

December 2010

RECOVERY ACT

Head Start Grantees Expand Services, but More Consistent Communication Could Improve Accountability and Decisions about Spending



G A O

Accountability * Integrity * Reliability

Why GAO Did This Study

This report responds to two mandates for GAO under the American Recovery and Reinvestment Act of 2009 (Recovery Act). First, it is the latest report on the uses of and accountability for Recovery Act funds in selected states and localities. Second, it comments on recipients' reports of the jobs created and retained. The Recovery Act provided \$2.1 billion for Head Start and Early Head Start, primarily to expand services.

GAO addressed four questions:

(1) How have Head Start and Early Head Start grantees used Recovery Act funds, including for expanding enrollment? (2) What challenges have grantees encountered in spending Recovery Act funds? (3) How has the Office of Head Start (OHS) monitored the use of Recovery Act funds? (4) How has the quality of jobs data reported by Recovery Act recipients, particularly Head Start grantees, changed over time? In this report, GAO also updates the status of open recommendations from previous bimonthly and recipient reporting reviews. To address these questions, GAO interviewed grantees, analyzed federal agency and recipient reported data, and interviewed officials.

What GAO Recommends

GAO recommends OHS verify the definition of enrollment, clearly communicate it to grantees along with policies for extending the use of Recovery Act funds, and incorporate known risks into review planning. HHS generally agreed with GAO's recommendations.

View [GAO-11-166](#) or key components. For more information, contact Cornelia M. Ashby at (202) 512-7215 or ashbyc@gao.gov or Yvonne D. Jones at (202) 512-6878 or jonesy@gao.gov.

RECOVERY ACT

Head Start Grantees Expand Services, but More Consistent Communication Could Improve Accountability and Decisions about Spending

What GAO Found

Grantees reported using Recovery Act funds to expand enrollment and staff in a variety of ways, but new enrollment was lower than anticipated and reported enrollment numbers may not always be reliable. Grantees received funds to increase enrollment from about 890,100 to an additional 60,600; reported enrollment increased by 55,100 by the end of September 2010. Grantees GAO interviewed used different definitions of "enrollment," which OHS does not verify, introducing some unreliability in reporting. Grantees nationwide reported adding significant numbers of staff, but the portion of teachers who met recently increased standards slightly declined.

Grantees experienced challenges in spending first-year Recovery Act funds, including delays in receiving grants and preparing facilities for expanded services, and received mixed messages about what to do with unobligated funds. By the end of the first year of Recovery Act funding, expansion grantees had expended at least 60 percent of their awards. Also, more than half of the grantees GAO interviewed said they were unclear about the policy regarding unobligated first-year funds. Because OHS did not clearly communicate its policy to regional offices, grantees adopted varied spending practices that may not always have directed expansion funds toward programs' highest, current priorities.

OHS has engaged a contractor to conduct the large volume of monitoring visits required 1 year after expanded operations begin, but has not always incorporated some risk indicators in planning reviews. OHS has also been conducting other monitoring efforts, including mandatory 1-year visits for Early Head Start expansion grantees. These 1-year reviews include additional coverage of grantee governance and financial management. In response to prior GAO findings of fraudulent enrollment and attendance and enrollment discrepancies among some Head Start grantees, all monitoring visits to new grantees will be implemented as "surprise" visits. A few grantees awarded expansion funds had been earlier identified as high risk by their regional offices, and the HHS Inspector General identified several financial management deficiencies among four of the expansion grantees it reviewed. However, information on identified risks was not always available to OHS reviewers. OHS plans to scope and staff its 1-year reviews of Recovery Act grantees based primarily on their prior experience with Head Start and Early Head Start and whether the grantees have recently received a triennial review.

GAO's analysis of the data reported by recipients in [Recovery.gov](#), including jobs funded, shows results similar to previous reporting periods. For example, GAO continued to see a small number of reports for which data issues could prevent linking related reports across quarters. Analysis of Head Start recipient data showed that an earlier concern with calculating full-time equivalent jobs is being addressed. Further, in response to September 2010 Office of Management and Budget guidance on transparency of narrative descriptions, OHS reported that additional agency reviews resulted in recipients clarifying their reports.

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Abbreviations

ACF	Administration for Children and Families
COLA	cost-of-living adjustment
Danya	Danya International
FTE	full-time equivalent
HHS	Department of Health and Human Services
OHS	Office of Head Start
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PIR	Program Information Report
PMS	Payment Management System
QI	quality improvement
Recovery Act	American Recovery and Reinvestment Act of 2009
SAC	State Advisory Councils

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G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

December 15, 2010

Report to the Congress

In the 22 months since the American Recovery and Reinvestment Act of 2009 (Recovery Act)¹ was enacted, the Department of the Treasury has paid out approximately \$181.9 billion in Recovery Act funds for use in states and localities to promote economic recovery.² These funds have been used to support and preserve services in a wide range of areas including health, education, transportation, and child development. In particular, the Recovery Act provided \$2.1 billion for Head Start and Early Head Start,³ primarily to expand the program from about 890,100 to about an additional 60,600 children and families.⁴ Since its inception, the program has provided comprehensive early childhood development services intended to promote the school readiness of low-income children.

The Recovery Act requires that GAO conduct bimonthly reviews of how Recovery Act funds are being used and whether they are achieving their stated purposes to preserve and create jobs, as well as assist those most affected by the recession.⁵ The Recovery Act also requires GAO to comment and report quarterly on estimates of job creation and retention as reported by recipients.⁶

In this report, the eighth in a series responding to the act's mandate, we update and add new information on the use of Recovery Act funds by the Head Start program, and on the quality of recipient job reports. Specifically, we examined (1) how Head Start and Early Head Start grantees used Recovery Act funds, including for expanding enrollment; (2) what challenges grantees have encountered in spending Recovery Act

¹Pub. L. No. 111-5, 123 Stat. 115.

²This amount is current as of November 26, 2010.

³123 Stat. 178.

⁴Grantees report data on programs for the Program Information Report (PIR) each August, and the data are compiled for use at the federal, regional, and local levels.

⁵§ 901(a)(1), 123 Stat. 191.

⁶§ 1512(e), 123 Stat. 288. The reports submitted quarterly by recipients are referred to as "recipient reports."

funds; (3) how the Office of Head Start (OHS) has monitored the use of Recovery Act funds; and (4) how the quality of jobs data reported by Recovery Act recipients, particularly Head Start grantees, has changed over time. To address these questions, we analyzed grant awards, agency data, and relevant federal laws and regulations, as well as federal agency guidance. We spoke with relevant program officials at the Department of Health and Human Services' (HHS) OHS and an OHS contractor. We conducted interviews with 16 grantees in 11 states, 4 of which were among the 16 states on which GAO has reported in previous bimonthly reviews. We followed up with 9 grantees that we have previously reported on in these 4 states, while the remaining 7 we selected by analyzing HHS expenditure data to identify grantees with low drawdown rates as of July 2010. These 16 grantee interviews are not generalizable to the approximately 1,600 Head Start and Early Head Start grantees nationwide in fiscal year 2009. In addition, we assessed recipient reports nationwide for the quarter ending September 30, 2010, as well as those of Head Start grantees for completeness and reliability. We also analyzed Head Start grantees' reported "full-time equivalent" jobs data across time.

Our oversight of programs funded by the Recovery Act has resulted in more than 80 related products (see Related GAO Products at the end of this report) with numerous recommendations. This report updates agency actions in response to recommendations from previous bimonthly and recipient reporting reviews that have not been fully implemented (open recommendations) in appendix III, including our prior recommendations regarding the use of Recovery Act funds for Head Start.

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

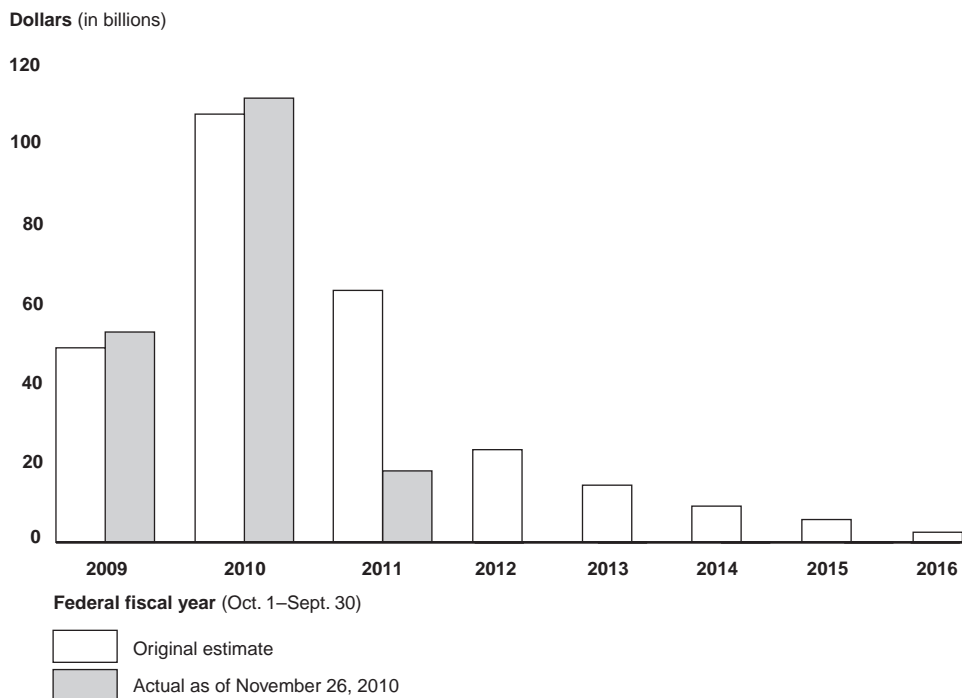
Background

Total Recovery Act Outlays to States and Localities

Actual federal outlays to states and localities for all programs under the Recovery Act, including Head Start, totaled approximately \$181.9 billion through November 26, 2010. Of that amount, about 9.5 percent—\$17.3 billion—has been paid out since the start of federal fiscal year 2011 on

October 1, 2010.⁷ Figure 1 shows the estimated federal outlays (in billions of dollars) to states and localities for Recovery Act programs for fiscal years 2009 through 2016.

Figure 1: Estimated vs. Actual Federal Outlays to States and Localities for All Programs under the Recovery Act



Source: GAO analysis of CBO, Federal Funds Information for States, and Recovery.gov data.

To facilitate accountability over the use of Recovery Act funds, the act requires that nonfederal recipients of Recovery Act funds—including those with grants, contracts, or loans—submit quarterly reports that are to include a list of each project or activity for which Recovery Act funds were expended or obligated and information concerning the amount and use of funds and jobs created or retained by these projects and activities, among other information.⁸ The latest of these recipient reports covered the

⁷The federal fiscal year runs from October 1 through September 30 of the next calendar year.

⁸§ 1512(c), 123 Stat.287-88.

projects and activities as of the Recovery Act's passage through the quarter ending September 30, 2010.

The Head Start Program

Established in 1965, Head Start provides for services to young, low-income children and their families.⁹ It promotes pre-school aged children's development and school readiness by enhancing their cognitive, social, and emotional development through providing a range of individualized services. The Early Head Start program, begun in 1994, focuses on serving children from birth to age 3 and pregnant women. Both Head Start and Early Head Start are overseen by OHS, within the Administration for Children and Families (ACF) at HHS. OHS awards grants directly to public and private nonprofit and for-profit agencies. Grants policy is established by ACF and HHS.

Head Start Funds under the Recovery Act

Under the Recovery Act, OHS received \$2.1 billion for Head Start and Early Head Start. Of that amount, OHS designated about \$1.5 billion to expand the number of children and pregnant women served. The Recovery Act required OHS to obligate all funds—mostly by awarding funds to grantees—by September 30, 2010.¹⁰ To serve additional children and families with Recovery Act funds, OHS awarded Head Start expansion grants generally for a period of 2 years. Consistent with the Recovery Act,¹¹ OHS designated a portion of these funds for training and technical assistance to the expansion grantees. In addition to expanding services, the Head Start Act directs a portion of Recovery Act funds to be allocated to increase salaries, improve program quality, develop state advisory councils, and monitor grantees, as shown in table 1. About \$600 million was dedicated to these purposes.

⁹Although Head Start is intended to serve primarily children whose family income is at or below the federal poverty line, its regulations permit up to 10 percent of children to be from families that are not low-income, and up to 49 percent in American Indian-Alaska Native programs that meet certain conditions. 45 C.F.R. § 1305.4(b)(2) and (3).

¹⁰§ 1603, 123 Stat. 302.

¹¹123 Stat. 178-88.

Table 1: Use of Recovery Act Funds

Dollars in millions

Category	Purpose	Recovery Act funds
Head Start expansion	To expand Head Start services to additional pre-school children.	\$200
Early Head Start expansion	To expand Early Head Start services to additional infants, toddlers, and their families.	1,178
Head Start and Early Head Start training and technical assistance	Used to hire or obtain expertise on developing a Head Start or Early Head Start program and conforming to the Head Start Performance Standards.	114
	Expansion subtotal	1,492
Quality improvement	Existing grantees were permitted to use these funds for improvements such as upgrading facilities, improving compensation, training staff or improving staff qualifications, and increasing the hours of operation. Awarded mostly in September 2009, these funds were available until September 30, 2010.	354
Cost of living adjustment	Existing grantees were eligible to receive cost of living adjustment funds of 1.8 percent for each eligible staff member. These funds were awarded mostly in September 2009.	122
State Advisory Councils (SAC)	Designated by governors, SAC members are charged with ensuring statewide coordination and collaboration among early childhood programs and services, including Head Start, child care, and pre-kindergarten programs and services.	100
OHS monitoring of expansion grantees		33
	Nonexpansion subtotal	609
Total		\$2,100

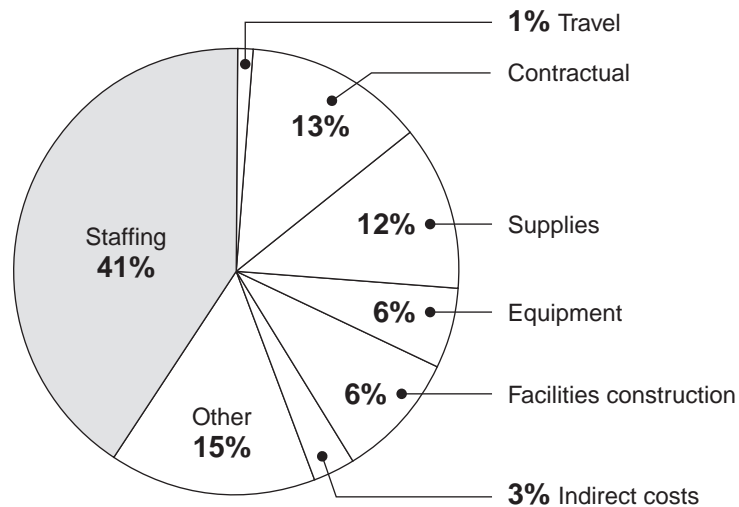
Source: GAO analysis of OHS data.

As of September 30, 2010, OHS had awarded about 99 percent of the \$1.5 billion in Recovery Act funds designated for expanding Head Start and Early Head Start, primarily for staffing.¹² OHS awarded \$744 million for the first year of the expansion grant period, or fiscal year 2010. As shown in figure 2, after staffing, the second largest budget category to which funds were dedicated was “other” costs, which can be used for activities such as

¹²This figure reflects the documentation OHS provided to GAO as of the close of our review. In comments on the report, HHS indicated that OHS obligated additional expansion funds for technical assistance that are not reflected in this total.

insurance, food, and administrative costs.¹³ Funds from the third largest budget category, “contractual,” may be used to engage entities such as start-up planning consultants, agencies to which grantees delegate funds to operate Head Start or Early Head Start programs, or food service providers.

