

May 2010

# RECOVERY ACT

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



GAO

Accountability \* Integrity \* Reliability



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# Appendix XII: New Jersey

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## Overview

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

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## What We Did

We reviewed four specific programs funded through the Recovery Act: Clean Water and Drinking Water State Revolving Funds (SRF), Highway Infrastructure Investment Program, Public Housing Capital Fund, and COPS Hiring Recovery Program (CHRP). We selected these programs for various reasons. The SRF, highway, and public housing programs all had 1-year obligation or contracting deadlines during the course of our review. Our work focused on the ability of these programs to meet the 1-year deadlines and challenges agencies faced in meeting them. (For descriptions and requirements of the programs we covered, see appendix XVIII of GAO-10-605SP.) To gain a further understanding of these issues, we met with state agency officials and conducted site visits to SRF subrecipients in Long Branch and the Borough of Beach Haven and public housing agencies in Elizabeth and Bergen County. We selected the SRF subrecipients because they incorporated green components into their projects, which was a new requirement under the Recovery Act. We selected the public housing agencies because they had obligated less than 50 percent of their Recovery Act funds as of January 30, 2010, and were required to have 100 percent of these funds obligated by March 17, 2010.<sup>2</sup> New Jersey CHRP recipients used more of their grant funds to hire new officers rather than to avoid layoffs or rehire officers compared to the national average. We met with officials from the East Orange and Trenton Police Departments to gain an understanding of their need for additional officers and the impact of the CHRP funds on their policing efforts.

In addition to the four program-specific reviews, we also interviewed state and local budget officials about their use of Recovery Act funds and the impact of these funds on state and local budgets. We selected three

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

<sup>2</sup>We also obtained follow-up information from the Newark Housing Authority and Rahway Housing Authority on the impact, if any, the Recovery Act funds had on their ability to administer their regular public housing capital funds. These housing agencies had obligated more than 50 percent of their public housing capital funds as of January 30, 2010 and were therefore not a focus of this review.

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counties and one city—the Counties of Bergen, Burlington, and Cape May, and the City of Newark—to gain a deeper understanding about the use and impact of Recovery Act funds. The localities were selected based on various factors, including population, unemployment rates, type of government, and geographic dispersion. Finally, to gain an understanding of state efforts to oversee and monitor the use of Recovery Act funds, we interviewed officials from the state’s accountability community about their oversight roles and audits related to Recovery Act funds.

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## What We Found

- **SRF.** The New Jersey Department of Environmental Protection (DEP) received approximately \$162 million in Recovery Act funds for the Clean Water SRF program and approximately \$43 million in Recovery Act funds for the Drinking Water SRF program. For example, the Long Branch Sewerage Authority received \$7.5 million under the Clean Water SRF to make improvements to its wastewater treatment plan and the Borough of Beach Haven received \$3.1 million under the Drinking Water SRF to install residential water meters. DEP changed its priority ranking systems and financing for the Recovery Act SRF program to ensure Recovery Act deadlines and requirements, such as the 1-year deadline to have all Recovery Act projects under contract by February 17, 2010, were met. According to local officials, these changes delayed the implementation of some projects under the base and Recovery Act SRF programs.<sup>3</sup>
- **Highways.** The U.S. Department of Transportation’s Federal Highway Administration (FHWA) apportioned \$652 million in Recovery Act funds to New Jersey and obligated New Jersey’s full apportionment by the 1-year deadline of March 2, 2010. However, the New Jersey Department of Transportation (NJDOT) faced challenges in meeting the deadline due, in part, to contracts being awarded at prices lower than state cost estimates. As a result of the lower contract prices, funds had to be deobligated by FHWA and obligated on new projects. Some of these deobligated funds became available for obligation close to the 1-year deadline and required NJDOT to identify additional projects in a short time period. Although NJDOT is not directly assessing the impact of Recovery Act funds on the state highway system, NJDOT officials stated the funds have allowed them to, among

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<sup>3</sup>The base SRF program refers to all SRF funds generated through yearly appropriations, state-match, or repaid loans and does not include Recovery Act funds.

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other things, rehabilitate or replace deficient bridges and pavement at both the state and local levels.

- **Public Housing Capital Fund.** New Jersey's 80 public housing agencies met the 1-year obligation deadline of March 17, 2010, obligating \$104 million in Recovery Act funds. The U.S. Department of Housing and Urban Development (HUD) field office provided guidance and technical assistance to help public housing agencies meet the obligation deadline. Despite the condensed time period, HUD officials, as well as officials from the public housing agencies we visited, stated that the obligation of their regular public housing capital funds is on track compared to previous years.
- **CHRP.** A total of 18 law enforcement agencies in New Jersey received CHRP grants totaling \$26.8 million. Officials from the East Orange and Trenton Police Departments told us their departments were understaffed due to budget constraints, and therefore used their CHRP funds to hire additional officers. Specifically, East Orange received funds to hire 14 additional officers over a 3-year period, and Trenton received funds to hire 18 additional officers. Officials from both police departments stated that they are confident they will be able to meet the requirement to retain officers for one additional year after the 3-year CHRP grant expires because they anticipate retirements over the next 3 years. As of April 1, 2010, East Orange had obligated about \$1.4 million and expended about \$20,606 of its CHRP grant, and Trenton had obligated its entire CHRP grant and expended \$352,289.
- **Budget stabilization.** Although Recovery Act funds helped New Jersey stabilize its budget, New Jersey faced a \$2.2 billion budget gap in its current year budget and faces a larger projected shortfall of \$10.7 billion for fiscal year 2011. The localities we visited also face budget challenges and may be unable to retain some positions funded by the Recovery Act. However, these localities largely used their Recovery Act funds for nonrecurring projects and to maintain services. For example, the County of Burlington received Recovery Act funds for 14 programs and used these funds for delivering meals to the elderly, homelessness prevention, and workforce training, among other things.
- **Accountability efforts.** New Jersey's Recovery Accountability Task Force continues to hold regularly scheduled meetings on the use of Recovery Act funds by state agencies. The Office of the State Comptroller and the Office of the State Auditor recently issued audit reports on the use of Workforce Investment Act of 1998 (WIA) and Weatherization Assistance Program funds, respectively. The

weatherization audit identified internal control weaknesses in the oversight of Recovery Act funds and made recommendations to strengthen accountability over the use of these funds.

## New Jersey Met Recovery Act SRF Requirements and Is Using Existing Controls to Ensure Accountability

New Jersey received approximately \$205 million in Recovery Act funds for its Clean and Drinking Water SRF programs. Specifically, the Clean Water SRF program, which is designed to provide assistance in constructing publicly owned wastewater treatment plants and implementing other types of water quality projects, received approximately \$162 million. The Drinking Water SRF, which provides assistance to public water systems in meeting the requirements of the Safe Drinking Water Act, received approximately \$43 million. New Jersey used its Recovery Act SRF funding to fund 44 Clean Water SRF projects and 19 Drinking Water SRF projects in 20 of the 21 counties in New Jersey. We visited the Long Branch Sewerage Authority, a Clean Water SRF subrecipient, and the Borough of Beach Haven, a Drinking Water SRF subrecipient, during the course of our review. Information about these subrecipients is summarized in table 1.

