

GAO

Testimony

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Senate

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RECOVERY ACT

As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential

Statement of Gene L. Dodaro
Acting Comptroller General of the United States



GAO

Accountability * Integrity * Reliability

Mr. Chairman, Ranking Member Collins, and Members of the Committee:

I am pleased to be here today to discuss our work examining the uses and planning by selected states and localities for funds made available by the American Recovery and Reinvestment Act of 2009 (Recovery Act).¹ The Recovery Act is estimated to cost about \$787 billion over the next several years, of which about \$280 billion will be administered through states and localities. Funds made available under the Recovery Act are being distributed to states, localities, and other entities and individuals through a combination of grants and direct assistance. As you know, the stated purposes of the Recovery Act are to:

- preserve and create jobs and promote economic recovery;
- assist those most impacted by the recession;
- provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and
- stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

As I described in my March testimony,² the Recovery Act specifies several roles for GAO including conducting bimonthly reviews of selected states' and localities' use of funds made available under the act.³ My statement today is based on our report being released today, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, which is the first in a series of bimonthly reviews we will do on states' and localities' uses of Recovery Act funding and covers the actions taken under the Act through April 20, 2009.⁴ Our report and our other work related to the Recovery Act can be found on our new website called *Following the Money: GAO's Oversight of the Recovery Act*, which is accessible through GAO's home page at www.gao.gov.

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

² [GAO-09-453T](#).

³Recovery Act, div. A, title IX, §901

⁴ [GAO-09-580](#).

Like the report, my statement this morning discusses (1) selected states' and localities' uses of and planning for Recovery Act funds, (2) the approaches taken by the selected states and localities to ensure accountability for Recovery Act funds, and (3) states' plans to evaluate the impact of the Recovery Act funds they received. Our report addresses each of these objectives in detail and contains an appendix on each of the 16 states and the District of Columbia (the District) where we did our detailed work that discusses our reporting objectives as they apply to each of those locations.

As discussed in my March testimony, we selected a core group of 16 states and the District that we will follow over the next few years to provide an ongoing longitudinal analysis of the use of funds provided in conjunction with the Recovery Act. The states are Arizona, California, Colorado, Florida, Georgia, Iowa, Illinois, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas. These states contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental federal assistance funds available through the Recovery Act. We selected these states and the District on the basis of outlay projections, percentage of the U.S. population represented, unemployment rates and changes, and a mix of states' poverty levels, geographic coverage, and representation of both urban and rural areas. In addition for this bimonthly review, we visited a non-probability sample of about 60 localities within the 16 selected states.⁵

We collected documents from and conducted semi-structured interviews with executive-level state and local officials and staff from Governors' offices, "Recovery Czars," State Auditors, Controllers, and Treasurers. We also interviewed staff from state legislatures. In addition, our work focused on federal, state, and local agencies administering programs receiving Recovery Act funds. We analyzed data and interviewed officials from the federal Office of Management and Budget (OMB). We also analyzed other federal guidance on programs selected for this review and spoke with relevant program officials at the Centers for Medicare & Medicaid Services (CMS), the U.S. Department of Transportation and the U.S. Department of Education. We did not review state legal materials for this report, but relied on state officials and other state sources for description and interpretation of relevant state constitutions, statutes,

⁵This total includes two entities in the District which received direct federal funding that was not passed through the District government.

legislative proposals, and other state legal materials. A detailed description of our scope and methodology can be found in an appendix to our report.

We conducted a performance audit for our first bimonthly review from February 17, 2009, to April 20, 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to our ongoing work on selected states' and localities' use of Recovery Act funding, we have completed two of the other mandates included for us in the Recovery Act. First, on April 3, 2009, we announced the appointment of 13 members to the Health Information Technology Policy Committee, a new advisory body established by the Recovery Act. Additionally, on April 16, 2009, we issued a report on the actions of the Small Business Administration (SBA) to, among other things, increase liquidity in the secondary market for SBA loans.⁶

Summary of GAO Findings

Uses of Funds

About 90 percent of the estimated \$49 billion Recovery Act funding to be provided to states and localities in fiscal year 2009 will be through health, transportation and education programs. Within these categories, the three largest programs are increased Medicaid Federal Medical Assistance Percentage (FMAP) grant awards, funds for highway infrastructure investment, and the State Fiscal Stabilization Fund (SFSF). Table 1 shows the breakout of funding available for these three programs in the 16 selected states and the District. The Recovery Act funding for these 17 jurisdictions accounts for a little less than two-thirds of total Recovery Act funding for these three programs.

