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RECOVERY ACT

States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Illinois)

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GAO-10-605SP

Appendix VII: Illinois

Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Illinois.[1] The full report covering all of GAO's work in the 16 states and the District of Columbia may be found at http://www.gao.gov/recovery.

What We Did

We conducted work on six programs funded under the Recovery Act: Edward Byrne Memorial Justice Assistance Grants (JAG), Weatherization Assistance Program, Public Housing Capital Fund, Tax Credit Assistance Program (TCAP), Section 1602 Tax Credit Exchange Program (Section 1602 Program), and Highway Infrastructure Investment. For descriptions and requirements of the programs we included in our review, see appendix XVIII of GAO-10-605SP. We selected these programs primarily because they received significant amounts of Recovery Act funds. For each program, we conducted interviews and examined relevant program documents and data to determine what challenges recipients of Recovery Act funds faced in meeting mandated obligation deadlines; to assess whether state agencies met monitoring requirements set forth under the Recovery Act; or to follow up on issues we reported on in previous bimonthly reviews.

We also met with officials from the Illinois Office of the Governor, the Illinois State Board of Education (ISBE), and selected local educational agencies (LEA) to determine what steps ISBE has taken to ensure the completeness and accuracy of the employment data LEAs report to the agency, which ISBE uses to complete its quarterly reporting requirements under section 1512 of the Recovery Act.[2]

Additionally, our work in Illinois included monitoring the state's fiscal situation and visits to two counties—Cook County and Winnebago County—to review their use of Recovery Act funds and the impact of the funds on their budgets, as well as meeting with state-level auditors to

[1]Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

[2]Under Section 1512 of the Recovery Act, recipients of Recovery Act funds must submit quarterly reports that include employment and other data to the federal agencies through the federalreporting.gov Web site. These recipient reports are due on the 10th day of the month following the end of the reporting period. These data are available to the public on the Recovery.gov Web site.

determine what steps they are taking to oversee state agencies' implementation of the Recovery Act.[3]

What We Found

- **Edward Byrne Memorial Justice Assistance Grants.** The U.S. Department of Justice's Office of Justice Programs, Bureau of Justice Assistance (BJA) awarded $83.7 million to Illinois and units of local government (localities) within the state under the Recovery Act JAG program. Based on a statutory formula, BJA awarded 60 percent of these funds to the state (which the state primarily used to make grants to localities) and 40 percent of the funds directly to eligible localities within the state. Only seven localities qualified for the $33.5 million in direct funding available through BJA. As a result, the localities in Illinois that received a direct grant received disproportionately larger sums compared to localities in other states. The average award for these seven localities was $4.8 million; the City of Chicago and Cook County were jointly awarded $28.7 million. The localities we spoke to said that they used their Recovery Act JAG grants primarily to purchase capital equipment and pay law enforcement wages.

- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated $242.5 million to Illinois for the Illinois Home Weatherization Assistance Program, a substantial increase over the state's allocation of base program funds in prior years. Illinois's Department of Commerce and Economic Opportunity (DCEO) Office of Energy Assistance, the agency responsible for administering Illinois's weatherization assistance program, plans to use the Recovery Act funds to weatherize 27,000 homes—as of March 31, 2010, 11,283 homes had been completed or were in the process of being weatherized. Although DCEO expects to meet DOE's 5 percent inspection requirement for 2010, as of March 31, 2010, it had not inspected homes from 19 of the 35 the local agencies that weatherize homes on behalf of the state.

- **Public Housing Capital Fund.** Ninety-nine public housing agencies in Illinois received $221.5 million in Recovery Act Capital Fund formula grants. Although all of the housing agencies met the March 17, 2010, deadline for obligating their funds, some faced challenges in doing so. For example, one housing agency we spoke to had difficulty

[3]We selected Cook County because it has the largest population of any county in Illinois and Winnebago county because it has a high unemployment rate relative to other counties in Illinois.

finding enough local contractors that were willing and able to bid for its Recovery Act projects, which included replacing the roofs and siding on and replacing lights and appliances in most of its properties. Officials from the Department of Housing and Urban Development's (HUD) Illinois State Office of Public Housing and the housing agencies we spoke to stated that Recovery Act-related activities have not to date had any noticeable effect on their ability to administer their existing Capital Fund programs.

- **Tax Credit Assistance Program and Section 1602 Tax Credit Exchange Program.**[4] As of April 30, 2010, the Illinois Housing Development Authority (IHDA) had awarded $91.6 million (out of the $94.7 million available) in TCAP funds, and $128.2 million (out of the $264.5 million available) in Section 1602 Program funds to a total of 46 projects, including the Rosa Parks Apartments, a low-income housing development located on Chicago's west side. Despite the much needed financing these two programs are providing to low-income housing projects in Illinois, IHDA officials raised concerns about the agency's ability to bear the administrative costs associated with these programs.

- **Highway Infrastructure Investment Funds.** The U.S. Department of Transportation's Federal Highway Administration apportioned $935.6 million in Recovery Act funds to Illinois. The federal government obligated the state's full apportionment by the 1-year deadline of March 2, 2010. As of May 3, 2010, $451 million had been reimbursed by the federal government. Almost 77 percent of Recovery Act highway obligations for Illinois have been for pavement projects. For example, $3.1 million has been obligated for resurfacing of 11 miles of IL Route 47 in Grundy County.

- **Recipient Reporting—Education.** ISBE implemented procedures to ensure that LEAs report employment data (expressed as full-time equivalents, or FTEs) to the agency in advance of the quarterly reporting deadlines under section 1512 of the Recovery Act. Although ISBE instituted reasonableness checks designed to identify reporting errors, the agency does not have procedures in place to assess the

[4] Pursuant to the Recovery Act, we are to review the use of funds of programs included under the act's Division A. TCAP is a Division A program, while the Section 1602 Program is included under Division B of the Recovery Act. We chose to include the Section 1602 Program in our review because both TCAP and the Section 1602 Program supplement the Low-Income Housing Tax Credit Program and are being implemented simultaneously by state housing finance agencies.

accuracy of LEAs' calculations. According to ISBE officials, the agency has limited resources to independently review LEAs' calculations in the short amount of time it has to compile and submit its recipient reports. The agency has contracted with accounting firms to review a selection of LEAs' State Fiscal Stabilization Fund FTE submissions for the first reporting period.

- **Illinois's Fiscal Condition and Oversight Activities**
    - **State budget stabilization.** Recovery Act funds continued to assist the state in funding its education, infrastructure, and Medicaid programs. An estimated $1.3 billion from the State Fiscal Stabilization Fund and $1.6 billion made available as a result of increased federal assistance to Medicaid are expected to allow the state to provide $2.9 billion in services in fiscal year 2010. However, the state faces a fiscal crisis stemming from a structural deficit, escalating pension costs, decreasing revenues, and unpaid bills.

    - **Counties' use of Recovery Act funds.** The counties we spoke with generally used their Recovery Act awards to pay for programs and services that would otherwise have gone unfunded. Moreover, the counties indicated that they generally avoided using Recovery Act funds for programs or personnel costs that would result in additional funding commitments for long-term obligations.

    - **State-level audits.** The Illinois Office of the Auditor General and the Illinois Office of Internal Audit are currently conducting audits of Recovery Act-funded programs; however, officials from both offices do not expect to report on the results of their audits until June 2010. The Illinois Office of Accountability is charged with assisting the Governor in complying with the Recovery Act and Illinois's Federal Stimulus Tracking Act.

Few Illinois Localities Qualified for Direct Recovery Act JAG Awards and Those We Spoke to Used Their Grants to Purchase Capital Equipment and Pay Wages

The Bureau of Justice Assistance (BJA) awarded $83.7 million to Illinois and units of local government (localities) within the state under the Recovery Act Justice Assistance Grants (JAG) program. Based on a statutory formula, BJA awarded 60 percent of the $83.7 million ($50.2 million) to the state of Illinois, which the state in turn primarily awarded to localities in the form of pass-through grants.[5] BJA awarded the remaining 40 percent ($33.5 million) directly to eligible localities within the state. The localities we spoke to said that they used their direct and state pass-through Recovery Act JAG grants primarily to purchase capital equipment and pay law enforcement wages.

In order to qualify for direct JAG funding from BJA, localities were required to report crime statistics directly or through a state agency to the Federal Bureau of Investigation (FBI). Localities that did not report these data or have these data reported on their behalf were not eligible for direct funding; however, they may have qualified for pass-through grants from the state. In Illinois, only seven localities reported their crime data to FBI and thus were eligible to receive a share of the $33.5 million in direct JAG funding available from BJA: Aurora, Chicago, Joliet, Naperville, Peoria, Rockford, and Springfield.[6] Because so few localities in Illinois qualified for direct grants from BJA, those that received these grants were awarded disproportionately larger amounts of funds compared to localities in other

[5]As the state administering agency for JAG funds in Illinois, the Illinois Criminal Justice and Information Authority received $50.2 million in Recovery Act JAG funds, of which it passed $30 million to localities, used $15.8 million for statewide programs, and retained $4.3 million for administrative costs. The minimum percentage of Recovery Act JAG funds that Illinois is required to pass through to localities after administrative costs are subtracted from the total grant amount is 65.5 percent.

