

July 2009

# RECOVERY ACT

## States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (New Jersey)



GAO

Accountability \* Integrity \* Reliability

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# Appendix XI: New Jersey

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## Overview

The following summarizes GAO's work on the second of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)<sup>1</sup> spending in New Jersey. The full report covering all of our work, which includes 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery/>.

**Use of funds:** Our work in New Jersey focused on nine federal programs, selected primarily because they have begun disbursing funds to the state. These include existing programs receiving significant amounts of Recovery Act funds or significant increases in funding. Program funds are being used to help New Jersey stabilize its budget and support local governments, particularly school districts, and several are being used to expand existing programs. Funds from some of these programs are intended for disbursement through states or directly to localities. The funds include the following:

- **Funds made available as a result of increased Medicaid Federal Medical Assistance Percentage (FMAP).** As of June 29, 2009, New Jersey has received about \$580 million in increased FMAP grant awards, of which it has drawn down almost \$580 million, or 100 percent. New Jersey is using funds made available as a result of the increased FMAP to cover the state's increased Medicaid caseload, maintain current populations and benefits, and free up state funds to offset the state budget deficit.<sup>2</sup>
- **Highway Infrastructure Investment funds.** The U.S. Department of Transportation's (DOT) Federal Highway Administration (FHWA) apportioned \$652 million in Recovery Act funds to New Jersey, of which \$410 million was obligated as of June 25, 2009. As of June 25, 2009, the federal government's obligation was \$223,780. Funding from the first round of FHWA obligations are being used for five quick-start projects. These projects generally include pavement resurfacing and road repair, but also include one long-term project. For example, New Jersey plans to use funds for the first phase of bridge repair for the Route 52 Causeway project in Cape May and Atlantic Counties.

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

<sup>2</sup>The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

- **U.S. Department of Education State Fiscal Stabilization Fund (SFSF).** The U.S. Department of Education (Education) has awarded about \$891 million to New Jersey, or about 67 percent of its total SFSF allocation of \$1.3 billion. According to officials from the New Jersey Office of Management and Budget, the state has expended \$162 million, as of June 30, 2009. New Jersey is using these funds to restore state aid to school districts and fill shortfalls in the state budget.
- **Title I, Part A, of the Elementary and Secondary Education Act (ESEA) of 1965.** Education has allocated \$91.5 million to New Jersey in Recovery Act ESEA Title I, Part A, funds, or 50 percent of its total allocation of \$183 million. Of these funds, New Jersey has allocated \$91.5 million to local education agencies, and based on information available as of June 30, 2009, New Jersey has obligated none of these funds. To expedite spending, New Jersey made 50 percent of these funds available to local education agencies for summer activities such as districtwide summer programs for students and in-service professional development programs for teachers.
- **Individuals with Disabilities Education Act (IDEA), Parts B and C.** Education has allocated \$192 million to New Jersey in Recovery Act IDEA, Part B and C, funds, or 50 percent of its total allocation of \$383 million. Of these funds, New Jersey has obligated none of the Part B funds to local education agencies or Part C funds to service providers, based on information available on June 30, 2009. To expedite spending, New Jersey made 50 percent of Part B funds available to local education agencies for summer activities such as summer intensive instructional support for students with disabilities. For example, officials in the Camden School District reported that they planned to use summer IDEA Part B funds for a districtwide professional development program for teachers and paraprofessionals working in the district's programs for behavioral disabilities, autism, and special education. In addition, local education agencies can use these funds for the purchase of equipment such as assistive technology. New Jersey plans to provide Recovery Act funds for Part C to providers that report an increase in enrollment and services.
- **Workforce Investment Act Youth Program.** The U.S. Department of Labor has allotted about \$20.8 million to New Jersey in Workforce Investment Act Youth Recovery Act funds. New Jersey plans to use \$17.7 million (85 percent of the total allotment) of Recovery Act funds under this program to create about 6,000 summer jobs for its youth.

- **Edward Byrne Memorial Justice Assistance grants.** The Department of Justice’s Bureau of Justice Assistance has awarded \$29.8 million directly to New Jersey in Recovery Act funding. Based on information available as of June 30, 2009, none of these funds have been obligated by the New Jersey Department of Law and Public Safety, which administers these grants for the state.<sup>3</sup> New Jersey will use all of these funds to implement the state’s Strategy for Safe Streets and Neighborhoods, a range of initiatives aimed at increasing intelligence-led, data-driven policing. The state will also use these funds to decrease youth involvement in crime and reduce recidivism.
- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development has allocated about \$104 million in Recovery Act funding to 80 public housing agencies in New Jersey. Based on information available as of June 20, 2009, about \$11.7 million (11.2 percent) has been obligated by 47 of those agencies. GAO visited four Public Housing Agencies in New Jersey: the Newark Housing Authority, the Plainfield Housing Authority, the Rahway Housing Authority, and the Trenton Housing Authority. Officials at the housing agencies plan to use this money, which flows directly from the Department of Housing and Urban Development to public housing authorities, for various capital improvements, including rehabilitating vacant units; replacing roofs, exterior siding, and windows; and adding security features such as intercom systems.
- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated about \$118.8 million in Recovery Act weatherization funding to New Jersey for a 3-year period. Based on information available on June 30, 2009, DOE has provided \$11.8 million to New Jersey, and New Jersey has obligated \$7.4 million of these funds. New Jersey plans to begin disbursing the initial 10 percent of funds in late June or early July 2009 for grantees to use toward weatherization and “ramp up” activities for weatherizing low-income families’ homes. These activities include training and technical assistance and the purchase of equipment and vehicles.

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<sup>3</sup>We did not review Edward Byrne Memorial Justice Assistance grants awarded directly to local governments in this report because the Bureau of Justice Assistance’s solicitation for local governments closed on June 17, 2009; therefore, not all of these funds have been awarded.

**Safeguarding and transparency:** New Jersey has added specific codes in its accounting system to track Recovery Act funds. The state Office of the Inspector General is planning to provide additional training on internal controls for agencies receiving Recovery Act funding. The state's Recovery Accountability Task Force and the Governor's Office are also working with agencies to resolve weaknesses identified through the single audits. Additionally, the oversight community has taken some steps in planning oversight of programs receiving Recovery Act funds. For example, the State Auditor is conducting audits of the departments administering the weatherization and Edward Byrne Memorial Justice Assistance grant programs. New Jersey's Office of the State Comptroller is reviewing all Workforce Investment Act programs.

**Assessing the effects of spending:** As required by the Recovery Act, New Jersey state agencies and localities we met with are planning initiatives to measure the impact of Recovery Act funds, including the number of jobs created or retained. At the time of our discussions, some officials said it would be helpful to have more guidance from federal agencies about what will be required. On June 22, 2009, OMB provided governmentwide guidance on the types of information the federal government would require in reports of Recovery Act spending.<sup>4</sup>

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## Recovery Act Funds Play a Role in New Jersey Closing Its Budget Gaps

New Jersey will use Recovery Act funds to help close its projected budget gaps for fiscal years 2009 and 2010.<sup>5</sup> Similar to other states, New Jersey suffered from a crisis in its economy and financial markets, which has led to a deterioration of the state's fiscal condition. As a result, according to budget documents, New Jersey had to make unprecedented cuts to its fiscal year 2009 and 2010 budgets.<sup>6</sup> New Jersey budget officials estimated that the state will take in approximately \$4.1 billion less than originally projected for fiscal year 2009 and has a structural gap of \$8.25 billion less for fiscal year 2010, primarily due to shortfalls in its revenue base.<sup>7</sup> Budget

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<sup>4</sup>See OMB Memorandum, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

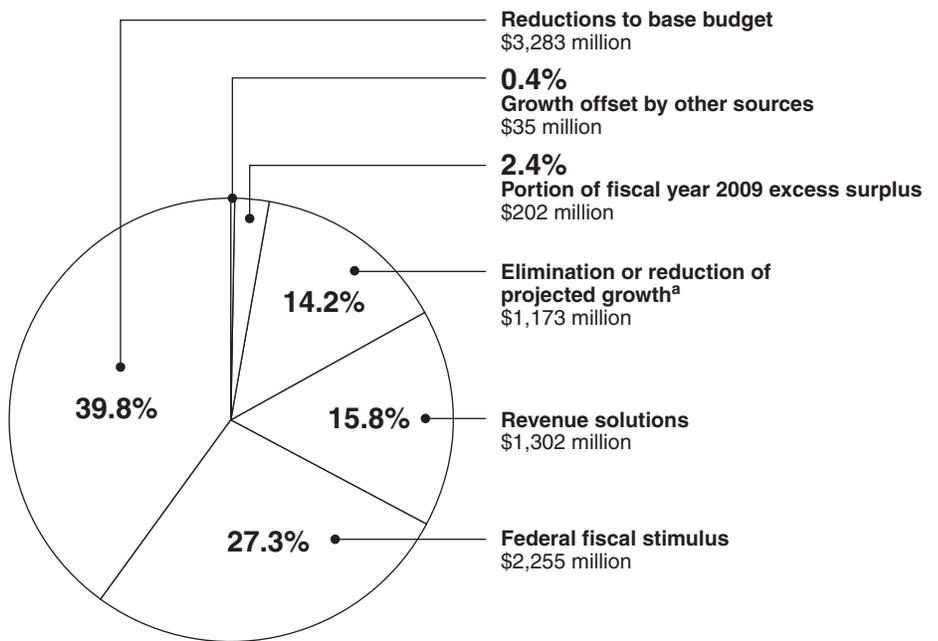
<sup>5</sup>New Jersey's budget fiscal cycle is July 1st through June 30th.

<sup>6</sup>According to budget documents, the combined amounts of reductions in the fiscal year 2009 and fiscal year 2010 budgets exceeds New Jersey's entire fiscal year 1978 budget of \$4.0 billion.

<sup>7</sup>For fiscal year 2010, New Jersey's projected base revenue was about \$27.5 billion, but its base spending was projected at \$35.7 billion without gap-closing measures.

officials said the state would rely on \$753 million and \$2.3 billion for fiscal years 2009 and 2010, respectively, in direct fiscal relief from Recovery Act funds to help close these gaps. Our review of New Jersey's 2010 budget documents revealed that the state directly attributes the Recovery Act funds with aiding the state in covering education and health care related costs. Other gap-closing measures for both fiscal years include reductions to the base budget and an elimination or reduction in projected growth. For example, for fiscal year 2010, an inflationary increase is not allowed for institutions of higher education, as a way to reduce projected growth. Also, the fiscal year 2010 budget includes a 1-year tax rate increase for New Jersey taxpayers making more than \$400,000.<sup>8</sup> See figure 1 below for a chart of New Jersey's gap-closing measures for fiscal year 2010.