**Table 1: Summary of Recovery Act Clean Water SRF and Drinking Water SRF Projects Visited by GAO**

Project category	Clean water	Drinking water
Location	Long Branch, N.J.	Beach Haven, N.J.
Description	Improvement of a wastewater treatment plant that includes installation and replacement of equipment to make the plant more energy efficient, which is intended to provide cost savings.	Installation of residential water meters for all residential units to provide greater incentive for residents to conserve water and, upon installation, the ability for the city to electronically monitor water readings and usage.
Total cost	\$13.7 million	\$4.1 million
Total Recovery Act funding	\$7.5 million	\$3.1 million
Total green Recovery Act funding	\$2.5 million	\$3.1 million

Source: DEP.

New Jersey's Recovery Act and base SRF programs are administered jointly by DEP and the New Jersey Environmental Infrastructure Trust (EIT). Through this partnership, DEP manages aspects of the SRF program including project approval, document reviews, project certification, and construction oversight. EIT works directly with DEP, and based on DEP's project approval, provides a portion of the project financing to every project funded through the SRF program in addition to overseeing the credit worthiness of borrowers, preparing loan agreements, and processing payments of these loan funds.

## New Jersey Revised Its Ranking Systems and Financing to Meet Recovery Act Requirements, Which Delayed the Implementation of Some SRF Projects

DEP officials told us they revised their existing priority ranking systems and financing to ensure Recovery Act requirements and deadlines would be met. Under the base SRF programs, DEP assigned points to projects based on various factors, such as improvement to the local environment, impact on public health, type of water facility, primary use of water, water quality, and population of the area to be impacted. DEP officials told us that improvements to wastewater treatment facilities scored high under the Clean Water SRF ranking system because these projects were a priority under the base SRF program. However, DEP slightly revised the ranking systems to ensure Recovery Act SRF program requirements and time frames would be met. For example, officials told us that they were concerned about meeting the requirement to reserve 20 percent of Recovery Act funds for green projects, which includes green infrastructure, water and energy efficiency, and innovative environmental projects. Therefore, projects that could qualify as green were ranked higher on the priority list for Recovery Act funding. In addition, DEP gave priority to projects that were considered shovel-ready in order to ensure that they would meet Recovery Act time frames, including that all Recovery Act SRF project funds be under contract within 1 year.<sup>4</sup>

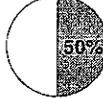
New Jersey also set up favorable financing in order to distribute Recovery Act SRF and base SRF funding to more subrecipients. In the past, base SRF projects were funded through a combination of a zero percent interest and market-rate loans through EIT that each accounted for 50 percent of the project's cost. Officials told us that based on U.S. Environmental Protection Agency (EPA) guidance they developed more favorable loan terms for Recovery Act projects. Specifically, DEP provided each eligible project a combination of principal forgiveness loans using Recovery Act funds (50 percent), zero percent interest loans using Recovery Act funds (25 percent), and market-rate loans through EIT (25 percent). DEP capped the total amount of Recovery Act SRF funds for an individual project at \$7.5 million, meaning that a \$10 million project would receive \$7.5 million in Recovery Act SRF funds and \$2.5 million in market-rate loans administered through EIT.<sup>5</sup> Officials told us they capped this

<sup>4</sup>The Recovery Act required each state to prioritize funds for projects that are ready to proceed to construction within 12 months of enactment of the Act (by February 17, 2010) and directed EPA to reallocate any funds that were not under contract by this date.

<sup>5</sup>If the total project cost is more than \$10 million, the balance of the costs are funded through a combination of zero percent interest loans using base SRF funds (75 percent) and additional market rate loans through EIT (25 percent).

total at \$7.5 million per project because they wanted to spread out Recovery Act SRF funds to a number of projects rather than to only two or three large projects. In addition, DEP officials told us that for their base SRF programs, they utilized a state stimulus program initiated by the Governor's office for projects that did not qualify for Recovery Act SRF funds under the revised ranking system or because they were unable to meet deadlines. These projects received a combination of zero percent interest and market rate loans that were more favorable than previous years' base SRF funding. (See fig. 1 for a summary of the state's SRF financing mechanisms.) Officials believe that due to the attractive financing structure of both their Recovery Act SRF and base SRF programs that they were able to fund more projects. For example, DEP funded 164 SRF projects in 2009, up from 81 projects in 2008.

**Figure 1: New Jersey SRF Loan Terms in Previous Years and Fiscal Year 2009**

Financing incentives	Principal forgiveness loan	Zero percent interest loan	Market rate loan
Previous years' base SRF projects	Not Applicable		
Fiscal year 2009 base SRF projects	Not Applicable		
Recovery Act projects			

Source: DEP.

Although DEP revised its priority ranking and financing mechanisms to ensure that Recovery Act milestones were met, these changes delayed the implementation of some SRF projects, according to local officials. For example, according to Long Branch Sewerage Authority officials, projects that were on the base SRF priority list or that planned to apply for base SRF funding before the Recovery Act SRF funds were announced were passed over by new projects seeking the improved financing structure provided by the Recovery Act SRF program. These officials stated that projects already in the pipeline should have been given preference for the Recovery Act funds because they were considered priority projects before Recovery Act SRF funding became available. Furthermore, a Beach Haven project engineer told us that he submitted six applications for Recovery

Act funds on behalf of various localities, but only the Beach Haven project was selected. According to the project engineer, the Beach Haven project was likely selected because it helped address the green reserve requirement. However, according to the project engineer, DEP did not provide guidance on the criteria it planned to use to select projects to receive Recovery Act funds when it issued its call for applications. As a result, the engineer had to wait for DEP to review all of the applications before receiving authorization to advertise projects that were not selected to receive Recovery Act funds. The project engineer stated that although these projects were ultimately funded through the base SRF program, their implementation was delayed by about 6 months.

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### New Jersey Met the 1-Year Contracting Deadline, Despite Facing Challenges

New Jersey successfully met the 1-year deadline to have 100 percent of Recovery Act SRF funds under contract by February 17, 2010, but experienced challenges in meeting this requirement. Specifically, DEP officials identified the following challenges in meeting the deadline:

- *Administering a record number of applications.* DEP officials told us that they put out a statewide call for clean and drinking water projects in December 2008 in anticipation of receiving Recovery Act SRF funds and received 421 applications, which was twice the number of applications that they normally receive for their base SRF programs. Officials told us that while the influx of applications demonstrated a statewide need for the funds, it also created an administrative burden for DEP because of staff retirements and the inability to fill key positions because of the state's budget situation. To address the staffing shortage, DEP officials told us they reassigned DEP personnel from other internal departments to ensure that 100 percent of their Recovery Act SRF program funds were under contract by the 1-year deadline, and used EPA consultants to oversee their base SRF program. DEP officials told us the ability to use EPA consultants to work on their base SRF program was instrumental in helping New Jersey meet the 1-year deadline.
- *Complying with the Recovery Act's Buy American provision.* DEP officials told us that they set internal state deadlines prior to the February 17th deadline to ensure that any potential savings from contracts being awarded at prices lower than state cost estimates could be used for other eligible Recovery Act SRF projects. However, DEP officials told us that EPA provided guidance on the Buy American provision late in the application process, which caused confusion for both DEP and the applicants about eligibility and slowed down the contracting process. For example, officials from the Long Branch

Sewerage Authority stated that different project equipment may have been needed to ensure compliance with the Buy American provision and the guidance should have been provided sooner. Instead, officials told us they had to go back to their vendors to ascertain compliance, which was both burdensome and time-consuming. In addition, officials told us that the Buy American provision is not always the best for subrecipients because the best equipment for a specific project may not be American-made.