⁶ GAO, *Small Business Administration's Implementation of Administrative Provisions in the American Recovery and Reinvestment Act of 2009*, [GAO-09-507R](#) (Washington, D.C.: April 16, 2009).

Table 1: Notification of Recovery Act Funds for GAO Core States and the District for Select Programs (Dollars in thousands)

State	Medicaid FMAP	Highways	Fiscal Stabilization Fund
Arizona	\$534,576	\$521,958	\$681,360
California	\$3,331,167	\$2,569,568	\$3,993,379
Colorado	\$226,959	\$403,924	\$509,363
District of Columbia	\$87,831	\$123,508	\$59,883
Florida	\$1,394,945	\$1,346,735	\$1,809,196
Georgia	\$521,251	\$931,586	\$1,032,684
Illinois	\$992,042	\$935,593	\$1,376,965
Iowa	\$136,023	\$358,162	\$316,467
Massachusetts	\$1,182,968	\$437,865	\$666,153
Michigan	\$700,522	\$847,205	\$1,066,733
Mississippi	\$225,471	\$354,564	\$321,131
New Jersey	\$549,847	\$651,774	\$891,424
New York	\$3,143,641	\$1,120,685	\$2,021,924
North Carolina	\$657,111	\$735,527	\$951,704
Ohio	\$760,647	\$935,677	\$1,198,882
Pennsylvania	\$1,043,920	\$1,026,429	\$1,276,766
Texas	\$1,448,824	\$2,250,015	\$2,662,203
Total Case Study	\$16,937,745	\$15,550,776	\$20,836,218
Percent of National Total	70	58	64
National Total	\$24,233,145	\$26,660,000	\$32,552,620
Notifications as of	April 3, 2009	March 2, 2009	April 2, 2009

Source: GAO analysis of agency data.

Note: For Medicaid FMAP amounts shown are the increased Medicaid FMAP Grant Awards as of April 3, 2009. For Highways, the amounts shown are the full state apportionment. For the SFSF, the amounts shown are the initial release of the state allocation.

Increased Medicaid FMAP Funding

The 16 states and the District have drawn down approximately \$7.96 billion in increased FMAP grant awards for the period October 1, 2008, through April 1, 2009. The increased FMAP is for state expenditures for Medicaid services. The receipt of this increased FMAP may reduce the state share for their Medicaid programs. States have reported using funds made available as a result of the increased FMAP for a variety of purposes. For example, states and the District most frequently reported using these funds to maintain their current level of Medicaid eligibility and benefits, cover their increased Medicaid caseloads—which are primarily populations that are sensitive to economic downturns, including children and families,

and to offset their state general fund deficits, thereby avoiding layoffs and other measures detrimental to economic recovery.