**Figure 1: New Jersey's Actions to Close Fiscal Year 2010 Budget Gap**



Source: GAO analysis of New Jersey Office of Management and Budget data.

<sup>a</sup>This includes actions such as limiting school aid increases; instituting salary freezes for public employees, including employees at colleges and universities; and eliminating rate inflation for nursing homes.

<sup>8</sup>New Jersey's fiscal year 2009 budget did not include any new or increased taxes, but its fiscal year 2010 budget proposes a 1-year income tax increase for citizens whose incomes are over \$400,000.

In addition, New Jersey budget officials said they used their entire Rainy Day reserve fund of \$735 million in fiscal year 2009 to offset their revenue shortfall and help provide property tax relief. Additionally, although New Jersey budget officials anticipated receiving the Recovery Act funds before the Governor had submitted his proposed 2010 budget in March, this did not preclude the state from including personnel cost reduction actions such as furloughs and wage freezes to aid in closing the 2010 budget gap. New Jersey anticipates saving about \$287 million in fiscal year 2010 as a result of these actions.

New Jersey budget officials referred to how the availability of Recovery Act funds enabled the state to shift needed funds to programs such as health care, education, and transportation.<sup>9</sup> As of June 30, 2009, New Jersey officials said they have used \$807.8 million of the \$2.1 billion the state anticipated receiving through Recovery Act grant awards. In addition, they said the government services portion of the state's allocation of the State Fiscal Stabilization Funds that did not have to be reserved for education (approximately \$240 million) enabled New Jersey to enhance its state share of Medicaid spending by \$200 million, with the remaining \$40 million used for benefits to K-12 and higher education initiatives.

Although New Jersey budget officials made projections about how the Recovery Act funds helped close the budget gaps for fiscal years 2009 and 2010, they were careful to indicate the projections were very preliminary because they were aware that revenue and expenditure expectations would continue to fluctuate. The instability of the economy, which impacts the state's revenue base and spending, prevents budget officials from determining the true magnitude of the impact of Recovery Act funds on their budget for the current and upcoming budget years. Because of this uncertainty, New Jersey budget officials said they have attempted to focus some of the Recovery Act funds on one-time projects related to energy, weatherization, and construction in order to minimize a debilitating impact once the funds end. In keeping with this approach, New Jersey officials said that state agencies have relied on existing staff levels, rather than hiring additional staff, to implement program changes due to the infusion of Recovery Act funds.

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<sup>9</sup>According to budget officials, New Jersey included \$2.3 billion in its budget that it would receive from Recovery Act funds. This amount excludes the \$753 million that the state applied to help close its budget gap for fiscal year 2009.

As of May 28, 2009, New Jersey budget officials could not comment on or directly assess the potential impact of all the Recovery Act funds slated for the state for fiscal years 2009 through 2011. They estimated that, overall, about \$5.6 billion of their estimated \$17.5 billion Recovery Act funding and tax benefits will actually pass through the state budget. According to the officials, the remainder of these funds will go directly to New Jersey businesses and residents in the form of tax benefits and directly to local government entities and nonprofit organizations. Examples of funding and benefits going to local government entities include public housing capital funds, the bulk of the energy efficiency conservation block grant funds, and most of the Edward Byrne Justice Assistance grants. As we noted in our April 2009 Recovery Act report, New Jersey is a strong “home rule” state.<sup>10-11</sup>

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<sup>10</sup>GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, DC: Apr. 23, 2009).

<sup>11</sup>New Jersey’s constitution gives localities rights and responsibilities for providing local services. The state has more than 1,900 cities, counties, towns, townships, and local authorities or taxing districts. These localities can apply for, use, and potentially be held accountable for Recovery Act Funds.

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## Funds Available As a Result of the Increased FMAP Have Allowed New Jersey to Avoid Reductions to Its Medicaid Program and Continue Other State Efforts to Cover Children

Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures is known as the Federal Medical Assistance Percentage (FMAP), which may range from 50 percent to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months from October 1, 2008, through December 31, 2010.<sup>12</sup> On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act.<sup>13</sup> Generally, for federal fiscal year 2009 through the first quarter of federal fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for: (1) the maintenance of states' prior year FMAPs; (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs; and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

From October 2007 to May 2009, the state's Medicaid enrollment grew from 748,055 to 785,941, an increase of about 5 percent.<sup>14</sup> While the increase was generally gradual over this period, there were 2 months where enrollment decreased (see fig. 2). Most of the increase in enrollment was attributable to the children and families population group.

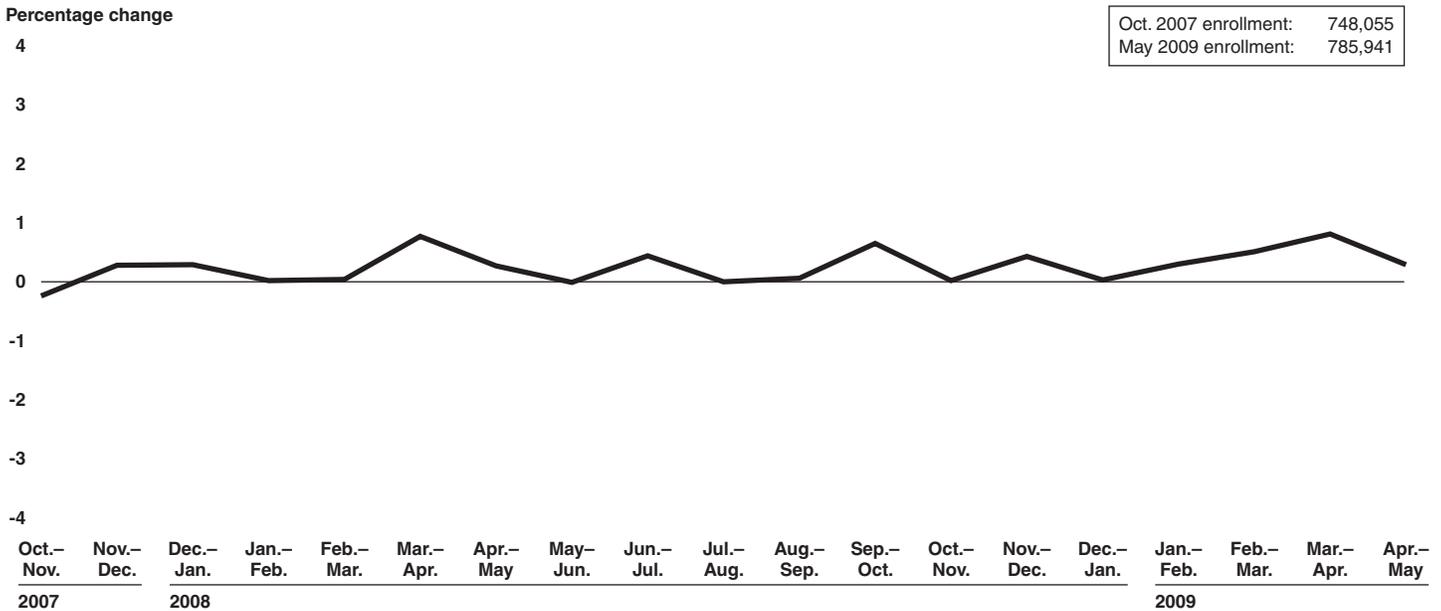
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<sup>12</sup>See Recovery Act, div. B, title V, §5001.

<sup>13</sup>Although the effective date of the Recovery Act was February 17, 2009, states generally may claim reimbursement for the increased FMAP for Medicaid service expenditures made on or after October 1, 2008.

<sup>14</sup>The state provided projected Medicaid enrollment data for May 2009.

**Figure 2: Monthly Percentage Change in Medicaid Enrollment for New Jersey, October 2007 to May 2009**



Source: GAO analysis of state reported data.

Note: The state provided projected Medicaid enrollment data for May 2009.

As of June 29, 2009, New Jersey had drawn almost \$580 million in increased FMAP grant awards, which is 100 percent of its awards to date.<sup>15</sup> New Jersey officials reported that they are using funds made available as a result of the increased FMAP to offset the state budget deficit, cover the state’s increased Medicaid caseload, and to maintain current populations and benefits. New Jersey officials indicated that the increased FMAP has allowed the state to keep current beneficiaries in Medicaid and avoid cuts to the program in light of the state’s projected fiscal year 2010 deficit of \$7 billion. Additionally, state officials noted that the funds are also being used to cover the increasing Medicaid caseload, which has grown over the past year. Officials also added that the funds made available as a result of the increased FMAP have helped the state avoid the need to reverse other efforts to expand coverage in the state—such as in the State Children’s Health Insurance Program that covers children in families with income up to 350 percent of the federal poverty level as well as adults up to 200

<sup>15</sup>New Jersey received increased FMAP grant awards of almost \$580 million for the first three quarters of federal fiscal year 2009.

percent of the federal poverty level. In using the increased FMAP, New Jersey officials reported that the Medicaid program has incurred additional costs related to

- the development of new or adjustments to existing reporting systems or other information technology systems;
- personnel needed to ensure programmatic compliance with requirements associated with the increased FMAP; and
- personnel needed to ensure compliance with reporting requirements related to the increased FMAP.

Medicaid officials stated that they are hesitant to make even small changes to the program because they are concerned that such changes could jeopardize the state's eligibility for increased FMAP. For example, the officials noted that the program considered requiring premiums on dental services, but ultimately decided not to pursue this requirement due to concerns that such a change would jeopardize the state's eligibility for the increased FMAP.<sup>16</sup> An official noted that the reasoning behind the decision to forgo a premium requirement was that it would restrict the ability of beneficiaries to obtain the service if they are unable to afford the premium.

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### New Jersey Relies on Existing Mechanisms to Track the Increased FMAP

Regarding the tracking of the increased FMAP, New Jersey relies on its existing accounting system and established unique revenue source codes to identify the revenue received as a result of the increased FMAP. In addition, the state is reconciling the additional FMAP grant awards with actual expenditures on a quarterly basis. According to Medicaid officials, an additional level of oversight will be provided by the New Jersey Recovery Accountability Task Force, which is tasked with ensuring the appropriate expenditure of all Recovery Act funds. The 2007 Single Audit<sup>17</sup>

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<sup>16</sup>In order to qualify for the increased FMAP, states generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid plans or waivers on July 1, 2008. See Recovery Act, div. B, title V, §5001(f)(1)(A).

