

May 2010

RECOVERY ACT

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



GAO

Accountability * Integrity * Reliability

Appendix XV: Ohio

Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009¹ (Recovery Act) spending in Ohio. The full report on all of our work, which covers 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery>.

What We Did

To continue our ongoing analysis of the use of the Recovery Act funds in Ohio, we updated information on the U.S. Department of Transportation's (DOT) Highway Infrastructure Investment Program, the Department of Housing and Urban Development's (HUD) Public Housing Capital Fund, and three education programs administered by the U.S. Department of Education.² We also reviewed the Edward Byrne Memorial Justice Assistance Grant Program (JAG), administered by the Department of Justice. We previously reviewed this program for our July 2009 report. In addition, we collected information on five programs that we have not covered in the past:

- two programs administered by the U.S. Environmental Protection Agency (EPA)—the Clean Water State Revolving Fund (SRF) and the Drinking Water State Revolving Fund;
- one additional program administered by the U.S. Department of Justice—the COPS Hiring Recovery Program (CHRP); and
- two programs that provide capital investments in low income housing tax credit projects—the Tax Credit Assistance Program administered by HUD, and Section 1602 Tax Credit Exchange Program administered by the U.S. Department of Treasury.

For descriptions and requirements of the programs we covered, see appendix XVIII in [GAO-10-605SP](#). In addition, we continued to gather information about the state's economic condition and met with officials from two local governments that we have visited in the past—the City of Toledo and Putnam County. We also contacted officials from oversight entities in Ohio responsible for monitoring Recovery Act funds to discuss their most recent, ongoing, and planned audit results; as well as Ohio's

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

²The State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended; and Part B of the Individuals with Disabilities Education Act (IDEA), as amended.

participation in the Office of Management and Budget's (OMB) Single Audit pilot program.

What We Found

Following are highlights of our review:

- **Clean Water State Revolving Fund and Drinking Water State Revolving Fund.** The Ohio EPA funded more Recovery Act SRF projects than any state. We found that Ohio EPA has not developed a written monitoring plan for its oversight of Recovery Act projects. Workloads kept the state from completing some project inspections quickly and during site visits to three projects we found some issues with implementing key aspects of the Recovery Act, including “Buy American” provisions and Davis-Bacon wage rates requirement. Moreover, we found that Ohio EPA lacks a system to verify the accuracy of the number of jobs reported by contractors to subrecipients, as funded through these two programs.
- **Education.** Our work found that the Ohio Department of Education has developed plans for monitoring subrecipients’ use of Recovery Act funds. However, we identified weaknesses in how the state plans to monitor State Fiscal Stabilization Fund (SFSF) funds allocated to institutions of higher education. In addition, we found that reporting by the Ohio Board of Regents did not specifically identify the receipt and use of SFSF funds for institutions of higher education, from February through December 2009, which makes it difficult to determine how the funds were used.
- **Edward Byrne Memorial Justice Assistance Grant program and COPS Hiring Recovery Program.** We visited three localities in Ohio—the cities of Columbus and Youngstown and Franklin County—and found that Recovery Act funds are being used to support immediate criminal justice needs. Generally, funds from both grant programs are being used to fund law enforcement personnel; however, these localities are also using Recovery Act funds to purchase equipment. At the state level, Ohio Office of Criminal Justice Services has awarded over \$35 million in Recovery Act funds to support more than 300 criminal justice projects throughout Ohio.
- **Highway Infrastructure Investment Program.** The state Ohio was apportioned \$936 million in Recovery Act funds for highway infrastructure and other eligible projects. Ohio continues to receive bids averaging 10 percent below state cost estimates. These lower-than-estimated project costs allowed the Ohio Department of

Transportation (ODOT) to fund more projects than originally planned. As of April 28, 2010, ODOT had awarded contracts for 339 out of 393 projects authorized by the Federal Highway Administration. Recovery Act funds account for almost one quarter of Ohio's transportation program for fiscal year 2010 - 2011. A decline in major sources of state transportation revenue may affect the state's ability to meet the maintenance-of-effort requirement.

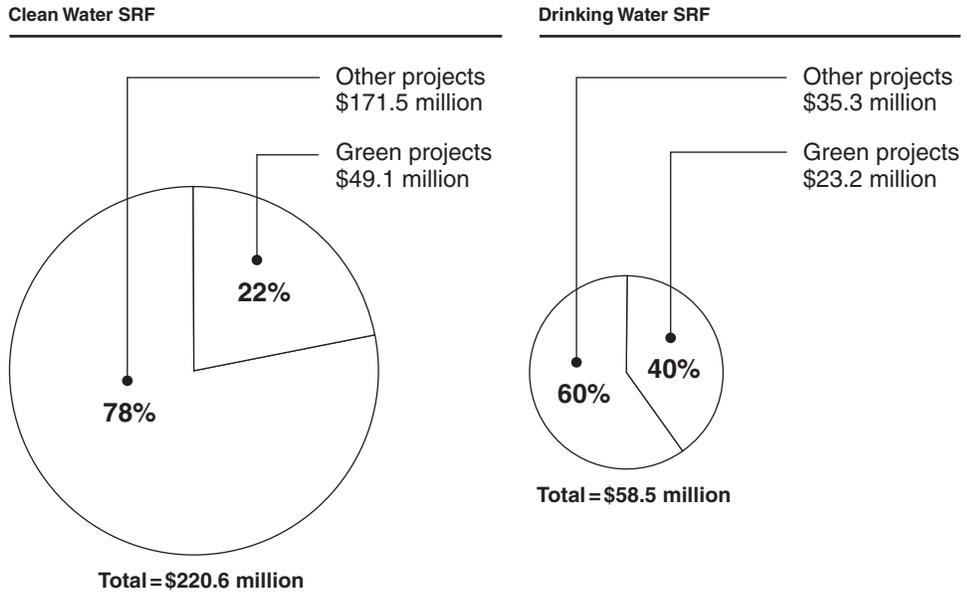
- **Public Housing Capital Fund.** All 52 public housing agencies in Ohio met the March 17, 2010 deadline to obligate funds provided by the Recovery Act. However, seven agencies in Ohio had obligated less than 50 percent of the funding as the deadline neared. Officials at two of those 7 agencies identified several challenges including (1) delays in design work and bid specifications; (2) "Buy American" provisions; and (3) new state environmental requirements.
- **Low Income Housing Tax Credit programs.** Ohio was allocated approximately \$201.6 million for the Tax Credit Assistance Program (TCAP) and the Section 1602 Tax Credit Exchange Program. The Ohio Housing Finance Agency is responsible for administering the funds across the state and has committed almost all TCAP and Section 1602 Program funds to projects.
- **Selected localities' use of Recovery Act funds.** In Ohio, the state and some localities continue to feel the effects of the economic downturn and reduced revenues. We re-visited Putnam County and the City of Toledo and found they continue to face fiscal challenges. Recent Recovery Act awards went to specific projects that were not funded from the general fund. For example, the city of Toledo was awarded funds from the Neighborhood Stabilization Program 2 to fund the removal of housing units and replace them with a mix of affordable housing and market-rate housing. Putnam County received additional Workforce Investment Act of 1998 funds to provide for further worker assistance.
- **Accountability.** There are a number of state entities identified as having responsibility for monitoring Recovery Act-funded projects in Ohio, namely the State Audit Committee, the Office of Internal Audit (OIA), the Auditor of State, and state-appointed Deputy Inspector General for Recovery Act funds.

Ohio EPA Funded More Recovery Act SRF Projects Than Any Other State

Ohio received a \$58,460,000 allocation for its Drinking Water State Revolving Fund (SRF) program from the U.S. EPA and funded 62 projects. In addition, Ohio received an allocation of \$222,851,900 from the U.S. EPA for its Clean Water SRF program and funded 274 projects, making Ohio the state with the most Recovery Act-funded SRF projects. Many Clean and Drinking Water projects also received base SRF funds, and all of the Recovery Act funding was provided in the form of principal forgiveness.³ Ohio EPA officials told us they chose to fund as many projects as possible to spread Recovery Act funds to communities that may not have had an opportunity to participate in the SRF programs in the past. In Ohio, 37 Drinking Water and 76 Clean Water SRF subrecipients had not received funds from the respective SRF program before. Ohio EPA also selected 118 Clean and Drinking water projects to meet the Recovery Act green reserve requirement, as shown in figure 1, and these projects used 22 percent of the Clean Water funds, and 40 percent of the Drinking Water funds. Examples of green projects in Ohio include, installation of solar powered circulators at a wastewater treatment plant, and installation of a micro turbine to convert methane gas into electricity for use at a wastewater treatment plant.