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### DEP is Using Existing Processes to Monitor Compliance with Recovery Act Requirements, but Inconsistencies Exist in Recipient Reporting

DEP officials told us that they are using existing monitoring procedures for Recovery Act SRF projects. That is, DEP will continue to conduct on-site monitoring of all base SRF recipients and Recovery Act SRF subrecipients on a quarterly basis, as well as conduct inspections at each quarter completion interval for individual projects in order to ensure subrecipients are complying with Recovery Act requirements, providing appropriate documentation, and completing work in accordance with the project contract. Additionally, DEP requires SRF subrecipients to hire a project engineer to oversee the daily aspects of the project, monitor contractors, and approve contractor invoices. The state, in turn, oversees the engineer and monitors and approves contract modifications as needed to ensure the project is meeting the requirements of Recovery Act SRF funding. A Beach Haven official concurred with this and told us that DEP makes unannounced site visits to verify construction is proceeding as planned and prevailing wages are being paid.

DEP provided guidance to localities on recipient reporting, but we found inconsistencies among subrecipients on what hours need to be reported. DEP officials told us that they require each subrecipient to submit a quarterly jobs reporting form on their hours worked, expressed as full time equivalents (FTE), and provide a narrative explanation on the types of jobs created 15 days before the end of each quarter. For example, for the first quarter of 2010, which ended March 31, they required subrecipients to submit their jobs reporting information on March 15, for the number of FTEs worked during the months of December 2009, January 2010, and February 2010. DEP officials told us that they developed an early reporting deadline to ensure that subrecipients and DEP met federal quarterly recipient reporting requirements. However, by reporting one month early, DEP is collecting FTE data that is inconsistent with how OMB defines a quarter for recipient reporting purposes and is inconsistent

with the way that other Recovery Act funded agencies report the data.<sup>6</sup> Thus, its data will not be comparable to that supplied by other recipients.

DEP requires subrecipients to report total FTEs for both Recovery Act- and non-Recovery Act-funded portions of their project, and DEP then prorates the totals using EPA's SRF reporting databases to calculate jobs created by Recovery Act SRF funding. Specifically, 75 percent of the jobs are attributed to the Recovery Act SRF program because 75 percent of the project's costs are funded using Recovery Act SRF funds.<sup>7</sup> Some subrecipients we spoke with told us that recipient reporting requirements are fairly easy to follow and they have received adequate guidance from DEP. However, we also found some inconsistencies among subrecipients on the hours reported. For example, we contacted additional Clean Water SRF subrecipients about the hours used to calculate their FTEs.<sup>8</sup> In one case, a subrecipient included hours worked by the project engineer in their FTE calculation, and in another case, a subrecipient did not include the project engineer's hours. According to DEP officials, they did not include engineering hours in the FTE calculation because they were advised by the EPA consultants overseeing their SRF reporting databases that because project engineers are not responsible for the actual construction of the projects, they are not considered prime contractors. However, based on additional guidance DEP received during the course of our review, it plans to include project engineers' hours in the FTE calculation going forward.<sup>9</sup>

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<sup>6</sup>According to the Office of Management and Budget's (OMB) December 18, 2009 guidance, recipient reporting for the first quarter of 2010 should include FTEs worked in January, February, and March 2010.

<sup>7</sup>Projects costs that exceed \$10 million will have a lower ratio of FTEs attributed to Recovery Act funding since Recovery Act funds cannot exceed \$7.5 million of a project's total cost.

<sup>8</sup>We contacted Bayonne Municipal Utilities Authority, City of Newark, and Stony Brook Regional Sewerage Authority about their experience with recipient reporting.

<sup>9</sup>DEP received updated guidance from the consulting firm that oversees its EPA Clean Water and Drinking Water reporting databases stating that FTEs and payroll dollars should be reported for engineering firms working directly for Recovery Act SRF loan recipients.

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## NJDOT Is Meeting Recovery Act Milestones and Identified Benefits of the Funds

FHWA apportioned \$652 million in Recovery Act funds to New Jersey for highway infrastructure and other eligible projects. The federal government obligated the state's full apportionment of \$652 million by the 1-year deadline of March 2, 2010. As of May 3, 2010, \$177 million had been reimbursed by FHWA. As of May 3, 2010, New Jersey had awarded 79 contracts for \$504 million. Of those awarded contracts, 68 awarded for a value of \$494 million were under construction, of which 10 awarded for a value of \$17 million were substantially complete.

In accordance with the Recovery Act, states needed to ensure that all apportioned highway funds, including suballocated funds, were obligated within 1 year (by March 2, 2010). Although NJDOT met the Recovery Act's obligation deadline, as the deadline approached, the agency and other stakeholders, including the FHWA division office, state Metropolitan Planning Organizations (MPO),<sup>10</sup> and local government units, had concerns about whether the deadline would be met. As required under the Recovery Act, about \$196 million was suballocated in New Jersey, primarily based on population, for metropolitan, regional, and local use. As we previously reported, the state had been slow in having FHWA obligate its suballocation for projects planned by local agencies.<sup>11</sup> Officials' concerns rested in part with local transportation enhancement projects, such as bike and pedestrian improvements, whose planning, preparation, and need for more extensive local involvement and different funding streams took longer to complete. According to FHWA officials, funds for the last project were obligated about a week before the deadline.

NJDOT officials stated that the savings from bids being received that were lower than the state's estimated costs also presented challenges in meeting the 1-year obligation deadline. According to NJDOT officials, bids on projects continue to come in 10 to 12 percent lower than state cost estimates. Lower bids on highway infrastructure and other eligible projects have produced savings of about \$45 million that NJDOT immediately requested FHWA deobligate and then reprogrammed for other projects. Officials stated that the \$45 million in funds associated with

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<sup>10</sup>MPOs are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues, including major capital investment projects and priorities.

<sup>11</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, GAO-10-232SP (Washington, D.C.: Dec. 10, 2009).

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savings from these contract awards were reprogrammed for six additional projects—four state highway projects for \$40 million and two additional local projects for \$5 million—before the March 2, 2010 obligation deadline. However, NJDOT officials said that a joint effort with all stakeholders, including the FHWA division office and state MPOs, was needed to identify local projects that were ready for construction and could utilize the funds. NJDOT officials stated that if it continues to realize substantial savings from bids coming in lower than cost estimates, the agency may be challenged to identify additional projects that are ready for construction.

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**Although NJDOT and FHWA Are Not Directly Measuring the Impact of Recovery Act Funds, Officials Identified Benefits**

According to NJDOT officials, the state of New Jersey currently has 48 state highway projects and 115 county and municipal projects that are utilizing Recovery Act funds. However, NJDOT and FHWA are not directly measuring the impact that Recovery Act funds have on the state's highway system. NJDOT and FHWA have not directly measured impact because they are not required to and stated that it would be difficult and time-consuming for the following reasons:

- Recovery Act funds for highway infrastructure improvements are frequently used in conjunction with the state's matching share, as well as other federal contributions, so it is difficult to identify the unique effect of Recovery Act funds;
- it is too early to quantify impact as local projects have not yet started and most of the state's projects, 42 out of a total of 48, are ongoing and will not be completed until the end of the calendar year; and
- detailed guidance on the type of information to collect and the portion of a highway project to include would be needed.