<sup>17</sup>The Single Audit Act of 1984, as amended (31 U.S.C. ch. 75), requires that each state, local government, or non-profit organization that expends \$500,000 or more a year in federal awards must have a single audit conducted for that year subject to applicable requirements, which are generally set out in Office of Management and Budget (OMB) Circular No. A-133, Audits of States, Local Governments and Non-Profit Organizations (June 27, 2003). If an entity expends federal awards under only one federal program, the entity may elect to have an audit of that program.

for New Jersey identified one material weakness related to the Medicaid program. Specifically, the audit found that the Medicaid program could not provide evidence of a management review of the audit reports of some hospitals and long-term care facilities, raising the possibility that there were overpayments due to the state Medicaid program. The state agreed with this identified weakness and cited the lack of available staff to conduct these reviews. The corrective action plan to address this weakness included hiring new staff and establishing set time frames for reviewing backlogged audit reports as well as for future reports. According to New Jersey officials, the state continues to work towards implementing these reviews and the New Jersey Department of Health and Senior Services has reduced the backlog in audit review and recalculation as well.

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## New Jersey Has Obligated Recovery Act Highway Infrastructure Investment Funds

The Recovery Act provides funding to the states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated for projects in metropolitan and other areas of the state. Highway funds are apportioned to the states through existing federal-aid highway program mechanisms, and states must follow the requirements of the existing program including planning, environmental review, contracting, and other requirements. However, the federal fund share of highway infrastructure investment projects under the Recovery Act is up to 100 percent, while the federal share under the existing federal-aid highway program is generally 80 percent.

As we previously reported in April 2009, \$652 million was apportioned to New Jersey in March 2009 for highway infrastructure and other eligible projects.<sup>18</sup> As of June 25, 2009, \$410 million had been obligated. The U.S. Department of Transportation (DOT) has interpreted the term “obligation of funds” to mean the federal government’s contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement and the project agreement is executed. As of June 25, 2009, \$223,780 had been reimbursed by FHWA. States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

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<sup>18</sup> [GAO-09-580](#).

Status of Recovery Act Highway Investment Funds

New Jersey is generally using its Recovery Act highway funding to repair pavement and replace bridges (see table 1). New Jersey Department of Transportation (NJDOT) officials stated that they were using their funds in this way to ensure that all areas of the state received some benefit from the funding and that the projects they selected could be done quickly and provide the most jobs for state residents the fastest. NJDOT officials also told us they plan to continue funding projects that can be started quickly, although they are also planning to begin a few major projects such as replacing several causeway bridges on state highway 52 in Cape May County and Atlantic County. Federal Highway Administration (FHWA) division officials told us they supported the plans NJDOT had for its Recovery Act funds.

**Table 1: Highway Obligations for New Jersey, by Project Type, as of June 25, 2009**

Dollars in millions

	Pavement projects			Bridge projects				Total
	New construction	Pavement improvement	Pavement widening	New construction	Replacement	Improvement	Other <sup>a</sup>	
	\$0.0	\$238	\$0.0	\$0.0	\$65.0	\$23	\$84	<b>\$410</b>
Percent of total obligations	0.0	57.9	0.0	0.0	15.8	5.7	20.6	<b>100.0</b>

Source: GAO analysis of Federal Highway Administration data.

<sup>a</sup>Includes safety projects such as improving safety at railroad grade crossings, transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

As of June 24, 2009, New Jersey has awarded 14 contracts representing almost \$256 million. Of these, two contracts are under way. The first contract to be completed will be the improvement of the Ramapo Avenue Bridge in Mahwah, by October 2009.

New Jersey officials told us that contracts for Recovery Act projects are being awarded for less than they had estimated. These officials believe that this is because contractors do not have much construction work available in the current economic environment, so they are being more aggressive in bidding to obtain work. State officials stated that it is likely the current bidding climate will continue for some time but not indefinitely. NJDOT officials stated they are continuously updating their estimating practices, so they will soon begin to take these low bids into consideration when estimating future contracts. NJDOT and FHWA both

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stated it was too early to say how the state and FHWA will use funds that may be deobligated due to this underbidding.

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### Recovery Act Imposes Specific Requirements on Highway Infrastructure Spending

Funds appropriated for highway infrastructure spending must be used as required by the Recovery Act. First, states are required to ensure that 50 percent of apportioned Recovery Act funds are obligated within 120 days of apportionment (before June 30, 2009) and that the remaining apportioned funds are obligated within 1 year. The 50 percent rule applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use. The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames. Second, the Recovery Act requires states to give priority to projects that can be completed within 3 years, and to projects located in “economically distressed areas” (EDA). EDAs are defined by the Public Works and Economic Development Act of 1965, as amended.<sup>19</sup> Third, the Recovery Act requires states to certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state planned to expend from state sources as of February 17, 2009, for the period beginning on that date and extending through September 30, 2010.<sup>20</sup>

As of June 25, 2009, 83 percent of the \$456 million subject to the 50-percent requirement for the 120-day redistribution has been obligated for projects in the state. In addition, the state expects that the rest of its funds will be obligated by July 2009, well in advance of the February 2010 requirement.

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<sup>19</sup>FHWA has published a map on its Web site showing the areas in each state that meet the statutory criteria.

<sup>20</sup>States that are unable to maintain their planned levels of effort will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011. As part of the federal-aid highway program, FHWA assesses the ability of the each state to have their apportioned funds obligated by the end of the federal fiscal year (September 30) and adjusts the limitation on obligations for federal-aid highway and highway safety construction programs by reducing for some states the available authority to obligate funds and increasing the authority of other states.

In order to have the funds obligated on a timely basis and ensure that projects will be completed within 3 years, NJDOT officials selected projects that will not require a long construction phase, such as pavement resurfacing, road construction, road repair, and bridge rehabilitations. One notable exception is the Route 52 Causeway project, however. This is a major project involving bridge reconstruction that will require about four years to complete. However, NJDOT, in consultation with FHWA division officials, decided to use Recovery Act funds for one phase of the project to be completed by fiscal year 2011. Also, NJDOT officials told us they selected only projects that had already gone through an environmental review process or that would not need an extensive environmental review process to avoid the risk of unforeseen delays.

NJDOT officials expect to expend most of their Recovery Act highway funds by the end of fiscal year 2010 and nearly all of their funds by the end of fiscal year 2011, with only a few remaining dollars expended in 2012. FHWA division office staff agreed with this estimate and complimented NJDOT on its project selection process and ensuring the Recovery Act funds would be obligated and expended quickly.

As of June 30, 2009, \$72.3 million (17 percent of obligated funds) have been obligated for projects located in an EDA. NJDOT officials stated that the initial project selection list included numerous projects in EDAs, so they did not need to take special action to prioritize selecting Recovery Act projects in EDAs other than reviewing the list to make sure it had a significant amount of funds dedicated to such projects. Also, the Route 52 Causeway project in Cape May, which involves about \$70 million of Recovery Act funding (17 percent of New Jersey's total allocation), is in an EDA. NJDOT officials told us their state is relatively affluent, with only three counties defined as EDAs. Unlike some other states, New Jersey does not have a statutory or administrative formula governing how it distributes highway funds to areas of the state. FHWA division officials told us they discussed the EDA requirements with NJDOT and were satisfied that they were meeting the goals of the requirement based on the geographic distribution of projects and the Cape May project in an EDA. FHWA division officials did not formally document this decision and said they would monitor how NJDOT expends its funds to ensure the state follows through and completes the projects in the state's EDAs. If the state were to reverse their EDA project decisions, FHWA division office staff would raise the issue with FHWA headquarters staff. However, division office staff do not anticipate this being necessary, as they expect the state to fulfill its pledge.

On March 19, 2009, New Jersey submitted an explanatory maintenance of effort certification to DOT, stating that it would maintain its current level of transportation spending in programs for which the state was receiving Recovery Act funds.<sup>21</sup> In its initial certification, NJDOT used data on its planned transportation obligations, instead of expenditures, to make its calculations. On April 22, the Secretary of Transportation informed the states that conditional and explanatory certifications were not permitted, provided additional guidance indicating that states were to use data on planned expenditures when determining their maintenance of effort requirements, and gave the states the option of amending their certifications by May 22, 2009. New Jersey resubmitted its certification on May 21, 2009. According to DOT officials, the department has concluded that the form of New Jersey's certification is consistent with the additional guidance. DOT is currently evaluating whether New Jersey's method of calculating the amounts it planned to expend for the covered programs is in compliance with DOT guidance.

Although they had to resubmit their maintenance of effort certification, NJDOT officials noted that it was because they initially misunderstood what they were supposed to submit, not because they attached any conditions to their initial certification. These officials stated they did not think the state would have any difficulty meeting its maintenance of effort requirements. New Jersey funds the state portion of its highway program via a state Transportation Trust Fund that receives funding from the state gasoline tax. The officials noted that the Transportation Trust Fund is in good financial health and should be able to fund the state's transportation spending at least through the end of fiscal year 2010.

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## Recovery Act SFSF Funds Will Restore the State's Contribution to Education Funding for Fiscal Year 2010

The Recovery Act created a State Fiscal Stabilization Fund (SFSF) to be administered by the U.S. Department of Education (Education). The SFSF provides funds to states to help avoid reductions in education and other essential public services. The initial award of SFSF funding requires each state to submit an application to Education that provides several assurances. These include assurances that the state will meet maintenance-of-effort requirements (or it will be able to comply with waiver provisions) and that it will implement strategies to meet certain educational requirements, including increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and

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<sup>21</sup>[GAO-09-580](#).

improving the quality of state academic standards and assessments. Further, the state applications must contain baseline data that demonstrate the state's current status in each of the assurances. States must allocate 81.8 percent of their SFSF funds to support education (education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (government services funds). After maintaining state support for education at fiscal year 2006 levels, states must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to school districts or public Institutions of Higher Education (IHE). When distributing these funds to school districts, states must use their primary education funding formula but maintain discretion in how funds are allocated to public IHEs. In general, school districts maintain broad discretion in how they can use stabilization funds, but states have some ability to direct IHEs in how to use these funds.

As of June 5, 2009, New Jersey has received \$891 million of its total \$1.3 billion allocation for SFSF. Of the \$891 million, \$729 million is for education stabilization and \$162 million is for government services. Based on New Jersey's current application, the state will allocate 93 percent of the education stabilization funds to local education agencies (LEA) and 7 percent to IHEs. New Jersey anticipates that it will meet maintenance-of-effort requirements, with the exception of the 2009 maintenance-of-effort requirement for IHEs. New Jersey has requested a waiver for this maintenance-of-effort requirement and is awaiting a response from Education. New Jersey certified that it will meet waiver provisions.