[6]Illinois statute requires that localities report crime statistics directly to the Illinois State Police and according to a 2009 Department of Justice, Office of the Inspector General Management Advisory Memorandum, the state requires the localities to measure and report crime statistics in a manner that differs from how FBI measures and reports these statistics. See Department of Justice, Office of the Inspector General, *Edward Byrne Memorial Justice Assistance Grant Allocation of Recovery Act Funds to Local Municipalities in the State of Illinois* (April 9, 2009). Prior to the Recovery Act, the Illinois State Police did not convert localities' crime statistics into the format used by FBI. As a result, only those localities that reported data directly to FBI were eligible to apply for direct grants from BJA. When the law enforcement costs of two localities significantly overlap (e.g., a city makes up a large percentage of a county's population), the two localities must submit a joint application for JAG funds. All of the cities in Illinois that qualified for direct grants from BJA were required to submit joint applications with their respective counties, which included Cook, Dupage, Kane, Peoria, Sangamon, Will, and Winnebago counties. BJA officials confirmed that counties were eligible to share these grants even though the counties did not report crime statistics to FBI.

states. The average award for these seven localities was $4.8 million; Chicago and Cook County were jointly awarded $28.7 million. In comparison, in Pennsylvania, the state with the closest total Recovery Act JAG program allocation, BJA awarded 259 localities a total of $26.9 million in direct JAG funds—the average direct award in Pennsylvania was $103,934. Similarly, in New York, BJA awarded 152 localities a total of $43.3 million in direct JAG funds—the average direct award in New York was $285,025.

In April 2009, the Department of Justice's Office of the Inspector General requested that the Office of Justice Programs provide greater transparency regarding the significant differences in the award amounts between localities in Illinois and localities in other states.[7] On May 14, 2009, the Acting Assistant Attorney General for the Office of Justice Programs informed the Office of Inspector General of a revision to the office's Web site that complied with this request. The Illinois State Police Department is taking steps to ensure that all localities have an opportunity to report crime statistics to FBI, which could expand the pool of eligible localities in the state in the event Recovery Act JAG or similar programs are available in the future.

We visited two counties and one city in Illinois that received both a direct grant from BJA and at least one pass-through grant from the state: Cook County, Winnebago County, and the City of Rockford.[8] All three localities reported using their grants to purchase new equipment and to fund programs and services that, in the absence of these grants, would have gone unfunded.

Cook County. Cook County received $7.2 million of a $28.7 million grant BJA awarded directly to the county and the City of Chicago. County officials explained that this grant would be distributed among several entities in the county (see table 1).

[7]See U.S. Department of Justice, Office of the Inspector General, *Edward Byrne Memorial Justice Assistance Grant Allocation of Recovery Act Funds to Local Municipalities in the State of Illinois* (April 9, 2009).

[8]We visited Cook County because it received more JAG funding through the Recovery Act than any other county in Illinois. We visited Winnebago County and the City of Rockford because the project status of their shared grant was listed as more than 50 percent complete as of December 31, 2009.

Table 1: Distribution of the $7.2 Million Direct JAG Award from BJA

Recipient	Amount
37 municipal units of governments	$2,571,685
Sheriff's Office	1,502,876
Nonprofits and a state university	1,144,042
State's Attorney's Office	1,021,506
Circuit Court	710,169
Judicial Advisory Council	215,719
Total	**$7,165,997**

Source: Cook County Judicial Advisory Council.

Note: These amounts are subject to change.

Thirty-seven municipal units of government expect to use their share of these funds to purchase law enforcement equipment and pay law enforcement wages. Additionally, not-for-profit organizations and a state university plan to use their funds for mentoring and drug treatment programs. The Sheriff's Office plans to use its funds primarily for overtime wages of law enforcement agents, while the Circuit Court anticipates using its funds for programming designed to assist individuals with substance abuse or mental health issues. The State's Attorney's Office plans to use its share of the $7.2 million to hire second-year law students to provide clerking services. The Cook County Judicial Advisory Council is expected to retain 3 percent of the $7.2 million award for grant management.

In addition to the direct grant from BJA, Cook County officials said that the county received six pass-through grants from the state totaling over $4.5 million (see table 2).

Table 2: State Pass-Through JAG Funds Awarded to Cook County and Selected County Agencies

Recipient	Amount
State's Attorney's Office	$1,650,307
State's Attorney's Office	877,650
Circuit Court	500,000
Circuit Court	500,000
Sheriff's Office	499,800
Sheriff's Office	497,028

Source: Cook County Judicial Advisory Council.

The State's Attorney's Office is using its two pass-through grants for cold-case initiatives and community justice centers. The Circuit Court plans to use its awards for domestic violence programs and specialty courts that provide additional services to targeted populations of non-violent, repeat offenders. The Sheriff's Office plans to use its grants to fund 4 daily 6-hour police shifts in Ford Heights, a township that cannot afford to staff a police force of its own, and to provide transition services to recently-released prisoners, such as mentoring and job training.

Winnebago County. Winnebago County received two Recovery Act JAG awards totaling over $1 million, including $598,133 of a $1.5 million direct award the county shared with the City of Rockford. The county used its share of the joint award to purchase capital equipment and law enforcement software. The county used a $416,485 state pass-through grant to provide wages for the equivalent of 3 full-time corrections officer positions for 2 years. Officials expected that an economic recovery would generate sufficient revenues for the county to pay for these positions once the Recovery Act funding expires.

City of Rockford. Officials said that the City of Rockford received three Recovery Act JAG awards totaling $1.4 million. The city received $879,200 of a $1.5 million direct grant from BJA, which it shared with Winnebago County, as noted above. The city used its share of these funds to purchase law enforcement software, in-car video systems, and bicycles for the city's Community Services Flexible Patrols program. The city also received $540,000 from 2 pass-through grants from the state, which it used to pay for 5 part-time receptionist positions for 3 years, allowing officers to return to patrols, and purchase two squad cars.

Illinois Is on Track to Weatherize 27,000 Homes with Recovery Act Funds, but Oversight of Local Agencies Has Lagged

The U.S. Department of Energy (DOE) allocated $242.5 million in Recovery Act funds to the Illinois Department of Commerce and Economic Opportunity (DCEO) for the Illinois Home Weatherization Assistance Program, a substantial increase in funding compared to previous years. By June 2009, DOE had provided $121.3 million of the Recovery Act funds to DCEO's Office of Energy Assistance, which is responsible for administering the state's weatherization assistance program.[9] DCEO plans to use these funds to weatherize 27,000 homes in state fiscal years 2010 and 2011, targeting approximately 40 percent of the funds toward the 2010 program and 60 percent toward the 2011 program.[10]

According to DCEO, in 2010, the agency awarded $85.6 million in Recovery Act funds to 35 local administering agencies.[11] Local administering agencies, such as Community Contacts, Inc., Community Action Partnership of Lake County, and Will County Center for Community Concerns, the three local agencies we spoke with as part of this report, are using these funds for planning, purchasing equipment, hiring and training staff, using contractors, and weatherizing homes on behalf of the state. For example, in Will County we observed homes in which Will County Center for Community Concerns had installed new furnaces and attic insulation using Recovery Act funds.

By March 31, 2010, according to DCEO, the local administering agencies had spent $22.7 million (about 27 percent) of their 2010 Recovery Act funds and had completed or were in the process of weatherizing 11,283 homes.[12] A DCEO official said that the state expects to meet or exceed its goals to spend 40 percent of the Recovery Act funds and weatherize 40 percent of the 27,000 planned homes by June 30, 2010.

[9]DOE will provide the remainder of the Recovery Act funds once the state has demonstrated that it has successfully met certain requirements, such as completing work on 30 percent of the homes slated to be weatherized with Recovery Act funds.