³Principal forgiveness was how Ohio EPA chose to meet the Recovery Act requirement that 50 percent of SRF funds be a form of additional subsidization.

Figure 1: Percentages of Ohio EPA’s Recovery Act Clean and Drinking Water Funds used for Green and Other Projects



Source: GAO analysis of Ohio EPA data.

Eleven Months after Making Its First Award, Ohio Is Developing Its Monitoring Plan

Ohio EPA does not have a written plan to monitor whether the individual Recovery Act projects it funds through the programs comply with Recovery Act requirements. According to U.S. EPA officials, although U.S. EPA has established minimum requirements for subrecipient monitoring, such as requiring states to review reimbursement requests, states are allowed to determine their own subrecipient monitoring procedures, including the frequency of project site inspections. In March 2010, Ohio’s Office of Internal Audit (OIA) identified the lack of a monitoring plan as a program risk and recommended that Ohio EPA develop a risk-based approach to monitoring, document its monitoring procedures, and develop procedures to communicate monitoring results. Ohio EPA officials said each project would have a site visit and an administrative file review and they anticipate completing a monitoring plan, including site visit procedures, for Recovery Act SRF projects by May 2010. There were delays in developing a written monitoring plan and scheduling site visits because of the federal deadline to have all projects under contract or construction resulted in the state using most of the resources devoted to the program, according to state officials. As we have reported, state

officials said they limited the amount of administrative costs each state agency could charge in order to maximize the impact of Recovery Act resources in the state.⁴

The state began awarding SRF funds in June 2009. By April 23, 2010, Ohio EPA had inspected 53 out of the 54 Drinking Water projects under construction. However, as late as March 12, 2010, Ohio EPA had inspected only 67 Clean Water projects—about 29 percent—of the total projects.⁵ By April 19, 2010, Ohio EPA had inspected about 41 percent of the Clean Water projects, but its reports show that at least 6 projects are complete and have not been inspected and there are still a number of others that are nearing completion and have not been inspected.

The site visits are normally done by engineering staff, but in October 2009, to address the workload, non-engineering staff from district offices began to visit project sites to conduct the required inspections and monitoring, according to an Ohio EPA official. However, in March 2010 the supervisor for the engineering team said some of these inspections needed to be redone because the quality varied or because of issues with the project identified during the visit. The supervisor said they prioritized visits based on the award date, and the project's construction period. However, some Clean Water projects that had not started or had just started construction were also visited.

On-site monitoring of projects while construction is ongoing can help ensure compliance with Recovery Act requirements before the funds have all been spent. To see how subrecipients implemented key aspects of the Recovery Act, we visited three Clean Water projects under construction that Ohio EPA had not yet visited.⁶ The projects were selected to provide a

⁴See GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, [GAO-09-1017SP](#), (Washington, D.C.: Sept. 23, 2009).

⁵This percentage is calculated using the number of total projects (229), rather than the number of projects under construction, because inspection information provided by Ohio EPA had incomplete construction status information. Ohio EPA is responsible for inspections at 229 Clean Water projects; 45 additional awards were given to local governments for home sewage upgrades and replacements. The local governments inspect those projects.

⁶One of projects will bring sewer service to 168 city residences. Another of the projects will rehabilitate sewers in three areas of a county. The final project will improve the pump station and increase the efficiency at a regional wastewater treatment plant.

mix of (1) green and nongreen projects, (2) subrecipient service areas, and (3) projects at various stages of completion. During our visits, we conducted interviews and asked for documentation for selected items on Ohio EPA and U.S. EPA's checklists for Recovery Act site visits. We noted, and the subrecipients confirmed, the following issues:

- The Buy American documentation provided by one of the subrecipients raised questions as to whether all of the manufactured goods used in their project were produced domestically. Information provided by the U.S. EPA states that without adequate documentation, compliance with Buy American requirements cannot be credibly and meaningfully demonstrated. For this subrecipient, the specificity and detail of the documentation provided about one of the products in the project left questions as to whether the product was produced at one of its manufacturer's non-domestic locations.
- At the time of our visit, one subrecipient was almost 2 months late in conducting interviews of contractor workers to ensure payment of Davis-Bacon wage rates. U.S. EPA's award terms and conditions require subrecipients to interview a sufficient number of contract workers within 2 weeks of the first payroll.
- The jobs data submitted by one subrecipient included sewer district employee hours that were not Recovery Act funded. OMB guidance states that only Recovery Act funded hours should be included in quarterly reports.⁷ This same subrecipient's fourth quarter 2009 data covered September, October, and November, instead of October, November and December. The subrecipient included data for this time period in reports for two other projects. The employee who compiled the data said the numbers for the first quarter of 2010 also lag by 1 month. The employee said they staggered the months to give more time to compile the data.

Ohio EPA developed a checklist to help its monitoring staff ensure compliance with Recovery Act requirements, but the checklist does not direct these staff to review reporting documentation that could aid in verifying the accuracy of job counts. In March 2010, U.S. EPA released a Recovery Act checklist for states to use when inspecting subrecipients

⁷OMB Memorandum M-10-08: Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates, memorandum from Peter R. Orszag to the heads of executive departments and agencies (December 18, 2009) at pp. 1-2.

that includes a section on reporting compliance.⁸ Ohio EPA's current monitoring procedures would not detect noncompliance with reporting requirements, such as reporting on the wrong time period, as described above. State oversight of subrecipient job reporting during site inspections could help the state to ensure data quality and compliance with OMB guidance.

Ohio Lacks a System to Verify the Accuracy of Jobs Data

Ohio EPA has not instituted a process to validate subrecipients' quarterly job reports. Although Ohio EPA has a process for basic reviews of subrecipients' reporting forms, the agency has not developed a process to validate job data quality.⁹ In addition, Ohio EPA does not require subrecipients to collect documentation and validate data collected from their contractors, and Ohio EPA has not provided guidance to subrecipients on validating job reports. In March 2010, Ohio's OIA also recommended that Ohio EPA develop procedures for validating subrecipients' job data.

To learn what actions were being taken by subrecipients to verify job data from its contractors for the fourth quarter 2009, we spoke with staff responsible for providing data on jobs to the state at 25 of the largest projects in Ohio that had awards by the end of 2009.¹⁰ Some subrecipient staff responsible for reporting jobs data to the state expressed concern about the accuracy of data submitted by contractors.

- Of the 16 projects that had activity to report, 14 did not have a process to verify contractor job counts with payroll or other records. Several subrecipients acknowledged they already collect payroll information

⁸The checklist is a tool to help states evaluate subrecipient compliance with the Recovery Act requirements. U.S. EPA does not require states to use the checklist. Ohio EPA officials noted that their checklist has been reviewed by U.S. EPA regional officials.

⁹OMB's June 22, 2009 guidance states that recipients and subrecipients should establish internal controls as appropriate to ensure accurate and complete information reported in recipient reports. OMB Memorandum M-09-21: Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, memorandum from Peter R. Orszag to the heads of departments and agencies (June 22, 2009) at p. 29.

¹⁰By Dec. 31, 2009, Ohio made awards to 189 Clean Water projects and 60 Drinking Water projects. We spoke with staff at the largest six Drinking Water projects, which represent about 44 percent of Ohio's Recovery Act Drinking Water funds, and we spoke with staff the largest nineteen Clean Water projects, which represent about 34 percent of Ohio's Recovery Act Clean Water funds.

that could help confirm the job data, but did not take steps to compare the two sets of numbers.

- Of the 14 projects that did not have a formal verification process, staff at 3 projects had observed the work activity and had an idea of job activity. However, these staff could not document the accuracy of the job counts based on these visits. Eleven projects did not have any manner to verify job counts.

Reliance on contractor submitted data without validation may result in reports that do not accurately reflect the number of Recovery Act-funded jobs in the reported time period. In order to ensure more accurate accounting for the number of jobs created, the state may want to provide guidance to its subrecipients to verify data on the number of hours worked and paid with Recovery Act funds. Comparisons of job numbers and payroll records, for example, could be conducted using payroll documents required for Davis-Bacon compliance checks under the Recovery Act. In addition, including oversight of subrecipient reporting data during state project inspections and providing guidance to subrecipients on how to validate job data could improve data quality and ensure compliance with OMB guidance. Further, fully implementing the OIA's recommendations should strengthen subrecipient monitoring and reporting data quality.