Although NJDOT has not measured the impact of Recovery Act funds on its highway system, NJDOT officials identified several benefits these funds have had for the state. NJDOT officials said that the biggest impact of Recovery Act funds was that they allowed the department the opportunity to address critical infrastructure needs at the state and local levels and to relieve the funding pressure for over \$1 billion in projects that, prior to the Recovery Act, were deferred from year to year due to state financial constraints. For example, Recovery Act funds have allowed NJDOT to rehabilitate or replace deficient bridges and pavement at both the state and local levels and to make other repairs and improvements to its highway system (see table 2).

**Table 2: NJDOT Summary of Projects Attributed to the Recovery Act**

Type of project	Projects attributed to the Recovery Act <sup>a</sup>
State	About 240 lane miles resurfaced or rehabilitated 45 interstate highway bridges and 2 movable bridges painted 40 bridge decks preserved 27 structurally deficient bridges rehabilitated or replaced 18.6 miles of guide rail installed 5 priority drainage locations addressed
Local	55 pavement projects undertaken 9 intersections improved 5 bridges rehabilitated or replaced 2 bridges painted 1 dam repaired

Source: NJDOT.

Note: According to NJDOT, all but a few of these construction projects were fully funded with Recovery Act funds. Other phases, such as design, may have been funded with other sources. GAO did not independently verify the accuracy or completeness of the information shown in this table.

<sup>a</sup>Other projects addressed with Recovery Act funds include bike/pedestrian projects; other local guide rail projects; rail rehabilitation; road realignment and pavement marking; projects to improve signalization and address Americans With Disability Act requirements; and projects to renovate historic train stations.

In addition to addressing critical infrastructure needs in the state, NJDOT identified qualitative impacts of Recovery Act funds. For example, Recovery Act funds have led to improved interagency relationships and coordination between federal, state, and local transportation departments and have increased local recipients' understanding of the federal funding process. In addition, the state has modified its internal practices to streamline the project review and approval process. For example, NJDOT is now taking responsibility for completing federal environmental documents that were formerly done by local project recipients and is also loaning them consultants with technical expertise in developing project plans and knowledge of the federal application process. Finally, NJDOT officials told us that they believe that Recovery Act funds are serving the intended purpose of improving infrastructure and creating jobs.

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**New Jersey Is On Track to Meet Its Maintenance-of-Effort Requirement This Year but It May Be an Issue in the Future**

Under the Recovery Act, a state must certify that it 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 plans to expend from state sources from February 17, 2009, through September 30, 2010.<sup>12</sup> To meet its maintenance-of-effort requirement, NJDOT uses expenditures from the state's transportation trust fund. NJDOT officials stated the trust fund has the bonding capacity to support a state-funded transportation program and receives its funds primarily from the state gas tax.

As of February 17, 2010, the state had met 79 percent, or \$1.244 billion of its \$1.571 billion, maintenance-of-effort requirement. Both NJDOT and FHWA officials said that the state will not have a problem meeting the maintenance-of-effort requirement by September 30, 2010. However, meeting such a requirement may be an issue in the future. According to NJDOT officials, the state's transportation trust fund will need additional revenue after June 30, 2011, because it is being depleted as more and more of the fund is used to service its bond debt related to highway infrastructure improvements. If the entire trust fund is used to pay debt service, FHWA officials are concerned that NJDOT might not be able to satisfy future maintenance-of-effort requirements unless the trust fund is renewed or another source of funding is developed. However, FHWA officials stated it is not likely that New Jersey will take action to raise the gas tax, the primary source of trust fund revenue, to improve the long-term viability of the fund.

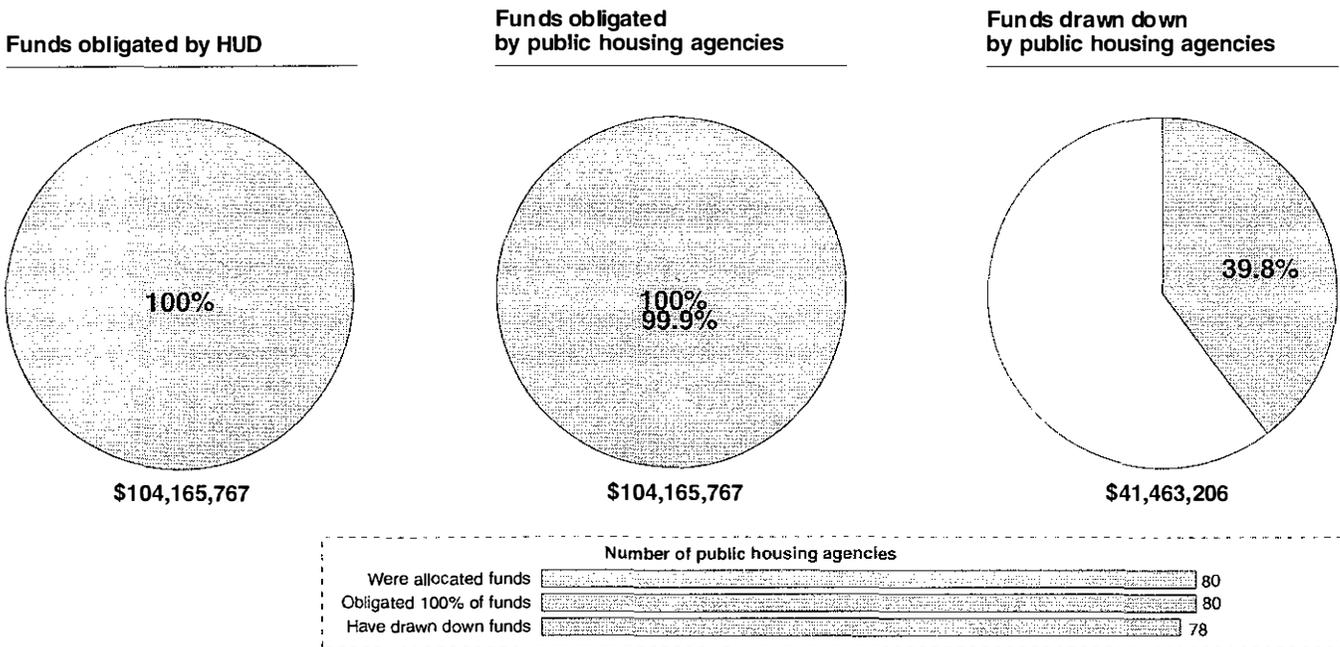
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<sup>12</sup>Recovery Act, div. A, title XII, § 1201(a).

## New Jersey's Public Housing Agencies Met the 1-Year Obligation Deadline with Little Impact to Regular Public Housing Capital Funds

New Jersey has 80 public housing agencies that received Recovery Act formula grant awards. In total, these public housing agencies received \$104 million in Public Housing Capital Fund formula grants to improve the physical condition of their properties; develop, finance, and modernize public housing developments; and improve management.<sup>13</sup> As required by the Recovery Act, all 80 public housing agencies obligated 100 percent of their funds by the March 17, 2010, deadline. As of May 1, 2010, 78 of these public housing agencies had drawn down a cumulative total of about \$41.5 million from the obligated Recovery Act funds (see fig. 2). The two housing agencies we visited had drawn down about \$423,000.

Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD that Have Been Obligated and Drawn Down in New Jersey, as of May 1, 2010



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

<sup>13</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.