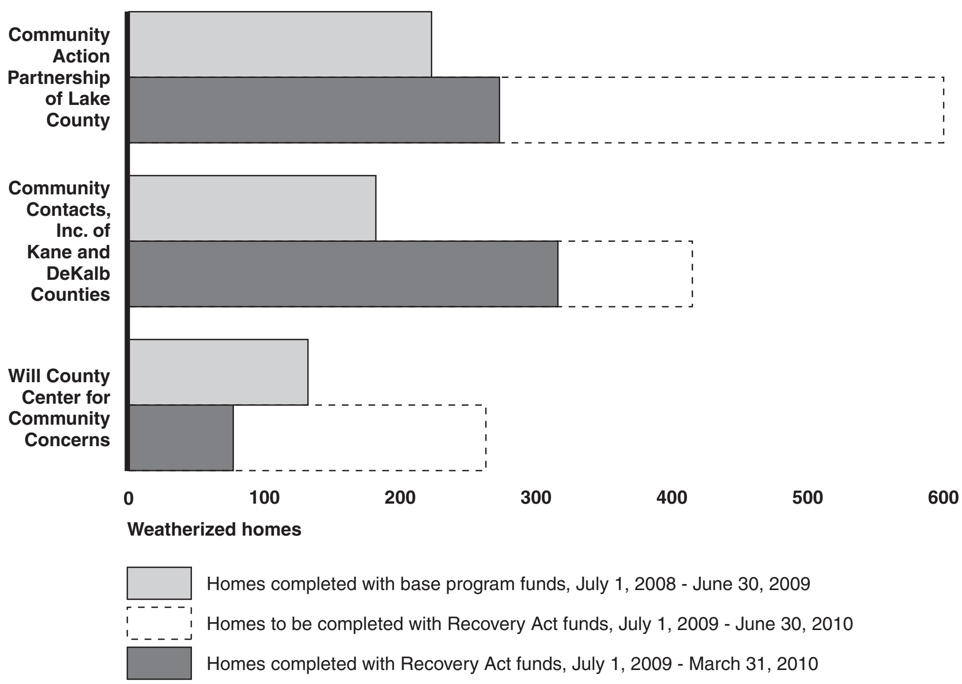
[10]A program year runs concurrently to the state fiscal year, which runs from July 1 to June 30.

[11]According to a DCEO official, the agency retained a portion of its Recovery Act award for administrative and training activities.

[12]According to agency officials, DCEO did not begin weatherizing homes with Recovery Act funds until November 2009, after the U.S. Department of Labor determined the state's prevailing wage rates and local administering agencies concluded their bidding processes to award contracts to implement the weatherization program. By March 31, 2010, the local agencies had spent $15.7 million of their $20.7 million in base program funds and had completed or were in the process of weatherizing 5,309 homes.

As a condition of accepting Recovery Act funds, DOE required that local agencies increase the number of homes weatherized compared to the prior year. The three local agencies we spoke with, like many other local administering agencies in Illinois, were able to increase the number of homes weatherized compared to the prior year because they hired new staff and used new contractors (see fig. 1). For example, Community Contacts, Inc. of Kane and DeKalb Counties increased program staff from 5 to 8 people and more than doubled the number of contractors, from 5 to 11 companies.

Figure 1: Planned and Completed Homes at Three Local Agencies in Illinois



Source: GAO analysis of DCEO data (homes completed) and officials at the Community Action Partnership of Lake County, Community Contacts, Inc. of Kane and DeKalb Counties, and Will County Center for Community Concern (homes to be completed data).

According to DCEO officials, DCEO required that local agencies follow state guidance to assess and document client eligibility, appropriateness of weatherization measures, including completeness and quality of work, and accuracy of labor and material costs, and required them to provide final review of work completed. We reviewed randomly-selected client files and observed home assessments and inspections of clients whose homes had been weatherized using Recovery Act funds at 3 of the 35 local administering agencies in Illinois. For the 3 agencies we visited and the 30 files we reviewed, we found the following:

- Local administering agencies are required to determine and document that clients are eligible for weatherization assistance. Clients are eligible if their household income is at or below 200 percent of the federal poverty income level. In our review of client files, we observed that agencies had obtained income documentation such as wage statements, W-2s, and proof of Social Security or Temporary Assistance for Needy Families eligibility.

- Local administering agencies are required to prioritize the types of home improvements that will result in the highest energy savings. DCEO has implemented a computerized approach to determine which home improvements will result in the largest energy savings, which the agency calls the WeatherWorks system.[13] In our review of client files, we observed work orders that were generated from the WeatherWorks system that listed the weatherization measures to be taken and estimated material and labor costs.

- Local agencies are required to track the expenditures of home improvements to ensure that they stay below the state-established limit of $5,200 per home for labor and materials.[14] The client files we reviewed contained documentation of work orders and contractor invoices that were within the expense limits. All three of the agencies we visited also included documentation of any change that was made to the original work order.

- As prescribed in state and local procedures, each of the three agencies we visited had procedures in place to inspect completed work.

According to DCEO officials, the agency expects to meet the DOE requirement to inspect at least 5 percent of the Recovery Act-funded homes at each of the local agencies, although the agency's home inspection rate was affected by its inability to hire 10 additional

[13]Local agency assessors conduct a home inspection to determine the sources of home heat loss. They input their assessment data into the WeatherWorks system, which generates the benefit/cost ratio and prints out a work order that lists the weatherization measures to be installed and estimates of labor and materials costs.

[14]DCEO allows local agencies to use $1,300 for program support, for a maximum expenditure of $6,500 per home.

weatherization specialists to perform the inspections.[15] Agency officials reported that as of March 31, 2010, the agency had inspected at least 5 percent of the weatherized homes at 11 local agencies, less than 5 percent of the homes at 5 agencies, and no homes at 19 agencies. Officials noted they will do whatever it takes to meet the inspection requirement because it is one of the prerequisites for receiving the remainder of their Recovery Act funds. As of April 5, 2010, DCEO officials stated that they have been able to fill 2 of the 10 specialist positions and hope to fill the other positions soon.

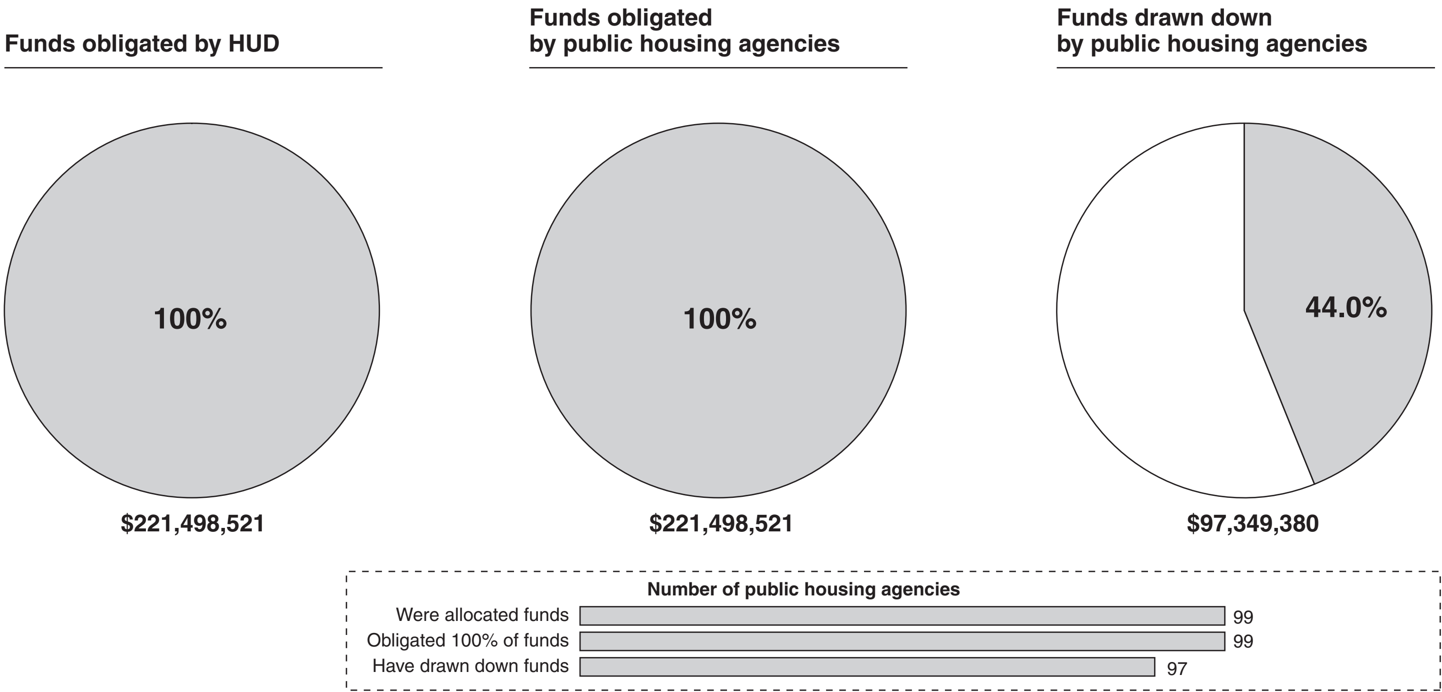
[15]DCEO monitors local administering agencies by visiting each agency at least annually, reviewing client files, and inspecting at least 5 percent of the homes weatherized at each local administering agency. A recent study by DOE's Office of Inspector General observed that in 2009, DCEO had not inspected any of the weatherized units completed with DOE funds at 7 of the 35 local agencies and suggested that DCEO monitoring is even more critical given the dramatic increase in work. In an internal memo, the Illinois Office of Accountability noted that DCEO had inspected at least 5 percent of the homes weatherized at all of the state's local agencies, but acknowledged that the agency did not distinguish between funding sources when selecting homes for inspection. DCEO plans to improve its tracking of Recovery Act- and non-Recovery Act-funded homes to ensure it meets the requirement. See U.S. Department of Energy, Office of Inspector General, Office of Audit Services, *Audit Report: Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois*, OAS-RA-10-02 (Washington, D.C.: Dec. 3, 2009).