Highway Infrastructure
Investment

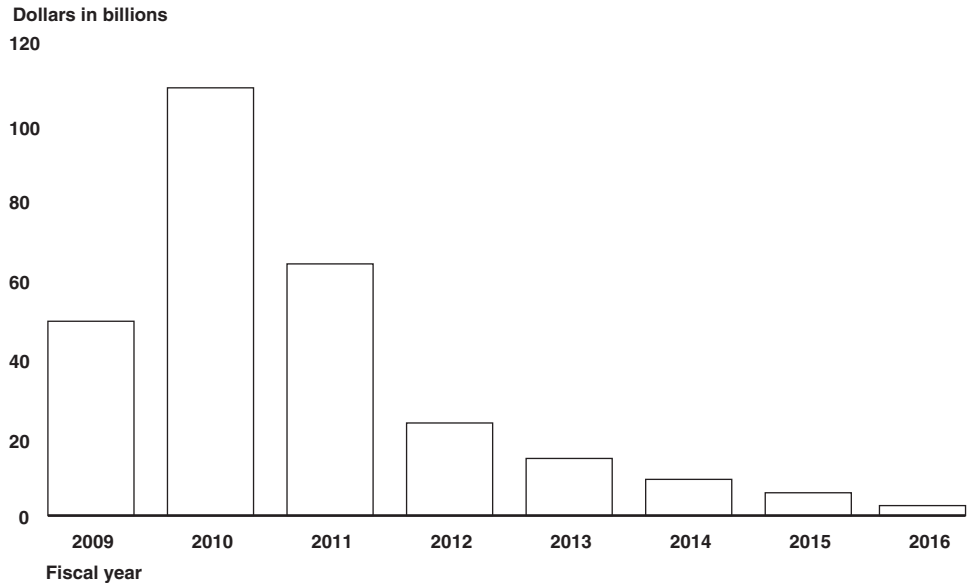
States are undertaking planning activities to identify projects, obtain approval at the state and federal level, and move them to contracting and implementation. Some state officials told us they were focusing on construction and maintenance projects, such as road and bridge repairs. Before they can expend Recovery Act funds, states must reach agreement with the Department of Transportation on the specific projects; as of April 16, 2009, two of the 16 states had agreements covering more than 50 percent of their states' apportioned funds, and three states did not have agreement on any projects. While a few, including Mississippi and Iowa had already executed contracts, most of the 16 states were planning to solicit bids in April or May. Thus, states generally had not yet expended significant amounts of Recovery Act funds.

State Fiscal Stabilization Fund

The states and the District must apply to the Department of Education for SFSF funds. Education will award funds once it determines that an application contains key assurances and information on how the state will use the funds. As of April 20, applications from three states had met that determination-South Dakota, and two of GAO's sample states, California and Illinois. The applications from other states are being developed and submitted and have not yet been awarded. The states and the District report that SFSF funds will be used to hire and retain teachers, reduce the potential for layoffs, cover budget shortfalls, and restore funding cuts to programs.

Planning continues for the use of Recovery Act funds. Figure 1 below shows the projected timing when funds will be made available to states and localities.

Figure 1: Projected Timing of Federal Recovery Act Funding Made Available to States and Localities by Fiscal Year



Source: GAO analysis of CBO and FFIS data.

State planning activities include appointing Recovery Czars, establishing task forces and other entities, and developing public websites to solicit input and publicize selected projects. In many states, legislative authorization is needed before the state can receive and/or expend funds or make changes to programs or eligibility requirements.

Accountability Approaches

We found that the selected states and the District are taking various approaches to ensure that internal controls are in place to manage risk up-front; they are assessing known risks and developing plans to address those risks. However, officials in most of the states and the District expressed concerns regarding the lack of Recovery Act funding provided for accountability and oversight. Due to fiscal constraints, many states reported significant declines in the number of oversight staff—limiting their ability to ensure proper implementation and management of Recovery Act funds. State auditors are also planning their work including conducting required single audits and testing compliance with federal requirements. The single audit process is important for effective oversight but can be modified to be a more timely and effective audit and oversight

tool for the Recovery Act and OMB is weighing options on how to modify it.

Nearly half of the estimated spending programs in the Recovery Act will be administered by non-federal entities. State officials suggested opportunities to improve communication in several areas. For example, they wish to be notified when Recovery Act funds are made available directly to prime recipients within their state that are not state agencies.

Plans to Evaluate Impact

An important objective of the Recovery Act is to preserve and create jobs and promote economic recovery. Officials in nine of the 16 states and the District expressed concern about determining jobs created and retained under the Recovery Act, as well as methodologies that can be used for estimation of each.

GAO's Recommendations

OMB has moved out quickly to guide implementation of the Recovery Act. As OMB's initiatives move forward, it has opportunities to build upon its efforts to date by addressing several important issues.