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### Public Housing Agencies Identified Challenges in Meeting the Obligation Deadline

All of New Jersey's public housing agencies met the 1-year obligation deadline, which required public housing agencies to have 100 percent of their Recovery Act Public Housing Capital Formula Funds obligated by March 17, 2010. The Housing Authority of the City of Elizabeth obligated 100 percent of its Recovery Act funds, or \$4.3 million, by March 1, 2010, and the Housing Authority of Bergen County obligated 100 percent of its Recovery Act funds, or \$937,001, by March 10, 2010. Although both public housing agencies were able to meet the obligation deadline, they identified various challenges in doing so. For example, officials from the Housing Authority of the City of Elizabeth stated that bids for one of their major projects to replace heating, hot water, and boiler systems came in higher than anticipated and new bids were solicited. In addition, the procurement process, which officials stated can take up to 2 years from project design to construction, was compressed by 1 year in order to meet the obligation deadline. This condensed timeframe was exacerbated because the housing authority undertook twice the number of projects that it normally undertakes in a given year in half the time. An official from the Housing Authority of Bergen County stated that turnover at the Director of Finance position in the last year resulted in the loss of expertise at the management level and delayed the obligation of funds. The Housing Authority of Bergen County also hired a consulting firm to assess the physical condition of its public housing properties and identify needed capital improvements before selecting projects to receive Recovery Act funds. The consulting firm did not complete its work until October 2009, which delayed the selection of projects to be funded. Despite the challenges the housing agencies faced in quickly obligating their Recovery Act funds, officials from both housing agencies stated that these funds allowed them to undertake projects that otherwise would have been deferred or taken years to complete.

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### HUD Provided Technical Assistance to Ensure Housing Agencies Met the Obligation Deadline

Officials from the HUD field office provided ongoing communication and technical assistance to ensure that public housing agencies in New Jersey met the 1-year obligation deadline. According to these officials, e-mail reminders were sent to those housing agencies that were behind on their obligations, reminding them of the upcoming deadline. In addition, field office officials provided each of the public housing agencies with a grant compliance checklist obtained from HUD headquarters to monitor compliance with Recovery Act requirements and grant obligations and expenditures. HUD field office officials stated they conducted on-site

reviews for 28 public housing agencies identified by HUD headquarters. The on-site reviews included those public housing agencies characterized as troubled by HUD.<sup>14</sup>

Both public housing agencies we visited relied on technical assistance from the HUD field office to ensure that their Recovery Act funds were obligated by the 1-year deadline. Specifically, officials from both housing agencies told us they received assistance from the field office to ensure that their solicitations for bids contained all of the necessary information to meet Recovery Act manufacturing, wage, and workforce requirements. According to an official from the Housing Authority of Bergen County, HUD field office officials contacted them on a weekly basis to ensure that they met the March 17, 2010, obligation deadline. The official stated they will request further assistance from the HUD field office in the form of a technical file review once the housing agency begins to expend funds to ensure continued compliance with Recovery Act requirements.

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### The Administration of Regular Public Housing Funds Is on Track Compared to Previous Years

According to officials from the HUD field office, their ability and the ability of public housing agencies to administer the regular public housing capital funds has not been impacted by Recovery Act requirements.<sup>15</sup> According to HUD field office officials, the process used to administer the Recovery Act funds is the same as the process used to administer the regular public housing capital funds in terms of meeting federal requirements. Although the number of remote and on-site reviews increased significantly compared to prior years to ensure Recovery Act requirements were met, officials from the HUD field office stated that they had adequate resources and experienced staff to complete the additional monitoring and continue to administer the regular public housing capital funds.

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<sup>14</sup>HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of 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.

<sup>15</sup>A public housing agency generally must obligate all Capital Fund Program assistance not later than 24 months after the date on which the funds become available to the public housing agency or the date on which the public housing agency accumulates adequate funds, and generally must spend all Capital Fund Program assistance not later than 4 years after the date on which funds become available to the public housing agency for obligation. 42 U.S.C. § 1437g(j).

Officials from both public housing agencies we visited stated that they have been able to administer their regular public housing capital funds despite additional reporting requirements and the condensed time frame for obligating Recovery Act funds.<sup>16</sup> Officials from the Housing Authority of the City of Elizabeth stated that the overall process for administering the Recovery Act funds was the same and that they pulled forward projects they already had in their 5-year Capital Plan, so they were able to implement them without compromising their ability to continue projects under the regular capital fund program. In addition, the housing agency has received fewer capital funds in recent years as compared to the past, so it has been able to obligate the funds fairly quickly. An official from the Housing Authority of Bergen County stated that the Recovery Act funds may have delayed the regular capital fund projects by 2 months, but at the time of our visit, the housing agency was in the process of soliciting bids for the four projects it plans to undertake with these funds. Officials from the housing agencies provided their rates of obligation for capital funds for fiscal years 2006 through 2009 based on the percentage of funds that were obligated within 1 year of receiving the funds. The rate of obligation for both housing authorities are on track for 2009 compared to previous years (see table 3).

**Table 3: Regular Public Housing Capital Fund 1-Year Obligation Rates, for Fiscal Years 2006 to 2009**

	Housing Authority of the City of Elizabeth	Housing Authority of Bergen County
2006	30%	54%
2007	63	30
2008	31	33
2009*	42	30

Sources: Housing Authority of the City of Elizabeth and Housing Authority of Bergen County.

Note: The date at which public housing capital funds are received by the housing agencies varies from year to year. The obligation rates are based on the percentage of funds obligated within 1 year of receiving the funds.

\*Obligation rates for fiscal year 2009 are as of February 28, 2010, for funds received on September 15, 2009.

Although officials from the HUD field office and both housing agencies stated that the implementation of their regular capital fund projects are on

<sup>16</sup>Officials from the Newark and Rahway Housing Authorities also stated that the administration of their regular public housing capital funds is on track.

track, ensuring compliance with Recovery Act requirements will require greater oversight once construction begins and reimbursements for expenditures of Recovery Act funds are incurred. As of May 1, 2010, almost 40 percent of Recovery Act funds had been drawn down by public housing agencies in the state. Continued monitoring and oversight will be important to ensure Recovery Act fund requirements are met as funds are expended and delays to regular capital fund projects do not occur.

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## CHRP Is Helping Cities Address Staffing Shortages in Their Police Departments, and Officials Face Few Challenges in Meeting Reporting Requirements

Eighteen law enforcement agencies in New Jersey received CHRP grants that totaled \$26.8 million. According to officials from the East Orange and Trenton Police Departments, fiscal conditions in their cities, along with lower-than-desired police officer levels, led them to apply for the CHRP grant to hire new officers. For example, officials in East Orange told us that their city lost police officers in the past few years due to attrition and the city was unable to replace these positions due to a \$13 million budget shortfall. Trenton Police Department officials also cited understaffing due to retirements and a budgetary shortfall as their reason for applying for the CHRP grant.

Despite the current fiscal conditions, officials from the East Orange and Trenton Police Departments are confident they can meet the CHRP grant's fourth-year retention requirement.<sup>17</sup> Officials from both departments anticipate multiple retirements over the next 3 years and believe that the officers hired through the CHRP grant can be used to meet their staffing needs and fill shortages left by these retirements. However, based on its review of the Governor's Proposed Fiscal Year 2011 Budget, officials in the Trenton Police Department expressed concern that the state's fiscal condition could result in layoffs in their police department for those officers supported by state and local funds. Specifically, Trenton Police Department officials told us that potential cuts in state aid for the City of Trenton could result in a \$6 to \$7 million cut in funding for the police department. Although the police department is concerned about potential cuts to its current staffing levels, Trenton Police Department officials reiterated that they are not concerned about meeting the CHRP staffing retention requirement four years from now because fiscal conditions in the state may eventually improve.