Figure 2: Allocation of \$744 Million in Expansion Funds Awarded for the First Year of the Grant, as of September 30, 2010



Source: FAA data.

As we reported in May 2010, OHS had awarded most expansion funds within a year of the law’s enactment, but had not met its goal of awarding Early Head Start expansion grants by the end of September 2009.¹⁴ Instead, the first Early Head Start awards were made in November 2009, and the last one was made in July 2010. OHS officials explained that several factors slowed the process of making Early Head Start awards, such as the high volume of applications. The prolonged award-making process

¹³We previously reported that OHS awarded grants without an accompanying budget to guide oversight of grantees’ spending in 77 instances as of March 16, 2010. We recommended that OHS stop allocating all grant funds to the “other” budget category and immediately revise all Financial Assistance Awards in which all funds were allocated to the “other” category. In appendix III, we discuss OHS’s response to this recommendation. GAO, *Recovery Act: States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](#) (Washington, D.C.: May 26, 2010), 184.

¹⁴[GAO-10-604](#), 163, 171.

contributed to a low drawdown (expenditure) rate. It also put pressure on grantees because OHS shortened the period designated for start-up in some cases.¹⁵

Like typical Head Start and Early Head Start grants, expansion grantees receive funding 1 year at a time partly to ensure that grantees expend funds prudently.¹⁶ Consistent with its general practice, OHS awarded the first year of Recovery Act funds between September 2009 and July 2010 for expenditures by September 29, 2010.¹⁷ Near the end of the same fiscal year, OHS awarded the balance of all funds for the final, second fiscal year of the expansion grants.

In the event that a grantee cannot use all its funds within a single, annual “budget period,” Head Start has provisions for generally using such funds in the following year.

- First, to allow for an orderly transition between budget periods, all Head Start grantees can expend obligated funds in a subsequent budget period without additional OHS approval if the funds were obligated for expenditure by the end of the year for which they were awarded. Obligated funds must be expended within 90 days of the close of the budget period. For Recovery Act grants, this means that grantees generally have until December 29, 2010, to expend funds obligated before September 29, 2010.
- Second, to use unobligated funds in a future budget period, grantees must receive approval from an OHS regional office to “carry over” unobligated funds. HHS and OHS policy states that grantees must apply in advance and in writing, and must name specific items for which the funds will be used in the next budget period. For first-year Recovery Act grants, requests are due 90 days after the close of the fiscal year, which ends September 29, 2010.
- Third, for grants that are not being renewed, OHS can approve a grantees’ request for an extension of time to complete a project, called a “no-cost

¹⁵GAO-10-604, 171-175.

¹⁶Unlike expansion grants, typical Head Start and Early Head Start grants have generally been awarded for indefinite periods that are refunded annually.

¹⁷OHS awarded 19 grants to grantees for project periods that cover the remainder of the first year, plus the entirety of the second year.

extension.” Grantees must also apply in advance for a no-cost extension, which cannot be used if the primary purpose of the extension is to permit the use of unobligated funds. If no extension is approved and the grantee does not receive further Head Start grants (potentially allowing the grantee to use the Recovery Act funds to start another project with a longer time frame), unused Recovery Act funds will be returned to the U.S. Treasury.

In addition, oversight of spending is a key internal control. As described in GAO’s internal control standards, managers need current information on expenditures to detect problems and proactively manage risks associated with unusual expenditure patterns, such as overly rapid or slow expenditures.¹⁸ Slow expenditures would present special challenges to meeting the Recovery Act’s goals of assisting persons affected by the recession and infusing funds into the slowing economy.

Monitoring and Oversight of Head Start Grantees

OHS uses various strategies to monitor Head Start grantees for adherence to program standards as specified by the Head Start Act. These strategies include comprehensive reviews conducted every 3 years. The Head Start Performance Standards cover many activities designed to protect and teach children, promote health, and responsibly manage federal funds. The central OHS office provides guidance to grantees and monitors them through centralized data systems. Staff in OHS regional offices directly monitor grantees by following up on any concerns that are raised, such as low enrollment, and by coordinating with contractors on the administration of triennial reviews. OHS is also required to review any newly funded grantee—such as the Early Head Start grantees that received funds for the first time under the Recovery Act—immediately after the completion of the first year it carries out a Head Start program.¹⁹

The 2007 reauthorization of the Head Start Act also increased credential requirements for some teachers.²⁰ In particular, Early Head Start center-based teachers are required to have a Child Development Associate credential and to have been trained (or have equivalent coursework) in early childhood development by the end of September 2010.

¹⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999), 10, 18.

¹⁹42 U.S.C. § 9836a (c)(1)(B).

²⁰§ 19, 121 Stat. 1430-35 (to be codified at 42 U.S.C. § 9843a).

In 2008, we made recommendations to enhance the use of risk management strategies in management of Head Start.²¹ In its response, HHS cited in part a more comprehensive risk assessment that was developed and implemented in two regions. This and other activities, it reported, evolved into a programwide risk management process that officials stated was on track for national implementation in early 2008. Through this process, officials noted that OHS would better identify risks, challenges, and opportunities that Head Start programs might be experiencing.

A central component of OHS's risk management process is the Risk Management Meeting. The goals of the meetings are to recognize grantee strengths, identify areas of performance that need improvement, and use this information to collaborate in producing a comprehensive action plan that addresses those areas in need of support and improvement. While all grantees are to have at least one Risk Management Meeting each year, additional Risk Management Meetings might be held to gauge progress in meeting goals or sustaining improvements, or when a grantee was determined to have deficiencies or a significant number of noncompliances.

Recent Accountability Community Findings

We and a federal inspector general have documented specific risks through recent reviews and investigations of Head Start and its grantees. In a September 2010 report, we found that in 8 of 13 instances, staff at Head Start centers fraudulently misrepresented information to register children who did not meet the income-eligibility requirements.²² The undercover tests found that seven Head Start employees lied about applicants' employment status or misrepresented their earnings, leaving these programs at risk that over-income children might be enrolled while other eligible children are put on wait lists. These grantees had received small amounts of Recovery Act funds for cost-of-living adjustments and quality improvement. Additionally, five of them had received expansion funds. We also examined attendance records for two other grantees that

²¹GAO, *Head Start: A More Comprehensive Risk Management Strategy and Data Improvements Could Further Strengthen Program Oversight*, GAO-08-221 (Washington D.C.: Feb. 12, 2008), 25.

²²GAO, *Head Start: Undercover Testing Finds Fraud and Abuse at Selected Head Start Centers*, GAO-10-1049 (Washington, D.C.: Sept. 28, 2010).

were the subject of FraudNet reports²³ and found that attendance was substantially different from reported enrollment in both cases.

In mid 2009, HHS's Office of the Inspector General (OIG) conducted recipient capability audits of 83 Recovery Act applicants that had not previously managed a Head Start or Early Head Start program. These reviews focused on three aspects of program management: financial viability; adequacy of management systems to account for funds; and ability to operate a Head Start program according to federal regulations. Following the reviews, some applicants were excluded from consideration for a Recovery Act expansion grant. The OIG has also reviewed selected Head Start grantees for program management issues and is nearing completion of a series of health and safety audits of selected Head Start grantees.

Grantees Report Expanding Program Options, Staff, and Enrollment, but Enrollment Figures May Be Unreliable

Grantees Expanded Program Options and Staff to Serve More Children and Families, Although Teachers Hired Did Not Always Meet Qualification Requirements

Head Start and Early Head Start grantees received \$744 million in first-year Recovery Act funding to expand services from about 890,100 to about an additional 60,600 children and families, often by initiating home-based services.²⁴ Most Early Head Start expansion grantees we interviewed received funding for a combination of center-based and home-based program options. Under the home-based program option, children and families receive visits from Early Head Start staff in their homes, and meet periodically for socialization activities. In 2009, before Recovery Act funds were awarded, Early Head Start grantees provided home-based programs

²³GAO's FraudNet provides a mechanism for reporting potential instances of fraud, waste, abuse, or mismanagement of federal funds (<http://www.gao.gov/fraudnet>).

²⁴OHS awarded 867 grants to expand Head Start and Early Head Start services.

for about 42 percent of the children and families they served, compared with about 47 percent after Recovery Act funds were awarded, in 2010.

Many of the Early Head Start grantees we interviewed increased their enrollment in home-based services to compensate for facilities delays to serve the expanded enrollment for which they were funded. Of the 13 Early Head Start expansion grantees with whom we spoke about program options, 8 initially planned to offer more center-based services than home-based. Among the 13 grantees, there were a total of 684 center-based slots and 487 home-based ones.²⁵ However, as a result of delays in receiving awards, licensing concerns, difficulties in preparing facilities, and other challenges, 7 grantees reported that they changed their expansion plans, resulting in more home-based slots (667) than center-based ones (520) among the 13 grantees.

Five grantees converted some of their center-based slots to home-based slots. Four of these five changes were temporary—while grantees waited for centers to be constructed, renovated, or licensed—but one change will remain throughout the duration of the 2-year grant. In moving some of its center-based slots to home-based ones, officials of one grantee in Illinois told us that they had received approval from their regional office to enroll 16 more children and families than they had initially planned.

In addition to beginning home-based programs and constructing and renovating facilities for center-based programs, grantees used Recovery Act funds to support their expansion of services. Facilities and other program features are tracked in OHS's annual Program Information Report (PIR) survey of grantees.²⁶ Table 2 shows the growth in selected program features from 2009, before the awarding of Recovery Act funds, through August 2010, after the funds were awarded. For example, grantees reported adding 15,571 full- or part-time staff, including classroom teachers and home-based visitors. While a portion of these changes may be attributable to changes in the use of regular grant funds, much of the change is likely due to the addition of Recovery Act expansion funds between 2009 and 2010.

²⁵While we spoke with 16 grantees, only 14 received Early Head Start expansion grants. We discussed program options with 13 of these 14 grantees.

²⁶Grantees report data for the PIR each August, and the data are compiled for use at the federal, regional, and local levels.

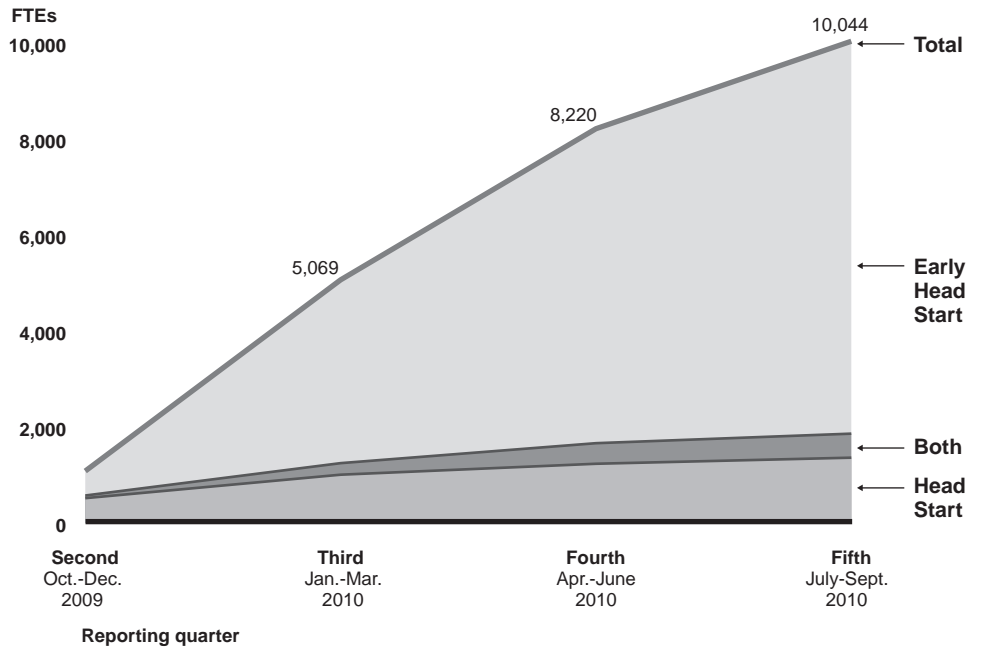
Table 2: Reported Changes in Selected Features of Head Start and Early Head Start Programs Nationwide, before and after the Recovery Act

	2009 (before Recovery Act awards)	2010 (after Recovery Act awards)	Change
Center-based slots	817,770	864,594	+ 46,824 (+6%)
Home-based slots	44,109	64,195	+ 20,086 (+46%)
Total staff, full- and part-time	211,951	227,522	+ 15,571 (+7%)
<i>Classroom teachers, full and part-time</i>	<i>55,873</i>	<i>62,612</i>	<i>+ 6,739 (+12%)</i>
<i>Home-based visitors, full- and part-time</i>	<i>4,538</i>	<i>6,624</i>	<i>+ 2,086 (+46%)</i>
Buses purchased by grantees	301	1,110	+ 809 (+269%)

Source: GAO analysis of OHS's PIR survey.

Consistent with the Recovery Act's goal to preserve and create jobs, as grantees expanded services, they reported using Recovery Act funding for the equivalent of about 10,000 full-time positions, also called "full-time equivalents" (FTE), such as for teachers, from July through September 2010, as shown in figure 3. The number of FTEs being lower than the number of total staff grantees reported adding (see table 2) may be due to several factors, such as some of the newly hired staff working part-time, which counts for one staff position but only for a fraction of an FTE; differences in the reporting periods covered; and the fact that some grantees reporting staffing levels did not receive Recovery Act expansion grants. FTE data provide insight into the use and impact of the Recovery Act funds, but recipient reports cover only direct jobs funded by the Recovery Act. They do not include the employment impact on suppliers (indirect jobs) or on the local community (induced jobs).

Figure 3: Full-Time Equivalent Positions Reported Funded by Head Start and Early Head Start Expansion Grantees Using Recovery Act Funds

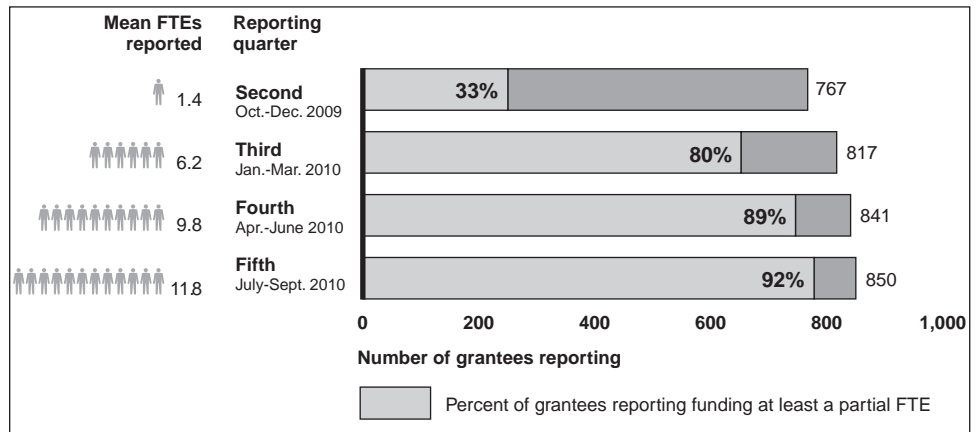


Source: GAO analysis of data from Recovery.gov.

Notes: We analyzed recipient reported FTE data for Head Start and Early Head Start expansion grants. We did not include data from the first reporting quarter due to concerns about reliability and comparability. "Both" refers to grantees that received expansion grants for both Early Head Start and Head Start programs, but only submitted one recipient report with FTEs.

