

Appendix XII: Mississippi

Overview

Use of funds: An estimated 90 percent of Recovery Act funding provided to states and localities nationwide in fiscal year 2009 (through Sept. 30, 2009) will be for health, transportation and education programs. The three largest programs in these categories are the Medicaid Federal Medical Assistance Percentage (FMAP) awards, the State Fiscal Stabilization Fund, and highways.

✓ **Medicaid Federal Medical Assistance Percentage (FMAP) Funds**

- As of April 1, 2009, Centers for Medicare and Medicaid Services (CMS) had made about \$225.5 million in increased FMAP grant awards to Mississippi.
- As of April 1, 2009, the state had drawn down \$114.1 million, or just more than 50 percent of its initial increased FMAP grant awards.
- State officials reported that they plan to use funds made available as a result of the increased FMAP to cover their increased Medicaid caseload and to offset expected state budget deficits due to lower general fund revenue collections.

✓ **Transportation—Highway Infrastructure Investment**

- On March 2, 2009, the U.S. Department of Transportation apportioned Mississippi about \$355 million for highway infrastructure investment.
- As of April 16, 2009, the U.S. Department of Transportation had obligated approximately \$137 million for 32 Mississippi projects.
- As of April 1, 2009, Mississippi had signed contracts for 10 projects totaling approximately \$77 million. The Mississippi Department of Transportation (MDOT) used a competitive and transparent process to select projects. These projects include activities such as road construction and road maintenance.

✓ **U.S. Department of Education State Fiscal Stabilization Fund (Initial Release)**

- On April 2, 2009, the U.S. Department of Education allocated Mississippi about \$321 million from the initial release of these funds.
- Before receiving the funds, states are required to submit an application that provides several assurances to the Department of Education. These include assurances that they will meet maintenance of effort requirements or will be able to comply with waiver provisions and that they will implement strategies to meet certain educational requirements, including increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and improving the quality of state academic standards and assessments. Mississippi plans to submit its application for state fiscal stabilization funds after it receives and reviews the final program guidance.
- Mississippi expects to use these funds to help restore funding for elementary, secondary, and public higher education to prior levels in order to minimize reductions in education services in fiscal years 2009, 2010, and 2011. The state does not foresee having leftover funds for additional subgrants to local education agencies.

Mississippi is receiving additional Recovery Act dollars to fund other programs, including employment and training programs under the Workforce Investment Act, capital and management activities under the Public Housing Capital Fund, and gap financing for low-income housing tax credit projects under the Taxpayer Credit Assistance Program. The status of Mississippi's plans for using these funds is described throughout this appendix.

Safeguarding and transparency: The State Auditor's office has taken steps to ensure accountability. For example, the office hosted a meeting with state agency heads to discuss accountability requirements and expectations, and the office plans to conduct training seminars on accounting for and controlling the use of Recovery Act funds. In addition, officials with the auditor's office said Mississippi plans to add special accounting codes to the statewide accounting system in order to track the expenditure of Recovery Act funds. The state also plans to publicly report Recovery Act spending that state agencies receive directly. State officials noted that the statewide accounting system would not capture those funds that the federal government allocates directly to local and regional governmental organizations, nonprofit organizations, or higher education entities. According to the Governor's office, the state is developing a framework that would require these entities to report Recovery Act revenues and expenses to a central website.

Assessing the effects of spending: According to state officials, they are waiting for the federal government to provide more specific guidance for measuring job creation and retention. For example, the officials noted that the federal government's Office of Management and Budget (OMB) should provide more guidance for estimating job creation and retention.

Mississippi Beginning to Use Recovery Act Funds

Mississippi has begun to use some of its Recovery Act funds, as follows.