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<sup>17</sup>CHRP grants cover 100 percent of grantees' approved expenses and benefits associated with entry-level salaries for both newly hired and rehired full-time sworn officer positions for three years. When the grant term expires, grantees must retain all positions funded through CHRP for one additional year.

## CHRP Grant Helped Recipients Fill Needed Positions and Is Expected to Enhance Community Policing Efforts

Officials from the East Orange and Trenton Police Departments told us that their departments are understaffed and that the CHRP grant allowed them to fill some of the vacant positions. Specifically, the East Orange Police Department received \$3.2 million to hire an additional 14 officers, while the Trenton Police Department received \$3.0 million to hire an additional 18 officers for the 3-year period. Officials from the East Orange Police Department stated they did not receive their initial request for 18 officers due to high demand for funding for the grant nationwide. Officials from the Trenton Police Department told us that they understood they did not receive their initial request for 21 officers because it exceeded the number of officers allowed under CHRP grant limits.<sup>18</sup> The table below summarizes the staffing needs at the East Orange and Trenton Police Departments prior to and after receiving the CHRP grant.

**Table 4: Projected Impact of CHRP Grant Funding on East Orange and Trenton Police Department Staffing Levels**

Police department	Desired number of officers	Number of officers before CHRP grant	CHRP grant award (number of officers and grant amount)	Officer total with CHRP grant addition
East Orange	300	278	14 (\$3.2 million)	292
Trenton	371	345	18 (\$3.0 million)	363

Source: East Orange and Trenton Police Department data as of February 1, 2010.

The East Orange and Trenton Police Departments have completed some hiring under the CHRP grant but still have positions that need to be filled. East Orange officials told us that they have hired 6 of their 14 officers, who started on March 1, 2010, and the officers are currently going through initial officer training. Officials expect to have the remaining 8 officers hired by the end of the city's fiscal year of June 30, 2010, and are actively recruiting to fill these positions. As of April 1, 2010, East Orange obligated about \$1.4 million and expended about \$20,606 of their CHRP award. Trenton Police Department officials told us that as of March 1, 2010, they hired 16 of the 18 officers for which they received funding under the CHRP grant. These officers began on-the-job training on February 25, 2010, and reported for official duty on April 1, 2010. They expect to fill the remaining two positions in the near future. These two positions were initially filled, but due to an injury and a dismissal, the police department needs to recruit for these positions again. Officials told us as of April 1, 2010, the

<sup>18</sup>The CHRP grant provided a capping methodology that allowed local law enforcement agencies to request and have funded no more than 5 percent of their current sworn officer workforce up to a 50-officer maximum.

Trenton Police Department obligated all \$3.0 million of its CHRP funds, and \$352,289 was expended.

In addition to increasing staffing levels, officials expect that the CHRP grant will have a positive impact on their community policing efforts. East Orange Police Department officials told us that the city experienced a 76 percent decrease in crime over the last 3 years and believes the CHRP grant will allow them to have sufficient police presence to maintain this trend. Trenton Police Department officials told us the CHRP grant will allow the department to enhance their community policing efforts beyond core functions such as basic car patrols and responding to emergencies. These enhanced policing efforts include implementing foot and bike patrols to target high-crime areas, having officers attend community events to strengthen neighborhood relationships, and generally increasing police presence, which they believe will deter criminals and reduce overall crime.

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### Recovery Act Recipient Reporting Requirements Posed Few Challenges

East Orange and Trenton Police Department officials told us despite a few early technical issues, Recovery Act recipient reporting has been fairly straightforward, and they do not anticipate any major issues in the future. East Orange Police Department officials told us that they had some initial difficulties registering as a new recipient in [www.federalreporting.gov](http://www.federalreporting.gov). East Orange Police Department officials stated that reporting will take on a larger role once their full allotment of officers is hired because they will have to account for all of their officers under the CHRP grant, but they do not envision major difficulties in meeting the reporting requirements. Similarly, Trenton Police Department officials told us that reporting on [federalreporting.gov](http://federalreporting.gov) has not posed major challenges. However, obtaining the required data to report this information can be challenging because the police department needs to coordinate with city hall to obtain information to satisfy various reporting deadlines. Specifically, the police department relies on city hall to obtain the payroll information it needs to calculate CHRP grant FTEs in order to submit this information to [federalreporting.gov](http://federalreporting.gov) within 10 days of the end of the quarter. In addition, the police department relies on city hall to submit federal financial reports on its CHRP grants to the U.S. Department of Justice within 30 days of the end of each quarter. According to Trenton Police Department officials, the different reporting deadlines and the reliance on city hall to obtain necessary data, makes it difficult to accurately report on Recovery Act requirements within 10 days. Thus, officials recommended extending the reporting deadline from 10 days to 15 days to allow more time to obtain the required information.

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## Although Recovery Act Funds Helped Stabilize New Jersey's Budget, the State Faces a Severe Budget Shortfall That May Affect Localities

New Jersey received approximately \$5 billion in Recovery Act funds, which the state used, in part, to help stabilize its fiscal year 2010 budget.<sup>19</sup> However, despite the Recovery Act funds, New Jersey is facing a \$2.2 billion shortfall in its current-year budget due to lower-than-projected tax revenues.<sup>20</sup> As a result, in February 2010, the Governor of New Jersey signed an executive order declaring a fiscal state of emergency to address the estimated \$2.2 billion budget gap that remains for fiscal year 2010.<sup>21</sup> Under this emergency initiative, the state took several actions to close the budget gap, including freezing state spending, reducing aid to state schools and school districts, re-examining employee salary structures, and monitoring the collection of revenues and expenditures. However, New Jersey is currently working to address a projected \$10.7 billion budget shortfall for fiscal year 2011.

While Recovery Act funds had a significant impact on the fiscal year 2010 budget, NJOMB officials do not believe that the impact will be the same for fiscal year 2011. For example, since the state disbursed all of the \$1.2 billion in SFSF funds it received in fiscal year 2010, total aid to New Jersey's school districts (approximately 590 school districts in 21 counties) is expected to decrease by approximately \$820 million even though the fiscal year 2011 spending plan dedicates almost \$70 million in additional state funding to education than in the previous year. To address the projected budget shortfall for fiscal year 2011, the Governor's budget proposes to cut spending across hundreds of state programs and operations, reducing fiscal year 2011 state-supported spending by 5.3 percent. The Governor's proposed budget also makes reductions to projected growth and assumes the continuation of increased federal Medicaid funding under the Recovery Act. Figure 3 summarizes the Governor's proposal to close the projected \$10.7 billion shortfall in 2011.