Due to various start-up challenges, there was only a gradual growth in FTEs, as reported by grantees. For the quarter October through December 2009, only about one-third of grantees reported funding some portion of an FTE with Recovery Act expansion funds. However, by the quarter of July through September 2010, about 92 percent of grantees reported funding at least a partial FTE, as shown in figure 4. As the number of grantees reporting FTEs increased, the mean number of FTEs reported increased as well—from 1.4 in the October through December 2009 quarter, to 11.8 in the July through September 2010 quarter, also shown in figure 4.

Figure 4: Mean Full-Time Equivalent Positions Reported Funded per Head Start and Early Head Start Expansion Grantee



Source: GAO analysis of data from Recovery.gov.

Note: We analyzed recipient reported FTE data for Head Start and Early Head Start expansion grants.

As grantees added classroom teachers and home-based visitors from 2009 to 2010, as shown in table 2, the proportion of teachers meeting new, more stringent qualification requirements fell slightly. The percentage of classroom teachers meeting the new Early Head Start qualification requirements, which went into effect September 30, 2010, dropped from 88 to 84 percent from 2009 to 2010.²⁷ OHS officials told us some grantees experienced challenges hiring staff with the required qualifications. In addition, the proportion of Early Head Start classroom teachers and home-based visitors without credentials rose from 2009 to 2010. Classroom teachers without credentials increased from 12 to 16 percent. While home-based visitors are not required to meet any qualification requirements, the percentage of home-based visitors without credentials increased from 18 to 23 percent. Grantees in focus groups we conducted cited finding and developing staff as a significant challenge.

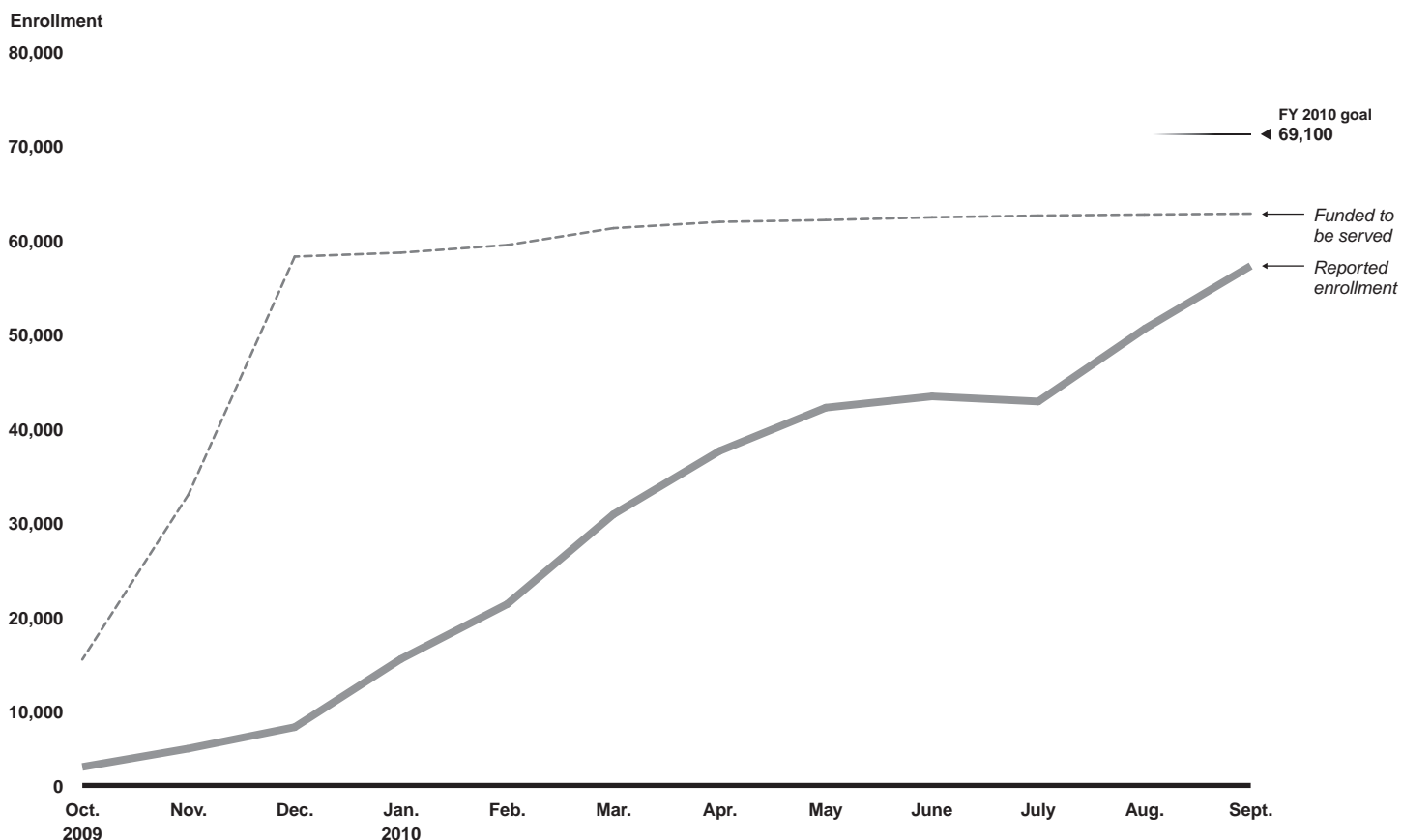
²⁷These data come from our analysis of OHS's PIR data. We tested the consistency of these variables and found that some grantees' responses about credentials were inconsistent. In this analysis, we excluded the grantees that failed the tests. Additionally, grantees may have used Recovery Act funding to hire classroom teachers without a Child Development Associate with the intention of providing them with the necessary training to earn the credential.

Enrollment Increases Were Smaller than Expected, and Some Numbers Reported by Grantees Were Not Necessarily Reliable

Reported enrollment of children and families in Head Start services also increased under the Recovery Act, though less than OHS anticipated. As we previously reported, by the end of the first year of the 2-year grant (fiscal year 2010), OHS planned to have used Recovery Act funding to provide for enrollment of an additional 55,000 pregnant women, infants, and toddlers under Early Head Start and an additional 14,100 children and families under Head Start, for a total of 69,100 new enrollees.²⁸ However, OHS funded about 60,600 new Early Head Start and Head Start slots. Because grantees were not able to enroll and provide services to the numbers of children for whom OHS had provided funding as rapidly as expected, by the end of September 2010, reported enrollment for both programs totaled about 55,100, as shown in figure 5. This slow and gradual growth in enrollment meant that grantees enrolled fewer children and families for fewer months than OHS had planned.

²⁸ [GAO-10-604](#), 170-171.

Figure 5: Number of Children and Families Funded to Be Served and Reported Head Start and Early Head Start Enrollment, October 2009–September 2010



Source: GAO analysis of OHS data on end-of-month enrollment.

Note: Reported Head Start and Early Head Start enrollment leveled off during the summer months of 2010 because most Head Start programs only operate during the school year.

Officials from 14 Early Head Start expansion grantees we interviewed reported the following reasons:

- *Delays in receiving expansion grant awards.* As we reported in May 2010, OHS did not meet its initial goal to award the Early Head Start expansion grants by the end of fiscal year 2009.²⁹ Awarding of Early Head Start expansion grants began in November 2009 and continued through July 2010. The prolonged award-making process resulted in a shortened

²⁹GAO-10-604, 171-173.

Continuing Federal Interest in Facilities

Grantees using Recovery Act expansion funds to renovate or construct new facilities for their center-based programs must follow regulations designed to protect the federal interest.⁴⁵ For example, grantees are required to record a Notice of Federal Interest when grant-funded construction, purchase, or major renovation begins with respect to a facility. Although the title to a newly acquired or renovated facility may vest with the grantee involved, such facilities may not be mortgaged, used as collateral, sold or otherwise transferred to another party without the written permission of HHS. If funding for Early Head Start is not appropriated at Recovery Act levels beyond fiscal year 2011, OHS officials told us they will work with individual grantees to find alternate ways to use the new facilities. For example, OHS may suggest that grantees move Head Start children to new construction from rental properties or less suitable grantee-owned facilities.

⁴⁵ 45 C.F.R. §§ 1309.20 - 1309.23 (2009).

start-up period for some grantees, and seven grantees we spoke with cited this as a cause for their delay in enrolling children and families.

- *Delays in leasing, constructing, and renovating facilities.* Six grantees to whom we spoke experienced difficulties and delays in securing leases, or constructing or renovating facilities in which to provide Early Head Start services, which caused enrollment delays.
- *Delays in licensing facilities.* Four expansion grantees we interviewed cited delays in receiving inspections or approval for state child care licenses for their centers as a cause for delays in enrollment.

Apart from challenges in expanding enrollment, differences in grantees' interpretation of OHS's enrollment policies suggest that reported enrollment figures may not always be reliable. We discovered differences in how grantees interpreted "enrollment" for purposes of the end-of-month enrollment report. Five of the nine expansion grantees we interviewed about enrollment reported children as "enrolled" when all paperwork was complete, which is consistent with the Head Start definition of enrollment.³⁰ For example, one of these five grantees reported children on its monthly enrollment report after the family completed forms documenting health information, income eligibility, and residency. On the other hand, four out of the nine expansion grantees we interviewed about enrollment reported children as enrolled only when they had begun receiving regular services, which is more consistent with the definition of enrollment used in Head Start's annual PIR instructions.

Grantees use different interpretations of enrollment for two reasons. First, "enrollment" is defined differently in different sources, as shown in table 3.

³⁰ 45 C.F.R. § 1305.2(b) (2009). Prior GAO work has highlighted this inconsistency. We previously reported that OHS's definition of enrollment for monthly reporting does not necessarily signify that services are being provided. We recommended that OHS collect data on the extent to which children and pregnant women actually receive services from Head Start and Early Head Start grantees. [GAO-10-604](#), 180-183. See appendix III for a discussion of open recommendations and OHS's response.

Table 3: Legal and Nonlegal Definitions of Head Start Enrollment

Sources used by grantees	Description of source	Definition
Head Start Regulations, 45 U.S.C. § 1305.2(b) (2009).	Regulations implementing the law authorizing Head Start and Early Head Start	"The official acceptance of a child by a Head Start program and the completion of all procedures necessary for a child and family to begin receiving services."
PIR instructions	Yearly grantee survey, nonlegal	Children—and, for Early Head Start, children and pregnant women—who are not only enrolled but for whom at least one-time services have been provided.
End-of-month report instructions	Monthly grantee survey, nonlegal	"Report the total number of children and/or pregnant women enrolled on the last operating day of the month. Report the total number of enrollees, not the number in attendance."

Source: Code of Federal Regulations and OHS.

Second, during routine on-site monitoring visits, OHS does not verify that grantees are consistently defining enrollment for purposes of monthly reporting. Instead, OHS checks that grantees' records of enrollment, however defined, are consistent with their end-of-month reports to OHS. The monitoring protocol does not require that reviewers verify the definition of enrollment that grantees employ in recordkeeping or monthly reporting. Having a consistent measure of enrollment, a key performance indicator for Head Start and Early Head Start, is crucial to helping OHS oversee the programs and to providing transparency to outside entities.

Because OHS has not established a consistent definition for enrollment reporting and does not verify during routine monitoring how grantees are reporting enrollment, the grantee-reported enrollment numbers may be an unreliable measure of grantee performance. For example, our prior work compared two grantees' enrollment information submitted through the PIR with information obtained from daily attendance records we received directly from grantees.³¹ Based on our review of this information, we determined that for both grantees, average attendance at Head Start centers was considerably lower than the reported enrollment at the

³¹GAO, *Head Start: Undercover Testing Finds Fraud and Abuse at Selected Head Start Centers*, [GAO-10-1049](#) (Washington, D.C.: Sept. 28, 2010), 10-13.

centers.³² In response to this report, HHS reported that it had taken action to incorporate a comparison of enrollment and attendance in its reviews, and stated that they were substantially different in only a small number of cases.³³ However, neither the updated monitoring protocol nor the Recovery Act monitoring protocol contains changes designed to more carefully reconcile enrollment and attendance figures.

Following Low Expenditure Rates in the First Year, Mixed Messages from OHS about Spending Policy Led to Varied Spending Practices

Delays, Facilities Issues, and Other Challenges Slowed Expenditure Rates

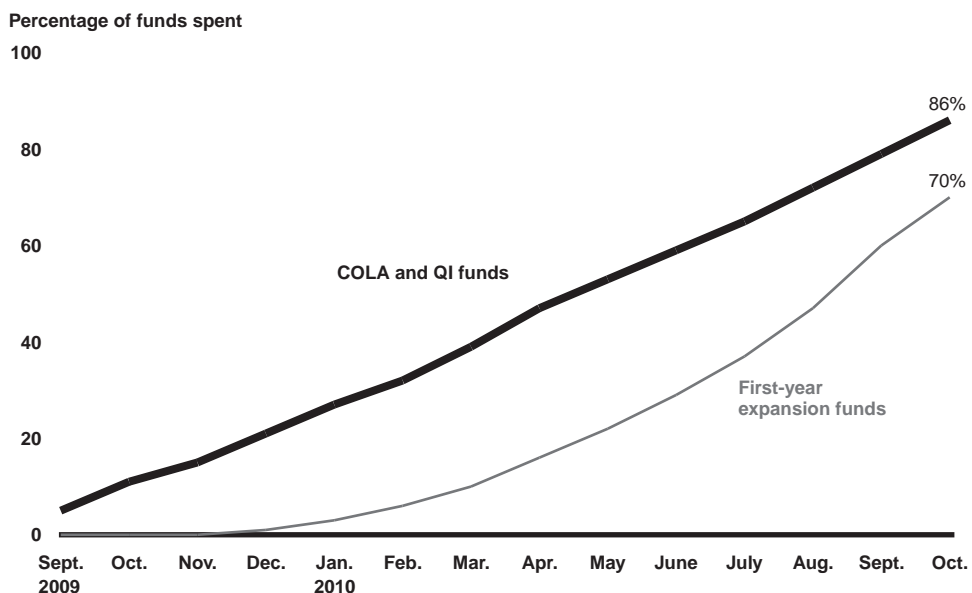
By the end of the first year of Recovery Act funding, expansion grantees had expended at least 60 percent of awards, and about 1 month later, grantees had expended about 70 percent (see figure 6), using a conservative estimate, which is explained below. In contrast to expansion grantees, grantees nationwide drew down at least 86 percent of Recovery Act cost-of-living adjustment (COLA) and quality improvement (QI) funds by the beginning of November. For expansion grantees, drawdown rates among individual grantees varied considerably. About 14 percent of grantees had drawn down 50 percent or less of their expansion awards, while 62 percent of grantees had drawn down more than 75 percent of

³²Attendance on a particular date is only a proxy for the number of children receiving services, since on a given day some children are expected to be absent.

³³An advisory committee for the Secretary of HHS specifically recommended that enrollment and attendance be considered along with other factors in determining whether or not OHS should renew an individual grant or make the grant available for competition among organizations (Secretary's Advisory Committee on Re-designation of Head Start Grantees, *A System of Designation Renewal of Head Start Grantees* (December 2008)). Subsequently, OHS proposed regulations on September 22, 2010, that would consider attendance and enrollment, insofar as these factors are part of triennial reviews, but these factors are not identified as "Key Quality Indicators" (Head Start Program, 75 Fed. Reg. 57704).

their awards by the beginning of November. Grantees have until December 29, 2010, to expend all obligated funds for the first budget year of the grant. However, of the 14 Early Head Start expansion grantees we interviewed, 7 reported that they could not expend all first-year funds and would request approval to “carry over” funds into the next year. Of these seven, six were able to calculate the amount they would request to carry over. The total was about \$2 million, or 21 percent of their total first-year awards.