New Jersey plans to use its allocation of SFSF funds to restore the state's contribution to local public education institutions and to fill budget shortfalls. Education stabilization funds for elementary and secondary education will be used to partially offset the state's share of education funding for the fiscal year 2010 school year. The state will allocate education stabilization funds to LEAs in fiscal year 2010 using a set state formula. Also, the New Jersey Department of Education plans to use education stabilization funds toward the state's maintenance-of-effort requirement for IDEA and possibly ESEA Title I. New Jersey Department of Education officials told us that they are waiting for more guidance from Education about the use of SFSF funds in this manner. New Jersey requires IHEs to apply for education stabilization funding to restore cuts that were made in the fiscal year 2010 state budget (as proposed on March 10, 2009). IHEs must show that SFSF funds will mitigate the tuition increases that would have occurred in response to the budget cuts and agree to a 3 percent cap on tuition increases in order to qualify for SFSF

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funds. New Jersey also requires IHEs to show evidence that the institutions can track and monitor Recovery Act funds separately.

Also in fiscal year 2010, the New Jersey Department of Education plans to use \$39.4 million (16 percent) of the approximately \$240 million allocation of government services funds for elementary and secondary education. New Jersey Department of Education officials reported that the agency will not use government services funds to provide support for modernization, renovation, or repair of public school facilities. New Jersey also plans to use 1 percent of government services funds for IHEs in fiscal year 2010. The remaining government services funds will be used to fill shortfalls in other areas of the state's budget.

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## New Jersey Plans to Use Recovery Act ESEA Title I, Part A Funds and IDEA, Parts B and C Funds for Summer Activities

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### Recovery Act ESEA Title I, Part A Funds

The Recovery Act provides \$10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act (ESEA) of 1965. The Recovery Act requires these additional funds to be distributed through states to LEAs using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with current statutory and regulatory requirements and must obligate 85 percent of their fiscal year 2009 funds (including Recovery Act funds) by September 30, 2010.<sup>22</sup> The U.S. Department of Education is advising LEAs to use the funds in ways that will build their long-term capacity to serve disadvantaged youth, such as

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<sup>22</sup>LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

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through providing professional development to teachers. The U.S. Department of Education made the first half of states' ESEA Title I, Part A allocations available on April 1, 2009, with New Jersey receiving \$91.5 million. New Jersey's Department of Education administers the ESEA Title I program.

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### Recovery Act IDEA, Parts B and C Funds

The Recovery Act provided supplemental funding for programs authorized by Parts B and C of the Individuals with Disabilities Education Act (IDEA), the major federal statute that supports special education and related services for infants, toddlers, children, and youth with disabilities. Part B includes programs that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education, and Part C programs provide early intervention and related services for infants and toddlers with disabilities or at risk of developing a disability and their families. IDEA funds are authorized to states through three grants—Part B preschool-age, Part B school-age, and Part C grants for infants and families. States were not required to submit an application to Education in order to receive the initial Recovery Act funding for IDEA Parts B and C (50 percent of the total IDEA funding provided in the Recovery Act). States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements. All IDEA Recovery Act funds must be used in accordance with IDEA statutory and regulatory requirements.

The U.S. Department of Education allocated the first half of states' IDEA allocations on April 1, 2009, with New Jersey receiving \$192 million of the total \$383 million. The largest share of IDEA funding is for the Part B school-aged program for children and youth. New Jersey's initial allocation was

- \$5.9 million for Part B preschool grants,
- \$180 million for Part B grants to states for school-aged children and youth, and
- \$5.4 million for Part C grants for infants and families for early intervention services.

The New Jersey Department of Education administers IDEA Part B, and the New Jersey Department of Health and Senior Services administers IDEA Part C.

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GAO visited three school districts in New Jersey: the Camden School District, the Newark School District, and the Trenton School District. We selected the Newark School District because it was allocated the largest amount of ESEA Title I, Part A and IDEA, Part B Recovery Act funding. We selected the other two districts for geographic coverage. We visited the Newark and Trenton districts for our first bimonthly report.

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### To Expedite Spending, New Jersey's School Districts May Spend Up to 50 Percent of Recovery Act Funds for Summer Activities

New Jersey has allocated ESEA Title I, Part A and IDEA, Part B funding to all 616 LEAs but has not drawn down funds because it draws down funds at the time of reimbursement to LEAs. To expedite spending of Recovery Act funds, the New Jersey Department of Education opened a request for applications for LEAs to use Recovery Act funds during the summer recess. LEAs can obligate and expend up to 50 percent of their allocations for ESEA Title I and IDEA (basic or preschool) Recovery Act funds on approved summer programs. The New Jersey Department of Education permits use of these funds, as follows:

- ESEA Title I funds may be used for districtwide summer programs for students, in-service professional development programs for teachers, parent involvement activities, and activities and supplies in preparation for the upcoming school year.
- IDEA, Part B funds may be used for summer intensive instructional support for students with disabilities, professional development, parent involvement activities, equipment such as assistive technology, supplementary supplies and materials in preparation for the upcoming school year, and upgrades to data systems.

The New Jersey Department of Education began accepting applications for summer programs on May 18, 2009, and closed the application period on June 5, 2009. According to department officials, approving expenditures for summer activities required an expedited process that departed from the agency's traditional application and approval process. For use of summer Recovery Act funding, LEAs submitted paper applications. New Jersey Department of Education officials said that they planned to review the applications on a rolling approval basis and provide a response to LEAs within 10 business days of receiving an application. According to department officials, as of June 30, 2009, the New Jersey Department of Education has approved 534 applications (131 for ESEA Title I programs and 403 for IDEA Part B programs). Upon receipt of an approval from the New Jersey Department of Education, school districts may begin to expend funds. School district officials in the three districts we visited reported that their districts were planning to apply for Recovery

Act funds for summer programs and activities. For example, officials in the Camden School District reported that they would use summer IDEA, Part B funds for a districtwide professional development program for teachers and paraprofessionals working in the district's programs for behavioral disabilities, autism, and special education. According to New Jersey Department of Education officials, electronic applications for ESEA Title I and IDEA Recovery Act funding for the 2009 to 2010 school year will be available to LEAs in July 2009.

New Jersey Department of Education officials told us that they needed more guidance from Education on whether state agencies have the authority to direct LEAs to spend Recovery Act funds in a specific manner. Having such guidance, officials reported, will clarify their authority to ensure LEAs spend Recovery Act funds in accordance with the goals of IDEA and the Recovery Act.

Spending for IDEA Part C Will  
Begin at the Start of Fiscal Year  
2010

New Jersey has received its notice of award for \$5.4 million of its total allocation of \$10.7 million for IDEA, Part C. The New Jersey Department of Health and Senior Services expects to receive the remainder in September 2009. According to an agency official, the New Jersey Department of Health and Senior Services is in the early stages of its plans to begin allocating the \$5.4 million to its 90 service providers across the state at the start of fiscal year 2010. This official said that there is typically an increase in enrollment and demand for services during the summer months. Accordingly, the department plans to target Recovery Act funds to those providers reporting an increase in enrollment and services. As the providers are reimbursed for their services (the program operates on a fee-for-service basis), the department will draw down funds.

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## Localities Have Plans in Place for Implementing WIA Youth Summer Employment Activities, but Anticipate Challenges in Determining Eligibility

The Recovery Act provides an additional \$1.2 billion in funds nationwide for the Workforce Investment Act (WIA) Youth program to facilitate the employment and training of youth. The WIA Youth program is designed to provide low income in-school and out-of-school youth ages 14 to 21, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. The Recovery Act extended eligibility through age 24 for youth receiving services funded by the Act. In addition, the Recovery Act provided that, of the WIA Youth performance measures, only the work readiness measure is required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. Within the parameters set forth in federal agency guidance, local areas may determine the methodology for measuring work readiness gains. The program is administered by the U.S. Department of Labor, and funds are distributed to states based upon a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving up to 15 percent for statewide activities. The local areas, through their local workforce investment boards, have flexibility to decide how they will use these funds to provide required services. In the conference report accompanying the bill that became the Recovery Act,<sup>23</sup> the conferees stated they were particularly interested in states using these funds to create summer employment opportunities for youth. Summer employment may include any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work experience component. Work experience may be provided at public sector, private sector, or nonprofit work sites. The worksites must meet safety guidelines and federal and state wage laws.<sup>24</sup>

The New Jersey Department of Labor and Workforce Development (NJDLWD) administers the state's workforce development system, including the WIA Youth Program. New Jersey has 17 local workforce investment boards (WIB), generally organized by county or a combination of counties; however, the city of Newark has its own board. Local WIBs are responsible for making decisions about activities within their geographic areas, often under the direction of local governments; program

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<sup>23</sup>H.R. Rep. No. 111-16, at 448 (2009).

<sup>24</sup>Current federal wage law specifies a minimum wage of \$6.55 per hour until July 24, 2009, when it becomes \$7.25 per hour. Where federal and state law have different minimum wage rates, the higher standard applies.

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activities are carried out through local one-stop centers.<sup>25</sup> The New Jersey State Employment and Training Commission (SETC) acts as a coordinating body for local WIBs. GAO visited four local WIBs in New Jersey: Camden County, Essex County, Mercer County, and the city of Newark. We selected Newark because it has the largest budget for the WIA summer program and the largest number of targeted youth. We selected the remaining local WIBs for geographic coverage.

New Jersey received \$20.8 million in Recovery Act funds for the WIA Youth program and allotted the funding to local WIBs within 30 days, as required. NJDLWD did not use the 15 percent set aside for state activities, but instead, allocated those funds for local programming. Of the total amount received for WIA Youth programs, New Jersey plans to spend \$17.7 million (85 percent of the total allotment) on summer youth employment activities. NJDLWD allowed local WIBs to set the budget amounts for the summer component of their formula for WIA Youth allocation. NJDLWD recently implemented a state-funded program, Summer HEAT (Help Employ Area Teens), for youth ages 17 to 25 in six local areas.<sup>26</sup> In these areas, Summer HEAT will operate independently from the summer employment activities funded through the Recovery Act. NJDLWD officials told us that they see the two programs as complementary. In 2008, New Jersey placed 4,623 youth with employers through its Summer HEAT program. NJDLWD required each local WIB to submit a plan by May 29, 2009, that described planned uses of WIA Recovery Act funds for summer employment activities. NJDLWD officials said that the plans would allow them to identify any potential challenges to implementation, particularly for those programs without prior experiences in offering summer activities.

NJDLWD is targeting a total of 6,684 youth for summer employment, focusing primarily on out-of-school and disconnected youth such as those

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<sup>25</sup>WIA requires states and localities to bring together about 17 federally funded employment and training services into a single system—the one-stop system. Funded through four federal agencies—the Departments of Labor, Education, Health and Human Services, and Housing and Urban Development—programs are to provide services through a statewide network of one-stop career centers.