Ohio EPA reviewed a draft of this appendix and said that it had developed steps to validate subrecipients' quarterly job reports. We have not tested the implementation of these steps, but note that while the steps appear to check the calculations and completeness of the forms submitted by subrecipients, they do not validate that the hours reported were actually worked and funded with Recovery Act funds.

Monitoring of Recovery Act Education Funds in Ohio

The Ohio Department of Education (ODE) administers all Recovery Act funds for education, including Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended, (ESEA), the Individuals with Disabilities Education Act, as amended, (IDEA), Part B, and the State Fiscal Stabilization Fund (SFSF).¹¹ ODE is passing Recovery Act ESEA Title I and IDEA funds to school districts. It is using SFSF funds to (1) fund a portion of the state's foundation funding formula it uses to support local educational agencies (LEA) each year, (2) provide funding to the state's public institutions of higher education (IHE) through the state's share of instruction, and (3) support operating costs such as salaries and other expenses for the Ohio Department of Rehabilitation and Corrections.

Ohio Has Developed a Comprehensive Monitoring Plan but Some Weaknesses Need to Be Addressed

ODE has developed comprehensive plans for monitoring how its subrecipients spend funds under ESEA Title I and IDEA; however, we identified weaknesses in the state's plans for monitoring funds from the SFSF. Specifically, we identified weaknesses in how the state plans to monitor the SFSF funds allocated to IHEs.

For ESEA Title I and IDEA, ODE's Office of Federal Programs relies on existing monitoring policies and procedures to monitor LEAs' use of Recovery Act funds through a pre-existing online grants application and verification system. This system provides ODE with information on the amount and types of expenditures paid with Recovery Act funds when LEAs request a payment. ODE has an established monitoring schedule to ensure all LEAs are monitored on a 3-year cycle. In addition, ODE's Office of Exceptional Children coordinates with the Office of Federal Programs to monitor LEAs' use of IDEA by conducting management assistance reviews. ODE's monitoring procedures include the following steps:

- Annual off-site administrative reviews are completed for LEAs receiving Recovery Act funds, including ESEA Title I and IDEA. These

¹¹The Recovery Act created the SFSF in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services, such as public safety. Stabilization funds for education distributed under the Recovery Act must first be used to alleviate shortfalls in state support for education to school districts and public institutions of higher education (IHE). States must allocate 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds).

reviews help ODE determine which LEAs may need an additional level of review outside of the 3-year cycle.

- All LEAs being reviewed are required to submit a self-evaluation annually prior to June 30.
- At least 10 percent of the LEAs being reviewed will be surveyed by telephone to validate responses submitted in their self-evaluation. In addition, telephone surveys will be conducted with all LEAs being reviewed that do not submit their self-evaluation and selected LEAs with certain risk factors including improvement status, allocation amount, previous audit results, staffing changes, and date of the last telephone survey.
- A minimum of 10 percent of the LEAs being reviewed will receive an on-site monitoring visit each year. All on-site visits conducted by the Office of Federal Programs and the Office of Exceptional Children include data collection instruments, monitoring reports, and feedback to LEAs.
- ODE has processes to verify that required corrective actions are implemented.

Because the SFSF program is new, Ohio had to develop new monitoring policies and procedures to track those funds and ensure its subrecipients were in compliance with the rules governing Recovery Act funds. Ohio received about \$1.79 billion from the SFSF and allocated those funds to LEAs, IHEs, and the Ohio Department of Rehabilitation and Corrections. As required by the U.S. Department of Education, Ohio submitted its plan for monitoring how these funds are spent to the department.

- For LEAs, ODE's Center for School Finance and Options has developed new monitoring policies and procedures and trained existing staff to monitor LEAs' use of Recovery Act funds. The Center for School Finance and Options will rely on 5-year financial forecasts, quarterly expenditure data submitted to the Ohio Auditor of State, and on-site visits to monitor SFSF funds. ODE required LEAs to include supplemental data on the allocation and expenditure of SFSF funds in their 5-year financial forecasts that are updated twice a year. In addition, the Auditor of State requires LEAs to submit quarterly expenditure data for all Recovery Act funds, including SFSF funds. ODE has access to the Auditor's data and reviews the quarterly reports to monitor expenditures. In addition, LEAs that have received fiscal

distress designations from the Auditor of State are subject to on-site monitoring, which includes a review of SFSF funds.¹²

- For IHEs, Ohio's Board of Regents (BOR) reviews quarterly and year-end financial reports to ensure IHEs are in compliance with Recovery Act reporting requirements. To ensure SFSF funds are being used to support education and general expenditures, BOR shares federal guidelines with IHE chief financial officers and requires them to certify SFSF funds are being used appropriately. In addition, IHEs in Ohio have been directed to report quarterly receipt and use of SFSF funds to the Auditor of State.
- For Department of Rehabilitation and Corrections, the Ohio Office of Budget and Management will monitor SFSF funds through appropriation and allotment control processes in the state's accounting system. According to Office of Budget and Management officials, the state will document the allocation and spending of SFSF funds through its Monthly Financial Report and use payroll reports to validate salaries paid by the Department of Rehabilitation and Corrections using SFSF funds.

Although Ohio has developed a plan for monitoring SFSF funds, reporting by the Ohio Board of Regents (BOR) did not specifically identify the receipt and use of those funds during the first and second reporting periods (February through December 2009) which makes it difficult to determine how the funds were used. As noted above, BOR reviews quarterly and year-end financial reports to monitor IHEs' Recovery Act spending and also estimates the number of jobs retained by IHEs. A senior BOR official told us that most SFSF expenditures by IHEs were spent on salaries. IHEs also report the monthly receipt and use of SFSF funds to the Auditor of State's Web site, as required by the state's monitoring plan. However, when we reviewed the Web site in April 2010, we found that Ohio State University, the largest SFSF recipient in Ohio, had not reported any information on its SFSF expenditures. Ohio State University financial officials told us that they will report the required information to the Auditor of State's Web site, and that SFSF funds were used for personnel costs during the first and second reporting periods. Because BOR did not amend the quarterly financial reports until the third quarter, BOR may

¹²In the case of LEAs, financial distress designations are rated as fiscal caution, fiscal watch or fiscal emergency. As of April 21, 2010, 32 LEAs have received financial distress designations.

have been unable to determine how SFSF funds were used during the first and second reporting periods. Moreover, a senior state official told us that there is no mechanism to validate the expenditure information submitted by IHEs. According to a senior BOR official, for the third reporting period and going forward, all IHE CFOs and controllers have certified that all SFSF expenditures by IHEs, including Ohio State University, will be used for salaries— an allowable expenditure under the Recovery Act; and the financial quarterly reports will identify cumulative revenues and expenditures associated with SFSF funds. In addition, after reviewing a draft copy of this appendix, BOR drafted changes to their section of the state's SFSF monitoring plan, which was originally submitted to the U.S. Department of Education on March 12, 2010. The state is currently in the process of reviewing these changes and it is anticipated they will submit an updated plan to the U.S. Department of Education by May 28, 2010.

Number of Challenges Could Impede Implementation of Ohio's Monitoring Plan

We identified a number of challenges facing the state in implementing its plan to monitor Recovery Act education funds. As we discussed in our September report,¹³ Ohio limited the amount of administrative costs each state agency could charge in order to maximize the impact of Recovery Act funds in the state. As a result, ODE did not add additional staff to monitor how the LEAs were spending Recovery Act funds. For ESEA Title I and IDEA, ODE did not increase the number of staff responsible for monitoring Recovery Act funds, despite double the number of applications that needed to be approved in the grants application and verification system. For SFSF, ODE also did not increase staff but has authorized overtime for staff making programming changes to various reporting and monitoring systems and convened a series of training sessions to educate staff about the new SFSF monitoring policies and procedures and how to respond to LEAs needing technical assistance.

The increased workload on existing staff may limit the state's ability to carryout its monitoring program. For example, ODE has experienced delays in filing the reports to LEAs on their on-site visits. According to ODE's on-site monitoring procedures, the Office of Federal Programs will issue a report of findings to the LEA within 30 days following the on-site review and the Office of Exceptional Children will issue a report of findings to the LEA within 60 days following the on-site review. These reports are important because some LEAs may not have sufficient notice

¹³[GAO-09-1017SP](#).

to take correction action or receive technical assistance needed to ensure appropriate use of Recovery Act funds. Between December 2009 and April 2010, ODE had completed 44 on-site visits. As of April 22, 2009, the Office of Federal Programs had issued reports to 21 LEAs on ESEA Title I and IDEA of which 10 were issued within 30 days following the on-site review. However, the Office of Exceptional Children has not issued any management assistance reviews since April 8, 2009. When we visited Toledo Public Schools in April 2010, district officials said that they still had not received a report based on ODE’s visit 3 months earlier. A senior ODE official later confirmed that Toledo Public Schools was issued a report of findings from the Office of Federal Programs on April 19, 2009, but was still awaiting results from the management assistance review conducted by the Office of Exceptional Children during the same period.