Increased Federal Medical Assistance Percentage Funds: Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The amount of federal assistance states receive for Medicaid service expenditures is known as the Federal Medical Assistance Percentage (FMAP). Across states, the FMAP may range from 50 percent to no more than 83 percent, with poorer states receiving a higher federal

matching rate than wealthier states. The Recovery Act provides eligible states with an increased FMAP for 27 months between October 1, 2008, and December 31, 2010.¹ On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act.² Generally, for federal fiscal year 2009 through the first quarter of federal fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for (1) the maintenance of states' prior year FMAPs; (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs; and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of the increased FMAP may reduce the funds that states must use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

Under the Recovery Act, Mississippi's FMAP will increase to 83.62 percent, an increase of 7.33 percentage points over its fiscal year 2008 FMAP. As of April 1, 2009, Mississippi had drawn down \$114.1 million or just more than 50 percent of its initial increased FMAP grant awards. Mississippi officials plan to use funds made available as a result of the increased FMAP to cover their increased Medicaid caseload and to offset expected state budget deficits due to lower general fund revenue collections, avoiding cuts in services. Mississippi officials indicated that simplifications to CMS expenditure reporting systems are needed to automatically generate the increased FMAP applicable to qualifying expenditures. Officials also reported a need for CMS guidance regarding programmatic changes that were made to its Family Planning Waiver since July 1, 2008, and whether these changes affect the state's ability to draw down the increased FMAP.

Transportation—Highway Infrastructure Investment: The Recovery Act provides additional funds for highway infrastructure investment using the rules and structure of the existing Federal-Aid Highway Surface Transportation program, which apportions money to states to construct and maintain eligible highways and for other surface transportation

¹Recovery Act, div. B, title V, § 5001.

²Although the effective date of the Recovery Act was February 17, 2009, states generally may claim reimbursement for the increased FMAP for Medicaid service expenditures made on or after October 1, 2008.

projects that could affect highways. States must follow the requirements for the existing programs, and in addition, the governor must certify that the state will maintain its current level of transportation spending, and the governor or other appropriate chief executive must certify that the state or local government to which funds have been made available has completed all necessary legal reviews and determined that the projects are an appropriate use of taxpayer funds. Mississippi's Governor provided this certification in a letter dated March 17, 2009. The Governor noted that transportation spending authority in Mississippi is granted annually by the state Legislature to the Mississippi Department of Transportation (MDOT), which operates under the guidance of independently elected transportation commissioners. As such, MDOT's Executive Director also provided this certification.

As of April 1, 2009, MDOT had signed contracts for 10 projects totaling approximately \$77 million.³ The agency used a transparent and competitive process for awarding contracts for these projects. MDOT issued an advance notice on its Web site to inform contractors of the opportunity to bid on the projects. Furthermore, MDOT used cost as a key criterion for awarding contracts. MDOT awarded the contract to the lowest bid, provided that the lowest bid did not exceed the state's cost estimate for the project by more than 10 percent. These projects include the expansion of State Route 19 in eastern Mississippi into a four-lane highway. This project fulfills part of MDOT's 1987 Four-Lane Highway Program, which seeks to link every Mississippian to a four-lane highway within 30 miles or 30 minutes. In addition, MDOT plans to upgrade a section of a major road, US-78, which runs across northern Mississippi. An MDOT official anticipated the project would have major economic benefits for Mississippi.

U.S. Department of Education State Fiscal Stabilization Fund: The Recovery Act created a State Fiscal Stabilization Fund (SFSF), to be administered by the U.S. Department of Education (Education). The SFSF provides funds to states to help avoid reductions in education and other essential public services. The initial award of SFSF funding requires each

³As of April 16, 2009, the U.S. Department of Transportation had obligated \$137 million for 32 Mississippi projects. For federal-aid highway projects, the Federal Highway Administration of the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's contractual commitment to pay for the federal share of a project. This commitment occurs at the time the federal government approves a project agreement and the project agreement is executed.

state to submit an application to Education that assures, among other things, it will take actions to meet certain educational requirements, such as increasing teacher effectiveness and addressing inequities in the distribution of highly qualified teachers.

Mississippi's initial SFSF allocation is about \$321 million. The Recovery Act specifies that 81.8 percent is to be used for support of elementary, secondary and postsecondary education, and early childhood programs. The Recovery Act also authorizes the Governor to use 18.2 percent of these funds for "public safety and other government services," which may include education. Mississippi's Governor has not yet announced specific plans for the use of these other government services funds. According to state education officials, Mississippi will file its application for these funds after receiving and reviewing sufficient guidance. The funds will be appropriated to the state education agencies by the Mississippi State Legislature when it returns to session later this spring. The funding is expected to be used to stabilize education budgets in fiscal years 2009, 2010, and 2011 to help avoid reductions in education services. Restoring funding in those years to required levels is expected to consume all of the stabilization funds to be received by the state.