<sup>26</sup>In 2008, NJDLWD created Summer HEAT to support New Jersey's Strategy for Safe Streets and Neighborhoods by helping reduce factors that lead to gun violence, delinquency, and gang involvement among disadvantaged youth. The state-funded program, open to youth ages 17 to 25, provides financial literacy training, job-readiness skills, and placement in unsubsidized summer employment. Summer HEAT is available to youth in Atlantic City (and Pleasantville), Camden, Elizabeth, Paterson, Essex County, and Trenton.

coming out of the criminal justice system or aging out of foster care programs (see table 2). Although local WIBs are creating new summer programs with Recovery Act funds, officials we contacted said they are leveraging existing partnerships used in year-round employment programs and relying on past experiences with summer programs funded through other sources. For example, officials in Camden and Mercer counties said that although they are creating new stand-alone programs, their staff have experience operating summer programs upon which to draw. Officials in the city of Newark and Essex County said that they modeled their WIA summer programs on their state-funded programs. Officials with all of the local WIBs we visited had plans, were actively recruiting youth, and estimated that about 80 percent of worksites were in place at the time of our visit. Local officials all said that they expected to meet their employment targets, although at the time of our visits, they were in various stages of recruitment. For example, at the time of our visits, Camden County officials said their program was slow to recruit and they were accepting youth on a first-come-first-served basis, while, according to Mercer County officials, interest in the program was so high officials had to institute a lottery system. The recruitment process essentially involves determining eligibility prior to enrollment, and potential participants are asked to meet a range of eligibility requirements, including household income to show low-income status. For example, an independent youth would have to earn no more than \$10,830, and a youth living in a family of four would have to prove household income of no more than \$22,050. NJDLWD requested a waiver to the procurement process in order to expedite local planning and received approval from the U.S. Department of Labor on May 22, 2009.

**Table 2: Description of Budget, Program Duration, and Targeted Youth, by Locality Visited**

Local WIB visited	Budget for summer program	2009 program start and end date	Duration of program (in weeks)	Targeted number of youth
City of Newark	\$2,895,411	July 6 to September 14	10	1,000
Camden County	1,438,855	June 15 to August 14 <sup>a</sup>	9	600
Mercer County	1,016,887	July 6 to August 21	7	375
Essex County	810,234	July 6 to August 14	6	410

Source: New Jersey Department of Labor and Workforce Development.

<sup>a</sup>Depending on funding, Camden County officials may extend the program to September 30, 2009.

Local officials described a variety of program designs for summer youth activities, although all plan to provide a blend of job-readiness training with actual work experience over the course of 6 to 10 weeks. For

example, in addition to employment, Camden County's program will provide youth with 8 hours of life-skills training using the Adkins Life Skills curriculum and 1 hour of financial literacy training using the Federal Deposit Insurance Corporation (FDIC) Money Smart curriculum.<sup>27</sup> In contrast, the Mercer County program includes a one-time 1.5 hour interviewing workshop prior to the job fair and, in addition to employment, 21 hours of job-readiness training for youth ages 14 to 17 and 28 hours of training for participants ages 18 to 24. Local WIBs are relying mostly on internal staff to carry out program responsibilities; one board plans to use external partners for specific roles. Mercer County officials reported plans to contract with the local community college for development of the job-readiness component of their Recovery Act-funded summer program. Officials in the local areas we visited reported a range of work opportunities they plan to offer participants, with at least one program planning to offer "green" jobs. For example, Camden County's program will provide jobs in such areas as groundskeeping, clerical, kitchen aides, and camp counselors. The program in Essex County will offer employment as census takers, housing surveyors, and hospital and lab assistants. Youth participants in Mercer County will have the opportunity to work in government, libraries, day care centers, or recreation centers. Newark will place youth in "green" jobs through a partnership with a refurbishment company and environmental training firm.

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### New Jersey Plans for Enhanced Monitoring of WIA Youth Summer Employment Activities

NJDLWD plans to monitor the fiscal and programmatic implementation of WIA Youth summer activities. NJDLWD officials told us that they will require local WIBs to submit monthly reports of expenditures. In addition, NJDLWD's internal audit office plans to conduct routine in-person visits of all 17 local WIBs and conduct on-site monitoring in a sample of the worksites. SETC officials reported that they will also visit local programs

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<sup>27</sup>The Adkins Life Skills Program: Career Development Series is a video-based, group counseling program designed to help unemployed, underemployed, and economically disadvantaged adults and youth learn how to make and implement important personal, career, and educational decisions (see <http://www.adkinslifeskills.org/index.shtml>, accessed on June 11, 2009).

The FDIC's Money Smart for Young Adults curriculum helps youth ages 12 to 20 learn the basics of handling their money and finances, including how to create positive relationships with financial institutions (see <http://www.fdic.gov/consumers/consumer/moneysmart/young.html>, accessed on June 11, 2009).

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to provide on-site monitoring and technical assistance throughout the summer.

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### Operation of WIA Youth Summer Employment Activities Presents Some Challenges

Both state and local officials said that the biggest challenge in implementing WIA Youth summer employment activities is determining and documenting that youth meet the statutory eligibility requirement of the WIA Youth program. These officials said that the targeted youth generally have difficulty in providing the kinds of documents the local areas require to prove eligibility. Local WIBs require such documentation as food stamp receipts or public assistance identification cards for total household income, birth certificates for proof of citizenship, social security numbers, and documentation of selective service registration for males 18 and over. These documents may be difficult for some youth to produce. Additionally, youth or their families may be reluctant to share household income because they fear doing so will jeopardize eligibility for public housing or other social services. Officials we visited also reported other challenges associated with implementing the WIA Youth summer activities. For example, officials in Essex County, operating with two full-time staff persons, said that the inability to hire new staff posed challenges for recruiting youth and monitoring the program. Officials in Newark said that it would be difficult to recruit youth for jobs that pay minimum wage when higher wage-earning opportunities may exist during the summer months. Finally, officials in Camden County wanted the U.S. Department of Labor and NJDLWD to provide a clear description of the types of jobs that qualify as “green.” Although not a challenge to program implementation, Mercer County officials expressed concern that the income eligibility requirements would exclude a significant number of needy youth in the service area, which includes Trenton.

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### The Edward Byrne Memorial Justice Assistance Grants (JAG) Program Will Help Implement New Jersey’s Public Safety Strategy

The Edward Byrne Memorial Justice Assistance Grant (JAG) Program within the Department of Justice’s Bureau of Justice Assistance (BJA) provides federal grants to state and local governments for law enforcement and other criminal justice activities, such as crime prevention and domestic violence programs, corrections, treatment, justice information sharing initiatives, and victims’ services. Under the Recovery Act, an additional \$2 billion in grants are available to state and local governments for such activities, using the rules and structure of the existing JAG program. The level of funding is formula-based and is determined by a combination of crime and population statistics. Using this formula, 60 percent of a state’s JAG allocation is awarded by BJA directly to the state, which must in turn allocate a formula-based share of those

funds to local governments within the state. The remaining 40 percent of funds is awarded directly by BJA to eligible units of local government within the state.<sup>28</sup> The total JAG allocation for New Jersey state and local governments under the Recovery Act is about \$47.7 million, a significant increase from the previous fiscal year 2008 allocation of about \$3.7 million. The New Jersey Office of the Attorney General, Department of Law and Public Safety (NJDLPS) administers JAG funds for the state.

As of June 30, New Jersey has received its state award of \$29.8 million.<sup>29</sup> Of the total award, \$16.5 million is allocated for localities. NJDLPS officials said that they plan to use Recovery Act funds to implement New Jersey's Strategy for Safe Streets and Neighborhoods, established in 2007. This strategy includes three components: enforcement (intelligence-led, data-driven policing); prevention (decreasing youth involvement in crime); and re-entry of released prisoners (reducing recidivism). JAG funds are to be used to support the state in funding new and existing programs for state and local law enforcement agencies in these three areas (see fig. 3). In addition to spending these funds on program administration (\$893,000) and enhancements to information systems (\$5 million), NJDLPS identified a total of 23 initiatives that will receive Recovery Act funds. Nine initiatives related to enforcement will receive a total of \$13.5 million. These include a statewide electronic surveillance program, license plate readers, and a multijurisdictional task force focused on eradicating gangs, guns, and narcotics. Seven initiatives that fall under the state's strategy for prevention will receive \$5.8 million. These prevention initiatives include educational incentives for youth under the direction of New Jersey's Juvenile Justice Commission and truancy prevention programs to be conducted by local enforcement agencies. Finally, the state plans to spend \$4.6 million on seven initiatives to support its strategy for re-entry. Initiatives related to re-entry include a program designed to ensure the voluntary surrender of absconders of nonviolent offenses, discharge planning for mental health issues, and a pilot of the Parole Accountability

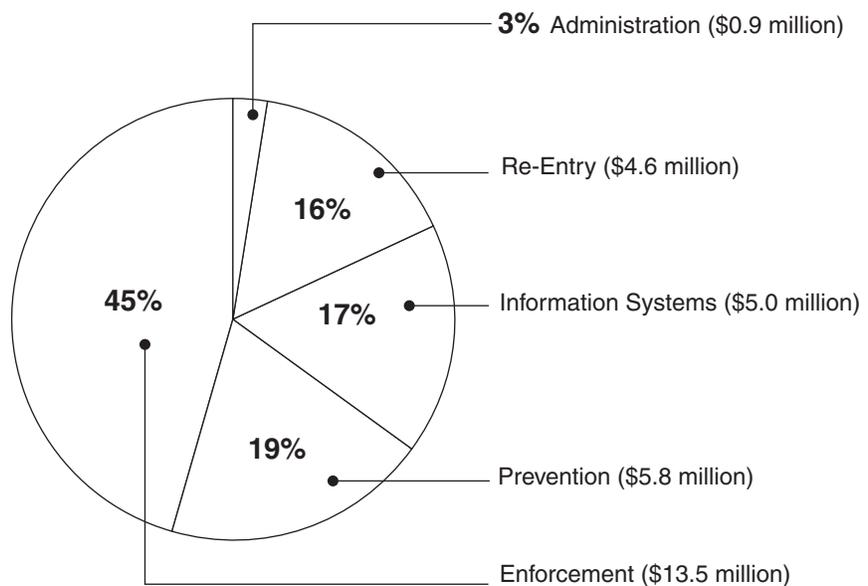
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<sup>28</sup>We did not review these funds awarded directly to local governments in this report because the Bureau of Justice Assistance's solicitation for local governments closed on June 17. We will review these funds in a future report.

<sup>29</sup>Due to rounding, this number may not exactly equal 60 percent of the total JAG award.