CHRP and JAG Programs Are Supporting Immediate Local Criminal Justice Needs

We visited three localities in Ohio—the cities of Youngstown and Columbus, and Franklin County. Youngstown and Columbus received both JAG and CHRP funding, while Franklin County only received JAG funding. Budget conditions in Columbus and Youngstown are such that police departments have experienced budget cuts and were in danger of laying off personnel. In Youngstown, the city is the prime recipient of JAG funds and has provided funds to four other local governments. In Columbus, the city is a subrecipient of funds from Franklin County, which is responsible for meeting all federal reporting requirements for JAG. Table 1 shows the amount of funding received by the state of Ohio for CHRP and JAG programs.

Table 1: Amount of Funding Received by State of Ohio

Funding type	Amount
CHRP	\$79,294,927
JAG local funding	\$23,596,436
JAG state funding	\$38,048,939
Total	\$140,940,302

Sources: Department of Justice and Ohio Office of Criminal Justice Services.

Recovery Act Funds are Being Used to Retain Jobs

At the state level, officials told us that JAG funds awarded to subrecipients are being used to support all seven program areas. The largest percentage of pass-through funds was awarded to support law enforcement activities. Table 2 shows the breakdown of funds, by program area, awarded to subrecipients by the Ohio Office of Criminal Justice Services (OCJS).

Table 2: Distribution of JAG Funds Awarded by OCJS, by Program Area

JAG program area	Amount	Percentage	Total number of projects
Law Enforcement	\$12,401,035.52	35	110
Corrections	8,323,141.80	24	46
Crime Prevention & Education	4,593,430.22	13	70
Program Planning, Evaluation, & Technology Improvement	3,290,903.82	9	26
Crime Victim & Witness Programs	2,676,585.32	8	37
Prosecution & Courts	2,805,401.38	8	33
Drug Treatment & Enforcement	934,406.45	3	12
Total	\$35,024,904.51	100	334

Source: Ohio Office of Criminal Justice Services.

Although JAG funds can be used to support 7 broad program areas, in general, the localities we visited are using Recovery Act funds to support law enforcement activities. Specifically, funds are being used to retain personnel who would have otherwise been laid off. In Youngstown, for example, the city was able to retain six officers with its direct allocation JAG award and another four with its pass-through award from the state. In Columbus, city officials told us the city was able to provide jobs to 23 cadets once they graduated from the police academy. Without Recovery Act JAG funds, the city would have been unable to provide jobs to the 23 cadets after graduation. Table 3 shows how JAG funds are being used in the localities we visited.

Table 3: Distribution of JAG funds in selected localities, by Program Area

	Youngstown	Columbus	Franklin County
Law Enforcement	\$852,599 (100%)	\$1,688,000 (100%)	\$3,134,173 (64%)
<i>Personnel</i>	586,419 (69%)	1,388,000 (82%)	2,202,961 (70%)
<i>Equipment</i>	266,180 (31%)	300,000 (18%)	545,032 (17%)
<i>Other Costs</i>	N/A	N/A	386,180 (12%)
Prosecution & Courts	0 (0%)	0 (0%)	82,000 (2%)
Crime Prevention & Education	0 (0%)	0 (0%)	237,500 (5%)
Corrections	0 (0%)	0 (0%)	1,031,565 (21%)
Drug Treatment & Enforcement	0 (0%)	0 (0%)	0 (0%)
Program Planning, Evaluation, & Technology Improvement	0 (0%)	0 (0%)	25,000 (.5%)
Crime Victim & Witness Programs	0 (0%)	0 (0%)	396,585 (8%)
Total	\$852,599	\$1,688,000	\$4,906,823

Source: Columbus Division of Police, Franklin County Office of Homeland Security & Justice Programs, and Youngstown Police Department.

Note: Funding and percentage amounts for Franklin County include city of Columbus. The above total for Franklin County does not include \$402,088 withheld for administrative costs associated with managing the grant. Percentages may not add to 100 percent due to rounding.

Although localities do not have much flexibility in the purposes for which CHRP funds are to be used, Youngstown and Columbus have taken different approaches in how they are using their awards. In Youngstown, the city is using its CHRP award to retain 9 additional officers within the police department. Officials told us because Youngstown received Recovery Act JAG and CHRP funds, no officer positions had to be eliminated. In Columbus, however, CHRP funding is being used to hire 50 new officers. These 50 officers will allow the city to move more experienced officers into neighborhood policing programs.

Localities Have Concerns with Maintaining Positions Funded by the Recovery Act

Officials in the localities we visited expressed concerns with their ability to maintain positions funded with Recovery Act dollars. Officials in Youngstown told us that the city plans to use revenue from the city's general fund to pay the salaries of those officers funded by CHRP and JAG funding after those funds expire. However, the ability of the city to do this is dependent on Youngstown not replacing officers expected to retire this year and in 2011 and using those funds to pay the salaries of those officers currently being funded by the Recovery Act; overall the number of officer positions in the department is expected to decrease. The city anticipates

losing approximately 30 officers to retirement from 2009 through early 2011.

In Columbus, voters passed a half percent income tax increase in August 2009 to provide, among other things, the city with additional general fund revenue. Officials told us they believe that the additional revenue generated by the increase will be sufficient to ensure that officers funded with JAG and CHRP grants can be retained once funding expires. The proposed 2011 budget for the Columbus Division of Police increases funding by more than \$5.8 million from fiscal year 2010. Officials told us that they believe this increase is the result of the income tax increase and the commitment of the city to maintain programs funded with Recovery Act dollars.

The ability to sustain programs once Recovery Act funds expired influenced how one locality is spending JAG funds. Franklin County officials told us that one subrecipient revised their application in order to purchase an automatic license plate reader instead of funding a school resource officer because of concerns with being able to maintain the position once JAG funds were expended.

OCJS officials told us that the ability of subrecipients receiving pass-through funding to sustain programs funded with their JAG award was factored into the competitive award process. However, OCJS stated that it is not their responsibility to ensure that programs can be sustained once funding expires. According to OCJS officials, they anticipate that subrecipients will apply for JAG funding to continue projects after Recovery Act funds have been expended. OJCS officials also told us that they do not expect the Department of Justice to increase its award to states in response to more applicants.

**Oversight of Subrecipient
Use of Recovery Act funds
Varies**

In addition to collecting and validating subrecipient data for the various federal reporting requirements, prime recipients also provide oversight to ensure that subrecipients are appropriately using Recovery Act funds. OCJS uses both on-site fiscal and programmatic reviews and desktop fiscal reviews to track and monitor the progress of subrecipient awards to ensure compliance. Although OCJS plans on completing on-site reviews of all the sub-recipients, officials told us they are using a risk-based assessment to prioritize which subrecipients to visit first.

An official at OCJS told us that the use of on-site reviews resulted in identifying a subrecipient that was unable to provide satisfactory

documentation of compliance with federal reporting requirements. This official told us that the state pulled back the subrecipient's Recovery Act funds, as well as non-Recovery Act grant funds.

Franklin County officials also told us that they are using desktop and on-site reviews to ensure compliance with state and federal requirements, not only for Recovery Act-funded grants but for all criminal justice-related grants. As part of their monitoring, officials told us they have developed a performance measurement tool modeled after the Bureau of Justice Assistance's Performance Measurement Tool for subrecipients to use with their Recovery Act funds. The Franklin County measurement tool, in addition to assisting officials with determining future criminal justice priorities for the region, also serves as a way for subrecipients to identify positions funded with Recovery Act dollars.

In Youngstown, however, oversight is limited to desktop reviews of subrecipient reports submitted to Youngstown officials responsible for managing the grant. Officials told us that they have not performed any on-site reviews. They stated that they know Recovery Act funds were spent appropriately because they had receipts for the equipment purchased with JAG funds.

Highway Infrastructure Investment

The Recovery Act provides additional funds for highway infrastructure investment using the requirements and structure of the existing Federal-Aid Highway Program, generally and its Surface Transportation Program in particular, which apportions money to states to construct and maintain eligible highways and for other surface transportation projects. In March 2009, \$936 million in Recovery Act funds was apportioned to Ohio for highway infrastructure and other eligible projects. The federal government obligated¹⁴ the state's full apportionment by the 1-year deadline of March 2, 2010.

