at the 95 percent confidence level, of plus or minus 11 percentage points or less. The nationwide percentage estimates have a margin of error of plus or minus 5 percentage points.

**LEAs We Visited Reported Using Recovery Act Funds to Offset State Budget Cuts and to Meet Staffing and Programmatic Needs**

Due to significant reductions in state aid for noninstructional support staff—clerical and custodial staff—LEA officials with whom we spoke reported using significant portions of their SFSF allocations to retain these positions. North Carolina reduced the public schools’ fiscal year 2009-2010 budget by 9.5 percent, which was partially offset by SFSF funds for a net reduction of 4.9 percent. The largest reduction in state funding was for noninstructional support, according to a state official, which decreased from \$405 million in fiscal year 2008-2009 to \$13.5 million in fiscal year 2009-2010. As a result, officials from Charlotte-Mecklenburg Schools told us they used all of their SFSF allocation to retain noninstructional staff because state support for these positions in their LEA was reduced from about \$37 million in fiscal year 2008-2009 to about \$1 million in fiscal year 2009-2010.

Additionally, LEA officials we spoke to reported they will use ESEA Title I and IDEA funds for job retention, as well as to address other programmatic needs. For example, in Charlotte-Mecklenburg, LEA officials told us the additional ESEA Title I funds helped fund teacher and teacher assistant positions as well as preserve its model pre-K program and 9th grade program. Their ability to maintain these programs will have a positive effect on increasing student achievement and decreasing the dropout rate, according to LEA officials. Charlotte-Mecklenburg officials also told us they used the majority of the additional fiscal year 2009-2010

IDEA allocation to retain and hire new teachers and teaching assistants. According to Weldon City Schools officials, ESEA Title I funds have enabled the LEA to maintain essential teaching positions. In the absence of these funds, Weldon officials said teachers would have been laid off and classroom sizes would have increased. Weldon officials also told us the additional IDEA funds will help maintain the stability of support staff and service levels. For example, IDEA Recovery Act funds will help cover travel expenses for occupational, speech, and physical therapists.

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### North Carolina Amended Its SFSF Application to Reflect Changes in the State's Primary Budget Formulae

According to state officials, North Carolina amended its SFSF application to reflect enacted changes to its elementary and secondary education primary budget formulae for distributing education stabilization funds. To receive SFSF funds, the state was required to make certain assurances, including that it would meet MOE requirements by maintaining state support for education at no less than the fiscal year 2006 funding level. Also, states must use their primary education funding formula to distribute SFSF education stabilization funds. In its initial application, North Carolina used all of the state public school funding formulae, which included all categories of public school funding, as the primary formulae. Subsequently, according to state officials, the state legislature enacted primary formulae that included fewer funding categories than the formulae used in the initial application. According to state officials, the U.S. Department of Education advised the state to use the enacted primary formulae in its amended application, and state officials changed the fiscal year 2006 funding level included in the state's amended SFSF application to conform to the legislatively enacted primary funding formulae so the state has comparable measures of support in all fiscal years. In the amended application, the state's fiscal year 2006 support level is reduced to \$5.3 billion for elementary and secondary education from nearly \$7 billion in the initial approved application. According to state officials, North Carolina would meet MOE requirements under the initial and enacted primary formulae. The Department of Education approved the amended application on November 16, 2009.

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## North Carolina Has Developed a Plan for Monitoring Recipient Use of SFSF Funds

We reported in our September report that North Carolina had yet to develop its SFSF monitoring plan required by the U.S. Department of Education.<sup>10</sup> North Carolina's Office of State Budget and Management (OSBM) completed its SFSF monitoring plan in September 2009. For SFSF funds for LEAs and charter schools, OSBM delegated monitoring responsibilities to the state agency responsible for education, the North Carolina DPI. According to DPI officials, DPI developed a plan to monitor LEAs' use of SFSF funds, which incorporates its existing reporting and monitoring procedures. DPI officials indicated they are likely to focus their local monitoring efforts on compliance with contracting and equipment requirements, and documentation requirements for all employees who are paid from federal funds or whose salaries are used to match federal funds. DPI officials reported they continue to modify the state's data collection system to capture information on jobs created and retained and will monitor data quality in local reports. Under OSBM's plan, responsibility for monitoring the use of funds by public institutions of higher education has been assigned to the North Carolina Community College System Office and the University of North Carolina General Administration Office. Responsibility for monitoring the use of the remaining SFSF funds by other state agencies has been assigned to OSBM's Internal Audit section and budget analysts.