Housing Agencies in Illinois Obligated All of Their Recovery Act Formula Funds by the March 17, 2010, Deadline and HUD's Illinois Office Ensured Agencies' Compliance with Recovery Act Requirements

Ninety-nine housing agencies in Illinois collectively received $221.5 million in Public Housing Capital Fund formula grants under the Recovery Act. These grant funds were provided to the agencies to improve the physical condition of their properties. All 99 housing agencies obligated 100 percent of their funds by the March 17, 2010, deadline. Also, 97 of the recipient agencies had drawn down a cumulative total of $97.3 million from the obligated funds, as of May 1, 2010 (see fig. 2). For this report, we visited the Housing Authority of the County of Cook and the Marion County Housing Authority to determine what, if any, challenges they faced in obligating their Recovery Act funds. We also spoke to officials from the Chicago Housing Authority and the Housing Authority for LaSalle County, which we visited for previous reports.[16]

[16]See GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (Appendixes)*, GAO-09-830SP (Washington, D.C.: July 8, 2009); and GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Appendixes)*, GAO-10-232SP (Washington, D.C: December 10, 2009).

Figure 2: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down in Illinois as of May 1, 2010



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

Officials from two of the housing agencies we spoke to said they faced challenges that slowed their ability to obligate their Recovery Act Capital Fund formula grants. As of January 30, 2010, the Housing Authority of the County of Cook and the Marion County Housing Authority had obligated 0 and 18 percent of their funds, respectively, while more than three-quarters of the housing agencies in Illinois (including the Chicago Housing Authority and the Housing Authority for LaSalle County, the other two housing agencies we spoke to as part of this report) had obligated at least 50 percent of their funds by that date. The Housing Authority of the County of Cook used most of the $4.7 million it received in Recovery Act funds to finance a 52-unit development for seniors called the Riverdale Senior Apartments. Although the agency was able to obligate the funds by February 22, 2010, agency officials said that the financing structure for the project was not typical and that they required additional time to finalize the structure and receive Department of Housing and Urban Development

(HUD) approval.[17] Marion County Housing Authority used its Recovery Act funds to award roofing, siding, lighting, and appliance installation contracts for the majority of its properties. The agency was able to obligate all of these funds by March 8, 2010, but agency officials said they were delayed because they had difficulty finding enough local contractors that were willing and able to bid for their Recovery Act projects, and thus had to expand the geographic area in which they solicited for bids. Officials from HUD's Illinois State Office of Public Housing explained that the housing agencies that took on complex design projects had relatively more trouble obligating their funds than the housing agencies that used Recovery Act funds to finance shovel-ready projects.

Officials from the Chicago Housing Authority and Housing Authority for LaSalle County said that they did not experience any major delays in obligating their Recovery Act formula funds and that they were making progress on their Recovery Act-funded projects.[18] Chicago Housing Authority officials said that as of April 30, 2010, they had completed work on 5 of the 12 projects the agency is funding with Recovery Act formula funds and that they expect to complete work on all but one of the remaining projects in 2010. Recovery Act-funded projects include demolitions and comprehensive rehabilitations of properties and the installation of security camera systems. Officials from the Housing Authority for LaSalle County said that as of April 30, 2010, the agency had expended 95 percent of its Recovery Act formula funds. The agency expects to complete work on all 11 of its Recovery Act-funded projects by June 2010. Recovery Act-funded projects include, among other things, the improvement of common areas, upgrades to boiler valves, rehabilitation of units, and the replacement of a retaining wall.

According to HUD Illinois officials, they have practices and procedures in place to oversee housing agencies compliance with all program deadlines

[17]Housing agency officials said that the Riverdale Senior Apartments project was a hybrid between a mixed-finance development, which usually includes Low-Income Housing Tax Credit equity in addition to Capital Fund program and other funds, and a traditional development, which usually involves only Capital Fund program funds. The housing agency worked with HUD for approximately 4 months to finalize the terms and conditions of the development and to ensure it met all applicable federal regulatory requirements.

[18]The Housing Authority for LaSalle County obligated 100 percent of its Recovery Act Capital Fund formula grant by February 3, 2010. The Chicago Housing Authority obligated 99 percent of its Recovery Act Capital Fund formula grant by February 17, 2010, and 100 percent by March 3, 2010.

and requirements, including those under the Recovery Act. For example, they communicated almost daily with the 99 housing agencies in Illinois that received Recovery Act funding to make sure that the housing agencies were obligating their funds in a timely manner and to offer assistance in meeting the deadline. In addition, HUD Illinois officials said that they remotely monitored housing agencies' Recovery Act-related expenditures and verified housing agencies' compliance with the Buy American, Davis-Bacon prevailing wage, Section 3, and supplement-versus-supplant provisions.[19] HUD Illinois officials also said that they performed on-site reviews of 22 housing agencies selected based on the results of risk assessments.[20] Finally, HUD Illinois officials said that they performed National Environmental Policy Act (NEPA) reviews for the majority of the housing agencies in the state and provided technical assistance related to the quarterly reporting requirements under section 1512 of the Recovery Act.[21] Officials from housing agencies we spoke to said HUD's Illinois and Headquarters' staff were helpful in providing them assistance when needed.

Finally, officials from HUD's Illinois office and the four housing agencies we spoke to stated that Recovery Act-related activities have not had any noticeable effect on their ability to administer their regular Capital Fund programs. HUD Illinois officials provided obligations data for each of the

[19]The Buy American provision of the Recovery Act requires that "none of the funds appropriated or otherwise made available by [the] Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or a public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States," and federal agencies can waive these requirements in certain circumstances. Recovery Act, div. A § 1605, 123 Stat. 303. The Davis-Bacon prevailing wage provision requires that contractors and subcontractors performing work on federally assisted contracts in excess of $2,000 pay their laborers and mechanics not less than the wages and fringe benefits that prevail in the area. Section 3 of the Housing and Urban Development Act of 1968 states that "recipients, contractors and subcontractors shall direct their efforts to provide, to the greatest extent feasible, training and employment opportunities generated from the expenditure of section 3 covered assistance to section 3 residents." 12 U.S.C. § 1701u. Finally, the Recovery Act requires that Public Housing Capital Fund grants "serve to supplement and not supplant expenditures from other Federal, State, or local sources or funds independently generated by the grantee."

[20]HUD selected housing agencies for on-site reviews based on the size of their Recovery Act awards as well as results from independent public accountant audit findings, among other factors.

[21]The Recovery Act requires that adequate resources be devoted to ensuring that applicable environmental reviews under NEPA are completed expeditiously and that the shortest existing applicable process under NEPA shall be used.

four housing agencies we spoke with—the data reflect the obligation rate for Capital Fund program funds for fiscal years 2006 through 2008 based on the percentage of funds that were obligated within 1 year of receiving the funds, as well as the obligation rates for the 2008 and 2009 funds as of April 30, 2010 (see table 3). Although the data show that the Housing Authority of the County of Cook and the Marion County Housing Authority are obligating their 2008 Capital Fund program funds more slowly than they have in previous years, officials from both housing agencies told us that their obligation rates are on par with previous years at a time closer to the obligation deadline, and that they expect to fully obligate the funds by that deadline.[22] HUD Illinois officials indicated that housing agencies in Illinois are just starting to obligate their 2009 Capital Fund program funds, in part because the funds became available in September 2009 or later.

Table 3: Percentage of Public Housing Capital Fund Program Funds Obligated 1 Year after Disbursement for Fiscal Years 2006 to 2008, and Percentage of 2008 and 2009 Funds Obligated as of April 30, 2010

	Chicago Housing Authority	Housing Authority for LaSalle County	Housing Authority of the County of Cook	Marion County Housing Authority
2006 obligation rate	87%	85%	31%	57%
2007 obligation rate	85%	92%	22%	35%
2008 obligation rate	49%	90%	8%	27%
2008 obligation rate as of April 30, 2010[a]	100%	96%	36%	58%
2009 obligation rate as of April 30, 2010[b]	21%	23%	16%	3%

Source: GAO analysis of HUD data.