According to Ohio Department of Transportation (ODOT), the state continues to receive bids averaging 10 percent below state cost estimates, which means the state must request FHWA to deobligate funds in order to

¹⁴For federal-aid highway projects, the Federal Highway Administration of the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's contractual commitment to pay for the federal share of a project. This commitment occurs at the time the federal government approves a project agreement and the project agreement is executed.

recapture the funding not needed and subsequently obligate those funds onto new projects. While lower-than-estimated project costs reduced the obligation rate, they also allowed ODOT to fund more projects (51) than originally planned. ODOT officials told us that the increase in the number of funded transportation projects was directly related to contracts being awarded below the state's project cost estimate. According to ODOT, because so many contracts were awarded below the state cost estimate, after the March 2, 2010 deadline, the Federal Highway Administration (FHWA) deobligated \$17 million of the highway funds it had obligated for Ohio.

As of April 28 2010, ODOT had awarded contracts for 339 out of 393 projects funded by FHWA. These contracts were for new construction, minor rehabilitation pavement, and bridge maintenance projects among others; and had an estimated cost of \$803 million. Of those awarded projects 194—valued at \$565.8 million—were under construction and 71—valued at \$59.2 million—are substantially completed. ODOT officials expect the number of contracts to increase tremendously because they typically make a great number of awards during the spring and summer months. As of April 5, 2010, \$145 million had been reimbursed by FHWA to Ohio.

**No Overall Impact
Assessment Planned for
Use of Recovery Act's
Highway Funds**

According to FHWA Ohio Division officials, determining the impact of the Recovery Act funding would be difficult because a number of projects are funded with Recovery Act funds as well as other federal transportation aid. ODOT reported that it has some capacity to determine the impact of the Recovery Funds on Ohio's highway system. ODOT annually assesses current and estimates future bridge, pavement, and safety and congestion conditions. It also measures the impact of its highway program by measuring miles of pavement and train track improved and the number of bridges and ports improved. However, ODOT officials reported because the Recovery Act does not require an impact assessment, neither FHWA nor ODOT has plans to determine the extent to which the Recovery Act funds have impacted Ohio's highway's system. Officials did note that the \$936 million Recovery Act funds account for nearly one quarter of Ohio's transportation program for fiscal year 2010-2011, and the majority of this funded transportation construction projects.

Ohio Reported Some Challenges in Meeting the Maintenance of Efforts Requirements

According to ODOT, Ohio is encountering some challenges in meeting the maintenance-of-effort (MOE) requirement. The Recovery Act's MOE—which is designed to prevent states from substituting federal funds for state funds—requires the governor to certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it had planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009 to September 30, 2010. ODOT is concerned that the decline in major sources of state transportation revenue may affect Ohio's ability to meet its MOE requirement. ODOT reported that Ohio's transit and aviation expenditures are about \$5 million less than the forecasted level as of March 31, 2010. Ohio relies on a number of revenue sources to meet its MOE requirement. The major revenues sources include Ohio's general revenue fund and motor fuel tax revenue, both of which have declined. ODOT officials reported that components of the general revenue funds—aviation and transit categories—have declined by about 20 percent and the motor fuel tax revenue has declined by more than 2 percent as of October 2009. In addition, ODOT officials expect further decreases in state revenues. States that are unable to meet MOE obligation will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011.¹⁵

Housing Agencies in Ohio Met the Recovery Act Deadline for Obligating Funds but Faced Some Challenges

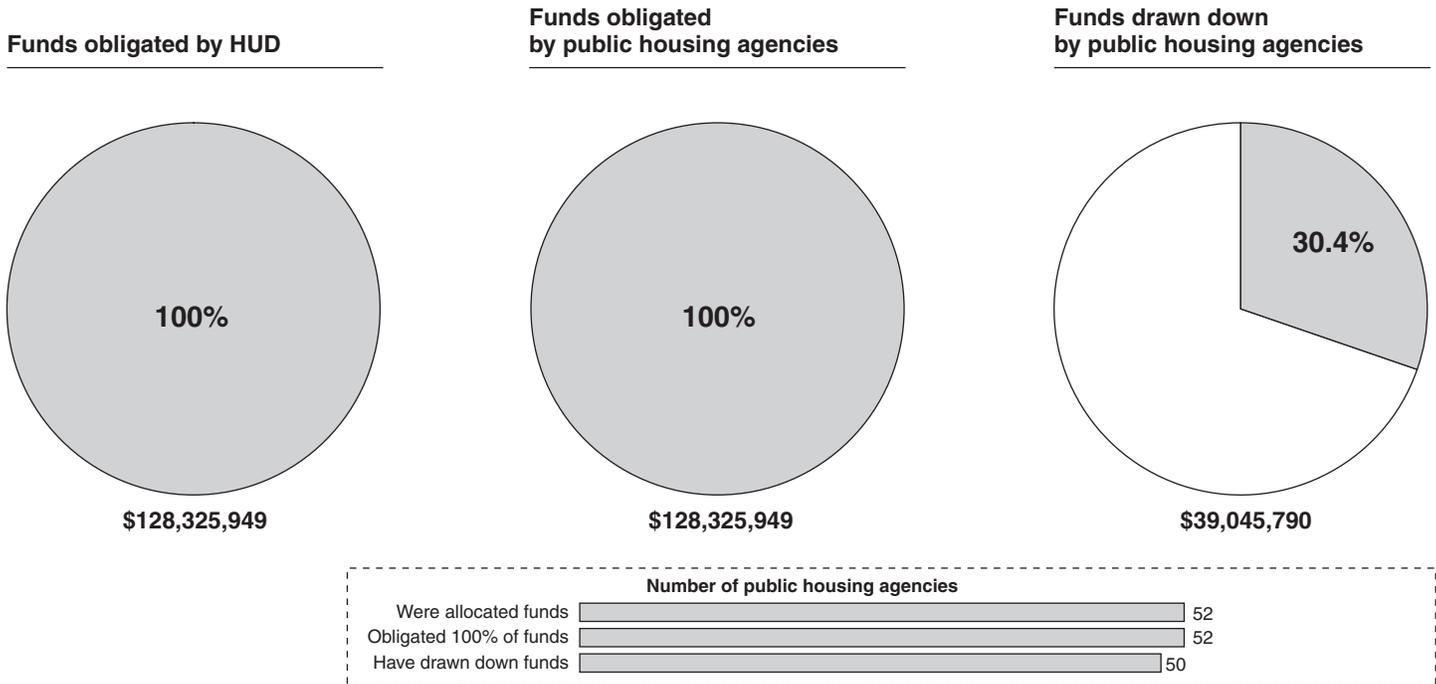
In Ohio, 52 public housing agencies received about \$128 million in Public Housing Capital Fund formula grants provided by the Recovery Act (see Figure 3 below) to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.¹⁶ As required by the Recovery Act, public housing agencies had to obligate this funding within 1 year of the date it was made available to them by HUD, which was March 17, 2010. An official from HUD told us that all public housing agencies in Ohio met this obligation deadline, but seven agencies in Ohio had less than 50 percent of the funding obligated with less than 3 weeks to go before the

¹⁵As part of the federal-aid highway programs, FHWA assesses the ability of each state to obligate its apportioned funds by the end of the federal fiscal year (September 30) and adjusts the states' limitations on obligations for federal-aid highway and highway safety construction programs.

¹⁶Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

obligation deadline. We met with two of these public housing agencies, Trumbull Metropolitan Housing Authority (MHA) and Chillicothe MHA, which had obligation rates of approximately 5 and 28 percent, respectively at the time of our visits. We held discussions with another two agencies—Columbus MHA and London MHA—that had obligated 100 percent of their Recovery Act formula grant funding before our talks with them. We also visited a fifth agency—Dayton MHA—to discuss the recipient reporting they completed during the reporting period that ended on March 31, 2010. In addition, we talked with HUD officials in the Cleveland field office who provide oversight of the housing agencies in Ohio which received Recovery Act funding to determine how they are monitoring these agencies and helping them meet the obligation deadline and other Recovery Act requirements.

Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in Ohio



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

Housing Agencies Overcame Different Challenges to Meet the Obligation Deadline

Both Chillicothe MHA and Trumbull MHA, which received a total of \$735,798 and \$2,805,043 in Recovery Act formula grant awards, respectively, met the 100 percent obligation requirement. However, the two agencies reported the following challenges in obligating the funds.