Accountability and Transparency Requirements

The Director of OMB should:

- adjust the single audit process to provide for review of the design of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010.
- continue efforts to identify methodologies that can be used to determine jobs created and retained from projects funded by the Recovery Act.
- evaluate current requirements to determine whether sufficient, reliable and timely information is being collected before adding further data collection requirements.

Administrative Support and Oversight

The Director of OMB should clarify what Recovery Act funds can be used to support state efforts to ensure accountability and oversight.

Communications

The Director of OMB should provide timely and efficient notification to (1) prime recipients in states and localities when funds are made available for their use, (2) states, where the state is not the primary recipient of funds, but has a state-wide interest in this information, and (3) all recipients, on

planned releases of federal agency guidance and whether additional guidance or modifications are expected.

OMB, States, and District Comments on the Draft of Our Report

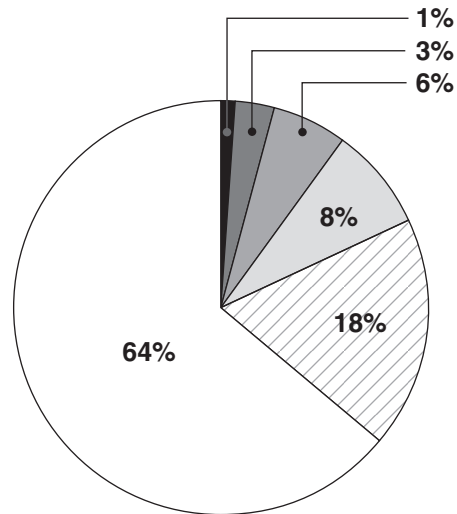
We provided the Director of the Office of Management and Budget with a draft of this report for comment on April 20, 2009. OMB staff responded the next day, noting that in its initial review, OMB concurred with the overall objectives of our recommendations. OMB staff also provided some clarifying information, adding that OMB will complete a more thorough review in a few days. We have incorporated OMB's clarifying information as appropriate. In addition, OMB said it plans to work with us to define the best path forward on our recommendations and to further the accountability and transparency of the Recovery Act. The Governors of each of the 16 states and the Mayor of the District were provided drafts for comment on each of their respective appendixes in this report. Those comments are included in the appendixes.

Background

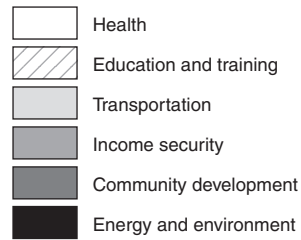
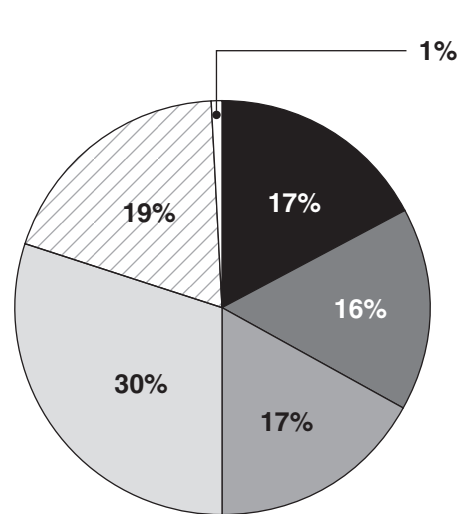
Over time, the programmatic focus of Recovery Act spending will change. As shown in figure 2, about two-thirds of Recovery Act funds expected to be spent by states in the current 2009 fiscal year will be health-related spending, primarily temporary increases in Medicaid FMAP funding. Health, education, and transportation is estimated to account for approximately 90 percent of fiscal year 2009 Recovery Act funding for states and localities. However, by fiscal year 2012, transportation will be the largest share of state and local Recovery Act funding. Taken together, transportation spending, along with investments in community development, energy, and environmental areas that are geared more toward creating long-run economic growth opportunities, will represent approximately two-thirds of state and local Recovery Act funding in 2012.

Figure 2: Composition of State and Local Recovery Act Funding, Fiscal Years 2009 and 2012

Fiscal year 2009



Fiscal year 2012



Source: GAO analysis of CBO and FFIS data.