[a]The deadline for obligating the 2008 Capital Fund program funds is June 12, 2010.

[b]HUD Illinois officials stated that housing agencies in Illinois received at least some of their 2009 Capital Fund program funds on September 15, 2009. The deadline for obligating these 2009 Capital Fund program funds is September 14, 2011.

[22]As of April 30, 2010, housing authorities in Illinois had 1.5 months to obligate their 2008 funds. Housing Authority of the County of Cook officials stated that as of April 30, 2010, the agency has obligated 85 percent of its 2008 funds, and that the agency obligated 100 percent of its 2007 funds 10 days before the obligation deadline. They explained that the 85 percent obligation rate was not immediately reflected in the HUD data due to an internal lag in providing the numbers to HUD. Similarly, officials from the Marion County Housing Authority stated that the agency obligated 66 and 64 percent of the 2006 and 2007 funds, respectively, around 1.5 months before the obligation deadline. The agency's obligation rate for the 2008 funds as of April 30, 2010 is 58 percent, which officials believe is on par with recent years' obligation rates.

IHDA Has Allocated and Drawn Down Recovery Act Tax Credit Assistance Funds for a Variety of Low-Income Housing Projects

The Illinois Housing Development Authority (IHDA) is responsible for administering the Tax Credit Assistance Program (TCAP) and the Section 1602 Tax Credit Exchange Program (Section 1602 Program) in Illinois. For this purpose, IHDA established the Equity Replacement Program with a centralized application process through which IHDA awards TCAP and Section 1602 Program funds as gap financing to low-income housing projects that lack private investment due to the broader economic crisis. Under the Low-Income Housing Tax Credit program, developers with allocations of credits sell them to investors to raise equity to fund the development of low-income housing. According to IHDA officials, the average price investors were offering for Low-Income Housing Tax Credits in Illinois fell from approximately $0.85 in 2007 to $0.67 in 2009. IHDA expects to award TCAP and Section 1602 Program funds to projects that were awarded tax credits during the period October 1, 2006, to September 30, 2009, but that could not raise enough equity with the tax credits.[23]

According to IHDA officials, as of April 30, 2010, the agency had awarded $91.6 million (out of $94.7 million available) in TCAP funds, and $128.2 million (out of $264.5 million available) in Section 1602 Program funds to a total of 46 projects.[24] According to data from HUD and The U.S. Department of the Treasury, as of the same date, IHDA had disbursed $22.9 million in TCAP funds and $16.9 million in Section 1602 Program funds to the projects. The projects are expected to produce close to 2,700 low-income housing units, which will primarily benefit the elderly and families. Figure 3 describes the Rosa Parks Apartments project, which received TCAP and Section 1602 Program funds because the developer was unable to find tax credit investors.

[23]Although state housing development agencies are allowed to grant Section 1602 Program funds to projects without allocations of Low-Income Housing Tax Credits, IHDA gave priority to projects that had such allocations. As of April 9, 2010, all the projects that had been awarded TCAP and Section 1602 Program funds in Illinois had allocations of Low-Income Housing Tax Credits.

[24]IHDA allocated some of the Illinois TCAP and Section 1602 Program funds to the City of Chicago, which awards and administers those funds with IHDA's approval. In Illinois, both IHDA and the City of Chicago receive tax credits under the Low-Income Housing Tax Credit program. According to their intergovernmental agreement, IHDA allocated approximately 22 percent of TCAP funds to the City of Chicago. IHDA officials stated that the agency allocates Section 1602 Program funds to the city as the latter is willing to exchange tax credits and demonstrates the ability to award the funds to qualifying projects.

Figure 3: Rosa Parks Apartments, Chicago, Illinois—a Combined TCAP-Section 1602 Program Project

One of eight buildings of the Rosa Parks Apartments project in Chicago's Humboldt Park, West Town, East Garfield, and Near West Side communities. TCAP and Section 1602 Program funds account for about 37 percent of this $27.4 million project. The Rosa parks Apartments project is 100 percent affordable for low-income households.

Source: GAO.

According to IHDA officials, when awarding TCAP and Section 1602 Program funds to projects, the agency considered each project's viability, readiness to proceed, and level of commitment from other sources of funding, among other things. In addition, regarding TCAP funds, IHDA preferred to select projects that already included other sources of federal funding because they were already in compliance with and reporting on certain crosscutting federal requirements like the Davis-Bacon prevailing wage and NEPA requirements.

According to IHDA officials, the agency had to make some changes to its existing procedures in order to comply with certain deadlines and requirements of the Recovery Act programs. For example, HUD required TCAP recipients to draw their funds no later than 3 days after HUD made these funds available to the agency. HUD disbursed the TCAP funds through the Illinois Department of Revenue in the same way it disburses HOME Investment Partnerships program funds to IHDA, a process that, according to IHDA officials, usually takes several weeks.[25] In order to comply with the 3-day draw requirement, IHDA had to set up a separate local account, with approval from HUD and the Governor's Office, from which it could draw the TCAP funds within the 3-day period.

Despite the much-needed gap financing the tax credit assistance programs are providing to low-income housing projects in Illinois, IHDA officials raised concerns about the administrative costs associated with TCAP and the Section 1602 Program. Officials stated that meeting the programs' requirements, especially the reporting requirements under section 1512 of the Recovery Act, consumed significant staff time and resources. They said that the agency could be relieved of at least part of these costs if, for example, it was able to use some percentage of the program funds to cover administrative expenses, as is allowed under HUD's HOME Investment Partnerships Program.[26]

Finally, IHDA officials said that the ability to award Section 1602 Program funds in the form of a loan rather than a grant would give them greater leverage in enforcing program requirements among developers, and loan repayments would provide IHDA a future source of funds for other affordable housing initiatives.

Illinois's Highway Program Met Recovery Act Funding Obligation Deadline and Is on Track to Maintain Spending Levels

In March 2009, $935.6 million was apportioned to Illinois for highway infrastructure and other eligible projects. The federal government obligated the state's full apportionment by the 1-year deadline of March 2, 2010. As of May 3, 2010, $451 million had been reimbursed by the Federal Highway Administration (FHWA) for 588 projects. States request reimbursement from FHWA as they make payments to contractors working on approved projects.

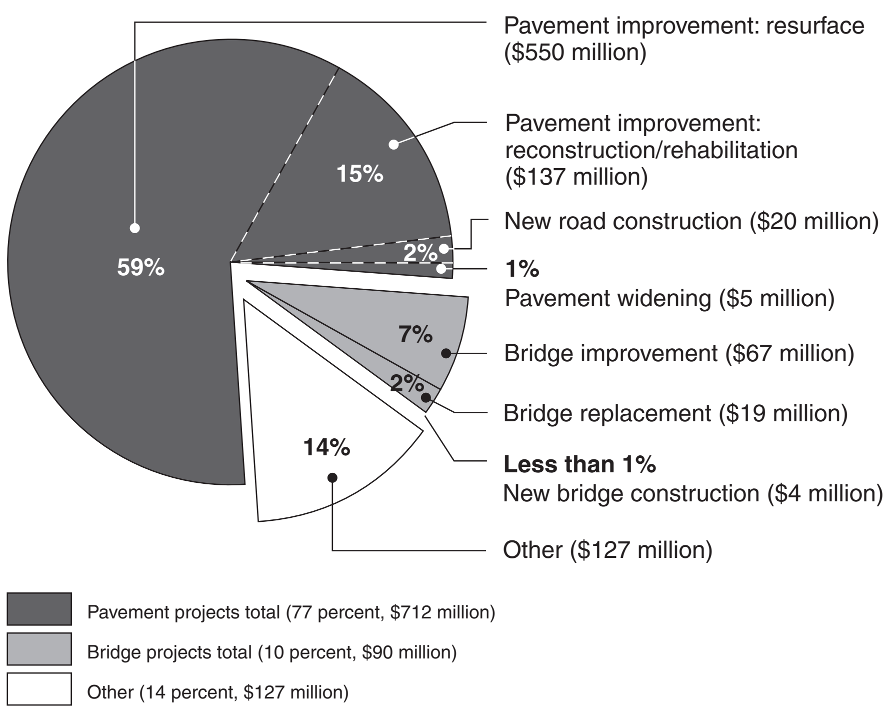
Almost 77 percent of Recovery Act highway obligations for Illinois have been for pavement projects. Specifically, $712 million of the $929 million obligated as of May 3, 2010, is being used for pavement improvements,

[25] Under the HOME Investment Partnerships program, HUD establishes HOME Investment Trust Funds for each grantee, providing a line of credit that the grantee may draw upon as needed.