- **Delays in design work and bid specifications.** Both PHAs reported they faced delays in getting the design work and bid specifications from architecture and engineering (A/E) firms. Officials from one PHA said the A/E firm was doing a large amount of work for other housing agencies and could not complete the work on their project more quickly because of these other commitments.
- **Buy American provisions.** Chillicothe MHA officials said that finding bathroom and plumbing fixtures made in the United States for the agency wide bathroom remodeling project to satisfy the Buy American provisions was more difficult than expected.
- **Troubled PHAs.**¹⁷ Chillicothe MHA officials told us that their status as a “troubled PHA” resulted in additional oversight such as HUD field office reviews of the agency’s solicitations for bids, bid openings and winning bidder selections caused some administrative delays. These delays impacted their ability to solicit bids for Recovery Act projects and award the contracts.
- **New state environmental requirements.** Trumbull MHA officials said Ohio EPA recently changed several standards for asbestos removal which required more testing and changes to the removal methods in the bid specifications. The final bid package was more than 800 pages long as a result of the required asbestos removal and remediation.
- **Construction bonding.** Trumbull MHA told us that, per their existing procurement policy, the contract for a Recovery Act-funded project was awarded to the lowest cost and responsive bidder, which was a minority-owned business that has done work in the past for the agency. However, the Recovery Act-funded project is bigger than

¹⁷HUD developed PHAS to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of the housing agencies’ public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

anything the winning bidder has worked on before for Trumbull MHA. As a result, the surety company that underwrote its performance bond and payment bond¹⁸ performed additional due diligence before issuing the bonds, which, according to Trumbull MHA officials, resulted in a delay after the winning bidder was chosen. Once this additional due diligence work was completed, Trumbull MHA notified us that they awarded the contract a few days after we met with them in March, successfully meeting the obligation deadline.

Officials from both housing agencies were confident that they would meet the 100 percent obligation requirement when we met with them before the deadline and HUD field office staff subsequently confirmed that both agencies obligated all their remaining Recovery Act funding before the March 17, 2010 deadline.¹⁹

HUD Field Office Staff Provide Oversight of Recovery Act Funding

The HUD field office in Cleveland, Ohio is responsible for the oversight of the 52 public housing agencies that received about \$128 million in Public Housing Capital Fund formula grants provided by the Recovery Act. HUD officials stated that they conducted both remote and on-site reviews of these public housing agencies during the months before the March 17, 2010 obligation deadline. HUD officials told us that field office staff conducted remote reviews on all 52 PHAs to ensure compliance with grant requirements and a more rigorous on-site review of 32 of these PHAs that included an examination of procurement files and compliance with specific Recovery Act requirements. The PHAs selected for on-site reviews included all 5 “troubled” housing agencies in Ohio and 27 other agencies in Ohio that received the largest Recovery Act Capital Fund formula grant allocations. HUD officials told us these additional Recovery Act oversight responsibilities have resulted in the temporary assignment of HUD field office staff. HUD assigned field office staff with little experience with the Capital Fund program to conduct the remote reviews while regular Capital Fund staff have been completing the required on-site reviews. HUD officials stated that all remote and on-site reviews were completed by the required deadlines in January and February 2010, respectively.

¹⁸In sealed bid construction contracts, three types of bonds or guarantees are required by HUD: a bid bond or guarantee, a performance bond, and a payment bond. The purpose of these bonds is to ensure bidders will honor their bids, complete work as contracted, and pay their subcontractors and suppliers.

¹⁹Chillicothe MHA met the obligation deadline by awarding a contract on March 10, 2010, and Trumbull MHA met the obligation deadline by awarding a contract on March 5, 2010.

As a result of these remote and on-site reviews, HUD officials informed us they found several instances of possible noncompliance with Recovery Act and other federal requirements at housing agencies that they corrected without an adverse affect on these agencies' ability to obligate their Recovery Act funding. For example, HUD officials stated that they found one smaller housing agency which had little experience using capital funding for construction, that did not believe it had to comply with Davis-Bacon requirements—but it was brought back into compliance by HUD. They also found one housing agency that was trying to move expenses from a regular capital fund grant to the Recovery Act formula grant which HUD staff corrected and kept them in compliance with the supplement-not-supplant requirement.²⁰ HUD officials also stated that they identified compliance issues with housing agency procurement polices through their reviews. For example, they found problems with the contract file retention requirements at one housing agency that were corrected during a follow-up review.

Recipient Reporting by One Housing Agency Found to Be Consistent with OMB and HUD Guidance

We met with Dayton MHA during April 2010 to discuss how they calculated and documented the jobs estimate they reported to FederalReporting.gov for the reporting period that ended March 31, 2010. Agency officials told us that they reported a full-time equivalent (FTE) jobs estimate of 20.87 for this reporting period. We reviewed the methodology and documentation from contractors that they used to calculate the jobs number and found it to be consistent with the existing OMB and HUD guidance for estimating jobs.

However during the course of our review we made note of apparent limitations in OMB and HUD guidance that may have influenced the FTE estimate that Dayton MHA reported. Dayton MHA officials stated they only require contractors that they have awarded Recovery Act project contracts to report hours worked for individuals they directly employ and who are working on Recovery Act projects. Dayton MHA officials said these reporting requirements do not require reporting of any hours worked by

²⁰Supplement-not-supplant Recovery Act provisions are designed to prevent recipients, such as public housing agencies, from substituting planned spending for a given program with Recovery Act funds—that is, the provisions ensure that the increased federal spending will supplement rather than replace state, local, or private spending. HUD must institute measures to ensure Recovery Act funds will supplement, not supplant, expenditures from other sources. To meet this requirement, HUD is requiring public housing agencies to sign an amendment to their annual contributions contracts.

employees of subcontractors who are performing work on Recovery Act funded projects. In the absence of specific requirements for reports from subcontractors showing the hours worked on Recovery Act projects, the reporting on Recovery Act employment impact is limited.

Recovery Act Investments in Affordable Housing in Ohio

The Recovery Act established two funding programs that provide capital investments in low income housing tax credit (LIHTC) projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Section 1602 Tax Credit Exchange Program (Section 1602 Program)²¹ administered by the U.S. Department of the Treasury. Both programs were designed to fill financing gaps in planned low-income housing tax credit projects and jumpstart stalled projects. Ohio was allocated approximately \$201.6 million for these two programs with the Ohio Housing Finance Agency (OHFA) responsible for administering the funding. We met with OHFA officials in March 2010 to discuss the design of their TCAP and Section 1602 Programs, implementation challenges, program status, and expected results.

Almost All TCAP and Section 1602 Program Funding in Ohio Has Been Committed to Projects

An OHFA official stated that they received a total of 92 applications totaling more than \$236 million in requested TCAP and Section 1602 Program assistance, approximately \$34.5 million more than the funding available for award. As of April 30, 2010, OHFA has pledged to support 72 projects, committed approximately 85 percent of the funds available—or about \$171 million, and disbursed approximately 12% of these funds—or about \$25 million. OHFA met the February 2010 requirement of committing 75 percent of its TCAP funding and has 8 more projects that it plans to commit funding to by July 2010. Once all its Recovery Act funds are committed, OHFA estimates it will support the construction of 3,966 affordable housing units though 80 projects.

OHFA officials primarily used Section 1602 Program funds to fill financing gaps for projects that were able to maintain some level of investor commitment, but OHFA officials said they still plan to award Section 1602

²¹Pursuant to the Recovery Act, GAO is 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. GAO chose to include the Section 1602 Program in its review because both TCAP and Section 1602 Programs supplement the Low Income Housing Tax Credit Program and are being implemented simultaneously by state housing finance agencies.

Program funds to six projects with no private investor involvement. OHFA provided large bridge loans with TCAP funds to projects that were already using other federal financing because these projects were prepared to comply with federal requirements such as environmental reviews and Davis-Bacon prevailing wages. Compliance with these requirements is not required by the standard LIHTC program or the Section 1602 Program. In addition, OHFA's Recovery Act plan is supplemented by a \$75 million proprietary investment fund with the Ohio Capital Corporation for Housing and Nationwide Insurance. OHFA officials explained that this fund has been particularly helpful in financing stalled projects, especially those in rural areas and other tougher to serve markets and will facilitate the development of 16 projects awarded 2007 and 2008 LIHTCs by purchasing the tax credits at an average purchase price of 70 cents on the dollar.

OHFA Overcomes Declining Investor Interest and TCAP and Section 1602 Program Implementation Challenges

The TCAP and Section 1602 Program were designed to address the gap in financing created by the decline of private investor demand for LIHTCs and the resulting low tax credit prices. First, there was a large decline in private investor interest in LIHTCs with average purchase prices at closing for tax credits decreasing from \$0.91 per dollar tax credit in 2007 to \$0.68 per dollar tax credit in 2009. This decline in prices resulted in major gaps in LIHTC project financing. Specifically, OHFA reported that construction for 35 LIHTC financed projects in the state had been put on hold because investors were no longer interested in financing these projects.