Figure 6: Minimum Percentage of Recovery Act Expansion and COLA/QI Funds Drawn Down (Expended)



Source: HHS.

Note: October data is current as of November 3, 2010.

“Drawdown” estimates can significantly underestimate individual grantees’ actual expenditures, therefore the data offer a conservative estimate of grantees’ total expenditures nationwide. Drawdown data come from HHS’s Payment Management System (PMS), from which grantees withdraw funds to operate Head Start programs. Grantees generally must expend withdrawn funds within a few days. Alternatively, grantees occasionally use their own funds for some Head Start expenses and later withdraw funds from PMS. For example, a representative of one American Indian tribe we interviewed explained that the Head Start program used the tribe’s general funds to pay for its staff’s COLAs under the Recovery Act, and would withdraw the funds from PMS at a later time to reimburse the

tribe for its expenses. Because of practices such as these, the drawdown rate is generally considered a conservative estimate of grantees' actual expenditures.

OHS officials we interviewed lacked ready access to current, aggregated drawdown data or to normative data on drawdown rates at specific times (or among types of grantees) that might be used to assess grantees' current expenditures. Instead, central office officials referred to reports that would be submitted by grantees or knowledge of specific grantees among regional office staff. Current and historical drawdown information are kept by a different office within HHS and are not routinely aggregated or reported to OHS, even though current data are accessible.

Grantee expenditure patterns generally reflected when they had received awards. Head Start grantees drew down more total first-year award funds by the beginning of November 2010 (at least 82 percent) than Early Head Start grantees (at least 70 percent), who received awards later.³⁴ Further, Early Head Start grantees that received expansion awards earlier drew down more first-year award funds than those that received later Early Head Start awards. Early Head Start grantees that received awards in November 2009 averaged a drawdown rate of at least 83 percent, while those who received awards in February 2010 averaged a drawdown rate of at least 70 percent.

Different types of grantees drew down funds at different rates, as shown in table 4. Some of the Early Head Start expansion funds went to programs that serve two specific populations: American Indian and Alaska Native programs enrolling children and families from federally recognized tribes or native Alaskan children and families, and Migrant and Seasonal Head Start programs enrolling children of migrant farm workers. Drawdown for grantees serving American Indian and Alaska Native communities was at least 48 percent by the beginning of November 2010, as shown in table 4. OHS officials attribute this slow rate to the fact that some tribes advance tribal funds to pay for services and are reimbursed retroactively.

³⁴While almost all Head Start expansion grants were made by the end of September 2009, the first Early Head Start grantees did not receive awards until November 2009.

States Have Begun Drawing Down Advisory Council Funds

As of the beginning of November 2010, State Advisory Council (SAC) grantees had drawn down less than 1 percent of funds because awards were issued mostly in September 2010. The Head Start Act of 2007 required the governor of each state to establish a council on early childhood education and care for children from birth to school entry.⁹ Grants are being made available under the Recovery Act to be administered by OHS. The grant opportunity was announced to governors in May 2009 by the Acting Director of OHS, and applications were due August 1, 2010.

As of September 30, 2010, OHS had awarded grants to 45 states, the District of Columbia, and four territories totaling about \$100 million for the 3-year grants. Representatives from states we interviewed said SACs will use various sources to meet the grant requirement that states match 70 percent of the Recovery Act grant with nonfederal funds such as state-funded pre-school initiatives, lottery funds, and in-kind grants from state agencies. Seven states and territories did not apply for funding. Officials from three states that did not apply for SAC funding to whom we spoke cited challenges such as the nonfederal match requirement.

⁹Pub. L. No.110-134, § 11(b), 121 Stat. 1363, 1411 (codified at 42 U.S.C. 9837b).

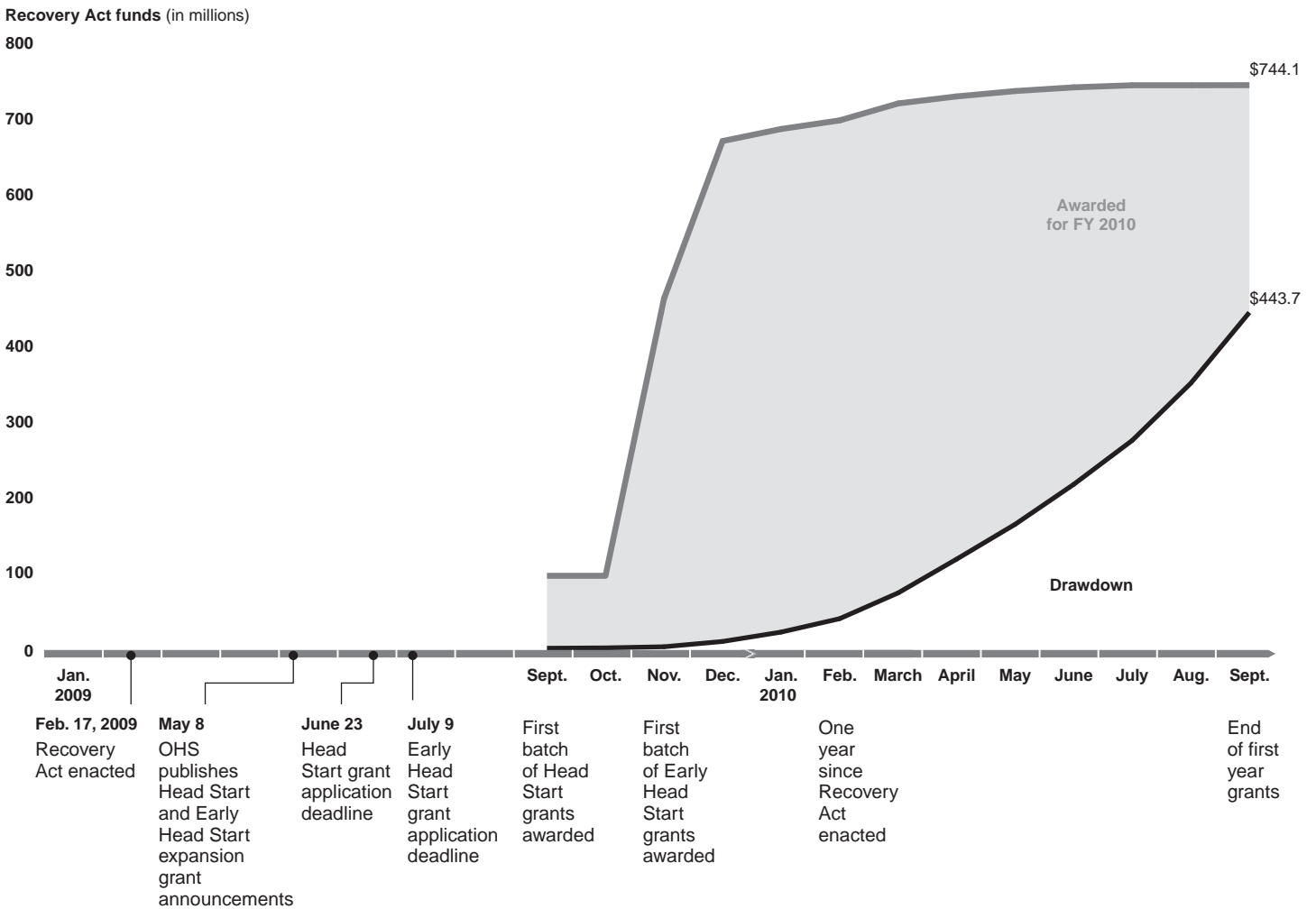
Table 4: First-Year Drawdown Rates for Grantees by Program Type, as of the beginning of November 2010

Type of grantee	Drawdown rate (percentage)
Head Start	82
Early Head Start	70
American Indian and Alaska Native	48
Migrant and Seasonal	84

Source: GAO analysis of HHS data.

Grantees themselves attribute low drawdown rates to delays in receiving grants, difficulties in preparing facilities, and other challenges, as discussed above. Five of the seven grantees we interviewed that did not expect to obligate all first-year funds cited the delay in receiving first-year grant awards from OHS as a challenge in expending first-year Recovery Act expansion funds. As shown in figure 7, OHS began making Head Start awards more than 6 months after the Recovery Act was enacted, and Early Head Start awards were granted even later.

Figure 7: Cumulative Fiscal Year 2010 Recovery Act Expansion Awards Timeline and Drawdown



Source: GAO analysis of OHS data.

Among grantees attributing delays to the preparation of facilities, one grantee cited the unanticipated need for time to commission and complete architectural drawings of the planned facility. This grantee and another that was constructing new facilities experienced difficulty completing the

paperwork to obtain approval from OHS to proceed with construction.³⁵ Grantees are not permitted to award a contract for construction or major renovation without approval from an OHS official.³⁶

Due to Mixed Messages from OHS, Grantees Adopted Varied Spending Practices

The OHS central office told us that standard policy for permitting grantees to request approval to carry over funds into the second year of the grant will apply to Recovery Act expansion grantees—although a regional OHS official reported that the OHS central office indicated that requests may receive “additional flexibility”—and grantees we interviewed often expressed confusion about whether or not OHS would permit them to carry over funds. Of the officials at 13 grantees that commented on the guidance they received, 9 stated that guidance on the carryover policy was unclear. In particular, officials at seven grantees did not expect to obligate all first-year funds by the end of the fiscal year, and five of these were unclear about the carryover policy.

Given the unique nature of the Recovery Act’s one-time, 2-year funding, grantees were unclear as to whether or not HHS’s typical carryover policy would apply. For typical, ongoing grants, the carryover policy is explained in HHS’s Grants Policy Statement, which states that grantees may request to carry over unobligated funds in the next year of their grant. HHS sets the policy for all grantees, while regional offices typically evaluate and approve grantees’ requests for carryover. However, regional offices did not consistently communicate a clear policy for Recovery Act funds. For example, in June 2010, the head of one region publicly urged grantees to expend all first-year funds within the fiscal year because the official was uncertain about whether or not carryover would be permitted. According to a grantee in another region, OHS staff told officials that it was likely that the grantee would be able to carry over unobligated funds for use in the following year. Officials at one grantee told us that the regional office changed its guidance on carryover. Specifically, the grantee reported that in June 2010, they received verbal assurances that they would be able to carry over funds into the next fiscal year. According to these officials, nearly 3 months later, the grantee was told that carryover would not be

³⁵In a focus group conducted in the winter of 2010 with expansion grantees, some participants noted the difficulty in completing this paperwork, called “1309” approval, in reference to the section of the Code of Federal Regulations that covers requirements for constructing facilities. 45 C.F.R. 3009.4 (2009).

³⁶45 U.S.C. § 1309.45 (2009).

permitted. Grantee officials representing two different regions told us that OHS regional office contacts refused to state the carryover policy “in writing.” One senior official from an OHS regional office confirmed that this was the office’s practice. An OHS official representing a different regional office stated that the office had not sent any e-mails or provided any written guidance on carryover to grantees as of September 2010.

Regional offices conveyed inconsistent messages to grantees because the OHS central office did not communicate its carryover policy clearly or early to regional offices. Officials at the OHS central office explained to us that the policy for carryover had not changed for Recovery Act grants. Further, the officials told us that if grantees had unexpended funds at the end of fiscal year 2011, OHS could approve grantees’ request to extend the time period, or the funds would be returned to the U.S. Treasury. Nevertheless, a senior official at one regional office indicated that they were waiting for information about carryover from the central office. A representative told us in July 2010 that the region was expecting guidance from the central office, which was not received until mid-September—about 2 weeks before the close of the fiscal year—and came verbally, not in written form. At that time, the regional official reported that Recovery Act carryover requests would be permitted in a manner consistent with normal policy, with the possibility of some additional flexibility to approve grantee requests.

Head Start grantees need clear information about how and when they are expected to obligate and expend federal funds so that they can plan to use funds responsibly to achieve program goals. Under normal Head Start policies, grantees are expected to have obligated all funds for that year within the annual budget period or to apply in writing to carry over unobligated funds to the next year. Grantees have access to information on carryover and the consequences of failing to adhere to the deadlines, as both are explained on an OHS Web site.³⁷ As a result, grantees can plan accordingly.

Grantees’ uncertainty about whether to “use or lose” Recovery Act grant funds contributed to varied spending practices that may not always have targeted expansion funds toward meeting programs’ highest current

³⁷OHS, *Obligation and Expenditure of Funds*, <http://eclkc.ohs.acf.hhs.gov/hslc/Program%20Design%20and%20Management/Fiscal/Financial%20Management/Budgets/ObligationandEx.htm>.

priorities. Two grantees we interviewed made advanced purchases of diapers, supplies, or other items that representatives either said were not needed until the next fiscal year or for which the grantee did not originally plan. Others among the 14 expansion grantees we contacted expended funds on large items that they did not originally plan to purchase. For example, one grantee told us they changed plans in order to purchase four buses, a van, and staff training in the closing months of the fiscal year. On the advice of the regional office, one grantee purchased a minivan to transport home-based participants to health appointments and regularly scheduled socialization activities. One grantee planned to construct a playground to be used as an “outdoor learning environment” at a cost of about \$295,000. Another planned to use funds to construct a socialization room for home-based Early Head Start participants on the same site as the grantee’s other Head Start program, at a cost of about \$43,000. Finally, 7 of the 14 expansion grantees we spoke to planned to apply to OHS for permission to carry over remaining unobligated funds into the second year.

OHS Hired a Contractor to Both Prepare for and Conduct On-Site Reviews, but Has Not Incorporated Some Risk Indicators in Planning for Reviews

OHS Has Contracted to Help Prepare for and Conduct On-Site Reviews

As required by the Head Start Act,³⁸ OHS plans to conduct “1-year” monitoring visits to 626 Early Head Start expansion grantees by expanding its use of an existing contractor. HHS contracted with Danya International (Danya) both for planning and carrying out reviews—for a total of \$21 million. Since 1999, Danya has supported OHS reviews of Head Start grantees by providing logistic and information technology support, and recruiting and training reviewers. However, because the addition of new

³⁸ 42 U.S.C. § 9836A(C)(1)(b).

grantees has been relatively rare, in any given year, OHS, together with Danya, typically complete only a handful of first-year visits for new programs.

In 2010, OHS openly competed a monitoring contract but received only one bid, from its existing monitoring contractor, which had completed initial planning for reviews of Recovery Act grantees under a noncompetitive modification of its existing contract. OHS had awarded Danya a noncompetitive contract modification in September 2009 for close to \$7 million to provide support for first-year monitoring visits to Recovery Act Early Head Start expansion grantees. Under this contract as modified, Danya was to develop a plan to integrate the Recovery Act expansion grantee visits into the national monitoring schedule, plan to expand recruitment of Early Head Start reviewers, and begin to develop information technology support for handling the increased volume of grantee reviews. HHS contracting officers justified the decision not to compete the contract modification, stating that there was insufficient time for another company to plan for monitoring Recovery Act expansion grantees. OHS also estimated that awarding the contract to a contractor other than Danya would cost \$11 million in duplication of effort. Subsequently, however, in accordance with the Recovery Act, HHS officials competed their entire monitoring contract in January 2010 to implement the monitoring visits that Danya had planned, as well as non-Recovery Act visits, worth \$38 million each year. As the only company to bid for the contract, Danya was awarded the contract for both Recovery Act and non-Recovery Act monitoring on April 28, 2010. The Recovery Act portion of this contract totaled \$14 million dollars, of which Danya had billed for close to \$2.1 million as of September 2010.