Conference Team (PACT) program.<sup>30</sup> Grants for local jurisdictions may involve new projects and activities, and NJDLPS is in the process of developing requests for proposals related to these funds, estimating that these funds will not reach subrecipients for another 3 to 5 months.

**Figure 3: New Jersey’s Estimated Allocation of JAG Funds, by Funding Category**



Source: GAO based on information from New Jersey’s approved Byrne JAG application.

Note: Numbers may not add up to \$29.8 million due to rounding.

## New Jersey Is Monitoring Recovery Act JAG Funds in Several Ways

NJDLPS officials reported that they plan to monitor the use of JAG funds in several ways. First, NJDLPS will track expenditures through a separate code in NJDLPS’s accounting system for Recovery Act funds, as required by the state and federal government. Second, NJDLPS plans to educate subrecipients on how to comply with funding rules by holding postaward conferences with subrecipients prior to the receipt of funds. Subsequently,

<sup>30</sup>PACT teams provide support services to assist parolees in complying with their parole requirements. The program can include licensed clinical social workers, certified alcohol and drug counselors, and other professional who collaborate with state Parole Board staff to provide case management and referrals for needed services. Depending on the program, PACT teams can match offenders to appropriate treatment programs or provide on-site clinical resources.

subrecipients will be required to submit monthly financial and programmatic reports to NJDLPS. Internally, NJDLPS plans to use existing program and fiscal analysts to track spending and compliance with financial and programmatic requirements. Officials said that they are exploring ways to increase the number of staff monitoring subrecipients, but because New Jersey is under a hiring freeze, any increase in staff to conduct this monitoring would likely come as a result of reassignments from other agencies or offices. Finally, NJDLPS officials said that an audit by the Office of the State Auditor should provide another layer of review regarding the use of JAG Recovery Act funds.

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## New Jersey Has Begun to Obligate and Expend Public Housing Capital Fund Grants

The Public Housing Capital Fund provides formula-based grant funds directly to Public Housing Agencies to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.<sup>31</sup> The Recovery Act requires the U.S. Department of Housing and Urban Development (HUD) to allocate \$3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. Recovery Act requirements specify that public housing agencies must obligate funds within 1 year of the date they are made available to public housing agencies for obligation, expend at least 60 percent of funds within 2 years of that date, and expend 100 percent of the funds within 3 years of that date. Public housing agencies are expected to give priority to projects that can award contracts based on bids within 120 days from the date the funds are made available, as well as capital projects that rehabilitate vacant units, or those already under way or included in the required 5-year Capital Fund plans. HUD is also required to award \$1 billion to housing agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofit investments. On May 7, 2009, HUD issued its Notice of Funding Availability (NOFA) that describes the competitive process, criteria for applications, and time frames for submitting applications.<sup>32</sup>

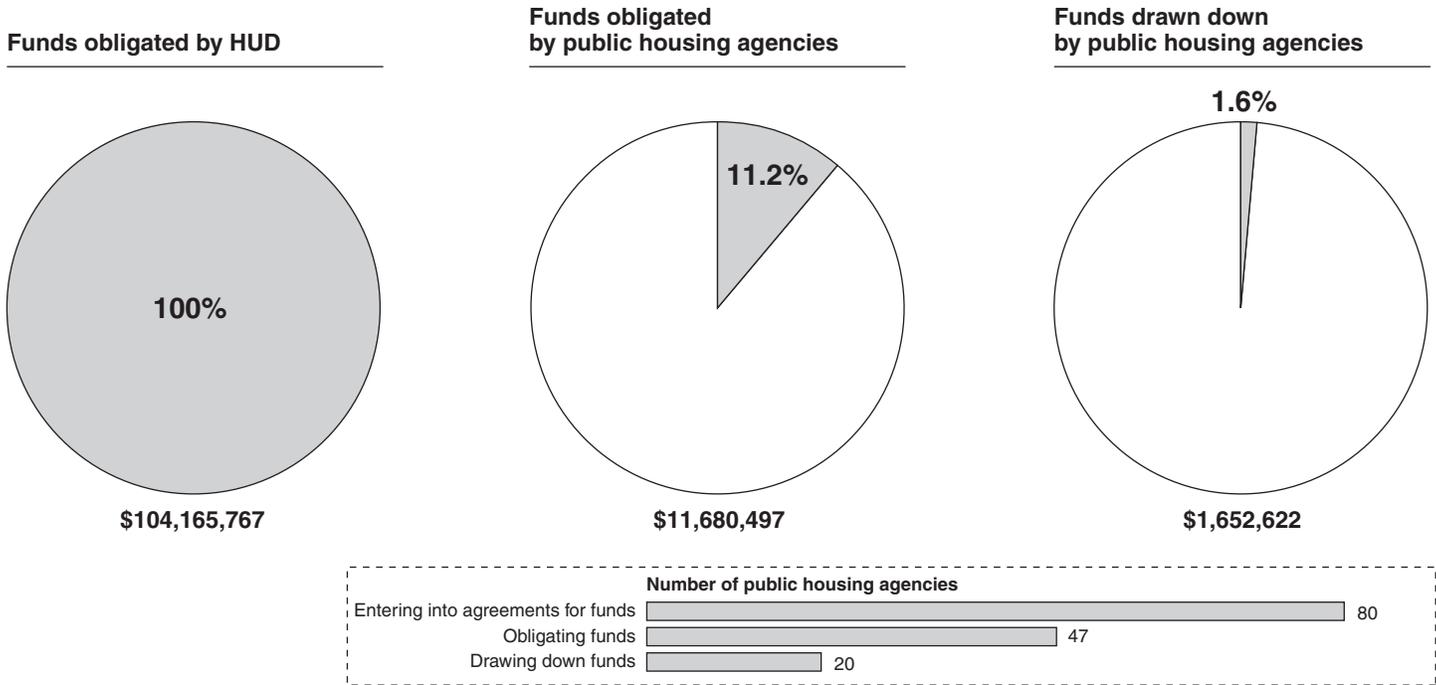
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<sup>31</sup>Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

<sup>32</sup>HUD released a revised NOFA for competitive awards on June 3, 2009. The revision included changes and clarifications to the criteria and timeframes for application, and to funding limits.

New Jersey has 80 public housing agencies that have received ARRA formula grant awards. In total, these public housing agencies received \$104 million from the Public Housing Capital Fund formula grant awards. As of June 20, 2009, the state’s 80 public housing agencies have obligated \$11.7 million and have expended \$1.7 million (see fig. 4).

**Figure 4: Percent of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in New Jersey**



Source: GAO analysis of HUD data.

GAO visited four public housing agencies in New Jersey: the Newark Housing Authority, the Plainfield Housing Authority, the Rahway Housing Authority, and the Trenton Housing Authority. We selected the Newark Housing Authority because it received the largest Capital Fund grant allocation in New Jersey and has been designated as “troubled” by HUD. We visited the Newark Housing Authority for our first bimonthly report. We selected the Plainfield Housing Authority and the Rahway Housing Authority because both had drawn down funds at the time of our selection. We selected the Trenton Housing Authority because we visited the agency for our first bimonthly report and it is receiving significant Recovery Act funds as compared to other agencies in New Jersey.

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## Recovery Act Funds Allow Public Housing Authorities to Complete a Range of Planned Projects

The four public housing agencies we visited in New Jersey received Capital Fund formula grants totaling \$33.8 million. As of June 20, 2009, these public housing agencies had obligated about \$2.3 million, or 7 percent of the total award. They had drawn down almost \$482,800, or 1 percent of the total award. Of the four housing authorities, the Rahway and Plainfield Housing Authorities have drawn down about \$392,560 and \$90,240, respectively. The Newark Housing Authority has not drawn down funds because, as a troubled agency, it cannot draw down funds without HUD's approval.<sup>33</sup> Newark Housing Authority officials told us that they submitted a request to HUD to draw down \$181,583 and, when approved, will submit another request for \$ 579,795 (for a total of \$761,378). However, officials did not know what level of review HUD would conduct prior to approval. HUD requires "troubled" agencies to receive enhanced monitoring, oversight, and technical assistance. This additional supervision includes, at a minimum, that troubled public housing authorities be placed on zero threshold for Recovery Act funds, receive a compliance review of their Recovery Act procurement policy, provide monthly progress updates, and remote and on-site visits by HUD officials by September 30, 2009. At the time of our visit, Trenton's housing authority had not drawn down funds because it was in the process of designing or reviewing proposals.

Overall, the Public Housing Agencies we visited are planning to use Recovery Act funds for 29 projects related to activities such as rehabilitating units (including vacant units); repairing sidewalks and doors; replacing aging exteriors, roofs and boilers; and installing intercom and fire alarm systems (see table 3).

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<sup>33</sup>HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of the housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

**Table 3: Description of Public Housing Authorities' Plans for Recovery Act Funds**

	Total projects	Total units (for rehabilitation)	Total vacant units	Time frame for completion of all projects
<b>Newark Housing Authority:</b> Plans include the rehabilitation of units, including vacant units; completion of construction on a recreation center; and repairs to facades, sidewalks, walkways, doors, and windows.	14	700	422	August 2010
<b>Rahway Housing Authority:</b> Plans include the renovation of 8 vacant apartments, completion of a roofing project and an exterior siding project, rehabilitation of a vacant unit for Americans with Disabilities Act compliance, installation of energy efficient boilers, installation of new gutters, repairs to entrance doors and sidewalks, and respacing parking spaces.	9	9	9	September 2009
<b>Plainfield Housing Authority:</b> Plans include the installation of addressable smoke detectors and intercom systems in all of its properties, as well as the renovation of units to meet Americans with Disabilities Act standards.	4	22	0	December 2009
<b>Trenton Housing Authority:</b> Plans include the modernization of vacant units and corrections to health and safety deficiencies in 22 stair towers.	2	115	115	February 2010

Sources: Newark Housing Authority, Rahway Housing Authority, Plainfield Housing Authority and Trenton Housing Authority.

New Jersey's public housing officials provided a range of time frames for completing the work. For example, the Newark Public Housing Authority plans to complete work by August 2010. The Rahway Housing Authority, a significantly smaller agency, expects to complete all Recovery Act-funded work by September 2009. Similarly, the agencies we visited described projects in various stages of completion. For example, the Plainfield Housing Authority used Recovery Act funds to install new smoke detectors that will allow the local fire department to identify and communicate with all 225 units of the Richmond Towers Senior Complex. Previously, the fire department would arrive on site without knowing which units were experiencing the emergency and without a means for communicating with those units. The Rahway Housing Authority is using Recovery Act funds to complete ongoing projects that were stalled due to a lack in funding. Officials said that Recovery Act funds were also used to complete the replacement of energy-efficient siding and roofing for the Kennedy Senior Housing Complex. According to Rahway Housing Authority officials, they will measure savings by tracking their energy bills. Figure 5 shows a door that will be replaced using Recovery Act funds. Figure 6 shows the in-progress installation of siding using Recovery Act

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funds. Figure 7 shows a building completed with regular Capital Funds as an example of the project that will continue with Recovery Act funds.