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## North Carolina Used a Decentralized Approach for Federal Reporting; State Agencies Reported on Time with Few Errors

North Carolina used a decentralized approach to reporting on its Recovery Act activities. Under this approach, each prime recipient of Recovery Act funds reports directly to [FederalReporting.gov](http://FederalReporting.gov) rather than submit its recipient reports through a central state contact. The quarterly reports—required by the Recovery Act in Section 1512—provide information on the use of funds, estimates of the number of jobs created and retained, as well as other information. North Carolina established its own Office of Economic Recovery and Investment (OERI)—known informally as the office of the Recovery Czar—to coordinate and track North Carolina's handling of federal Recovery Act funds and ensure transparency. OERI also has responsibility for helping state agencies that are prime recipients coordinate their recipient reporting efforts. Specifically, OERI has held two roundtable discussions for the state's prime recipients to facilitate information sharing among agency officials and develop quality assurance

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<sup>10</sup>GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (North Carolina)*, [GAO-09-1017SP](#) (Washington, D.C.: Sept. 23, 2009).

measures to ensure the recipient reports were complete, accurate, and submitted on time. In addition, to further ensure the transparent use of Recovery Act funds, OERI contacted local police and sheriffs' offices that were prime recipients of a U.S. Department of Justice Local Law Enforcement Assistance Grant to remind them to report to [FederalReporting.gov](http://FederalReporting.gov) by the October 10, 2009 deadline. An OERI official reported to us that all state agencies successfully submitted their reports by the October 2009 deadline. OERI staff reviewed every report submitted by a state agency for errors or omissions and reconciled the data with OERI's Weekly Funding and Disbursement Report.<sup>11</sup>

According to an OERI official, the federal reporting process had features that helped avoid serious and widespread reporting problems. In particular, [FederalReporting.gov](http://FederalReporting.gov) featured an online validation tool that helped recipients identify and correct problems in advance of the October reporting deadline. In addition, he told us that federal funding agency personnel were quick to respond to requests for assistance and maintained good communication with recipients, typically resolving issues in less than 12 hours. However, this official also reported that the [FederalReporting.gov](http://FederalReporting.gov) helpdesk and online live chat assistance were overwhelmed with the volume of inquiries as the deadline approached and some recipients could not access either service.

According to an OERI official, as of October 28, 2009, most recipient reporting areas of concern were administrative in nature, such as an incorrect Data Universal Numbering System (DUNS)<sup>12</sup> or award number. However, OERI reported that the job count, a substantive reporting element, proved troublesome for 9 of its 17 state agencies, and the count submitted was sometimes questioned by the cognizant federal agency. Most of the agency officials said the questions were in reference to awards received too close to the end of the quarterly reporting cycle to result in any jobs created or saved. OERI also said it is problematic that it did not have immediate access to recipient reports in [FederalReporting.gov](http://FederalReporting.gov) and

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<sup>11</sup>The Weekly Funding and Disbursement Report is compiled from Recovery Act obligation, disbursement, and drawdown data provided to OERI by each state agency on a weekly basis.

<sup>12</sup>A DUNS number is a nine-digit identification number that is assigned to an entity and identifies specific information about the entity such as the entity's business name and address.

said state coordinating offices need such access to recipient reports if the monitoring efforts are to be effective.