Under Danya's initial Recovery Act planning contract, OHS postponed indefinitely a centralized data management system for all grantees after paying more than \$250,000 in Recovery Act funding for the project. The data system, called the Knowledge Management Repository, was meant to consolidate different OHS data systems into one system. For example, the Knowledge Management Repository would have compiled grantee review data and evidence, and information about reviewers' expertise. In February 2010, however, this project was postponed indefinitely. According to OHS officials, they decided to postpone the project, determining that this function should be implemented internally. They stated the work completed by Danya will be used in a future data management system. Although OHS officials told us that a working group on monitoring information technology systems began meeting in October 2010, officials indicated that the envisioned data system will not be

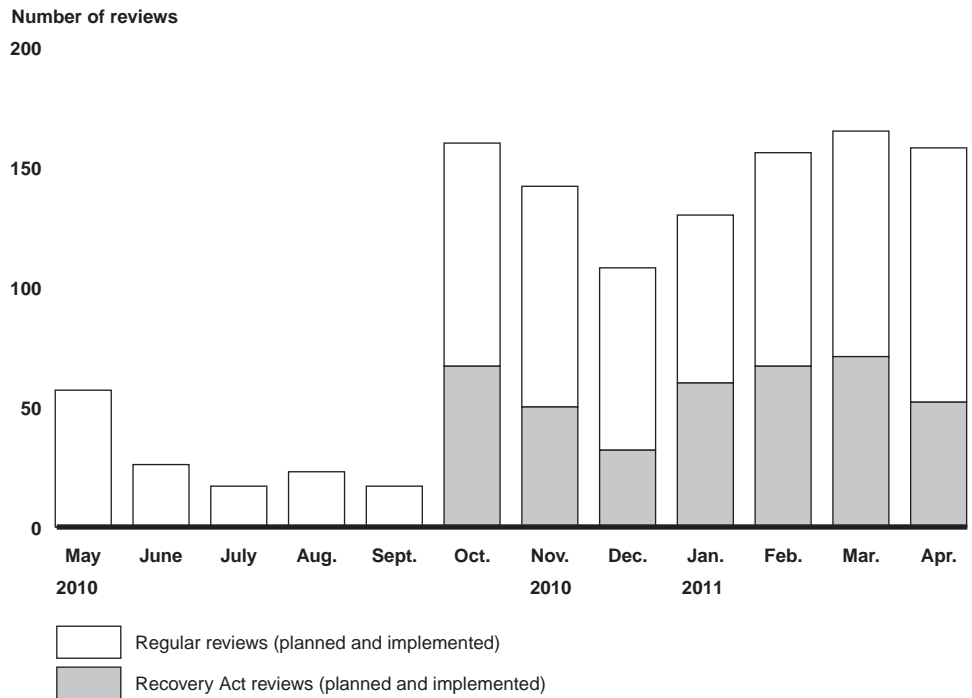
completed within the Recovery Act grant period or available for monitoring the Recovery Act expansion grantees.

OHS Has Prepared for On-Site Reviews but Has Not Incorporated Some Risk Indicators

In coordination with the contractor, OHS plans to complete on-site visits by April 30, 2011, or by the end of grantees' first year of operation, whichever comes first. The Head Start Act requires that HHS conduct "a review of each newly designated Head Start agency immediately after the completion of the first year such an agency carries out a Head Start program."³⁹ OHS considers the end of the grantees' first year of operation to be the end of 1 year of serving children and families. Recovery Act monitoring visits will be in addition to regularly scheduled monitoring visits, as shown in figure 8. OHS starts each monitoring season at the beginning of the fiscal year, which is in October of each year. OHS visited 63 Recovery Act Early Head Start expansion grantees by October 31, 2010, although it had planned to visit 67 by that date.

³⁹ 42 U.S.C. § 9836a(c)(1)(B).

Figure 8: Regularly Scheduled Monitoring Visits and Planned Recovery Act 1-Year Reviews, May 2010-April 2011



Source: GAO analysis of Danya documentation.

HHS's Office of Inspector General (OIG) identified some financial management risks among grantees, including a few that received Recovery Act expansion grants. Among 24 grantees that OHS identified as high risk that were reviewed by the OIG, five received Recovery Act expansion funds in fall 2010 (three for Early Head Start, one for both Early Head Start and Head Start and one for Head Start). According to OHS officials, the OHS central and regional offices identified high risk grantees in their regions and referred them to the OIG for review. The OIG began to audit the grantees in July and August 2009. OHS later awarded five of the 24 grantees Recovery Act funding to expand their Early Head Start or Head Start programs. OHS stated that no expansion funds were awarded to grantees that were identified for health and safety performance violations, although at least one of the grantees that received an unfavorable health

and safety review from the OIG received an expansion grant.⁴⁰ OHS officials explained that in making funding decisions, OHS looked at the grantees' reviews and spoke with staff in the regional offices to determine if the grantees should receive expansion grants. In conducting these reviews, the OIG identified several financial management deficiencies among four expansion grantees for which reports had been issued, including: uncertainties about continued financial viability; non-competitive agreements that advantaged the grantee; overcharging the Head Start program for administrative costs or charging it for unallowable or unsupported costs; and a weak system and internal controls related to accounting, personnel, procurement and property management. Two of the five expansion grantees that received financial management reviews from the OIG were on Danya's Recovery Act schedule to receive a monitoring visit this year.

OHS plans to scope and staff its 1-year reviews of Recovery Act grantees primarily according to their prior experience with Head Start and Early Head Start and whether the grantees have recently received a triennial review. New Early Head Start grantees will receive a full monitoring visit using the triennial monitoring review protocol. Recovery Act expansion grantees that have already received a triennial monitoring visit in years just prior to receiving their expansion funds will be given a more limited 1-year review of Recovery Act operations. The remainder of the expansion grantees will receive the triennial review for which they are scheduled in 2011, as shown in table 5. The 213 grantees that received Head Start expansion funds but no funding for Early Head Start expansion will receive their usual triennial review if they are scheduled to be reviewed this year; if they are not on this year's triennial schedule, they will not be reviewed this year.

⁴⁰HHS OIG, *Review of Head Start Health and Safety Standards at Community Action for Improvement, Inc.*, Report Number A-04-09-03531 (March 18, 2010). In fieldwork completed in August 2009, the HHS OIG noted health and safety deficiencies at grantee sites, including poison ivy and fire ant mounds in playground areas, missing railings on playground equipment, and an unlocked closet accessible to children containing liquid bleach, a hazardous chemical.

Table 5: Monitoring Reviews Planned by April 30, 2011, for Different Types of Recovery Act Early Head Start Expansion Grantees

Type of expansion grantee	Description of review	Number of Early Head Start grantees
New stand-alone Early Head Start ^a	Grantees will receive a full monitoring review with a full team.	72 grantees
Existing Head Start grantees that received Early Head Start expansion funds	Grantees already scheduled for a triennial review will receive two additional Early Head Start reviewers.	69 grantees
	Grantees not on the FY 2011 triennial review schedule will receive a targeted review with three reviewers.	127 grantees
Existing stand-alone Early Head Start grantees that received Early Head Start expansion funds	Grantees already scheduled for a triennial review will receive the traditional triennial review.	27 grantees
	Grantees not scheduled for an FY 2011 triennial review will receive a Regional Office Program Specialist review.	43 grantees
Existing grantees that operate both Head Start and Early Head Start programs that received Early Head Start expansion funds	Grantees already scheduled for a triennial review will receive two additional Early Head Start reviewers.	118 grantees
	Grantees not scheduled for an FY 2011 triennial review will receive a Regional Office Program Specialist review.	170 grantees
Total		626 grantees

Source: OHS.

^aNo Head Start grantees were new to the Head Start program. Thus, all new grantees are Early Head Start grantees.

Both the full 1-year monitoring review and the triennial review cover all aspects of the Head Start Monitoring Protocol, while targeted reviews will focus on Early Head Start and Recovery Act issues. For the 1-year reviews of Recovery Act grantees, OHS added questions to the Monitoring Protocol to enhance coverage of topics such as grantee governance and financial management, staffing, training and technical assistance funding, and education services. Other questions are directed at grantees implementing new programs. For example, one new question asks reviewers, “Has the

grantee drawn down an appropriate amount of funds, given where it is in the start-up process?” Targeted reviews for established grantees that have recently received a triennial review will cover matters related to Recovery Act spending and Early Head Start expansion. In these visits, reviewers do not ask grantees about some requirements, like partnering with parents or transportation services.

HHS and contractor officials have stated that all monitoring visits to new grantees will be implemented as “surprise” visits in response to GAO findings of fraudulent enrollment and attendance and enrollment discrepancies among some Head Start grantees as reported in May 2010.⁴¹ Typically, the OHS monitoring contractor notified grantees of their scheduled review date 30 days prior to the visit. According to the contractor, this date is chosen from among multiple weeks selected by grantees.

To prepare for monitoring visits to first-year expansion grantees, Danya gathered documentation and data on grantees and ensured support systems were equipped to receive Recovery Act grantee data. Danya gathered documentation and data on grantees to prepare for monitoring visits, such as grantee start-up proposals and information entered into the Head Start Enterprise System, a user-restricted Web-based database that includes PIR data and results of monitoring meetings with grantees. Danya has also adapted its data systems to track Recovery Act-funded grantee review activities.

In addition, Danya recruited and trained reviewers to conduct visits to expansion grantees. As of October 20, 2010, Danya had recruited over 270 new reviewers for the first-year monitoring visits to expansion grantees. The contractor stated that it recruited reviewers with fiscal, health, and early childhood development expertise. For the Early Head Start expansion visits, Danya reported recruiting reviewers who have specific expertise in infant and toddler development, expectant families, and infant mental health. Danya trained reviewers by October 20, 2010, through both in-person and self-certified Web-based training. In addition, Danya trained both OHS officials and nonfederal reviewers who received extra training by September 23, 2010, to serve as review team leaders. Team leaders will organize and implement the review and oversee the preparation of

⁴¹GAO, *Head Start: Undercover Testing Finds Fraud and Abuse at Selected Head Start Centers*, [GAO-10-733T](#) (Washington, D.C.: May 18, 2010).

OHS Plans to Monitor State Advisory Councils through Quarterly and 18-Month Reports

OHS plans to monitor SAC funds through 18-month reports, as well as quarterly program progress reports and minutes to be submitted to OHS. The OHS central office has assisted grantees by providing resources on accessing matching funds, responding to individual questions, hosting a webinar, working with the National Governors Association, and reminding grantees of recipient reporting deadlines. In addition, OHS plans to host an annual meeting for states to share acquired knowledge on SACs, starting in April 2011. OHS officials also stated that they hope to create cohorts of states working on similar initiatives with their SAC funding. Grantees noted, in particular, that the OHS SAC representative was helpful and responsive.

preliminary reports. Danya officials stated that they will also conduct quarterly booster and follow-up training.

In addition to preparing for first-year visits to expansion grantees, OHS has been conducting other one-time and ongoing monitoring activities, as shown in table 6. These efforts include initial on-site visits and reviewing grantee reports. Additionally, regional office staffers have been holding risk management meetings with expansion grantees to identify challenges and to monitor their progress. While it was OHS’s policy that all grantees receive regular risk management meetings, we found that at one of the two regional offices we contacted, risk management meetings were not consistently implemented or documented. For example, a regional office did not document whether or not any risk management meetings were conducted for one grantee that did not plan to open a Recovery Act-funded facility to children and families until September 2011. As a result, it is not clear that grantees in that region have been receiving the same level of review as other grantees or that regional offices are consistently implementing OHS’s policy or providing such information for consideration in staffing review teams.

Table 6: Status of OHS Monitoring Activities

OHS monitoring of grantees	Status
<i>Initial on-site monitoring:</i> In the months after grantees are funded, OHS regional staff conduct initial on-site visits to support grantees in meeting the Performance Standards, and identify any early concerns.	As of November 5, 2010, OHS regional office program staff conducted 505 initial on-site visits to support Recovery Act expansion grantees.
<i>Risk management meetings:</i> Regional staff call grantees within the first 30 days of receiving an expansion grant, within the next 45 days, and then quarterly until grantees are operational. Calls may be more frequent, as needed. Through the risk management meetings, OHS’s objective is to understand what the grantee is doing, how far along it is in the expansion process, and the amount of the award spent. Participants include regional office staff and the Regional Program Manager, if needed.	GAO found that risk management meetings were implemented or documented inconsistently. One regional office did not document that some risk management meetings had occurred. The date and outcomes of the risk management meetings were not always entered into the centralized database.
<i>Monthly enrollment and annual reporting:</i> Grantees are required to report their enrollment at the end of each month, so OHS can compare it to the enrollment for which it was funded. Low enrollment triggers monitoring actions by regional OHS offices. Also, all grantees will complete an annual, more comprehensive survey known as the PIR.	Grantees have generally completed monthly enrollment reports. According to an OHS official, almost all grantees have completed the annual PIR.

Source: GAO analysis of OHS data.

Oversight of Recipient Reporting Data Quality Continues for the Fifth Round of Reporting

To meet our mandate to comment on recipient reports, we have continued monitoring recipient reported data, including data on jobs funded. This time we focused our review on the Head Start data in addition to the national data. Analyzing these data can help in improving the accuracy and completeness of the Recovery.gov data and in planning analyses of recipient reports. Overall, this round's results were similar to those we observed in previous rounds. While data quality is improving, some issues remain. According to Recovery.gov as of October 30, 2010, recipients reported on over 200,000 awards indicating that the Recovery Act funded approximately 671,607 jobs during the quarter beginning July 1, 2010, and ending September 30, 2010.⁴² This included over 2,400 prime reports associated with Head Start grantees. As reported by the Recovery Accountability and Transparency Board, job calculations are based on the number of hours worked in a quarter and funded under the Recovery Act—expressed in FTEs.⁴³

Analysis of Fifth Round Recipient Reporting Data Shows Data Quality Is Relatively Stable

Using the fifth reporting period data, we continued our monitoring of errors or potential problems by repeating many of the analyses and edit checks reported in our earlier reports. We reviewed 77,711 prime recipient report records from Recovery.gov for this fifth round, an increase of 3,462 or about 4.6 percent from round four. For our analyses, in addition to the fifth round of recipient report data, we also used the previous four rounds of data as posted on Recovery.gov as of October 30, 2010.

In examining recipient reports, we looked for progress in addressing several key limitations found in our prior reports. In prior rounds we have reviewed data logic and consistency and reviewed unusual or atypical data. Data logic and consistency provide information on whether the data are believable, given program guidelines and objectives; unusual or atypical data values indicate potential inaccuracies. As with previous

⁴²Under the continuous corrections period, recipients were allowed to modify submissions from November 2, 2010, to December 6, 2010. The final update of this round of recipient reported data should occur on December 8, 2010.

⁴³Under the Recovery Act, recipients are to file reports for any quarter in which they receive Recovery Act funds directly from the federal government. Reporting requirements apply to nonfederal recipients of funding, including entities such as state and local governments, educational institutions, nonprofits, and other private organizations. These requirements apply to recipients who receive funding through the Recovery Act's discretionary appropriations, not recipients receiving funds through entitlement programs, such as Medicaid, or tax provisions. Certain other exceptions apply, such as for individuals. Recovery Act, div. A, § 1512, 123 Stat. at 287–288.

quarterly report rounds, these reviews included (1) the ability to link reports for the same project across quarters and (2) concerns in the data logic and consistency, such as reports marked final that show a significant portion of the award amount not spent. We continued to see results similar to those of past reviews. For example, we continued to find a small number of reports for which there were potential linkage issues across quarters. This may impact the ability to track project funding and FTEs over quarters. We also continued to see a small number of reports marked final for which there appeared to be some discrepancies, such as reports marked final but for which project status was marked as less than 50 percent completed.