States' and Localities' Use of and Plans for Recovery Act Funds Focuses on Purposes of the Act and States' Fiscal Stresses

Medicaid FMAP

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.⁷ The amount of federal assistance states receive for Medicaid service expenditures is known as the FMAP.

Under the Recovery Act, states are eligible for an increased FMAP for expenditures that states make in providing services to their Medicaid populations.⁸ The Recovery Act provides eligible states with an increased FMAP for 27 months between October 1, 2008 and December 31, 2010. On February 25, 2009, 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.⁹ Generally, for fiscal year 2009 through the first quarter of 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. For the first two quarters of 2009, the increases in

⁷States may use certain sources for financing the non-federal share of Medicaid expenditures, including contributions from political subdivisions in the state, such as cities or counties.

⁸See Recovery Act, div. B, title V, § 5001 (a)-(c). U.S. territories are also eligible for an increased FMAP subject to a different formula than states. Recovery Act div. B, title V, § 5001 (d).

⁹Although the effective date of the Recovery Act was February 17, 2009, states generally may claim reimbursement for Medicaid service expenditures made on or after October 1, 2008.

the FMAP for the 16 states and the District ranged from 7.09 percentage points in Iowa to 11.59 percentage points in California, as shown in table 2.

Table 2: FMAP Changes from Fiscal Year 2008 to the First Two Quarters of Fiscal Year 2009, for 16 states and the District

State	FY 2008 FMAP	FY 2009 FMAP, first two quarters	Difference
Arizona	66.20	75.01	8.81
California	50.00	61.59	11.59
Colorado	50.00	58.78	8.78
District of Columbia	70.00	77.68	7.68
Florida	56.83	67.64	10.81
Georgia	63.10	73.44	10.34
Illinois	50.00	60.48	10.48
Iowa	61.73	68.82	7.09
Massachusetts	50.00	58.78	8.78
Michigan	58.10	69.58	11.48
Mississippi	76.29	83.62	7.33
New Jersey	50.00	58.78	8.78
New York	50.00	58.78	8.78
North Carolina	64.05	73.55	9.50
Ohio	60.79	70.25	9.46
Pennsylvania	54.08	63.05	8.97
Texas	60.56	68.76	8.20

Source: GAO analysis of HHS data.

In our sample of 16 states and the District, officials from 15 states and the District indicated that they had drawn down increased FMAP grant awards, totaling \$7.96 billion for the period of October 1, 2008 through April 1, 2009—47 percent of their increased FMAP grant awards. In our sample, the extent to which individual states and the District accessed these funds varied widely, ranging from 0 percent in Colorado to about 66 percent in New Jersey. Nationally, the 50 states and several territories combined have drawn down approximately \$11 billion as of April 1, 2009,

which represents almost 46 percent of the increased FMAP grants awarded for the first three quarters of federal fiscal year 2009 (table 3).¹⁰

Table 3: FMAP Grant Awards and Funds Drawn Down, for 16 States and the District

(Dollars in thousands)

State	FMAP grant awards	Funds drawn	Percentage of funds drawn
Arizona	\$534,576	\$286,286	53.6
California	\$3,331,167	\$1,511,539	45.4
Colorado	\$226,959	0	0.0
District of Columbia	\$87,831	\$49,898	56.8
Florida	\$1,394,945	\$817,025	58.6
Georgia	\$521,251	\$311,515	59.8
Illinois	\$992,042	\$117,081	11.8
Iowa	\$136,023	\$81,663	60.0
Massachusetts	\$1,182,968	\$272,559	23.0
Michigan	\$700,522	\$462,982	66.1
Mississippi	\$225,471	\$114,112	50.6
New Jersey	\$ 549,847	\$362,235	65.9
New York	\$3,143,641	\$1,739,073	55.3
North Carolina	\$657,111	\$414,644	63.1
Ohio	\$760,647	\$420,630	55.3
Pennsylvania	\$1,043,920	\$330,811	31.7
Texas	\$1,448,824	\$665,665	45.9
Total	\$16,937,745	\$7,957,718	47.0

Source: GAO analysis of HHS data.