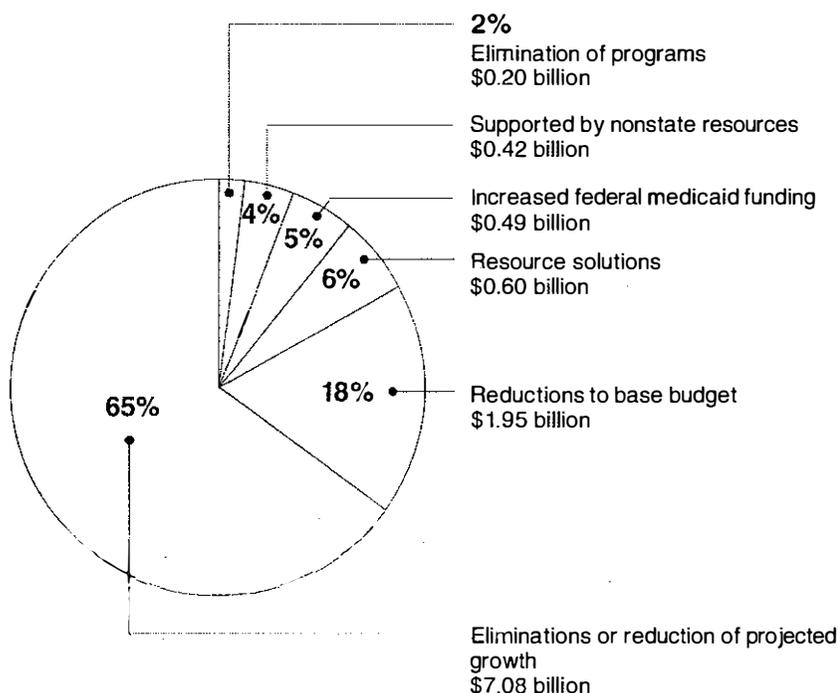
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<sup>19</sup>We have discussed the Recovery Act's impact on New Jersey's budget in previous reports. See GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Stresses (Appendixes)*, GAO-09-830SP (Washington, D.C.: July 8, 2009) and *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Appendixes)*, GAO-09-1017SP (Washington, D.C.: Sept. 23, 2009).

<sup>20</sup>New Jersey's budget fiscal cycle is July 1st through June 30th.

<sup>21</sup>42 N.J. Reg. 660(b) (March 15, 2010) (Executive Order No. 14).

**Figure 3: Proposed Actions to Close the Fiscal Year 2011 Budget Gap**



Source: Fiscal year 2011 state of New Jersey, Budget in Brief, March 16, 2010.

## New Jersey's Fiscal Condition Impacts Localities

The fiscal condition of the state directly impacts the fiscal condition of localities throughout New Jersey. For example, the Governor's fiscal year 2011 budget proposes cutting the funds it provides to localities through its special municipal aid. Furthermore, officials in some of the localities we visited stated that they expect reductions in state aid as a result of the state's fiscal condition. For example, officials in Newark told us that in fiscal year 2009, they received \$45 million in special municipal aid that they will not receive in fiscal year 2010. Concerned about the impact of the state's budget on the city's budget, officials noted that the city administration is developing next-step scenarios, strategies, and solutions to the city's budget challenges. To date, officials said that there have not been any cuts in Newark services. Burlington County officials also stated that the number and amount of grants that the county typically receives from the state has decreased considerably. Furthermore, officials stated that their budget has declined due to decreases in revenue collected, including lower amounts of fees collected for county services.

**New Jersey Localities Primarily Used Recovery Act Funds for Nonrecurring Projects and Maintaining Services**

Despite the budgetary challenges faced by the localities we visited, officials in these localities told us that Recovery Act funds did not help them stabilize their budgets because they generally used Recovery Act funds for nonrecurring projects and to maintain services. The following table summarizes characteristics of the state of New Jersey and the localities we visited.

**Table 5: Statistical Data of the State of New Jersey and Select Localities**

Locality	Population	Government type	Unemployment rate (percent)	FY 2009 budget (in millions)	Total Recovery Act funds (in millions) <sup>a</sup>
State of New Jersey	8,707,739	State	10.2	\$30,000 <sup>b</sup>	\$5,000
City of Newark	278,980	City	15.5	677	62
County of Bergen	895,250	County	8.5	480	16
County of Burlington	446,108	County	9.6	224	6
County of Cape May	96,091	County	16.3	145	1

Source: GAO analysis of U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, and state budget data.

Notes: City population data are from the latest available estimate, July 1, 2008. State and county population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

<sup>a</sup>Recovery Act fund totals do not include suballocated transportation funds administered by the counties.

<sup>b</sup>The New Jersey state budget is for fiscal year 2010.

**City of Newark Continues to Compete for and Receive Recovery Act Funds**

Officials in the Mayor’s office stated that the City of Newark and its community partners have received almost \$360 million in Recovery Act funds, which exceeded their original goal of \$150 million. Specifically, Newark received \$62 million and its community partners received \$297 million.<sup>22</sup> Of the \$62 million, \$46.2 million was received through Recovery Act competitive grants. According to officials, Newark has received nearly 26-percent of the competitive Recovery Act grant funds for which it has applied. For example, a consortium, of which the city was the lead applicant, received about \$20.8 million for a Neighborhood Stabilization Program 2 grant that provided funding for the acquisition and redevelopment of foreclosed and abandoned properties. Officials said that Newark works closely with its community partners to maximize the use of

<sup>22</sup>Community partners are nonprofits, educational institutions, faith-based, and other community organizations, as well as other government and quasi-government organizations.

Recovery Act funds. For example, the consortium for the stabilization grant involved 16 consortium members, including Newark. If the city becomes aware of a Recovery Act grant for which a community partner could apply, it notifies them about the grant and offers assistance in putting the application together. Officials scan the Internet daily for grant opportunities, and the city is building a repository of grant applications that it posts quarterly on the city's Web site.

Officials said that Newark included five nonrecurring Recovery Act projects in its fiscal year 2009 budget, totaling \$11.6 million. For example, Newark included Recovery Act funding in its 2009 budget for WIA services for adults, dislocated workers, and youth. These workforce services provide adult employment and job-training activities to individuals over the age of 18 and workers who have been laid off or notified that they will be laid off. Newark is also using Recovery Act funds to complete projects that it may not have been able to complete absent the funds. For example, Newark is using its Energy Efficiency and Conservation Block Grant to create a Climate Prosperity Plan to strategically guide the city's carbon reduction efforts, retrofit municipal buildings, install energy-efficient building management technologies, support green neighborhood approaches, and provide technical assistance to connect residents and businesses to available energy efficiency programs.

#### Recovery Act Funds Help the County of Bergen Provide Vital Services for Its Citizens

According to Bergen County officials, the county has received approximately \$16 million in Recovery Act funds. For example, the Bergen County Department of Public Works received a \$7.4 million Energy Efficiency and Conservation Block Grant to implement various energy projects throughout the county. In addition, the Bergen County Division of Community Development received a \$4.3 million Homeless Prevention and Rapid Rehousing Program grant to provide financial assistance and housing relocation and stabilization services to low-income citizens. Officials stated that without the Recovery Act funds it would have taken 5 to 7 years to complete some of the projects. The Bergen County Department of Human Services used about \$30,000 in Recovery Act funds to train and supervise 100 volunteers to serve on crisis-response teams for domestic violence victims at municipal police departments throughout the county. The Recovery Act funds initially provided funding for the program through June 30, 2010. According to a department official, the department was recently notified that it will receive additional Recovery Act funds, along with other federal funds, to support the program for the remainder of the year.

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County of Burlington Used Its Recovery Act Funds to Maintain a Variety of Services

Burlington County received approximately \$6 million from the federal and state governments in Recovery Act funds for 14 programs. Those funds helped Burlington County provide a number of programs and services to citizens, including home-delivered meals for the elderly; homelessness prevention; services for victims of domestic violence; energy-efficiency and conservation projects; wastewater management planning; and workforce training for youth, adult, and dislocated workers. Officials stated that the Recovery Act funds allowed the county to complete projects that it would not have otherwise been able to complete absent the funds.