After the October 2009 reporting deadline, we interviewed officials from two state agencies, DPI and the NCDOT to assess their experiences reporting at FederalReporting.gov. DPI officials told us they used both certified and noncertified payroll files, depending on availability, to report jobs data for the first quarterly report.<sup>13</sup> DPI officials told us they experienced few problems reporting jobs data, but that they plan to use a different approach beginning with the next quarterly report by collecting jobs information from school districts after DPI makes modifications to its computer system. An NCDOT official told us NCDOT began collecting monthly jobs data from vendors (contractors) when their employees or their subcontractors began work on the Recovery Act projects. Although NCDOT was unable to report jobs data for all vendors by the October 10 reporting deadline, an NCDOT official told us NCDOT successfully reported jobs data for all vendors and subrecipients by the October 21, 2009 federal Office of Management and Budget (OMB) cutoff date for report revisions. According to this NCDOT official, a technical problem with the FHWA system used for collecting the jobs data initially prevented some of NCDOT's data files from being validated by FederalReporting.gov; however, the problem was resolved and NCDOT data files were validated. Officials at the two NCDOT divisions that we visited reported no significant problems or issues in collecting and reporting the jobs data for the selected Recovery Act projects. However, NCDOT did experience challenges with other data elements, including capturing expenditure data for projects that were not available until about 2 weeks after the reporting period.

In preparation for the next round of quarterly recipient reporting in January 2010, OERI held another roundtable to discuss (1) what happened during the first recipient reporting process and (2) any issues that need to be resolved before the next quarterly report.

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<sup>13</sup>For noncertified payroll, DPI calculated FTEs based on average salaries and expenditures.

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## State Budget Officials Report Slight Decline in 1st Quarter Revenue Collections

The state's fiscal year 2009-2011 budget was signed into law in August 2009 for the fiscal year which began on July 1, 2009. State budget officials told us revenues for this fiscal year's 1st quarter ending on September 30, 2009, were 1 percent, or \$45 million, below the \$4.2 billion estimated projection for the quarter. According to the officials, this is not a significant concern because they anticipated the 1st quarter would be the year's worst quarter. The budget officials said that since they were unsure whether the state's revenues would meet the projections for the fiscal year, they decided to initiate an approximate 5 percent set-aside of state agencies' budgets. According to state officials, this set-aside will continue at least through the 2nd quarter. State budget officials told us Recovery Act funds are helping in the areas of education and health and human services, and the state intends to use more of its SFSF monies in the second quarter of the current fiscal year.

We visited two localities in North Carolina, the City of Durham and Halifax County, to collect information on their use of Recovery Act funds. The City of Durham has received approximately \$11 million and Halifax County has received \$517,271 million in Recovery Act funds.

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### Durham

*Population: 223,284*

*Form of government: Municipality with Mayor and City Council*

*September 2009 unemployment rate: 7.3 percent*

**Table 2: Sources of Recovery Act Formula and Competitive Grant Funding to Durham City Government**

Dollars	
Transportation	
Surface Transportation Program Direct Allocation	4,698,060
Energy Efficiency	
Energy Efficiency and Conservation Block Grant	2,173,600
Workforce Development	
Workforce Investment Act (WIA)	1,317,711
Community Development	
Community Development Block Grant	516,025
Homelessness Prevention and Rapid Re-Housing Program	789,101
Public Safety	
Edward Byrne Memorial Justice Assistance Grant (JAG)	794,143
State and Local Law Enforcement Assistance Program	724,497

Source: City of Durham.

City officials told us they used Recovery Act funds to support their transit, capital projects, and workforce development priorities.

Capital Projects

Recovery Act funds have enabled the City of Durham to stay on schedule with many of its capital projects and, as a result, take advantage of now-favorable construction costs, according to city officials. Durham officials also told us that Recovery Act transportation funding helped the city accelerate payments for some of its street and sidewalk infrastructure programs by at least 1 year or budget cycle, thereby reducing the total costs of these projects. Specifically, the officials told us that Recovery Act funds' greatest impact was savings on the cost of current and future debt service. Durham officials said that without Recovery Act funds, the city would have had to pay for some of its capital projects through the issuance of debt. Recovery Act funds helped the city stabilize its debt service level and continue progress on needed capital projects, according to city officials.