Mississippi Is Planning for Recovery Act Funding

Mississippi began planning for how the state would provide oversight of Recovery Act funding in February 2009. Officials from the Governor's Office said that the state did not establish a new office to provide statewide oversight of Recovery Act funding, in part because they did not believe that the act provided states with funds for administrative expenses—including additional staff. The Governor's Director of Federal Policy is serving as the stimulus coordinator for the state with support from a loaned executive from a statewide business development association. The stimulus coordinator told us she met individually with state agency heads to discuss their plans for spending funds allocated under the Recovery Act. In late March 2009, the Governor submitted a letter certifying that Mississippi would request funds available under the Recovery Act and such funds will be used to create jobs and promote economic growth. The Governor added in the certification letter that the state would continue to examine the various guidelines and fund-specific requirements associated with the Recovery Act funds. In April 2009, the Governor hosted a Mississippi Stimulus Summit where state agency heads provided information on the detailed steps that were already being taken or were planned regarding the use of Recovery Act funds. Finally, the Governor established a state stimulus Web site (www.stimulus.ms.gov) to

provide information to the public on the Recovery Act funding received by the state.

Addressing State's Fiscal Challenges Is Mississippi's Goal for Using Recovery Act Funding

Mississippi officials plan to use the anticipated \$2.8 billion in Recovery Act funding to address fiscal challenges the state has experienced due to a weakened economy. State officials reported that Mississippi entered a recession in late 2008. One indicator of Mississippi's weakened economy is the state's unemployment rate, which was 8.7 percent in January 2009 compared with 6.9 percent in June 2008. The state's weakened economy has also resulted in lower-than-expected tax revenues for the state's current fiscal year. According to the Governor, Mississippi's Revenue Estimating Committee projected that the state's fiscal year 2009 general fund revenue will fall \$301 million, or 5.9 percent, short of expectations. In response to anticipated budget shortfalls, the Governor made two cuts to most state agency budgets. In November 2008, the Governor cut most agency budgets by 2 percent, or \$42 million. In January 2009, the Governor cut state agencies' budgets by an additional \$158.3 million, bringing the total cuts to date for the fiscal year to \$200 million. Each agency or department received a budget cut of up to 5 percent (see table 8).⁴ Although the Governor anticipated that Congress would pass a stimulus package, he ordered the cuts in agency budgets to comply with state law that requires a balanced budget for the fiscal year, which ends on June 30.

⁴According to Mississippi officials, under Mississippi law, the Governor may cut any department or agency by 5 percent of its appropriation; however, the Governor cannot cut any department or agency by more than 5 percent until every department and agency has been cut by 5 percent.

Table 8: Budget Reductions for Selected State Agencies in Mississippi for Fiscal Year 2009

Selected agency	Appropriations for fiscal year 2009	Total budget cuts in fiscal year 2009	Percentage change during fiscal year 2009
Corrections	\$328,180,918	\$16,409,046	-5.0
Highway Safety Patrol	48,440,661	2,422,033	-5.0
Judiciary and Justice	63,799,714	3,189,985	-5.0
Economic Development	25,748,751	1,287,438	-5.0
Higher Education	961,063,754	46,649,166	-4.9
Fiscal Affairs	72,724,225	3,577,428	-4.9
Hospitals and Hospital Schools	278,480,866	13,226,449	-4.7
Public Education	2,517,323,677	92,021,567	-3.7
Public Health	61,264,961	1,705,331	-2.8
Social Welfare	692,477,684	6,603,119	-1.0