[26] See 24 C.F.R. § 92.207.

such as resurfacing and reconstruction (see fig. 4).[27] For example, $3.1 million has been obligated for resurfacing of 11 miles of IL Route 47 in Grundy County. State officials told us they selected these types of projects because they could be completed quickly and would create jobs immediately.

Figure 4: Percentage of Highway Obligations for Illinois by Project Improvement Type as of May 3, 2010



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.

Illinois Department of Transportation officials told us they were satisfied with the state’s ability to maintain spending levels for transportation,

[27] According to an Illinois highway official, the amount of highway infrastructure funds obligated as of May 3, 2010, differs from the total Recovery Act obligation amount because the agency has requested that FHWA de-obligate some funds as a result of, for example, project bids coming in under estimates.

which they attributed to the fact that the Illinois General Assembly passed capital funding plans in April and July 2009 that are expected to fund transportation infrastructure projects over the next few years. States are required to certify that they will maintain the level of spending that they had planned on the day the Recovery Act was enacted. In March 2010, Illinois submitted to the U.S. Department of Transportation its maintenance-of-effort certification, which amounted to just under $1.8 billion.[28] U.S. Department of Transportation officials told us that they had accepted the Illinois certification.

[28]A state that does not meet its maintenance-of-effort certification would be excluded from FHWA's redistribution of obligation authority that will occur after August 1, 2011.

ISBE Has Implemented Procedures to Ensure Complete and Timely Reporting of Employment Data but Has Faced Challenges in Ensuring the Accuracy of These Data

The Illinois State Board of Education (ISBE) has implemented procedures to ensure that local educational agencies (LEA)—generally school districts—report employment data (expressed as full-time equivalents, or FTEs) to the agency in advance of the quarterly reporting deadlines under section 1512 of the Recovery Act.[29] For example, ISBE's reporting system identifies LEAs that fail to report FTE and other data to the agency in a timely manner, and agency officials said that they have taken steps to follow up with these LEAs to ensure complete reporting.

However, ISBE has faced challenges in assessing and ensuring the accuracy of the FTE data LEAs report to the agency. OMB guidance emphasizes that recipients of Recovery Act funds are responsible for the quality of the data they submit to federal agencies and should take appropriate steps to minimize significant reporting errors.[30] In the first reporting period, which ended September 30, 2009, ISBE did not assess that the data LEAs reported to the agency were accurate. According to ISBE officials, the agency distributed OMB reporting guidance to LEAs and provided technical assistance as they calculated their FTEs. A November 2009 Chicago Tribune article raised questions about the accuracy of five LEAs' FTE submissions for the State Fiscal Stabilization Fund.[31] As a result, ISBE contacted the LEAs identified and asked them to review and revise their FTEs, as needed.[32] We interviewed each of these

[29]As the recipient of approximately $3 billion in Recovery Act funds (including funds awarded under the State Fiscal Stabilization Fund; Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended; and Part B of the Individuals with Disabilities Education Act (IDEA)) ISBE collects and aggregates FTE data from over 900 LEAs, which it reports to the U.S. Department of Education through the federalreporting.gov Web site. The purpose of calculating FTEs is to avoid overstating the number of other than full-time, permanent jobs paid for with Recovery Act funds. The state of Illinois requires state agencies to submit their data to the Illinois Reporting Test Site for review before the agencies upload their data into federalreporting.gov. According to state officials, this review includes several reasonableness checks, including a comparison of FTE submissions to federally established FTE reporting guidelines.

[30]See OMB, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, M-09-21 (Washington, D.C.: June 22, 2009). Significant reporting errors are 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 agency's recipient report.

[31]See Bob Secter and Erika Slife, "Illinois Data on Stimulus-Related Jobs Saved, Created Don't Add Up," Chicago Tribune, Nov. 4, 2009.

[32] To date, OMB has not allowed recipients to correct their reports from the first reporting period on Recovery.gov. ISBE officials said that they are keeping corrections to FTE data on file until OMB permits agencies to make corrections to their reports.

LEAs and found that two revised their submissions downward to zero and two submitted corrections to their initial calculations.[33] For the two that submitted corrections, we found that they still had not accurately calculated their FTEs for the period. For example, one LEA we spoke to initially counted the number of employees it had paid with Recovery Act funds during the reporting period (135). The LEA later revised this figure to a count of only those teachers that had been laid off and subsequently rehired during the reporting period (76). Both of these calculations are potentially inaccurate under OMB's June 22, 2009, reporting guidance because they are based on the number of people, rather than the number of hours worked that were paid for with Recovery Act funds.[34] ISBE subsequently identified approximately 100 additional LEAs that might have similarly misreported their FTEs for the first period and asked them to review and revise their submissions, as needed. However, ISBE officials said that they did not check the corrected FTE submissions to ensure that they complied with OMB's guidance (for example, by checking the methodologies the LEAs followed or the underlying data and assumptions they used in calculating their FTEs).

ISBE officials said that in response to the number of LEAs that potentially misreported their employment numbers for the first reporting period, the agency instituted reasonableness checks designed to identify reporting errors in future reporting periods. Specifically, ISBE's reporting system now flags recipient reports with 100 or more FTEs, as well as those with more FTEs than the number of teachers and administrators the LEA employs. While a good first step, these checks need to be refined. For

[33]According to ISBE guidance for the first reporting period, LEAs could report zero FTEs for the first reporting period even if they used Recovery Act funds to pay for salaries as long as they would have been able to pay for those salaries in the absence of Recovery Act funds. The fifth LEA we spoke to reported zero FTEs for the first reporting period, based on ISBE's guidance, and did not revise its submission.

[34]OMB's June 22, 2009, guidance (M-09-21) directs recipients of Recovery Act funds to calculate FTEs for the first reporting period using the following formula—cumulative Recovery Act funded hours worked divided by cumulative hours in a full-time schedule. The guidance also directs recipients to count only those jobs that were created or retained with Recovery Act funds, with a job created defined as "a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act" and a job retained defined as "an existing position that would not have been continued to be filled were it not for Recovery Act funding." Simply counting people, rather than FTEs (or the total hours saved or retained with Recovery Act funds) can result in overestimations of the impact of Recovery Act funds, as measured by OMB—for example, paying one part-time teacher or a portion of one full-time teacher's salary with Recovery Act funds is not equivalent to one job paid for with Recovery Act funds, based on OMB's guidance.

example, the former check would likely flag most LEAs that received and reported on Recovery Act funds, while the latter would flag only the most egregious errors.

ISBE continued to face challenges assessing the accuracy of FTE data in the second reporting period, which ended December 31, 2009, despite the introduction of these reasonableness checks. On December 18, 2009, OMB issued guidance that clarified the method for calculating FTEs by directing recipients to base their FTE calculations on the number of hours worked that are paid for with Recovery Act funds.[35] According to ISBE officials, the agency and LEAs did not have sufficient time to implement the new guidance in advance of the reporting deadline. ISBE officials said that the cumulative FTE counts reported in the second period for at least some of the education programs funded with Recovery Act funds were too low—some LEAs had continued to report zero FTEs for these programs, as ISBE did not implement changes to conform to the clarifications in the most recent guidance. As a result, officials said that they contacted six LEAs, including Chicago Public Schools, the largest LEA in the state and, for any positive FTE entry the LEAs made in the first period followed by a zero FTE entry in the second period, asked them to confirm that the number of positions they reported in the first period were still being paid for with Recovery Act funds. According to ISBE officials, if an LEA confirmed that the positions it reported in the first period were still being paid for with Recovery Act funds, the agency used the first-period FTE submission for the second period.[36] After the conclusion of the reporting period, ISBE continued to contact LEAs with similar reporting patterns, and corrected their calculations accordingly.[37] However, as was true in the first reporting period, ISBE did not assess the methodologies LEAs used to compute their revised FTEs for the second reporting period, even that of Chicago Public

[35]OMB's December 18, 2009, guidance directs recipients to use the following calculation to determine the number of FTEs paid for with Recovery Act funds in the reporting quarter: total number of hours worked and funded by the Recovery Act within the reporting quarter divided by quarterly hours in a full-time schedule. See OMB, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, M-10-08 (Washington, D.C.: December 18, 2010). Under the revised guidance, reporting zero FTEs was unlikely if Recovery Act funds were used to pay for salaries.

[36]According to officials from the Governor's Office, based on these corrections, ISBE added over 1,900 FTEs to its second period FTE total.

[37]According to ISBE officials, OMB permitted recipients to make corrections to the data they submitted for the second reporting period through March 15, 2010, so these corrections are reflected in ISBE's recipient report for the period on Recovery.gov.