As part of our review of data logic and consistency, we found some inconsistencies in the Head Start data's agency review flag field that were similar to inconsistencies we found in our previous reviews. Our analysis suggests that this field may not correctly reflect the extent of the agency's review process. Prime recipient report records include a review flag on whether or not the federal agency reviewed the record during the data quality review time frames. As we have noted in past reports, our analyses of this agency review field, in conjunction with other fields and our discussions with agency officials, have indicated potential problems and inconsistencies. It appears that this continues to be the case with Head Start reports, only 17 percent of which were marked as having been reviewed by the agency. However, agency officials stated that all reports were reviewed. Another data field on the recipient report shows whether or not a correction was initiated; analysis of that field indicates it is likely that additional agency reviews took place. A correction could be initiated by either the prime recipient or the reviewing agency. Thirty percent of the reports had the correction flag set to 'yes' even though the review flags suggested that neither the agency nor prime recipient had reviewed those reports. Officials noted that they continued to experience difficulties in marking reports as reviewed. Agency officials indicated that they would continue to update these flags during the continuous review process.

As part of our additional analysis, we found that a previously identified concern with FTE calculations for Head Start reports is being addressed. Agency officials stated that following the December 2009 Office of Management and Budget (OMB) memorandum clarifying the FTE definition, all grants associated with COLA/QI were reviewed with respect to the reporting of FTEs. Agency officials reviewed these grants and communicated to recipients that the cost-of-living increases were not to count toward the FTE totals. We reviewed the FTEs reported to determine if Head Start recipients were no longer reporting cost-of-living increases as

FTEs. In examining the impact on the FTE figures before and after this clarification guidance was issued, we observed a significant drop in the number of COLA/QI FTEs reported in all reporting periods following the updated guidance. We further observed that for the fifth round of reporting, over 60 percent of these COLA/QI recipient reports showed no FTE value. For the remaining reports showing FTEs, we looked to see if, in the 20 reports with the greatest number of FTEs, the fields describing the award, project, and job creation explained their FTE counts. In almost all cases, one of these narrative fields accounted for activities that would be expected to produce FTEs—hiring staff, expanding existing staff hours, or hiring other types of workers to improve facilities, in accordance with Head Start quality improvement guidance. Agency officials noted that they continue to monitor these grants to ensure that cost-of-living increases are not being reported among the FTEs.

Head Start Agency Review of Recipient Data Included Updated OMB Guidance Requirements

OMB's guidance requires federal agencies to work with their recipients to ensure that the data they report are comprehensive and accurate.⁴⁴ The agencies must make limited reviews of recipients' data to identify material omissions and significant reporting errors and to notify the recipients of any need to make appropriate and timely changes. However, as OMB stated in its guidance, the federal agencies' comments and suggestions for report changes do not preclude the prime recipients' ultimate responsibility for the data they report.

On September 24, 2010, OMB issued updated guidance to federal agencies and recipients that included guidance on, among other topics, improving the transparency of narrative descriptions in recipient reporting.⁴⁵ In particular, this memorandum stated that unclear or overly general award descriptions constitute material omissions. Further, the memorandum

⁴⁴See OMB Memoranda M-09-21 and M-10-08.

⁴⁵See OMB Memorandum M-10-34. This memorandum included updated guidance on when a recipient should mark a record as final, as well as a statement that changes to prior reports may not be initiated for the number of jobs field. Further, the memorandum noted that previous OMB memoranda (M-09-21 and M-10-08) require recipients to provide narrative descriptions that are sufficiently clear to facilitate understanding by the general public. We have previously reported on the issue that this guidance addresses. For more information see, for example, the following recent reports: GAO, *Recovery Act: States Could Provide More Information on Education Programs to Enhance the Public's Understanding of Fund Use*, [GAO-10-807](#) (Washington, D.C.: July 30, 2010) and *Recovery Act: Increasing the Public's Understanding of What Funds Are Being Spent on and What Outcomes Are Expected*, [GAO-10-581](#) (Washington, D.C.: May 27, 2010).

described standards of completeness for the “Award Description” and “Quarterly Activities/Project Description for Prime and Sub-recipients” fields. OMB noted that these two fields together must provide, at minimum, clear and complete information on the award’s purpose, scope and nature of activities, outcomes, and status of activities. Per the memorandum, federal agencies are to direct recipients to update or correct these fields in instances in which incomplete award descriptions would mislead the public or fail to provide sufficient information to discern the award’s purpose and activities.

In response to this memorandum, HHS issued guidance to ACF and its operating divisions on reviewing these data fields as it reviews recipient reports. HHS provides broad guidance on the types of data quality reviews its operating divisions should perform, and ACF works with OHS to review Head Start recipients’ reports. This review used a series of reports that contain data from FederalReporting.gov and the ACF grants management systems to identify potential issues with data submitted by recipients.⁴⁶ This process entails automated data reviews that cover all reports submitted, generating a list of reports from which ACF programs can target their review of recipient reported data. The automated reviews include, for example, award number matching and reviews of expenditures, project status, and reported FTEs.

In response to the new HHS guidance, ACF and OHS have incorporated these additional reviews into their procedures. Agency officials informed recipients of the enhanced requirements for updating award and project descriptions. Further, when officials reviewed records in early October in which recipients had brief descriptions in the data fields, they found that about 600 Head Start recipients potentially needed updating. In early November, agency officials stated that this review had led to more than 450 of the 600 recipients updating their records. Agency officials noted that many of the recipients had used the “copy forward” feature for several rounds but had not updated these two fields in recent rounds. The officials stated that they will update or modify their review process as further guidance is released.

⁴⁶Federalreporting.gov is the nationwide data collection system for recipient reporting data requirements, while the data reported by recipients are available to the public for viewing and downloading on Recovery.gov.

Conclusions

The Recovery Act expansion grants made it possible for some 60,000 additional children and families, particularly those with low incomes, to receive up to 2 years of Head Start and Early Head Start services that will help ensure school readiness. The expansion grants also created or retained a number of jobs during the country's economic slowdown. Still, even as the Recovery Act directed an infusion of funds into the economy, it also increased the importance of accountability for their use. In light of the Recovery Act's pledge of unprecedented transparency and accountability for federal grants, the ability of OHS to measure the results of expanded Head Start funding is critical. While grantee recipient reporting figures indicate that staffing levels have increased with Recovery Act funds, data on the number of children and families enrolled in Head Start and Early Head Start are less clear. OHS's plan to require that reviewers compare attendance with enrollment reports offers some clarification, but until OHS clearly communicates a consistent definition for "enrollment," the cumulative enrollment reports will continue to mean different things for different grantees. Without better measures of enrollment or service delivery, it will remain difficult for OHS to assess whether its actions are extending Head Start and Early Head Start to as many eligible children and families as possible.

The rapid addition of funds to Head Start and Early Head Start increased the potential significance of efforts to reduce risks of misuse or abuse of funds and enhance the effectiveness of sponsored programs and projects. The fact that Early Head Start grants arrived later than expected—further accelerating expenditures—increased the risk of ineffective choices on the part of grantees. The absence of clearly communicated guidance on whether they could carry funds from one year to the next and the lack of consistent monitoring of their spending plans likely left grantees feeling pressured to spend funds on near-term priorities in the belief that application to longer-term but potentially more important issues would not be possible. As a result, some children may have received significantly different levels or a lesser quality of service than their program managers might have otherwise planned or provided. Unless this confusion is remedied, OHS may miss opportunities to foster the best outcomes with Recovery Act expansion funds.

Without consistently sharing the results of risk management meetings, risks are more likely to be overlooked and a central OHS strategy for managing risk—including risks in management of new funds—does not achieve its full potential. In addition, failure to incorporate known information regarding financial management and other risks in planning Recovery Act reviews may make these reviews less effective in holding

grantees accountable for the funds received and ascertaining their progress in addressing known problems.

Recommendations for Executive Action

We recommend that the Director of the Office of Head Start take the following three actions:

- To help ensure that grantees report consistent enrollment figures, better communicate a consistent definition of “enrollment” to grantees for monthly and yearly reporting and begin verifying grantees’ definition of “enrollment” during triennial reviews.
- To provide grantees consistent information on how and when they will be expected to obligate and expend federal funds, clearly communicate its policy to grantees for carrying over or extending the use of Recovery Act funds from one fiscal year into the next.
- To better consider known risks in scoping and staffing required reviews of Recovery Act grantees, direct OHS regional offices to consistently perform and document Risk Management Meetings and incorporate known risks, including financial management risks, into the process for staffing and conducting reviews.

Agency Comments and Our Evaluation

We provided a draft of the report to the Department of Health and Human Services and the Office of Management and Budget for review and comment. OMB did not provide comments. HHS’s comments are reproduced in appendix II. HHS agreed with GAO’s recommendations and provided additional detail on steps it had initiated or planned to implement. With respect to our recommendation that OHS direct regional offices to consistently perform and document Risk Management Meetings, HHS reports it is reviewing the Risk Management Meeting process to ensure it is consistently performed and documented in its centralized data system and that it has taken related steps, such as requiring the Grant Officer to identify known or suspected risks prior to an on-site review. HHS also indicates that it will issue explicit guidance on enrollment terminology for grantees and monitoring teams, as well as provide guidance and make other efforts to effectively communicate the mechanisms in place for grantees to meet the requirements for obligation and expenditure of funds. In addition, in connection with our observation regarding OHS managers’ access to aggregated drawdown data, HHS commented that it is pursuing plans to obtain monthly reports of this

nature for OHS and regional program managers. HHS also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Secretary of Health and Human Services, the Director of the Office of Management and Budget, appropriate congressional committees, and other interested parties. The report is also available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact Cornelia Ashby at (202) 512-7215 or ashbyc@gao.gov or Yvonne Jones at (202) 512-6878 or jonesy@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Cornelia M. Ashby

Cornelia M. Ashby
Director, Education, Workforce, and Income Security

Yvonne D. Jones

Yvonne D. Jones
Director, Strategic Issues

List of Addressees

The Honorable Nancy Pelosi
Speaker of the House of Representatives

The Honorable Daniel K. Inouye
President Pro Tempore of the Senate

The Honorable Harry Reid
Majority Leader
United States Senate

The Honorable Mitch McConnell
Republican Leader
United States Senate

The Honorable Steny Hoyer
Majority Leader
House of Representatives

The Honorable John Boehner
Republican Leader
House of Representatives

The Honorable Daniel K. Inouye
Chairman

The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable David Obey
Chairman

The Honorable Jerry Lewis
Ranking Member
Appropriations Committee
House of Representatives

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

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

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

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

Appendix I: Objectives, Scope, and Methodology

We took a number of steps to address our objectives, which were to determine (1) how Head Start and Early Head Start grantees have used American Recovery and Reinvestment Act of 2009 (Recovery Act) funds, including expanding enrollment; (2) what challenges grantees have encountered in spending Recovery Act funds; (3) how the Office of Head Start (OHS) has monitored the use of Recovery Act funds; and (4) how the quality of jobs data reported by Recovery Act recipients, particularly Head Start grantees, has changed over time.

To determine how Head Start and Early Head Start grantees have used Recovery Act funds to expand enrollment, we reviewed relevant federal laws and regulations, met with agency officials, visited and spoke with Head Start and Early Head Start grantees, and analyzed OHS-provided data on awards, expenditures, programs, and enrollment. We conducted follow-up interviews with nine grantees that we visited previously in nine localities in four states for a previous report on the Recovery Act.¹ For these interviews, we used an interview protocol that focused on progress made in providing services, spending Recovery Act funds, plans for carryover, and reporting on Recovery.gov. Additionally, we spoke with seven grantees in seven other states that we identified by analyzing Department of Health and Human Services' (HHS) expenditure data to identify grantees with drawdown rates below 5 percent as of July 16, 2010. For these interviews, we used an interview protocol that addressed use of Recovery Act funds, reasons for low spending rates, carryover guidance, and regional office interaction. Table 7 lists the characteristics of grantees that we spoke to, as well as the type of interview they received. None of the grantees we interviewed were among the small portion new to the Head Start program; however, eight of them were implementing Early Head Start for the first time.

¹GAO, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds (Appendixes)*, [GAO-10-1000SP](#) (Washington, D.C.: Sept. 20, 2010).

Table 7: Grantees Visited or Interviewed by GAO

Grantee number	Head Start or Early Head Start grantee	Type of interview	Expansion grantee
1	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
2	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
3	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
4	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
5	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
6	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
7	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
8	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
9	Head Start and Early Head Start	Site visit, follow-up phone interview	Yes
10	Head Start and Early Head Start	Phone interviews	Yes
11	Head Start and Early Head Start	Phone interview	Yes
12	Head Start	Phone interview	No
13	Head Start	Phone interview	No
14	Head Start and Early Head Start	Phone interview	Yes
15	Head Start and Early Head Start	E-mail	Yes
16	Early Head Start	E-mail	Yes

Source: GAO.

Interviews and site visits with grantees supplemented information gathered from seven GAO focus groups with expansion grantees, on which we reported in May 2010.² Sixty-one individuals participated in focus groups, representing a variety of programs, including existing Head Start and Early Head Start grantees and grantees entirely new to the Head Start and Early Head Start programs. For most focus groups, we recruited participants from those attending Head Start-related conferences. The focus groups discussed challenges faced in implementing their expansion grants, among other topics. Despite the representation across types of grantees and operating regions, information from site visits and the results of interviews and focus groups are not generalizable to all expansion grantees under the Recovery Act.

To describe how State Advisory Council grantees were planning to expend their funds, we interviewed state officials in six states: three states that received grants and three states that chose not to apply for these funds.

²GAO-10-604, 163.

Additionally, we analyzed several databases used by OHS to understand grantees' characteristics and the features of the grant awards. We assessed data reliability for all computer-processed data we used, including reviewing documentation of processes supporting the databases, conducting logic tests for key variables, and assessing data for out-of-range values.

- We analyzed OHS-provided Financial Assistance Award data from the Grants Administration Tracking and Evaluation System database to determine total funds awarded by year, distribution of grantees' awards across budget categories, and how many children and families each grantee was funded to serve.
- We used HHS-provided grantee expenditure data taken from the Payment Management System (PMS) to determine progress in Head Start and Early Head Start grantees' Recovery Act total drawdowns, as well as to identify grantees with low drawdown rates for further GAO follow-up. OHS officials cautioned us that PMS rates of expenditure are conservative, as grantees occasionally spend their own funds on Head Start programming and are reimbursed later through the PMS system.
- We analyzed 2 years of Program Information Report (PIR) data on enrollment, staffing levels, and other variables. The PIR is administered through the Head Start Enterprise System, a user-restricted, Web-based database. PIR is an annual survey administered to all Head Start and Early Head Start grantees. We performed logic checks on all variables used in the report. We also analyzed previous GAO reports and an external report that found that some PIR variables were unreliable. None of these reports used 2009 or 2010 data. We tested these variables for 2009 and 2010 and found them to be sufficiently reliable for our purposes of reporting aggregated figures.
- We analyzed all end-of-month enrollment data for Recovery Act grantees. Like the PIR, the end-of-month data collection instrument is administered through the Head Start Enterprise System. OHS populates the funded enrollment variable, and grantees are required to submit reported enrollment each month, including an explanation for enrollment that falls below a grantee's funded enrollment. We did not validate individual grantees' enrollment reports by comparing them to actual enrollment records. We found instances in which grantees' funded enrollment was attributed incorrectly or in which grantees' total funded enrollment was incorrect. These issues represented an error rate of less than 1 percent of total funded enrollment. Although we have continuing concerns about quality controls for the monthly enrollment data, we determined that data

used for our report are sufficiently reliable for our purposes of reporting total reported and funded enrollment for all grantees.