**Figure 5: Candidate Door for Repair with Recovery Act Funds at the Kennedy Senior Housing Complex, Rahway New Jersey**



Source: GAO.

Figure 6: In-Progress Siding Installation Using Recovery Act Funds, Rahway, New Jersey



Source: GAO.

**Figure 7: Example of Completed Project Using Regular Capital Funds, Rahway, New Jersey**



Source: GAO.

Officials in all four housing authorities told us that they selected projects from their 5-year plan and targeted projects that could be awarded within 120 days, such as vacant unit turnaround, deficiencies discovered through Real Estate Assessment Center (REAC) inspections, or projects already under way.<sup>34</sup> For example, the Newark Housing Authority is planning to rehabilitate 700 vacant and occupied units so that these units can be returned to rental status and reduce the agency's waiting list for public housing. At the time of our visit, the Newark Housing Authority had hired three teams of union labor workers to perform the vacant unit rehabilitation work. The Plainfield Housing Authority chose to address deficiencies noted in REAC inspection reports, such as units that are not Americans with Disabilities Act-compliant. Finally, the Rahway Housing

<sup>34</sup>HUD's Real Estate Assessment Center (REAC) provides information assessing the condition of HUD properties. Inspectors use the Public Housing Assessment System to assess public housing management and conditions, including physical inspections of properties and financial inspections. According to HUD's Web site, REAC inspectors also rate the performance of independent public accountants that perform financial audits of public housing agencies and multifamily assisted properties.

Authority prioritized projects that were under a certain dollar threshold, such as replacing exterior doors and sidewalks and completing projects already under way so that it could award within the 120-day time frame. Rahway Housing Authority officials said that without Recovery Act funds, the agency would replace one roof a year. With Recovery Act funds, officials reported that the agency replaced six roofs within a 2-week period. According to Rahway Housing Authority officials, because New Jersey has stringent procurement laws, the requirement to adhere to Davis-Bacon requirements is a part of the agency's normal operating procedure and has not hindered the completion of planned Recovery Act projects.<sup>35</sup> Trenton Housing Authority officials also commented that adhering to Davis-Bacon requirements would not pose a challenge.

Generally, officials reported few challenges thus far related to Recovery Act funding. Officials in all four housing authorities reported that they would be able to meet the accelerated time frames. They stated that Recovery Act funds would allow them to complete planned projects at a faster rate. However, as previously mentioned, Newark officials reported delays in accessing funds due to the agency's status as a troubled agency. For these officials, the requirements for HUD to review and approve all spending could potentially make meeting the time frames more of a challenge.<sup>36</sup> Officials identified potential challenges related to the Recovery Act's Buy American provision<sup>37</sup> and a need for clearer guidance from HUD.<sup>38</sup> Officials in the Newark Housing Authority told us that the Buy American provision could pose challenges in purchasing affordable

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<sup>35</sup>The Recovery Act requires all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wages as determined under the Davis-Bacon Act. Recovery Act, div. A, title XVI, § 1606. Under the Davis-Bacon Act, the Department of Labor determines the prevailing wage for projects of a similar character in the locality. 40 U.S.C. §§ 3141-3148.

<sup>36</sup>On June 19, 2009, Newark Housing Authority officials said that they were working with the regional HUD office to develop a protocol for the submission and review of invoices for Recovery Act-funded projects.

<sup>37</sup>The Buy American provision of the Recovery Act prohibits, with certain exceptions, the use of Recovery Act funds for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. Recovery Act, div. A, title XVI, § 1605.

<sup>38</sup>In a frequently asked questions document (dated May 15, 2009) to public housing agencies, HUD outlines the Buy American provision in the Recovery Act as applying to all Capital Fund expenditures using Recovery Act funds. This includes purchases of such items as boilers, heating and cooling units, iron and steel products, appliances, heat pumps, and all other manufactured goods.

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green materials such as solar panels for roofs and energy efficient boilers. Officials in Newark, Plainfield, and Rahway reported that the guidance about the permissible use of 10 percent of the allocated funds for administrative costs is unclear and that the messages from HUD's headquarters and field office seem inconsistent. Rahway Housing Authority officials said that, as a result, they used Recovery Act funds for only capital improvements. According to Newark Housing Authority officials, their inability to use the funds for administration could make monitoring the increased number of projects difficult.

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**New Jersey Is Monitoring Recovery Act Public Housing Capital Funds Using Existing Mechanisms**

Officials in all four public housing agencies we visited reported that they are able to track Recovery Act Funds separately from their regular Capital Funds using their existing systems. Rahway Housing Authority officials have also modified their existing internal grant expenditure reporting system, a paper-based system, to distinguish between Recovery Act and other funds.

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**Initiatives to Measure Impact of Recovery Act Spending Are Under Way but Public Housing Agency Officials Are Looking to HUD for Additional Guidance**

As required by the Recovery Act, the public housing agencies we met with are planning initiatives to measure the impact of Recovery Act funds. However, at the time of our visits, officials from these agencies said that they were waiting for more guidance from federal agencies about what will be required. Examples of officials' statements about additional guidance follow:

- Officials with the Rahway Housing Authority said that they have not received formal guidance about what HUD will require them to report. However, in the interim, the agency will document the impact of Recovery Act funds in several ways. Officials said that the agency will use lower energy bills, income to the housing authority, and improved scores on the REAC inspection to show the impact of using Recovery Act funds.
- Newark Housing Authority officials, also awaiting guidance from HUD, reported that they have already begun collecting information on the number of people working on Recovery Act-funded projects and asking contractors to report new hires.

On June 22, 2009, OMB issued a memo finalizing government-wide guidance on reporting requirements for Recovery Act spending.<sup>39</sup> However, this guidance does not impact other program-specific requirements in the Recovery Act and, as a result, agencies may issue additional and similar reporting requirements.

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## New Jersey Plans to Weatherize 13,400 Homes and Create More than 400 Jobs with Weatherization Assistance

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, administered by the U.S. Department of Energy (DOE) through each of the states and the District of Columbia.<sup>40</sup> This funding is a significant addition to the annual appropriations for the weatherization program that have been about \$225 million per year in recent years. The program is designed to reduce the utility bills of low-income households by making long-term energy efficiency improvements to homes by, for example, installing insulation, sealing leaks around doors and windows, or modernizing heating equipment and air circulating fans. During the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. According to DOE, by reducing the utility bills of low-income households instead of offering aid, the Weatherization Assistance Program reduces their dependency by allowing these funds to be spent on more pressing family needs.

DOE allocates weatherization funds among the states and the District of Columbia, using a formula based on low-income households, climate conditions, and residential energy expenditures by low-income households. DOE required each state to submit an application as a basis for providing the first 10 percent of Recovery Act allocation. DOE will provide the next 40 percent of funds to a state once the department has approved its State Plan, which outlines, among other things, its plans for using the weatherization funds and for monitoring and measuring performance. DOE plans to release the final 50 percent of the funding to each state based on the department's progress reviews examining each state's performance in spending its first 50 percent of the funds and the state's compliance with the Recovery Act's reporting and other requirements.

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<sup>39</sup> The OMB memo (M-09-21) pertained to Section 1512 of the Recovery Act.

<sup>40</sup> DOE also allocates funds to American Samoa, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, the Virgin Islands, the Navajo Indian tribe and the Northern Arapahoe Indian tribe.

DOE allocated to New Jersey \$118.8 million in funding for the Recovery Act Weatherization Assistance Program for a 3-year period. New Jersey's Department of Community Affairs (DCA), Division of Housing and Community Resources is responsible for administering the program. DCA received a Funding Opportunity Announcement on March 12, 2009, and subsequently received additional guidance via phone, e-mail, and regional conference calls for using its initial 10 percent allocation and developing its weatherization program plan. DCA submitted its application for funding on March 9, 2009, and then undertook a planning process, including public hearings, that led to the creation of its Weatherization Program Plan, which it submitted on May 11, 2009. DCA spoke with DOE officials by telephone on June 2, 2009, to respond to DOE's requests for budget clarifications for staff fringe benefits and travel and supplemental documents related to DCA's response to comments raised in the public hearings. DCA expects DOE to verify that New Jersey's plan meets the requirements provided in its guidance and expects to receive a response by the end of June 2009. DCA officials also noted a potential challenge in meeting the requirement to pay a prevailing wage, primarily because such a requirement is new for the weatherization program. A DCA official said that until DOE provides guidance on how to apply Davis-Bacon requirements, it is difficult for subgrantees to bid out jobs to subcontractors or begin weatherization production. Additionally, DCA officials told us, New Jersey does not have unique wage classification for weatherization. While the federal government would set area wage rates, these officials commented, New Jersey typically has higher rates because of its location in the northeast and unionization of the workforce. Officials from the Governor's Office in New Jersey told us that in order to facilitate weatherization production while the state awaits a federal wage determination, New Jersey established a base wage of \$17.40 per hour plus benefits.

On April 7, 2009, DOE provided the initial 10 percent allocation (approximately \$11.8 million) to New Jersey.<sup>41</sup> DCA is in the process of reviewing grant agreements with its 22 subgrantees<sup>42</sup> for the use of 10 percent of each subgrantee's allocated funds for personnel costs, training

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<sup>41</sup>DCA received their award on April 7, 2009, but the effective date of the award is April 1, 2009.

<sup>42</sup>Subgrantees of New Jersey's Weatherization Assistance Program include nonprofit organizations, county governments, and the New Jersey Housing and Mortgage Finance Agency.

and technical assistance, purchasing of equipment and vehicles, and related capacity building and outreach or education activities. DOE guidance received on April 10, 2009, prohibits using any of the initial 10 percent for actual weatherization production activities. However, on June 9, 2009, DOE issued revised guidance lifting this limitation to allow states to provide funds for production activities to local agencies that previously provided services and are included in state Recovery Act plans. DCA expects to receive an additional 40 percent of the funding shortly after the plan is approved.

As stated in the plan submitted to DOE for review and approval, DCA's goals for use of the weatherization Recovery Act funding include weatherizing approximately 13,400 homes. DCA officials estimate that New Jersey's program will employ an estimated 400 to 600 people. Of the total \$118.8 million the state will receive, the planned allocation is \$100.9 million for weatherization production; \$5.9 million for subgrantee administration of the funds; \$8 million for new-hire screening, training, a public awareness campaign, and technical assistance; and \$4.8 million for DCA to cover its costs for program management, oversight, reporting, and administration. A DCA official told us that any unused portion of the \$8 million for training and technical assistance and any unused funds allocated to administrative costs will be used for weatherization production.