Transit

Durham officials said the city used Recovery Act transit funding for preventive maintenance costs and purchased 22 new vans; upgraded bus stop shelters; and purchased other transit-related items. Durham's Transit Operations Fund will break even due to receipt of \$1 million in federal Recovery Act funding for fiscal year 2009-2010. Durham officials anticipate that the use of Recovery Act funds in fiscal year 2010-2011 will have a similar effect.

Workforce Development

The city reported receiving over \$1.3 million in Recovery Act funds through the Workforce Investment Act (WIA). According to city officials, the infusion of these funds allowed them to serve more individuals by providing additional workforce development training and employment opportunities. Durham officials also told us these funds were especially useful because Durham’s unemployment rate has nearly doubled since the economic downturn began in fiscal year 2007-2008.

Weathering the Economic Downturn and Preparing for the End of Recovery Act Funds

The City responded to the economic downturn and revenue reduction with planned budget reductions to most operating departments, according to Durham officials. They report holding vacancies open, reducing travel and training, and delaying nonessential capital purchases. The city’s Audit Services Department plans to engage relevant staff in designing and implementing an evaluation of how Recovery Act funds have helped the city and in developing an exit strategy for when the funds are no longer available.

Halifax County

*Population: 54,983*  
*Form of Government: Council-Manager*  
*September 2009 Unemployment rate: 13.1%*

**Table 3: Selected Sources of Recovery Act Formula Funding to Halifax County Government**

Dollars	
Social Services	
Food and Nutrition Services	90,361
Child Daycare Funding	338,679
Public Safety	
Edward Byrne Memorial Justice Assistance Grant (JAG)	58,925
Aging	
Elderly Nutrition Funds	29,306

Source: Halifax County.

State Takeover of Medicaid Functions Affected Budget Stability

Halifax County officials told us that over the last several years, the state has reduced sales tax revenues to all counties in exchange for taking over Medicaid payments. According to Halifax County officials, the state’s takeover of Medicaid had a significant effect on the county’s budget because, in exchange, the state reduced a significant portion of the county’s sales tax revenues, which are approximately 20 percent of its annual budget. For example, the state reduced Halifax’s Medicaid payments by 25 percent in fiscal year 2007-2008, and in this fiscal year,

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2009-2010, the state is assuming all Medicaid payments in the county. As a result of the state's takeover of Medicaid payments, the revenue reductions are more than what Halifax had spent on Medicaid. According to Halifax County officials, the state gave counties the option of implementing an additional sales tax or land transfer tax to offset the lost revenue. Halifax County officials said they elected not to pursue either strategy because the county's residents cannot afford to pay more taxes. The county has instead reduced its budget.

Recovery Act Funds Help, but Administrative Challenges Increase

Halifax is the second-most economically distressed county in the state with 24 percent of its residents living below the poverty level. According to Halifax officials, Recovery Act funds lessened the effect of budget cuts in its child day-care and nutrition programs. The county reported receiving a total of \$429,040 in Recovery Act funds from the two programs and hired three staff members to help support what officials told us are unprecedented needs for assistance. The officials also told us they used \$29,306 of Recovery Act funds to help provide nutritional assistance to senior citizens who make up one-third of the county's population, and its sheriff's department received \$58,925 from the Recovery Act's JAG funding.

The officials told us Halifax County is in serious need of additional revenues, but its Board of Commissioners could decide not to pursue certain funds due to the Recovery Act's reporting requirements and the large amount of administrative time involved with oversight and monitoring of funds. Halifax County officials told us that they do not have a formal exit strategy once Recovery Act funds are no longer available.

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State Comments on This Summary

We provided a draft of this appendix to the Governor of North Carolina, the North Carolina State Auditor's Office, and the North Carolina Office of Economic Recovery and Investment, and provided excerpts of the draft to other entities including the state educational agency, local educational agencies, cities and towns we visited. The Office of Economic Recovery and Investment, the NCDOT, and other officials provided clarifying and technical comments, which we incorporated as appropriate.

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