To describe challenges grantees have encountered in spending their Recovery Act funds, we reviewed relevant federal laws and regulations and met with agency officials from both the OHS central offices and regional offices. In addition, we analyzed drawdown data from HHS's PMS system. As described above, we also interviewed seven Early Head Start grantees in seven states that we identified using PMS data. Among all grantees with drawdown rates below 5 percent as of July 16, 2010, we randomly selected seven grantees to contact. We used a standard protocol to ask these grantees' officials about how they have been using funds, their challenges in spending funds, and why their drawdown rates were so low at such a late time in the year.

To assess how OHS has monitored Recovery Act funds, we reviewed relevant federal laws and regulations, interviewed agency officials, analyzed contracts and contractor invoices, and reviewed other agency documentation such as monitoring protocols. We met with the OHS contracting officer and the OHS contractor to discuss the award process and monitoring support. We also met with officials from the HHS Office of the Inspector General to better understand their role in the expansion grant-making process and in monitoring grantees.

The recipient reporting section of this report responds to the Recovery Act's mandate that we comment on the estimates of jobs created or retained by direct recipients of Recovery Act funds. For our review of the fifth submission of recipient reports, covering the period from July 1, 2010, through September 30, 2010, we built on findings from our four prior reviews of the reports, covering the period from February 2009 through June 30, 2010. We performed edit checks and basic analyses on the fifth submission of recipient report data that became publicly available at Recovery.gov on October 30, 2010. To understand how the quality of jobs data reported by Recovery Act recipients, particularly Head Start grantees, has changed over time, we compared the five quarters of recipient reporting data that were publicly available at Recovery.gov on October 30, 2010. We performed edit checks and other analyses on the Head Start subset of recipient reports, which included matching OHS-provided data (Financial Assistance Awards from the Grants Administration Tracking and Evaluation System database) and HHS-provided data (grantee expenditures from PMS) on grantees with recipient reports. We also reviewed documentation and interviewed federal agency officials from HHS, who have responsibility for ensuring a reasonable degree of quality

across their programs' recipient reports. Due to the limited number of recipients reviewed and the judgmental nature of the selection, GAO's full-time equivalent findings are limited to those Head Start programs and time periods examined and are not generalizable to any other program's FTE reporting..

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

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

Appendix II: Comments from the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Assistant Secretary
for Legislation

Washington, D.C. 20201

DEC 10 2010

Cornelia M. Ashby
Director
Education, Workforce, and Income Security
U.S. Government Accountability Office
441 G Street N.W.
Washington, DC 20548

Dear Ms. Ashby:

Enclosed are comments on the U.S. Government Accountability Office's (GAO) draft report entitled, "RECOVERY ACT: Head Start Grantees Expand Services but More Consistent Communication Could Improve Accountability and Decisions About Spending" (GAO-11-166).

The Department appreciates the opportunity to review this report before publication.

Sincerely,

A handwritten signature in cursive script that reads "Jim R. Esquea".

Jim R. Esquea
Assistant Secretary for Legislation

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: HEAD START GRANTEE EXPAND SERVICES BUT MORE CONSISTENT COMMUNICATION COULD IMPROVE ACCOUNTABILITY AND DECISIONS ABOUT SPENDING" (GAO-11-166)

The Department appreciates the opportunity to comment on this draft report.

GAO Recommendations

We recommend that the Director of the Office of Head Start take the following three actions:

- To help ensure that grantees report consistent enrollment figures, better communicate a consistent definition of "enrollment" to grantees for monthly and yearly reporting and begin verifying grantees' definition of "enrollment" during triennial reviews.
- To provide grantees consistent information on how and when they will be expected to obligate and expend federal funds, clearly communicate its policy to grantees for carrying over or extending the use of Recovery Act funds from one fiscal year into the next.
- To better consider known risks in scoping and staffing required reviews of Recovery Act grantees, direct OHS regional offices to consistently perform and document Risk Management Meetings and incorporate known risks, including financial management risks, into the process for staffing and conducting reviews.

Administration for Children and Families (ACF) Comments

As GAO noted, more than 55,000 infants, toddlers and pre-schoolers have received comprehensive Head Start (HS) and Early Head Start (EHS) services due to the funding under the American Recovery and Reinvestment Act (ARRA).

In order to ensure that funds were well spent and that these children receive high quality services, ACF has augmented the ongoing and on-site monitoring of these programs. In 2008, the Office of Head Start implemented a Risk Management Process for all grantees to serve as an overarching framework tying together the funding, monitoring, and technical assistance processes to prevent or reduce risks; focus on early intervention and build on strengths; and to improve communication, information sharing and grantee operations. Participants include the staffs of the grantee, the OHS program, the ACF Grants Office, and the Training and Technical Assistance network. While all grantees will have at least one regular Risk Management Meetings (RMM) each year, for ARRA grantees, specific meetings were held to establish a formal system of communication to identify barriers to implementation and service delivery. To facilitate the meeting and provide consistency, a standard form was used by the regional offices.

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: HEAD START GRANTEES EXPAND SERVICES BUT MORE CONSISTENT COMMUNICATION COULD IMPROVE ACCOUNTABILITY AND DECISIONS ABOUT SPENDING" (GAO-11-166)

On-site monitoring was also strengthened for oversight of ARRA grantees. For all grantees, OHS conducts regular on-site monitoring visits every three years. For ARRA expansion, the frequency of on-site reviews has been increased and tailored for the ARRA programs, as noted by GAO. Specifically, OHS partnered with the Office of Inspector General to conduct pre-award audits on all new grantees, contracted with an outside agency to conduct intensive on-site monitoring after the first year of operations. Federal staff already have conducted more than 500 on-site visits to ARRA programs.

ACF appreciates the recommendations from GAO on how to improve on this performance and offers the following response on GAO's three recommendations as well as technical comments and corrections.

Definition of Enrollment

GAO is correct that there is a difference between the regulatory definition of "enrollment" and what the Program Improvement Report (PIR) attempts to capture in its reporting on enrollment. The purpose of the PIR is to report on services received by children and families and so we have instructed grantees to only include children having received services⁽¹⁾. ACF agrees that we need to develop appropriate terminology to avoid confusion. OHS will quickly issue explicit guidance on this terminology for grantees and monitoring teams.

Communication on Obligating and Expanding Federal Funds

The terms and conditions of all awards are outlined in the HHS Grants Policy (GPS) statement which is incorporated by reference in the standard remarks of all grant awards. The GPS outlines the requirements for requesting carryover of unobligated balances. The requirements for the ARRA funds did not differ from the HHS grant requirements. These procedures include submitting a request with appropriate justification which describes the previously approved goals and objectives/activities that were not met and will be completed in the subsequent budget period. The request must also include a current financial status report that reflects the unobligated balance.

Since GAO's work highlights the need for more explicit guidance for ARRA grantees, ACF will issue guidance to reiterate the required obligation and expenditure requirements of the grant, and will continue to improve upon its efforts to effectively communicate the mechanisms in place as they relate to fiscal requirements of obligating and expending funds.

¹ PIR instructs grantees to include all children who have been enrolled in their program and have attended at least one class or, for programs with home-based options, received at least one home visit and all pregnant women who have been enrolled in their program and received Early Head Start services.

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "RECOVERY ACT: HEAD START GRANTEES EXPAND SERVICES BUT MORE CONSISTENT COMMUNICATION COULD IMPROVE ACCOUNTABILITY AND DECISIONS ABOUT SPENDING" (GAO-11-166)

Consistently Perform and Document Risk Management Meetings

ACF agrees that Risk Management Meetings need to be performed and documented consistently. ACF Central Office oversees the work of regional offices with grantees, including reviews of documentation in the centralized data system and works directly with regions when inconsistencies are discovered. At present, OHS is reviewing the Risk Management process to ensure it is consistently performed and documented in the centralized data system. ACF also agrees that including financial management risks into the process for staffing and conducting reviews is critical and has already made significant progress in this area. Specifically, OHS has implemented a process for the current program year that informs fiscal reviewers about known or suspected financial risks of grantees, 30 days prior to the on-site review. The Grant Officer is now required to complete a Fiscal Information form (see attached) that identifies known or suspected risks in seven key areas prior to an on-site review. The fiscal reviewer is required to respond in writing to each area of risk. The information gathered by the fiscal reviewer is then fed back to the Grants Officer, who is then required to take prompt and appropriate action.

ACF agrees with GAO's statement on page 7 that "managers need current information on expenditures to detect problems and proactively manage risks associated with unusual expenditure patterns, such as overly rapid or slow expenditures." To that end, OHS has been sharing periodic reports on current and aggregated drawdown data with Regional Program Managers and Grants Officers. As of December 1, OHS has received agreement from the Division of Payment Management to send these management reports on a monthly basis for all ARRA grants for central office and regional office oversight purposes. ACF will pursue a Memorandum of Agreement with DPM to institutionalize this process for all HS and EHS grants.

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

In this appendix, we update the status of agencies' efforts to implement the 28 open recommendations, 1 newly implemented recommendation, and 1 newly closed recommendation from our previous bimonthly and recipient reporting reviews.¹ Agency responses to our new recommendations are included in the program section of this report. Recommendations that were listed as implemented or closed in a prior report are not repeated here. Lastly, we address the status of our Matters for Congressional Consideration.

Department of Energy

Open Recommendations²

Given the concerns we have raised about whether program requirements were being met, we recommend that the Department of Energy (DOE), in conjunction with both state and local weatherization agencies, develop and clarify weatherization program guidance that

- establishes best practices for how income eligibility should be determined and documented and issues specific guidance that does not allow the self-certification of income by applicants to be the sole method of documenting income eligibility.
- clarifies the specific methodology for calculating the average cost per home weatherized to ensure that the maximum average cost limit is applied as intended.

¹GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, D.C.: Apr. 23, 2009); *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, [GAO-09-829](#) (Washington, D.C.: July 8, 2009); *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, [GAO-09-1016](#) (Washington, D.C.: Sept. 23, 2009); *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, [GAO-10-223](#) (Washington, D.C.: Nov. 19, 2009); *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: Dec. 10, 2009); *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C. Mar. 3, 2010); and *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, [GAO-10-604](#) (Washington, D.C. May 26, 2010); *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*. [GAO-10-999](#) (Washington, D.C.: September 20, 2010).

²[GAO-10-604](#), 245-246.

- accelerates current DOE efforts to develop national standards for weatherization training, certification, and accreditation, which is currently expected to take 2 years to complete.
- develops a best practice guide for key internal controls that should be present at the local weatherization agency level to ensure compliance with key program requirements.
- sets time frames for development and implementation of state monitoring programs.
- revisits the various methodologies used in determining the weatherization work that should be performed based on the consideration of cost-effectiveness and develops standard methodologies that ensure that priority is given to the most cost-effective weatherization work. To validate any methodologies created, this effort should include the development of standards for accurately measuring the long-term energy savings resulting from weatherization work conducted.
- considers and addresses how the weatherization program guidance is impacted by the introduction of increased amounts of multifamily units.

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

Agency Actions

DOE generally concurred with all of the recommendations. DOE provided updates for each individual recommendation explaining what it has done thus far and what it will do to satisfy the recommendations. For example, for the first recommendation listed above—that DOE should establish best practices for how income eligibility should be determined and not allow the self-certification of income by applicants to be the sole method of documenting income eligibility—DOE explained that it is revising a Program Notice to strengthen these provisions. DOE reminded grantees and subgrantees that proof of eligibility should be clearly documented, and that self-certification should only be relied upon when all other methods

for documenting income eligibility have been exhausted. Evidence of all other attempts to prove eligibility must be included in the client file.

Environmental Protection Agency

Open Recommendation³

We recommend that the Environmental Protection Agency (EPA) Administrator work with the states to implement specific oversight procedures to monitor and ensure subrecipients' compliance with the provisions of the Recovery Act-funded Clean Water and Drinking Water State Revolving Fund (SRF) program.

Agency Actions

In response to our recommendation, EPA provided additional guidance to the states regarding their oversight responsibilities, with an emphasis on enhancing site specific monitoring and inspections. Specifically, in June 2010, the agency developed and issued an oversight plan outline for Recovery Act projects that provides guidance on the frequency, content, and documentation related to regional reviews of state Recovery Act programs and regional and state reviews of specific Recovery Act projects. For example, EPA's guidance states that regions and states should be reviewing the items included on the EPA "State ARRA Inspection Checklist" or use a state equivalent that covers the same topics. The plan also describes EPA headquarters role in ongoing Recovery Act oversight and plans for additional webcasts. EPA also reiterated that contractors are available to provide training and to assist with file reviews and site inspections. We are undertaking further review of the states' use of Recovery Act funds for the Clean and Drinking Water programs. As part of that work, we will consider EPA's and the states' oversight of Recovery Act funds and, more specifically, progress in implementing EPA's guidance.

³[GAO-10-604](#), 246-247.

Department of Health and
Human Services: Office of
Head Start

Open Recommendation⁴

To facilitate understanding of whether regional decisions regarding waivers of the program's matching requirement are consistent with Recovery Act grantees' needs across regions, the Director of OHS should regularly review waivers of the nonfederal matching requirement and associated justifications.

Agency Actions

OHS has not conducted a review of waivers of the nonfederal matching requirement, but OHS officials stated that the variation is largely due to differences in regions' policy in timing: some regional offices grant waivers at the same time that the grant is made official, whereas other regions grant waivers later. OHS officials stated that although the OHS central office has not regularly reviewed grantees' justifications for waiver applications for regional variability in the past, they are looking into tracking this data in their web-based system consistently across regions. The process of tracking waivers is not yet complete.

Open Recommendation⁵

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

Agency Actions

HHS disagreed with our recommendation. OHS officials stated that attendance data are adequately examined in triennial or yearly on-site reviews and in periodic risk management meetings. Because these reviews and meetings do not collect or report data on service provision, we continue to believe that tracking services to children and families is an important measure of the work undertaken by Head Start and Early Head Start service providers.

⁴GAO-10-604, 184.

⁵GAO-10-604, 184.

**Newly Implemented
Recommendation⁶**

To provide grantees with appropriate guidelines on their use of Head Start and Early Head Start grant funds, and enable OHS to monitor the use of these funds, the Director of OHS should direct regional office staff to stop allocating all grant funds to the “other” budget category, and immediately revise all financial assistance awards (FAA) in which all funds were allocated to the “other” category.

Agency Actions

Since our May report, OHS revised all FAAs that had designated all of a grantee’s awarded funds to the “other” budget category rather than more specific budget categories, such as “supplies” or “equipment.” Further, OHS did not issue any FAAs that designated all funds to “other.”

**Department of Housing
and Urban Development**

Open Recommendation⁷

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

Agency Actions

HUD responded to our recommendation by saying it will identify projects that are not funded by the HOME Investment Partnerships Program (HOME) funds and projects that have a nominal tax credit award. HUD said it will make these identifications after projects are complete and develop a monitoring plan tailored to these projects. HUD currently has not taken any action on this recommendation because it is too early in the process to be able to identify projects that lack third-party investors. The agency will take action once they able to collect the necessary information from the project owners and the state housing finance agencies.

⁶[GAO-10-604](#), 184.

⁷[GAO-10-999](#), 189.