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## New Jersey Is Using Existing Internal Control Mechanisms to Track and Monitor Recovery Act Spending

The New Jersey Office of Management and Budget (NJOMB) developed an account code structure, within its existing system, to track accounts receiving Recovery Act funds.<sup>43</sup> Officials said that this allows them to track all allocations, obligations, and expenditures associated with these funds. NJOMB reports that it did not have to modify its system to track Recovery Act funding. In a memo dated March 27, 2009, NJOMB announced its Recovery Act accounting structure and notified state agencies of their responsibilities for tracking Recovery Act funds. The New Jersey state agencies we visited all reported having systems that could separately track

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<sup>43</sup>According to NJOMB, all Recovery Act-related appropriation accounts will use source code "230," and all revenue budgets will use a revenue source code beginning with "FS." Additionally, each grant received by a state agency is assigned a governmentwide grant number in NJOMB's accounting system. Recovery Act grants are noted with an "A" as the first character of the governmentwide number and by "ARRA" as the first characters in the grant description. Expenditures are coded with an account code linked to the corresponding appropriation account.

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Recovery Act funds from non-Recovery Act funds. However, the New Jersey Department of Education seeks additional guidance from the U.S. Department Education on how to handle “blended” funds in schoolwide ESEA Title I programs in order to comply with this tracking requirement.<sup>44</sup> As previously reported in this report because of statewide hiring freezes, state agencies with whom we met do not anticipate hiring additional staff to track Recovery Act funds.

NJOMB officials said they are relying on the integrity of the data in its accounting system to provide them with assurance that their agency reports accurate data about Recovery Act funds. Data in this accounting system is audited annually by the Office of the State Auditor (OSA) for the financial audit and by a firm hired by NJOMB for the Single Audit. According to NJOMB officials, New Jersey’s Office of Information Technology is currently working with state agencies to review their current reporting systems and individual departments have made or are considering making changes to capture new U.S. Office of Management and Budget (OMB) data requirements.

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### Multiple State Entities Provide Oversight on Internal Controls for Agencies Receiving Recovery Act Funding

NJOMB coordinates the statewide program for internal controls. According to NJOMB officials, state agencies are responsible for completing an annual internal control self-assessment questionnaire (comprised of 429 questions), summarizing any deficiencies and reporting the results to NJOMB. NJOMB officials have said that for these annual internal self-assessment reports, NJOMB requires state agencies to update the status of any prior year deficiencies and related corrective actions. NJOMB updates its internal controls program annually to include new programs or functions, with the last update being November 2008. According to NJOMB, agency management is responsible for ensuring that internal controls are in place and operating as intended. The Office of the State Comptroller and OSA include internal controls in their reviews of state agencies and programs, which serves as another review. To assist state agencies with internal controls, the New Jersey Office of the Inspector General is conducting a series of training sessions on internal

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<sup>44</sup>Schools in which poor children make up at least 40 percent of enrollment are eligible to use ESEA Title I funds for schoolwide programs that serve all children in the school. ESEA Title I schools with percentages of low-income students of at least 40 percent may use ESEA Title I funds, along with other federal, state, and local funds, to operate a “schoolwide program” to upgrade the instructional program for the whole school. As such, schoolwide ESEA Title I programs do not have to separately track federal dollars.

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controls for agencies receiving Recovery Act funding. Training with DCA began the first week in June 2009.

We previously reported that in New Jersey's fiscal year 2007 Single Audit report, the independent auditor identified 42 significant control deficiencies related to compliance with internal controls requirements over major federal programs, 33 of which were considered to be material.<sup>45</sup> Twenty-seven of the significant control deficiencies pertained to compliance with requirements for several major federal programs that the state administers—including Medicaid programs—through which the Recovery Act funds will flow. According to NJOMB officials, the New Jersey Recovery Accountability Task Force and the Governor's Office are working with the relevant agencies to mitigate the weaknesses identified in the fiscal year 2007 Single Audit report. We also previously reported that New Jersey has several offices responsible for accountability oversight. These entities have planned to conduct work that includes Recovery Act funding. For example, the Office of the Comptroller is reviewing New Jersey's WIA program, including the WIA Youth program. OSA is auditing school districts; the DCA (including the Weatherization Assistance Program); and the Division of Criminal Justice (including the JAG program).

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### New Jersey's State Agencies Use Single Audit Findings for Risk Assessments and Monitoring

NJOMB coordinates New Jersey's Single Audit and communication of Single Audit results to state agencies. In this role, NJOMB hires the audit firm to perform the audit (using standard competitive bidding practices), tracks the audit's progress, approves vendor invoices paying the auditor, and follows up on audit findings and corrective action plans. NJOMB officials told us that the upcoming Single Audit may assess how agencies are complying with Recovery Act funding requirements. However, state agencies are responsible for resolving Single Audit findings, using the results for risk assessment and monitoring programs and practices. For example, the internal audit division within New Jersey's Division of Criminal Justice uses Single Audit findings to prepare corrective action plans in coordination with program managers and monitors the corrective action plans to make sure programs address findings.

The processes within the New Jersey Department of Education and NJDOT provide additional examples for how New Jersey's state agencies

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<sup>45</sup>GAO-09-580.

use the Single Audit to identify risk and areas for additional monitoring. The communication of Single Audit findings related to education programs at the state level is coordinated through the New Jersey Department of Education's Office of Fiscal Accountability and Compliance. The department uses the findings in district-level Single Audits to highlight areas for school districts in need of corrective action—a series of actions aimed at correcting the problems identified in the Single Audit report. Executive County Superintendents, representing the state in each of the department's 21 county offices, are responsible for addressing and communicating programmatic and fiscal findings within local districts. In response to weaknesses identified in the Single Audit reports of school districts, New Jersey Department of Education officials reported that the department can appoint a fiscal monitor in specific districts. For example, the Camden County School District currently has a fiscal monitor appointed to the district. Fiscal monitors are on-site, state employees with fiscal management oversight of a district and are responsible for the development and implementation of a plan to address weaknesses. Department officials reported that beginning July 1, 2009, the Office of Fiscal Accountability would conduct real-time auditing of selected LEAs. These officials said that the Office of Fiscal Accountability plans to use the corrective action plans for the fiscal year ending June 30, 2008, to follow up on prior Single Audit findings related to programs receiving Recovery Act funds. These activities will augment the New Jersey Department of Education's existing structure for fiscal and programmatic monitoring.

NJDOT officials said that there have not been any material findings for the department in the state's Single Audit process for many years. However, according to these officials, NJDOT has a process for addressing any findings in the Single Audit report. For example, NJDOT staff submit an action plan to the state auditor describing how the agency will address the findings. NJDOT management is responsible for tracking the agency's progress in addressing the findings with regular progress reports. NJDOT officials reported that they are in the very early stages of developing a program for monitoring Single Audit findings in localities where any state or federal highway funds are being used. FHWA officials told us that failure to track Single Audit report findings against subrecipients was a weakness in NJDOT's oversight structure. Officials from the Governor's Office in New Jersey told us that NJDOT is currently collecting Single Audit reports from local government agencies and reviewing them to determine if there are any significant findings related to FHWA funds.

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## Some Initiatives to Measure Impact of Recovery Act Spending Are Under Way

In accordance with the Recovery Act, New Jersey state agencies and localities with whom we met reported that they are planning initiatives to measure the impact of Recovery Act funds. For example:

- NJDLPS officials administering the JAG grants reported working with internal evaluators to revise program performance measures for grant recipients. These performance measures will include, among other things, the number of jobs created. Officials have also contracted with the Urban Institute for an evaluation of all JAG initiatives. Having more information from OMB and DOJ would allow NJDLPS officials to better match their measures with reporting requirements, these officials told us.
- New Jersey Department of Education officials told us that the department is developing a tracking system to collect information that would allow it to measure impact of education efforts pertaining to the Recovery Act, but the lack of guidance from OMB and Education make the development of such a system a challenge.
- NJDOT plans to count the number of people employed in funded projects, the number of hours spent working on the projects, and the aggregate wages. Contractors are responsible for reporting this information to the state. NJDOT officials said that they will not calculate the number of indirect jobs created from Recovery Act-funded projects; rather, FHWA will count the indirect jobs created.
- Because of the temporary nature of summer youth employment programs, officials operating local programs told us that they plan to measure job readiness and job creation. For example, Mercer County officials will use the number of youth that obtain a job-readiness certificate; complete high school (or obtain a GED); enter occupational training; or obtain unsubsidized employment as a reflection of the impact of their summer youth program. Newark WIB officials reported plans to conduct pre- and post-assessments with each program participant to gauge job readiness. Finally, officials with the Essex County WIB plan to track youth who continue to work for summer employers, either full-time or part-time, after the summer program ends.

OMB's guidance on reporting requirements for Recovery Act spending, issued after our visits, will likely provide clarification to those officials wanting additional guidance on reporting. However, as we previously noted in this report, agencies may issue additional and similar reporting requirements.

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New Jersey officials at state agencies and localities we visited provided some preliminary estimates on jobs created and preserved:

- DCA officials reported that, over the 3 years of funding, New Jersey will produce 400 to 600 jobs through its Weatherization Assistance Program.
- NJDLWD officials said that, statewide, their WIA Youth summer activities will employ approximately 6,000 people.
- Officials representing the local WIBs for Camden and Mercer counties said that they plan to hire seasonal staff to work with participants of their WIA Youth summer activities. Camden County plans to hire 12 counselors and Mercer County plans to hire five counselors. Camden County also plans to hire one additional seasonal staff person to assist the WIB in monitoring its Recovery Act-funded summer activities.
- The Camden County School District reported plans to hire two staff persons to monitor ESEA Title I schools.

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## New Jersey's Comments on This Summary

We provided the Governor of New Jersey with a draft of this appendix on June 16, 2009. The Governor's Chief of Staff responded for the Governor on June 19, 2009. In general, the Chief of Staff substantially agreed with the draft and provided technical comments that were incorporated, as appropriate.

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## Staff Acknowledgments

In addition to the contacts named above, Raymond Sendejas, Assistant Director; Tahra Nichols, Analyst-in-Charge; Diana Glod; Joah Iannotta; Greg Hanna; Kieran McCarthy; Tarunkant Mithani; Vincent Morello; Nitin Rao; Cheri Truett; and Nancy Zearfoss made major contributions to this report.