Schools, which, according to ISBE data, received approximately 75 percent of the Title I funding awarded to Illinois as of December 31, 2009.[38]

ISBE officials said that resource constraints make it challenging to independently assess and verify the accuracy of LEA reports in the few days the agency has to submit its recipient reports to the state for review and subsequently upload them to federalreporting.gov. Officials from the Governor's Office and ISBE feel confident that the reasonableness checks they have created are sufficient to flag potentially inaccurate LEA FTE data and that ISBE has made reasonable efforts based on the reports generated from these checks to work with LEAs to make corrections to their data when necessary. Officials believe that the accuracy of LEAs' FTE calculations is likely to improve over time as the LEAs become more familiar with OMB's guidance and the FTE formula.[39] In addition, ISBE officials said that the agency has hired accounting firms to review, among other things, the FTE calculations 204 LEAs submitted to the agency for the State Fiscal Stabilization Fund funds they received in state fiscal year 2009. Officials said that the results of these reviews will allow the agency to determine areas of concern in the reporting of FTEs and provide additional training and technical assistance to LEAs to help ensure the reasonableness of their FTE calculations.

[38]Also according to ISBE data, 11 LEAs collectively received approximately 50 percent of IDEA funds as of December 31, 2009.

[39]In this vein, an LEA we spoke to about its experiences with recipient reporting for the third reporting period, which ended March 31, 2010, told us that it had developed electronic systems to track and report on the number of hours worked by employees who are paid with Recovery Act funds. Based on our review, we determined this LEA was using a reasonable approach to calculate its FTEs for the third reporting period and could provide documentation that supported its reported figure. The Department of Education Office of Inspector General is currently conducting an audit to determine whether (1) ISBE and LEAs used Recovery Act funds in accordance with applicable laws, regulations, and guidance and (2) the data ISBE and LEAs reported to the Department of Education through federareporting.gov were accurate, reliable, and complete.

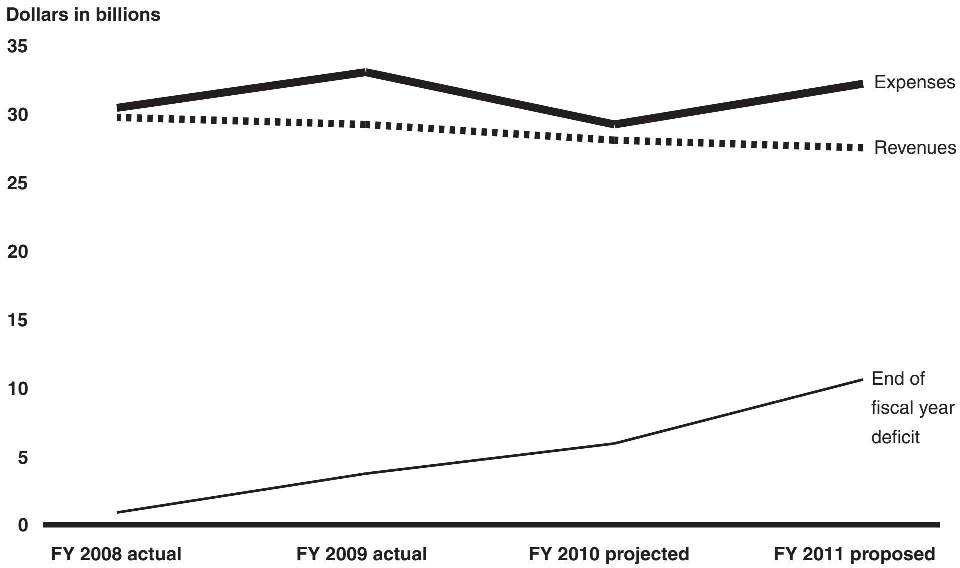
Recovery Act Funds Continue to Aid Illinois's State Budget and Help Local Governments Create and Expand Programs, but Significant State Budget Shortfalls Remain

Recovery Act funds continued to assist the state in funding its education, infrastructure, and Medicaid programs. According to an Illinois OMB official we spoke with, an estimated $1.3 billion from the State Fiscal Stabilization Fund (including both education stabilization funds and government services funds) and $1.6 billion made available as a result of the increased federal assistance to Medicaid (Federal Medical Assistance Percentage, or FMAP) are expected to allow the state to provide $2.9 billion in education and Medicaid services in 2010. However, as the Governor's March 10, 2010, budget proposal for fiscal year 2011 acknowledges, the state faces a fiscal crisis stemming from a structural deficit, escalating pension costs, decreasing revenues, and unpaid bills.[40] The state's financial situation is in part a result of practices that began long before the recession hit in late 2007. According to the fiscal year 2008 Comprehensive Annual Financial Report, the state faces continuing underlying financial weaknesses that significantly impact its overall fiscal health in regards to deferred liabilities, ongoing operational concerns related to cash management, and long-term concerns related to pension and other post-employment obligations.[41] According to the Governor's proposed budget, the projected cumulative deficit at the end of fiscal year 2011 exceeds $10 billion (see fig 5).

[40]A structural deficit is a fiscal system's inability to fund an average level of public services with the revenues that it could raise with an average level of taxation, plus the federal aid it receives.

[41]See Illinois Office of the Comptroller, *State of Illinois Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2008* (July 10, 2009).

Figure 5: Illinois's Revenues, Expenses, and End of Year Deficit for Fiscal Years 2008 through 2011



Source: GAO analysis of Illinois OMB data.

Note: Fiscal year 2010 data represent Illinois OMB projections through June 30, 2010. Fiscal year 2011 data represent Illinois OMB projections based on the Governor's proposed 2011 budget as of March 10, 2010.

With revenues projected to fall well below expenses in fiscal year 2011, the Governor's fiscal year 2011 budget proposal calls for $4.7 billion in borrowing to cover the anticipated shortfall.[42] In addition, in the face of mounting pension obligation bond debt service payments—these payments increased from $564 million in fiscal year 2010 to $1.6 billion in fiscal year 2011, after the state borrowed $3.5 billion for pension bonds in fiscal year 2010—the state created a two-tiered pension system in which new employees will be eligible for less generous benefits. The budget proposal also calls for $300 million in funding cuts for local governments by decreasing the local government income tax distributive share from 10 percent to 7 percent, as well as additional cuts to state employee benefits, social services, and public health programs. Despite over $2.7 billion in estimated cuts, expenses remain $4.7 billion greater than revenues in the proposed fiscal year 2011 budget. When the projected $4.7 billion fiscal

[42] Illinois's Constitution requires the Governor to submit to the Illinois General Assembly a budget proposal in which proposed expenditures do not exceed the available funds for the fiscal year.

year 2011 deficit is added to the $5.9 billion deficit from prior years, the anticipated cumulative deficit at the end of fiscal year 2011 is $10.5 billion.

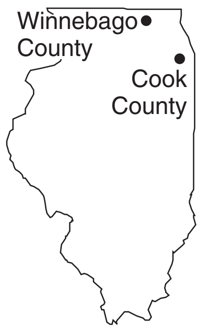
As funding from the Recovery Act ends, the state must raise additional revenues or make significant cuts to existing services to achieve a balanced budget. For example, the fiscal year 2011 budget proposal does not include additional assistance from the State Fiscal Stabilization Fund, which has amounted to over $2 billion cumulatively in fiscal years 2009 and 2010. To address the phasing out of State Fiscal Stabilization Fund funds in fiscal year 2011, the Governor proposed a 1-year, 1-percent increase to both the state income and corporate tax rates, which state officials project will generate an additional $2.8 billion in revenues. Without the projected revenue from these increases, the Governor's Office said that a significant number of teachers are at risk of being laid off in fiscal year 2011 as a result of a projected $1.3 billion funding cut for education programs.[43] Further, the Governor's budget proposal for fiscal year 2011 assumes that the U.S. Congress will extend the increased FMAP through June 2011, providing $1.5 billion for the fiscal year.[44] If the increased FMAP is not extended, the state will be required to raise or borrow additional funds or lower expenses.

In addition to meeting with state officials, we visited Cook County and Winnebago County to review their use of Recovery Act funds and the impact of the funds on local budgets. Figure 6 provides recent demographic information for these counties.

[43]The Governor noted that the proposed tax increases would prevent 17,000 teachers from losing their jobs. See *FY 2011 State of Illinois Budget Address* (March 10, 2010).

[44]The Recovery Act provides increased federal assistance to Medicaid through December 31, 2010; multiple proposals to extend the increase past December 31, 2010, are under consideration in the U.S. Congress.