In designing its program, OHFA officials said they faced a number of challenges. Two significant challenges resulting from provisions unique to the Recovery Act that they have had to overcome are:

- OHFA estimated the TCAP and Section 1602 Programs resulted in a 5 percent increase in administrative costs for the environmental reviews and additional project underwriting work and necessitating OHFA operate the two programs at a loss in the current budget year.
- Environmental impact studies were required for all TCAP projects funded under the Recovery Act provisions.²² OHFA worked with a

²²TCAP projects are required to comply with the National Environmental Policy Act (NEPA). Project owners must conduct environmental assessments, which are not required by projects funded under the regular LIHTC program.

vendor and Ohio Department of Development to process these studies and reduce the review period to 3 months from the approximately 6 months to complete that were scheduled.

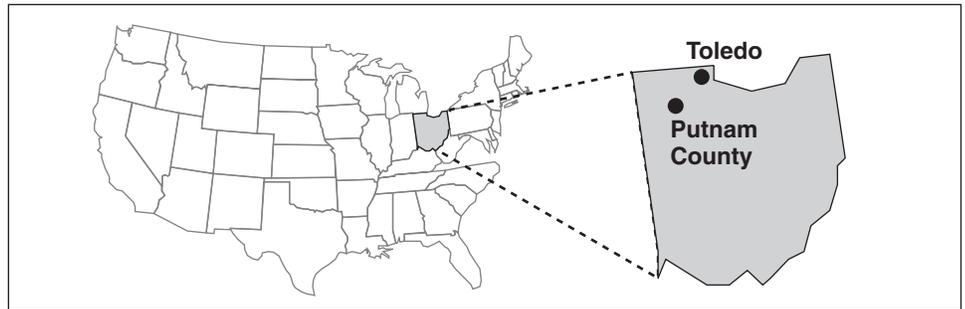
Recovery Act Funds Continue to Provide Some Needed Support to Local Governments in Ohio

In Ohio, the state and some localities continue to feel the effects of the economic downturn and reduced revenues. As we have previously reported, the state's 2010-2011 biennial budget assumes a significant reduction in revenues. Although the state's monthly financial reports indicate that revenue collections are lower than forecast, senior budget officials told us that the economy is showing signs of stability and that revenue collections are meeting expectations. State budget officials do not expect to have to make revisions to the budget for the remainder of the biennium.

As we have previously reported, Ohio's 2010 – 2011 biennial budget, passed in July 2009, appropriated \$7.6 billion in Recovery Act funds for use by state agencies. Some state agencies will need to seek approval from the state's Controlling Board to transfer unspent and unencumbered funds into fiscal year 2011 (July 1, 2010 to June 30, 2011).²³ In addition, according to a senior budget official new grants awarded to the state must be approved through the Controlling Board as well. The state was recently awarded a \$400 million grant funded by the Recovery Act for Intercity Passenger Rail. The Controlling Board has appropriated \$25 million for final environmental and detailed design but has not considered an appropriation for the rest of the funds. We revisited two of the communities we reported on previously—the city of Toledo and Putnam County—and found they continue to face fiscal challenges. Table 4 highlights the change in unemployment rate in those communities, while table 5 shows the amount of Recovery Act funding each community has received.

²³According to the Ohio Office of Budget and Management, the Controlling Board provides legislative oversight over certain capital and operating expenditures by state agencies and has approval authority over various other state fiscal activities including, among other things, appropriation releases for capital construction projects and the transfer of appropriation authority between line items within a fund in an agency and increases in appropriation authority in some funds.

Figure 3: Map of Ohio



Source: Art Explosion.

Table 4: Unemployment Rates in Ohio and for Selected Localities in the State

Locality	Unemployment rate, March 2009	Unemployment rate, March 2010	Percentage change
Statewide	10.0%	11.5%	+1.5
City of Toledo	12.2	13.3	+1.1
Putnam County	12.2	11.7	-0.5

Source: GAO Analysis of U.S. Department of Labor, Bureau of Labor Statistics data.

Notes: 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 revisions.

Table 5: Amount of Funding Received by Selected Localities in Ohio

Locality	Recovery Act funds received	General fund budget
City of Toledo	\$48,799,726	\$218,543,175
Putnam County	1,592,902	8,777,548

Source: City of Toledo and Putnam County government officials and Area 7 Workforce Investment Board.

Localities Use Recovery Act Funds to Finance Specific Projects and Provide Some Fiscal Relief

At the localities we visited, recent Recovery Act awards went to specific projects that were not funded from the general fund. In December 2009, for example, we found that these communities were using Recovery Act funds to address shortfalls in their public safety budgets. Putnam County used Recovery Act funds to enable law enforcement personnel to return to an 80-hour biweekly pay period; officials told us that budget concerns had forced the Sheriff’s Department to adopt a reduced 72-hour pay period. Likewise, in Toledo, officials told us budget distress affected the city’s public safety personnel, requiring lay-offs and proposed lay-offs. Recovery

Act funding allowed the city to recall those workers affected and to prevent additional job losses.²⁴

In addition, Toledo is using Recovery Act funds to start or expand projects that are not funded through its general fund budget. For example, Toledo will use a Department of Homeland Security Recovery Act grant to build a new fire station; fire department officials said that the department has recognized the need for a new station for more than 20 years. City officials added that the Recovery Act grant is making it possible to build this new station to meet the needs of the community, in particular the station will house equipment used by an 18-county area in northwest Ohio. Since December 2009, Toledo has received additional awards for nongeneral fund projects. Table 6 provides the sources of Recovery Act funds provided since December 1, 2009 and not included in our December 2009 report. Toledo officials told us that they will use funds from the Neighborhood Stabilization Program 2 to remove 127 housing units and replace them with a mix of affordable housing and market-rate housing. Additionally, funds will be used to convert a vacant commercial building into housing. In Putnam County, additional Recovery Act Workforce Investment Act of 1998 (WIA) funds were provided to the county to provide for further worker assistance. The county was part of a regional coalition that applied to the state for an Edward Byrne Memorial Justice Assistance Grant (JAG) pass-through grant to fund an offender re-entry program designed to help former inmates successfully transition back into society following completion of their sentence. That application, however, was not approved and the program will not be launched.

Table 6: Recovery Act Funds Received by Putnam County and Toledo Since December 2009

Locality	Program	Amount approved	Services the funding supports
Toledo	Neighborhood Stabilization Program 2	\$10,150,840	Housing assistance
Toledo	Clean Water State Revolving Fund	1,622,771	Infrastructure
Putnam County	Workforce Investment Act of 1998	171,767	Worker assistance
Putnam County	Impact on Child Support Incentives Program	21,388	Child support enforcement

Source: City of Toledo and Putnam County government officials and Area 7 Workforce Investment Board.

²⁴Toledo was able to recall 31 police officers who had been laid off in May 2009, as well as 6 civilian 911 emergency call center staff previously laid off in 2009. For further information, see GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Ohio)*, [GAO-10-232SP](#) (Washington, D.C.: December 2009).

In addition to the grants, Toledo issued \$12.2 million in Build America Bonds²⁵ for the purchase of solid waste trucks. A city official told us that through the issuance of these bonds, the city expects to save approximately \$600,000 over the life of the bonds using Build America Bonds instead of traditional municipal bonds. Although the city has the ability to issue additional Build America Bonds, a city official told us that the city has no plans to do so in order to avoid taking on additional debt.

We recently reported on ways in which the Build America Bond program could be made more transparent and that currently available bond data do not show with specificity how bond proceeds are used.²⁶ We recommended that the Commissioner of Internal Revenue take action to require governmental issuers to submit additional information on Build America Bond-financed projects, including information on project purpose, beginning and ending dates, and costs, and if Congress granted the Internal Revenue Service the authority, publish the information. Toledo officials said this information is collected when the bonds are issued and would not represent a reporting burden if the issuers were required to report this on the uses of these bond proceeds.