Note: FMAP grant awards are those funds awarded as of April 3, 2009, and funds drawn down are as of April 1, 2009.

In order for states to qualify for the increased FMAP available under the Recovery Act, they must meet certain requirements. In particular

- **Maintenance of Eligibility:** 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

¹⁰This amount includes funds drawn down by U.S. territories and the District.

effect under their state Medicaid programs on July 1, 2008.¹¹ In guidance to states, CMS noted that examples of restrictions of eligibility could include (1) the elimination of any eligibility groups since July 1, 2008 or (2) changes in an eligibility determination or redetermination process that is more stringent than what was in effect on July 1, 2008. States that fail to initially satisfy the maintenance of eligibility requirements have an opportunity to reinstate their eligibility standards, methodologies, and procedures before July 1, 2009 and become retroactively eligible for the increased FMAP.

- **Compliance with Prompt Payment:** Under federal law states are required to pay claims from health practitioners promptly.¹² Under the Recovery Act, states are prohibited from receiving the increased FMAP for days during any period in which that state has failed to meet this requirement.¹³ Although the increased FMAP is not available for any claims received from a practitioner on each day the state is not in compliance with these prompt payment requirements, the state may receive the regular FMAP for practitioner claims received on days of non-compliance. CMS officials told us that states must attest that they are in compliance with the prompt payment requirement, but that enforcement is complicated due to differences across states in methods used to track this information. CMS officials plan to issue guidance on reporting compliance with the prompt payment requirement and are currently gathering information from states on the methods they use to determine compliance.
- **Rainy Day Funds:** States are not eligible for an increased FMAP if any amounts attributable (either directly or indirectly) to the increased FMAP are deposited or credited into any reserve or rainy day fund of the state.¹⁴
- **Percentage Contributions from Political Subdivisions:** In some states, political subdivisions—such as cities and counties—may be

¹¹See Recovery Act § 5001(f)(1).

¹²States are required to pay 90 percent of clean claims from health care practitioners within 30 days of receipt and 99 percent of these claims within 90 days of receipt. See 42 U.S.C. § 1396a(a)(37)(A).

¹³This provision only applies to claims received after February 17, 2009, the date of enactment of the Recovery Act. See Recovery Act § 5001(f)(2).

¹⁴This prohibition does not apply to any increase in FMAP based on maintenance of the states' prior year FMAPs.

required to help finance the state's share of Medicaid spending. States that have such financing arrangements are not eligible to receive the increased FMAP if the percentage contributions required to be made by a political subdivision are greater than what was in place on September 30, 2008.¹⁵

In addition to meeting the above requirements, states that receive the increased FMAP must submit a report to CMS no later than September 30, 2011 that describes how the increased FMAP funds were expended, in a form and manner determined by CMS.¹⁶ In guidance to states, CMS has stated that further guidance will be developed for this reporting requirement. CMS guidance to states also indicates that, for federal reimbursement, increased FMAP funds must be drawn down separately, tracked separately, and reported to CMS separately. Officials from several states told us they require additional guidance from CMS on tracking receipt of increased FMAP funds and on reporting on the use of these funds.

The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services.¹⁷ However, the receipt of this increased FMAP may reduce the state share for their Medicaid programs. States have reported using these available funds for a variety of purposes. In our sample, individual states and the District reported that they would use the funds to maintain their current level of Medicaid eligibility and benefits, cover their increased Medicaid caseloads—which are primarily populations that are sensitive to economic downturns, including children and families, and to offset their state general fund deficits thereby avoiding layoffs and other measures detrimental to economic recovery. Ten states and the District reported using these funds to maintain program eligibility. Nine states and the District reported using these funds to maintain benefits. Specifically, Massachusetts reported that during a previous financial downturn, the state limited the number of individuals eligible for some services and reduced certain program benefits that were optional for the state to cover. However, with the funds made available as a result of the increased FMAP, the state did not have to make such reductions.

¹⁵This prohibition does not apply to any increase in FMAP based on maintenance of the states' prior year FMAPs.

¹⁶Recovery Act, div. B, title V, § 5001 (g)(1).