Department of Labor

Open Recommendations⁸

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

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

Agency Actions

Labor agreed with both of our recommendations and has begun to take some actions to implement them. To determine the extent of reporting inconsistencies, Labor awarded a contract in September 2010 to perform an assessment of state financial reports to determine if the data reported are accurate and reflect Labor's guidance on reporting of obligations and expenditures. Labor plans to begin interviewing states in mid-December and will issue a report after the interviews are completed and analyzed. To enhance states' accountability and facilitate their progress in making improvements in reporting, Labor has drafted guidance on the definitions of key financial terms such as obligations and expects to issue this guidance in December 2010. After the guidance is issued, Labor plans to conduct a system wide webinar on this topic.

Open Recommendations⁹

Our September 2009 bimonthly report identified a need for additional federal guidance in two areas—measuring the work readiness of youth and defining green jobs—and we made the following two recommendations to the Secretary of Labor:

⁸GAO-10-604, 244.

⁹GAO-09-1016, 78.

- To enhance the usefulness of data on work readiness outcomes, provide additional guidance on how to measure work readiness of youth, with a goal of improving the comparability and rigor of the measure.
- To better support state and local efforts to provide youth with employment and training in green jobs, provide additional guidance about the nature of these jobs and the strategies that could be used to prepare youth for careers in green industries.

Agency Actions

Labor agreed with both of our recommendations and has begun to take some actions to implement them. With regard to the work readiness measure for WIA Youth summer employment activities, Labor issued guidance on May 13, 2010 for the WIA Youth Program that builds on the experiences and lessons learned during implementation of Recovery Act-funded youth activities in 2009. In this guidance, Labor broadly identified some additional requirements for measuring work readiness of youth. Further guidance was provided on August 19, 2010, that described the methodology for implementing the work readiness indicator and provided an optional work readiness tool for the WIA Youth Program. The guidance clarifies the Employment and Training Administration's (ETA) changes to the definition of work readiness, now basing it on the employer's worksite evaluation and making this evaluation the required means to measure work readiness.

Regarding our recommendation on the green jobs, Labor told us that the Bureau of Labor Statistics (BLS) has developed a definition of green jobs. The definition was developed through a review of a wide range of studies, including several surveys conducted by state workforce agencies and work conducted internationally. BLS also consulted with a variety of stakeholders, including federal agencies, state labor market information offices, and industry (business and labor) groups. BLS published its proposed definition in the March 16, 2010, *Federal Register* and solicited comments. The final definition was published in the *Federal Register* on September 21, 2010. In addition, Labor is hosting a Green Jobs Community of Practice, an online virtual community available to all grantees of the Recovery Act-funded green jobs training grants, as well as members of the workforce system and the general public. This will serve as Labor's primary venue for sharing information and updates on trends and practices in green jobs training. The Department has also begun an implementation study of these green jobs training grants to capture best

practices and lessons learned. Study results will be made available through a Training and Employment Guidance Letter by summer 2011.

**Executive Office of the
President: Office of
Management and Budget**

Open Recommendation

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

1. provide more direct focus on Recovery Act programs through the Single Audit to help ensure that smaller programs with higher risk have audit coverage in the area of internal controls and compliance;¹⁰
2. take additional efforts to provide more timely reporting on internal controls for Recovery Act programs for 2010 and beyond;¹¹
3. evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act;¹²
4. issue Single Audit guidance in a timely manner so that auditors can efficiently plan their audit work;¹³
5. issue the OMB Circular No. A-133 Compliance Supplement no later than March 31 of each year;¹⁴
6. explore alternatives to help ensure that federal awarding agencies provide their management decisions on the corrective action plans in a timely manner;¹⁵ and

¹⁰GAO-09-829, 127.

¹¹GAO-10-604, 248.

¹²GAO-09-829, 127.

¹³GAO-10-604, 247.

¹⁴GAO-10-999, 194.

7. shorten the time frames required for issuing management decisions by federal agencies to grant recipients.¹⁶

Agency Actions

1. To provide more direct focus on Recovery Act programs to help ensure that smaller programs with higher risk have audit coverage in the area of internal controls and compliance through the Single Audit, OMB updated its Single Audit guidance in the OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations Compliance Supplement in July 2010.¹⁷ This compliance supplement requires auditors to consider all federal programs with expenditures of Recovery Act awards to be considered programs with higher risks when performing standard risk-based tests to select programs to be audited. The compliance supplement also clarified information to assist auditors in determining the appropriate risk levels for programs with Recovery Act expenditures. This is the second year that OMB has included guidance in the compliance supplement to address some of the higher risks inherent in Recovery Act programs. The most significant of these risks are associated with new programs that may not have the internal controls and accounting systems in place to help ensure that funds are distributed and used in accordance with program regulations and objectives. OMB and the federal cognizant agency for audit have conducted several training and outreach activities for the audit community regarding the importance of the new audit requirements for Recovery Act programs.

Since most of the funding for Recovery Act programs will be expended in 2010 and beyond, we continue to believe that it is

¹⁵GAO-10-604, 247-248.

¹⁶GAO-10-999, 194.

¹⁷Congress passed the Single Audit Act, as amended, 31 U.S.C. ch. 75, to promote, among other things, sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

essential that OMB provide direction in Single Audit guidance so that some smaller programs with higher risk would not be automatically excluded from receiving audit coverage based upon the requirements in the Single Audit Act. In recent discussions with OMB officials, we communicated our concern that future Single Audit guidance provide instruction that helps to ensure that smaller programs with higher risk have audit coverage in the area of internal controls and compliance. OMB officials agreed and stated that they plan to continue including similar language in the Compliance Supplement and performing outreach trainings throughout the duration of the Recovery Act.

2. To address the recommendation for taking additional efforts to encourage more timely reporting on internal controls for Recovery Act programs for 2010 and beyond, OMB commenced a second voluntary Single Audit Internal Control Project (project) in August 2010 for states that received Recovery Act funds in fiscal year 2010.¹⁸ Similar to the prior project (which did not get started until October 2009), one of the project's goals is to achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken more quickly. Specifically, the project encourages participating auditors of states that received Recovery Act funds to identify and communicate deficiencies in internal control to management 3 months sooner than the 9-month time frame currently required under OMB Circular No. A-133. The project also requires that management provide, 2 months earlier than required under statute, plans for correcting internal control deficiencies to the cognizant agency for audit for immediate distribution to the appropriate federal agencies.¹⁹ The federal agency

¹⁸OMB's second project is similar to its first Single Audit Internal Control project which started in October 2009. Sixteen states participated in the first project. We assessed the results of the project and reported them in GAO, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds* [GAO-10-999](#) (Washington, D.C.: September 20, 2010).

¹⁹Each award recipient expending more than \$50 million is assigned a cognizant agency for audit. Generally, the cognizant agency for audit is the federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB assigns this responsibility to another agency. Some of the responsibilities of the cognizant agency include performing quality control reviews, considering auditee requests for extensions, and coordinating a management decision for audit findings that affect federal programs of more than one agency. For the states participating in the project, HHS is the cognizant agency for audit.

is then to have provided its concerns relating to management's plan of corrective actions in a written decision as promptly as possible and no later than 90 days after the corrective action plan is received by the cognizant agency for audit. According to OMB officials, 13 states had volunteered to participate in the project as of November 15, 2010. Each participating state is to select a minimum of four Recovery Act programs for inclusion in the project and at the completion of the 2010 project, OMB plans to assess the project's results.

We assessed the results of the first OMB Single Audit Internal Control Project for fiscal year 2009 and found that it was helpful in communicating internal control deficiencies earlier than required under statute. We reported that 16 states participated in the first project and that the states selected at least two Recovery programs for the project. We also reported that the project's dependence on voluntary participation limited its scope and coverage and that voluntary participation may also bias the project's results by excluding from analysis states or auditors with practices that cannot accommodate the project's requirement for early reporting of control deficiencies. Overall, we concluded that although the project's coverage could have been more comprehensive, the analysis of the project's results provided meaningful information to OMB for better oversight of the Recovery Act programs selected and information for making future improvements to the Single Audit guidance. We believe that OMB needs to continue taking steps to encourage timelier reporting on internal controls through Single Audits for Recovery Act programs.

3. OMB officials have stated that they are aware of the increase in workload for state auditors who perform Single Audits due to the additional funding to Recovery Act program and corresponding increase in programs being subject to audit requirements. OMB officials stated that they solicited suggestions from state auditors to gain further insights to develop measures for providing audit relief. However, OMB has not yet identified viable alternatives that would provide relief to all state auditors. For state auditors that are participating in the second OMB Single Audit Internal Control project, OMB has provided some audit relief. Specifically, OMB modified the requirements under Circular No. A-133 to reduce the number of low-risk programs that must be included in some project participants' assessment requirements for smaller programs for Single Audits for fiscal years 2010 and 2011. As expenditures of Recovery Act funds are expected to continue through 2016, it is

important that OMB look for opportunities and implement various options for providing audit relief in future years.

- 4, 5. With regard to issuing Single Audit Guidance in a timely manner, and specifically the OMB Circular A-133 Compliance Supplement, OMB officials have stated that they intend to issue the fiscal year 2011 compliance supplement by March 31, 2011. The team of federal officials who assisted in the development of the OMB Circular A-133 Compliance Supplement met in August 2010—a few weeks earlier than in prior years—for its annual kick off meeting. At that meeting, the team set a goal of issuing the 2011 compliance supplement by March 31, 2011, and discussed revised production schedules and deadlines needed to accommodate the earlier issuance date. We will continue to monitor OMB’s progress to achieve this objective.
- 6, 7. In October 2010, OMB officials stated that they have discussed alternatives for helping to ensure that federal awarding agencies provide their management decisions on the corrective action plans in a timely manner, including possibly shortening the time frames required for issuing management decisions by federal agencies to grant recipients.²⁰ However, OMB officials have yet to decide on the course of action that they will pursue to implement our related recommendations. OMB officials acknowledged that the results of the 2009 OMB Single Audit Internal Control Project confirmed that this issue continues to be a challenge. They stated that they have met individually with several federal awarding agencies that were late in providing their management decisions in the 2009 project to discuss the measures that the agencies will take to improve the timeliness of their management decisions.

In March 2010, OMB issued guidance under memo M-10-14, item 7, (http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda_2010/m10-14.pdf) that called for federal awarding agencies to review reports prepared by the Federal Audit Clearinghouse regarding Single Audit findings and submit summaries of the highest-risk audit findings by major

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

Recovery Act programs by September 30, 2010, as well as other relevant information on the federal awarding agency's actions regarding these areas.²¹ OMB officials have stated that they plan to use this information to identify trends that may require clarification or additional guidance in the compliance supplement. OMB officials also stated that they are working with the Recovery Act Accountability and Transparency Board to develop metrics for determining how federal awarding agencies are to use information available in the Single Audit. As of November 2010, according to OMB officials, the project is in the planning phase and the specific metrics are still being considered. OMB anticipates that the metrics may be available in January 2011 and that the metrics could be applied at the agency level, by program, to allow for analysis of Single Audit findings and other measures to be determined. One goal of the metrics project is to increase the effectiveness and timeliness of federal awarding agencies' actions to resolve Single Audit findings. We will monitor the progress of these efforts to determine the extent that it improves the timeliness of federal agencies' actions to resolve audit findings so that risks to Recovery Act funds are reduced and internal controls in Recovery Act programs are strengthened.

Newly Closed
Recommendation²²

Because performance reporting is broader than the jobs reporting required by section 1512, the Director of OMB should also work with federal agencies—perhaps through the Senior Management Councils—to clarify what new or existing program performance measures—in addition to jobs created and retained—that recipients should collect and report in order to demonstrate the impact of Recovery Act funding.

Agency Actions

It was an objective of the Recovery Act to use existing measures to allow the public to see the performance impact of the Act's investments. Some federal agencies have issued or plan to issue additional guidance on what other programs or impact measures are required for evaluating the impact of Recovery Act funding. Some state program officials said that they use existing program performance measures developed by federal agencies to

²¹The Single Audit Act requires that recipients submit their financial reporting packages, including the Single Audit report, to the federal government's audit clearinghouse no later than 9 months after the end of the period being audited. As a result, an audited entity may not receive feedback needed to correct an identified internal control deficiency over compliance until the latter part of the subsequent fiscal year.

²²[GAO-09-829](#), 131.

track the performance impact of Recovery Act funding, while other states have developed their own measures. With the passage of time, we have concluded that the intent of this recommendation is being addressed by individual federal agencies, as well as being addressed by local program officials.

Department of Transportation

Open Recommendations²³

To ensure that Congress and the public have accurate information on the extent to which the goals of the Recovery Act are being met, we recommend that the Secretary of Transportation direct the Federal Highway Administration (FHWA) to take the following two actions:

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

Agency Actions

As of the time of this report, the Department of Transportation (DOT) was in the process of developing its plans in response to these recommendations.

Open Recommendation²⁴

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

²³ [GAO-10-999](#), 187-188.

²⁴ [GAO-10-604](#), 241-242.

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

Agency Actions

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

Open Recommendation²⁵

The Secretary of Transportation should gather timely information on the progress they are making in meeting the maintenance-of-effort requirement and to report preliminary information to Congress within 60 days of the certified period (September 30, 2010), (1) on whether states met required program expenditures as outlined in their maintenance-of-effort certifications, (2) the reasons that states did not meet these certified levels, if applicable, and (3) lessons learned from the process.

Agency Actions

DOT concurred in part with our March 2010 recommendation that it gather and report more timely information on the progress states are making in meeting the maintenance-of-effort requirements. DOT officials stated that DOT will encourage states to report preliminary data for the certified period ending September 30, 2010, and deliver a preliminary report to Congress within 60 days of the certified period. On October 1, 2010, DOT officials requested that each state update its actual aggregate expenditure data for the types of projects funded under each transportation covered

²⁵ [GAO-10-437](#), 29.

program in FHWA's Recovery Act Data System by November 1, 2010. DOT also requested that each state provide an explanation of why the state did not meet its certified MOE amount in any or all transportation programs, as appropriate.

Department of Treasury

Open Recommendation²⁶

Treasury should expeditiously provide Housing Finance Agencies (HFAs) with guidance on monitoring project spending and develop plans for dealing with the possibility that projects could miss the spending deadline and face further project interruptions.

Agency Actions

Treasury commented that it has taken a number of steps to ensure HFAs and project owners have a complete understanding of the 30 percent deadline and are prepared to comply with that requirement. Further, Treasury said it plans to continue monitoring the impact of the 30 percent deadline on the program and to provide additional guidance necessary to address unforeseen or unexpected circumstances. Although Treasury officials said that they recently asked HFAs whether any projects could potentially miss the end of the year deadline, no HFAs have indicated that projects may miss the deadline. Also, although Treasury currently has not provided additional guidance to HFAs, it intends to continue working with HFAs and make a decision about further guidance at the end of the year, after it identifies any projects that do not meet the 30 percent deadline.

Matters for Congressional Consideration

Matter²⁷

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

²⁶ [GAO-10-999](#), 194.

²⁷ [GAO-09-829](#), 128.

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

Matter²⁸

To the extent that additional coverage is needed to achieve accountability over Recovery Act programs, Congress should consider mechanisms to provide additional resources to support those charged with carrying out the Single Audit Act and related audits.

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

Matter²⁹

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

We continue to believe that Congress should consider directing Treasury to permit HFAs the flexibility to disburse Section 1602 Program funds as interest-bearing loans that allow for repayment.

²⁸ [GAO-09-829](#), 128.

²⁹ [GAO-10-604](#), 251.

Appendix IV: GAO Contacts and Staff Acknowledgments

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