Figure 6: Demographic Data for Cook County and Winnebago County, Illinois



County demographics	Cook	Winnebago
Estimated population (2009):	5,287,037	299,702
Unemployment rate (March 2010):	11.3%	17.5%
FY10 budget: (change from FY09):	$3.1 billion (4.8%)	$179 million (-6.4%)

Sources: GAO analysis of U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS) Local Area Unemployment Statistics (LAUS) data; Cook County and Winnebago County officials; and Art Explosion.

Notes: County population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

County officials told us that they generally used the Recovery Act grants to pay for a variety of programs and services that would otherwise have remained unfunded. Moreover, county officials said that they generally avoided using Recovery Act funds for programs or personnel costs that would result in additional county funding commitments for long-term obligations.

As of April 23, 2010, Cook County officials reported that the county and selected county agencies received 22 Recovery Act grants totaling more than $80 million. The county formed an internal task force to coordinate and monitor the Recovery Act funds. Table 4 describes the 5 largest Recovery Act grants awarded directly to Cook County and selected county agencies. In addition to these grants, the county awaits notification on five pending applications for grants totaling over $73 million.[45] County officials also reported that the county benefited from $35.7 million in freed-up state funds made available through the increased FMAP for services provided to Medicaid-eligible individuals in the Cook County Health & Hospitals

[45]Not included in this total is a $25 million Energy Efficiency and Conservation Block Grant that the U.S. Department of Energy awarded to a consortium of localities, including Cook County, for the coordination of industry and labor programs in projects involving energy efficiency.

System (CCHHS).[46] Officials noted that the availability of these funds allowed CCHHS to avoid reductions in service and that such reductions are likely once the increased FMAP is discontinued.

Table 4: Largest Five Direct Recovery Act Grants Awarded to Cook County and Selected County Agencies

Agency	Grant	Examples of uses of funds	Amount
U.S. Department of Health and Human Services	Communities Putting Prevention to Work	Obesity prevention	$15,898,821
U.S. Department of Energy	Energy Efficiency and Conservation Block Grant	Development of county-wide energy efficiency strategy, LED traffic lights	12,696,000
U.S. Department of Labor	Workforce Investment Act Title I-B Grant	Job training and employment services	11,459,737
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	Law enforcement equipment and wages	7,165,997[a]
U.S. Department of Labor	Workforce Investment Act Title I-B Grant	Summer employment for youth	5,676,547

Source: Cook County.

[a]This amount represents Cook County's share of a $28.7 million Edward Byrne Memorial Justice Assistance Grant awarded to the City of Chicago.

As of March 9, 2010, Winnebago County officials reported that the county received three Recovery Act grants totaling $1.6 million (see table 5). While funds to replace aging squad cars and retain three corrections officers provide some relief to the county's finances, officials considered the Recovery Act grants to have had little impact on the county's overall budget stability. Budget cuts had compelled the county, which employed about 1,600 people in March 2010, to cut or leave unfilled approximately 150 positions since April 2009.

[46]Cook County operates its own hospitals and health system.

Table 5: Direct Recovery Act Grants Awarded to Winnebago County

Agency	Grant	Examples of uses of funds	Amount
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	Law enforcement vehicles and equipment	$598,133[a]
U.S. Department of Energy	Energy Efficiency and Conservation Block Grant	Traffic signal synchronization, LED traffic lights	568,800
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	Wages for 3 corrections officers for two years	416,485

Source: Winnebago County.

[a]This amount represents Winnebago County's share of a $28.7 million Edward Byrne Memorial Justice Assistance Grant awarded to the City of Rockford.

State-Level Auditors Are Conducting Audits of Recovery Act-Funded Programs

The Illinois Office of the Auditor General and the Illinois Office of Internal Audit under the Office of the Governor are currently conducting audits of Recovery Act-funded programs. According to state officials, the Illinois Office of Accountability, also under the Governor's Office, is charged with assisting the Governor in complying with the Recovery Act and Illinois's Federal Stimulus Tracking Act.[47]

The Illinois Office of the Auditor General is required to conduct an annual audit—referred to as the Single Audit—of the state's financial statements and federal awards, including Recovery Act awards.[48] The selection of programs for the single audit is based on level of program expenditures and other criteria set forth by OMB.[49] The fiscal year 2009 Single Audit (for

[47]The state's Federal Stimulus Tracking Act requires the Governor's Office, or a designated state agency, to track and report monthly to the state legislature on the state's spending of the federal stimulus monies provided pursuant to the Recovery Act. 30 Ill. Comp. Stat. 270/5.

[48]Single Audits are prepared to meet the requirements of the Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507) and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit requires that states, local governments, and nonprofit organizations expending more than $500,000 in federal awards in a year 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 opinion on compliance with applicable program requirements for certain federal programs. See also OMB Circular A-133 (revised June 26, 2006).

[49]See OMB Circular A-133, Compliance Supplement (issued May 2009) and the Compliance Supplement Addendum (issued August 2009).

the period July 1, 2008, to June 30, 2009) includes a number of programs that received Recovery Act funds. Officials from the Office of the Auditor General said that over the past several years, the Illinois Comptroller's Office has been slow to send the expenditure data and the state's financial statements to them, which has delayed the single audit process. As was the case in previous years, the Auditor General did not complete the fiscal year 2009 single audit by the March 30, 2010, deadline.[50] Audit officials said that they expect to release the fiscal year 2009 audit by June 2010.

The Illinois Office of Internal Audit has also initiated audits of several programs that received Recovery Act funds. Officials expect these audits to be substantially completed by June 30, 2010. According to Internal Audit officials, audits (including audits of Recovery Act-funded programs) are prioritized based on several factors, including when agencies received and spent Recovery Act funds, prior audit findings (e.g., findings from the Single Audit), significant increases in funding, whether audit or agency staff had identified errors in recipient reports, and the outcome of agency and program risk assessments that the Office of Internal Audit completed prior to and in anticipation of the implementation of the Recovery Act.[51]

Officials explained that, due to resource constraints, the Office of Internal Audit likely will not audit those programs that were scheduled to be audited in this fiscal year and the next under Illinois's Fiscal Control and Internal Auditing Act. Officials felt that, in light of the amount of Recovery Act funding state agencies have received, the Office of Internal Audit should focus its resources on working with those agencies to ensure that they are using their Recovery Act funds properly. Further, because many of the state's agencies are currently subject to one or more external audits—including audits we and the federal Inspectors General are conducting—the Office of Internal Audit has delayed some of its auditing efforts to ensure those agencies are not overwhelmed and can devote resources to comply with auditors' requests.

[50]See OMB Circular A-133, subpart C, section 320 (revised June 26, 2007)—In general, the single audit must be completed and submitted to OMB 9 months after the end of the audit period. For a fiscal year ending June 30, audits must be submitted by March 31 of the following year. Note that for 2009, the audits were due March 30.

[51]The state's assessments ranked the risk level of state agencies from low to high based on a number of factors, including the amount of Recovery Act funding disbursed to an agency, the number of subrecipients receiving Recovery Act funds, and previous audit findings. We reported on these risk assessments in GAO-09-830SP.

Effective July 1, 2010, the state's internal audit function will be decentralized, and audit responsibility will pass from the Governor's Office to internal auditors within state agencies.[52] The Illinois Department of Central Management Services within the Governor's Office will assume audit responsibility for the few agencies that do not have an internal audit function. These agencies will be responsible for ensuring that Recovery Act funds are used in accordance with federal laws and regulations.

Finally, the Governor established the Office of Accountability in November 2009 to help ensure compliance with the Recovery Act and the State of Illinois Federal Stimulus Tracking Act. Specifically, according to state officials, the Office of Accountability is responsible for, among other things, obtaining clarifications to federal Recovery Act-related guidance; establishing standardized policies and procedures for state agencies for tracking, reporting on, and monitoring Recovery Act funds; assisting agencies with implementing corrective action plans to address audit and risk-assessment findings; and providing technical assistance to state agencies on Recovery Act reporting requirements to ensure accurate and timely reporting. The Office of Accountability will continue to exist in this capacity after July 1, 2010, when the Office of Internal Audit is dissolved.

State Comments on This Summary

We provided the Office of the Governor of Illinois with a draft of this appendix on May 11, 2010. The Director of Recovery Operations and Reporting responded for the governor on May 12, 2010. The official provided technical suggestions that were incorporated, as appropriate.

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Staff Acknowledgments

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[52]According to Illinois officials, Illinois Executive Order 2003-10, *Executive Order to Consolidate Facilities Management, Internal Auditing and Staff Legal Functions*, consolidated the state's internal audit function under the Illinois Department of Central Management Services within the Governor's Office. 27 Ill. Reg. 6401 (April 11, 2003). State officials further explained that Illinois Public Act 096-0795 mandated the return of the internal audit function to state agencies. 2009 Ill. Laws 96-795.