According to a Burlington County official, once the Recovery Act funds are depleted, the county will discontinue several of the programs, and some jobs funded through the Recovery Act may be eliminated. The official noted, however, that the Recovery Act funds did allow the county to retain nine jobs that were not created by the Recovery Act. The official went on to say that the county's 2010-2011 budget will determine whether employees holding these positions will be retained. One Burlington County official remarked that the number of retirements due to normal attrition may allow the county to retain some employees, but as of March 2010, no retirements had been announced.

County of Cape May Used Recovery Act Funds to Support Workforce Stabilization

Cape May County received about \$1 million in total Recovery Act funds, which it used for the provision of homebound and congregate meals, development of a water quality management plan, workforce projects, and job retention.<sup>23</sup> For example, funding for the county prosecutor's Gangs, Guns, and Narcotics Task Force helped to stabilize salaries for three full-time employees and to purchase needed equipment. The prosecutor's office has received federal funding for the last 6 months of 2009 and expects Recovery Act funds for the first 6 months of 2010 to cover the salaries. According to Cape May County officials, the county also received \$884,841 to support WIA summer youth employment opportunities. Tourism is the primary industry for Cape May County but, as officials explained, receiving the funds during peak tourist season made it difficult to create jobs under the summer youth program due to competition with the prevailing wages offered by other employers in the county. Consequently, the county spent only \$182,634 of the funds received,

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<sup>23</sup> Congregate meals, or group meals, are usually provided in locations such as senior centers, schools, or churches, whereas homebound meals are provided to older persons who are homebound due to illness, an incapacitating disability, or isolation.

resulting in the seasonal employment of 40 young adults between the ages of 16 and 24.<sup>24</sup> Given the relatively small amount spent and the general stability of the Cape May economy, officials asserted that the grant could have been easier to implement in nonpeak tourist months or better used in other localities.

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## New Jersey's Accountability Community Plays an Active Role in Monitoring the State's Recovery Act Funds

The New Jersey Recovery Accountability Task Force, co-chaired by the Governor's Deputy Chief of Staff and the State Comptroller, has primary responsibility for oversight of the state's Recovery Act funds. In addition, the Office of the State Auditor reviews internal controls over Recovery Act funds as part of its planned audits of state agencies. Ongoing oversight activities by these entities over Recovery Act funds are summarized below.<sup>25</sup>

- *Recovery Accountability Task Force.* The task force plays a significant managerial role in the oversight of Recovery Act funds and is responsible for monitoring the distribution of Recovery Act funds in the state and promoting the effective and efficient use of those funds. The task force continues to receive updates from state agencies that are receiving Recovery Act funds during its regularly scheduled meetings to ensure the agencies are disbursing funds in an efficient and transparent manner and in accordance with the goals of the Recovery Act. The task force is also considering taking on a more proactive role in directing state agencies that have their own audit departments to conduct audits of their Recovery Act funds. Other issues discussed in the task force meetings include findings of other agency audits, federal recipient reporting requirements, and

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<sup>24</sup>According to NJOMB and Atlantic County officials, there is an agreement in place that states any funding left over from Cape May's summer program will be pooled for both counties to use until the end of the Recovery Act funding period on June 30, 2011.

<sup>25</sup>See GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009) for additional information about agencies responsible for the state's Recovery Act oversight efforts.

weaknesses identified in the Single Audit report, coordinated by NJOMB.<sup>26,27</sup>

- *Office of the State Comptroller.* In addition to the State Comptroller serving as co-chair on the Recovery Accountability Task Force, the New Jersey Office of the State Comptroller conducts its own audits of Recovery Act funds in coordination with the Office of the State Auditor. For example, the Comptroller's Office issued a report of its audit of WIA Youth Program Recovery Act funds received by the Department of Labor and Workforce Development for its summer youth employment program on April 29, 2010. The audit focused on the administration and monitoring of both the fiscal and programmatic components of the program, including compliance with applicable federal, State, and department policies related to the program; the department's monitoring and oversight of the program; and the achievement of federal and State program goals and the measurement of program outcomes. The audit found, among other things, that although the program attained its minimum objectives, a lack of detailed guidance at the federal and State levels resulted in significant variations in the design and implementation of the program across the state, such as differences in assessing work readiness skills, which will make it difficult to assess such outcomes as the level of work readiness achieved in the state. The state also did not recruit private sector employers to participate in the program, limiting the range of work experiences for participants and did not accurately report FTEs during the first round of required recipient reports.<sup>28</sup> The Comptroller's Office made 7 recommendations to improve the department's oversight and monitoring of the program. The department stated that it

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<sup>26</sup>The Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507), requires that each state, local government, or nonprofit organization that expends at least a certain amount per year in federal awards—currently set at \$500,000 by OMB—must have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in 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 and when federal laws, regulations or grant agreements do not require a financial statement audit of the entity, the entity may elect to have an audit of that program.

<sup>27</sup>New Jersey's Single Audit report for fiscal year 2009 was due on March 31, 2010. However, NJOMB sent a letter to the Department of Health and Human Services on March 2, 2010, requesting an extension until April 30, 2010. NJOMB submitted the audit report to the Federal Audit Clearinghouse on April 27, 2010.

<sup>28</sup>The Office of the Comptroller examined FTE calculations for the six highest-funded Workforce Investment Boards in the state.

would take the recommendations into consideration in the event that the program is funded again in the future.

- *Office of the State Auditor.* The Office of the State Auditor issued a report on its audit of the Department of Community Affairs' Recovery Act Weatherization Assistance Program on March 26, 2010.<sup>29</sup> The audit focused on the eligibility process at the local and community-based agencies that administer the program to determine whether adequate controls were in place to confirm the eligibility of recipients scheduled to receive weatherization assistance. The audit found that the controls to determine eligibility were not adequate because of a lack of supporting documentation for household income and size, as well as the lack of Social Security numbers maintained by the weatherization agencies. As a result, ineligible program applicants were determined to be eligible and could receive weatherization services. The Office of the State Auditor recommended that the Department of Community Affairs update its weatherization bulletins to address the determination of annual income on a consistent basis and to require the inclusion of Social Security numbers for applicants and all household members to minimize the potential for fraud and program abuse. The Office of the State Auditor also recommended that the Department of Community Affairs strengthen controls and edit checks in the software system used by weatherization agencies to determine eligibility, monitor the progress of applications, and track expenditures. According to the State Auditor, deficiencies identified in the Weatherization Assistance Program were communicated to the Department of Community Affairs as the audit was under way and the department has already begun to implement the recommendations. The department stated that based on the recommendations, it will now require Social Security numbers, update and clarify department policies, and verify applicant wages. The Office of the State Auditor will continue to monitor the department's progress in implementing the recommendations and plans to further audit the administration of the program, as well as some of the homes that have already been weatherized in the coming months.

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<sup>29</sup>New Jersey Office of Legislative Services, Office of the State Auditor, Department of Community Affairs American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility, April 1, 2009 to December 4, 2009 (Trenton, N.J., 2010).

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**State Comments on  
This Summary**

We provided the Governor of New Jersey with a draft of this appendix on May 6, 2010. On behalf of and in concert with the Governor's Deputy Chief of Staff, who serves as co-chair for the Governor's Recovery Accountability Task Force, the Governor's Policy Advisor for Recovery Act matters responded for the Governor on May 11, 2010. The official provided technical comments that were incorporated, as appropriate.

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