Local Governments Continue to Face Fiscal Challenges

Both the city of Toledo and Putnam County continue to face economic and budget challenges. Along with an increase in unemployment, officials in both communities told us that the fiscal condition in those communities has not improved. Putnam County officials told us that further budget cuts in 2010 may be necessary in order to balance the budget. The county has kept in place the wage freeze and hiring freeze enacted in 2009, along with other cost savings measures taken last year. In Toledo, officials told us that an estimated budget deficit of \$20 million in October 2009 had grown to almost \$50 million by January 2010. Officials blamed the deficit, in part, on revenue shortfalls, especially personal income tax revenue. On March

²⁵Build America Bonds (BABs) are taxable government bonds that can be issued with federal subsidies for a portion of the borrowing costs delivered either through nonrefundable tax credits provided to holders of the bonds (tax credit BAB) or as refundable tax credits paid to state and local governmental issuers of the bonds (direct payment BAB). Direct payment BABs are a new type of bond that provides state and local government issuers with a direct subsidy payment equal to 35 percent of the bond interest they pay.

²⁶GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: February 10, 2010).

30, 2010, the Toledo City Council approved a budget for 2010 that is approximately 9 percent smaller than last year's.

Continued economic challenges may create difficulties for Toledo and Putnam County to continue programs and sustain personnel funded with Recovery Act dollars. Officials in Putnam County told us that they are seeking additional sources of funding in order to prevent possible lay-offs within the Sheriff's Department; in 2009 the county received \$1,054,697 million in Recovery Act funds and is using those funds to pay the salaries and benefits of Sheriff's deputies and corrections officers. Likewise, in Toledo, city officials said the recently enacted budget does not provide general funds to support two prosecutors that are currently being funded with Recovery Act funds. City officials in Toledo also noted that the general fund budget could not sustain the types of projects currently being funded by the Recovery Act. For example, the size and scope of home demolition and rebuild funded by the Neighborhood Stabilization Program Recovery Act funds would have to be reduced under the current budget constraints if additional federal funding were not available.

On the other hand, Toledo city officials said they were planning to retain 31 police officer positions currently being funded with Recovery Act funds. The city anticipates 36 retirements from the approximately 580 member police force in 2011 providing the city with enough flexibility to retain the Recovery Act-funded positions and start a new cadet class in the fall of 2010.

Ohio's Audit Community Collaborates to Monitor Recovery Act-Funded Programs

There are a number of oversight entities in Ohio with responsibility for monitoring Recovery Act-funded projects, namely the (1) State Audit Committee, (2) Office of Budget and Management (OBM), Office of Internal Audit (OIA), (3) Auditor of State (AOS), and (4) state-appointed Deputy Inspector General for Recovery Act funds. These entities work in conjunction with one another to monitor Recovery Act-funded projects. For example, OIA assists the State Audit Committee with its responsibilities by furnishing it with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed, and by promoting effective control at a reasonable cost. We contacted officials from these entities to discuss their most recent, ongoing, and planned audit results. The State Audit Committee meets quarterly and released on March 9, 2010, the results of six recently audited programs. Currently, the OIA is planning the fiscal year 2011 audits to be presented to the State Audit Committee in June. The state of Ohio participated in OMB's Single Audit pilot program, and the AOS audited 2

programs, in which an interim internal control report was to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits.²⁷

Extensive Work Being Conducted by State Accountability Entities in Ohio

The Ohio Auditor of State is planning to issue its fiscal year 2009 Single Audit for Ohio at the end of June 2010.²⁸ An official from the Auditor of State's office said they were not able to meet the original reporting date of March 31, 2010, due to not receiving fiscal year 2009 financial statements from management until February 1, 2010, as well as the fiscal year 2008 audit finishing up late due to a similar delay the previous year. In addition to the Single Audit work, AOS is conducting interim audit work over controls and compliance at various state agencies and local governments. For example, during fiscal year 2010, AOS plans to test various Recovery Act programs in eight cities.²⁹ AOS has completed 10 of these audits and another 142 are ongoing with several of them expected to be completed by June 2010.

According to an agency official, Ohio's Office of Inspector General (OIG) does not conduct audits; however, it does conduct investigations of potential criminal activity. During the past several months, the OIG completed two investigations involving Recovery Act funds and an OIG official said a third investigation is still ongoing. One of the completed investigations involved the application of Buy American provisions to a Clean Water SRF construction project financed with Recovery Act funding. The OIG concluded that Buy American requirements may not have been met and recommended that Ohio EPA consult with the U.S.

²⁷Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

²⁸The State of Ohio's fiscal year runs from July 1 to June 30 of the next calendar year.

²⁹Audits for fiscal year 2010 include the City of Athens, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown.

EPA to review and make a compliance determination.³⁰ As of May 5, 2010, the agencies have not responded to the OIG's report. The second completed investigation involved Recovery Act funding provided by ODOT to a local government for a highway construction project. It was alleged that ODOT's policies and actions in this case caused the local government managing the construction project to incur additional costs but the OIG found that no wrongful act or omission was made by ODOT.³¹ Recently, on March 16, 2010, the OIG initiated an investigation against ODOT regarding a potential misuse of public funds for a road construction project, but determined that no wrongful act or omission had occurred.

Ohio's OBM Office of Internal Audit (OIA) recently completed six Recovery Act audits which were released on March 9, 2010. Audit findings in several areas were reported, including program administration and monitoring, the review of expenditures, subrecipient monitoring, and the validation of Recovery Act reporting data for the programs that were included in these reviews. OIA plans to complete another three audits of Recovery Act funded programs by June 2010 and continue to follow up on 12 comments from previous completed audits that affected agencies are expected to address by June 2010. OIA is compiling a list of planned audits for fiscal year 2011 and other internal audit plans, which will be presented in June 2010 to their governing body, the State Audit Committee, for review and comment.

Ohio Begins Work under the Recovery Act Single Audit Internal Control Project

OMB implemented a Single Audit Internal Control Project (project) in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the

³⁰On November 30, 2009, the Ohio Inspector General's Office (OIG) received a complaint alleging that Ohio EPA failed to fulfill its oversight and monitoring responsibilities with respect to ARRA's "Buy American" requirements.

³¹On October 13, 2009 the OIG received a complaint alleging that 1) ODOT caused the City of Bucyrus to incur additional charges by wrongfully revoking its prior decision to permit the city to use its design engineer as the construction project engineer, 2) ODOT's policies caused the City of Bucyrus to incur \$102,000.00 In change orders submitted by the project contractor, Anderzack-Pitzen Company, Inc.

Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states³² volunteered for the project, including Ohio, whose auditors issued their interim reports on internal control for selected major Recovery Act programs by December 31, 2009, and the corrective action plans to the appropriate federal agency by January 31, 2010.

As part of this project, Ohio's Auditor of State (AOS) examined two Recovery Act funded programs: (1) unemployment insurance funding disbursed by the Ohio Department of Job and Family Services (ODJFS), and (2) highway planning and construction funding disbursed by the Ohio Department of Transportation (ODOT). AOS' review of the unemployment insurance funding showed that ODJFS did not accurately identify the expenditure of more than \$350 million in Recovery Act funding for benefit payments. Instead ODJFS incorrectly combined \$313 million in Recovery Act funded benefit payments with non-Recovery Act funded benefits payments resulting in reporting errors in the draft financial statements for the program. As a result of this AOS audit finding, ODJFS has taken several corrective actions to increase assurance that Recovery Act funds for unemployment benefits will be reported correctly through the duration of the program.

The second AOS audit found that ODOT did not have procedures in place to identify, at the time of payment, the amount of Recovery Act funding disbursed to local governments who are locally administering transportation projects funded by the Recovery Act.³³ Without such procedures, adequate transparency into the use of Recovery Act funding at local levels may be impaired. In response to this audit finding, ODOT enhanced the department's Web-based construction project management system to identify the portion of Recovery Act funds for each disbursement when applicable. In addition ODOT has provided guidance to each local participating agency on how to access the applicable data within the Web-based system and the importance and requirements to do

³²The following 16 states volunteered to participate in the project: Alaska, California, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

³³As permitted by the Federal Highway Administration (FHWA), ODOT may let a Local Public Agency (LPA) perform work on a Federal-aid project as long as certain conditions are met which include: 1) All Federal requirements must be met; 2) the LPA must be adequately staffed and suitably equipped to undertake and satisfactorily complete the work; and 3) the LPA must provide a full-time employee to be in responsible charge of the project. See 23 CFR 635.105.

so to obtain correct expenditure data for each Recovery Act project under its control.

State Comments on This Summary

We provided the Governor of Ohio with a draft of this appendix on May 6, 2010. Representatives of the Governor's office responded with a number of technical comments that we have incorporated as appropriate. In addition, the Governor's office provided more detailed comments on our analysis of the Clean Water and Drinking Water State Revolving Funds and the state's plan for monitoring the State Fiscal Stabilization Fund (SFSF). We summarized the state's comments in the section of this appendix for those programs.

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