¹⁷Recovery Act, div. B, title V, § 5001 (a)-(c), (h)(1).

Similarly, New Jersey reported that the state used these funds to eliminate premiums for certain children in its State Children's Health Insurance Program, allowing it to retain coverage for children whose enrollment in the program would otherwise have been terminated for non-payment of premiums.

Nine states and the District reported using these funds to cover increases to their Medicaid caseloads, primarily to populations that are sensitive to economic downturns, such as children and families. For example, New Jersey indicated that these funds would help the state meet the increased demand for Medicaid services. According to a New Jersey official, due to significant job losses, the state's proposed 2010 budget would not have accommodated all the applicants newly eligible for Medicaid and that the funds available as a result of the increased FMAP have allowed the state to maintain a "safety net" of coverage for uninsured and unemployed people. Six states in our sample also reported that they used funds made available as a result of the increased FMAP to comply with prompt payment requirements. Specifically, Illinois reported that these funds will permit the state to move from a 90-day payment cycle to a 30-day payment cycle for all Medicaid providers. Three states also reported using these funds to restore or to increase provider payment rates.

In addition, 10 states and the District indicated that the funds made available as a result of the increased FMAP would help offset deficits in their general funds. Pennsylvania reported that because funding for its Medicaid program is derived, in part, from state revenues, program funding levels fluctuate as the economy rises and falls. However, the state was able to use the funds made available to offset the effects of lower state revenues. Arizona officials also reported that the state used funds made available as a result of the increased FMAP to pay down some of its debt and make payroll payments, thus allowing the state to avoid a serious cash flow problem.

In our sample, many states and the District indicated that they need additional guidance from CMS regarding eligibility for the increased FMAP funds. Specifically, 5 states raised concerns about whether certain programmatic changes could jeopardize the state's eligibility for these funds. For example, Texas officials indicated that guidance from CMS is needed regarding whether certain programmatic changes being considered by Texas, such as a possible extension of the program's eligibility period, would affect the state's eligibility for increased FMAP funds. Similarly, Massachusetts wanted clarification from CMS as to whether certain changes in the timeframe for the state to conduct eligibility re-

determinations would be considered a more restrictive standard. Four states also reported that they wanted additional guidance from CMS regarding policies related to the prompt payment requirements or changes to the non-federal share of Medicaid expenditures. For example, California officials noted that the state reduced Medicaid payments for in-home support services, but that counties could voluntarily choose to increase these payments without altering the cost sharing arrangements between the counties and the state. The state wants clarification from CMS on whether such an arrangement would be allowable in light of the Recovery Act requirements regarding the percentage of contributions by political subdivisions within a state toward the non-federal share of expenditures.

In response to states' concerns regarding the need for guidance, CMS told us that it is in the process of developing draft guidance on the prompt payment provisions in the Recovery Act. One official noted that this guidance will include defining the term practitioner, describing the types of claims applicable under the provision, and addressing the principles that are integral to determining a state's compliance with prompt payment requirements. Additionally, CMS plans to have a reporting mechanism in place through which states would report compliance under this provision. With regard to Recovery Act requirements regarding political subdivisions, CMS described their current activities for providing guidance to states. Due to the variability of state operations, funding processes, and political structures, CMS has been working with states on a case-by-case basis to discuss particular issues associated with this provision and to address the particular circumstances for each state. A CMS official told us that if there were an issue(s) or circumstance(s) that had applicability across the states, or if there were broader themes having national significance, CMS would consider issuing guidance.

Highway Infrastructure Investment

The Recovery Act provides approximately \$48 billion to fund grants to states, localities and regional authorities for transportation projects of which the largest piece is \$27.5 billion for highway and related infrastructure investments. The Recovery Act largely provides for increased transportation funding through existing programs—such as the Federal-Aid Highway Surface Transportation Program—a federally funded, state-administered program. Under this program, funds are apportioned annually to each state department of transportation (or equivalent) to construct and maintain roadways and bridges on the federal-aid highway system. The Federal-Aid Highway Program refers to the separately funded formula grant programs administered by the Federal Highway Administration (FHWA) in the U.S. Department of Transportation.