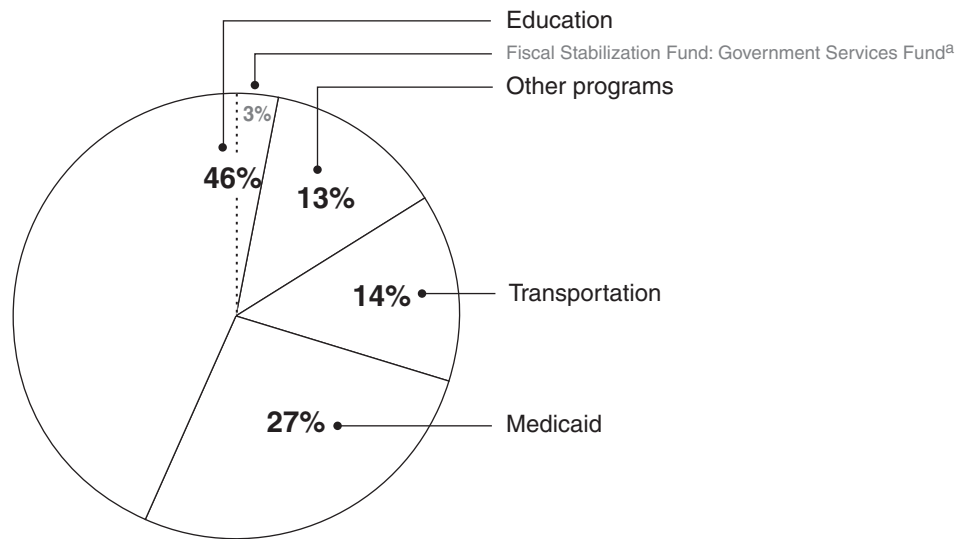
Source: GAO analysis of Mississippi Department of Finance and Administration data.

To mitigate the impact of economic fluctuations on state revenues, Mississippi has historically set aside 2 percent of projected revenues into a budget stabilization fund. In 2008, however, the state did not set aside any revenues for this fund, which made available an additional \$100 million for Mississippi's 2009 fiscal year budget. Going forward, Mississippi faces budgetary challenges for fiscal year 2010. According to the Governor, the state's Revenue Estimating Committee projects that Mississippi's revenues will be \$402.7 million, or 7.9 percent, short of expectations. State officials anticipate that the recession will increase the demand for certain government services, including unemployment benefits, Medicaid, food stamps, and rental assistance. Some Mississippi officials believe that the state's recession could continue through fiscal year 2012.

Most of the Recovery Act funds that Mississippi will receive are directed toward education, Medicaid, and transportation programs (see fig. 9). According to the Governor's office, state law provides for state agencies to escalate their spending plans to account for federal funds received under the Recovery Act. State officials also told us that the Legislature was considering adding further escalation language to the current fiscal year's appropriations bills that would authorize state agencies to spend any Recovery Act funds received. The Legislature normally conducts its regular session between the beginning of January and the end of March. However, the Legislature recessed early during the 2009 regular session in

part because of uncertainty regarding how the state’s portion of Recovery Act funds should be spent. The Legislature plans to reconvene in early May 2009 to complete its work on the state’s fiscal year 2010 budget.

Figure 9: Estimated Allocation of Mississippi’s Recovery Act Funding by Major Programs



Source: GAO analysis of data provided by Mississippi Joint Committee on Performance Evaluation and Expenditure Review.

^aA portion of the Fiscal Stabilization Fund is allocated for the Government Services Fund. The Government Services Fund may be used for public safety and other government services, including assistance for elementary and secondary education and public institutions of higher education.

Mississippi Has an Accounting System to Track Recovery Act Spending

Officials with the State Auditor’s office told us that special accounting codes will be added to the Statewide Automated Accounting System (SAAS) in order to track the expenditure of Recovery Act funds. The state also plans to publicly report Recovery Act spending that state agencies receive directly. However, state officials noted that SAAS would not track Recovery Act funds allocated directly to local and regional governmental organizations, nonprofit organizations, or higher education entities. For example, cities with a population of more than 50,000 residents can apply directly to federal agencies for certain programs, such as Community Development Block Grants. In addition, Mississippi has 10 regional planning and development districts that may receive funding directly from federal agencies. Finally, Mississippi localities may receive Recovery Act funds directly from the Appalachian Regional Commission or Delta Regional Authority, federally chartered regional commissions charged

with promoting economic development in certain parts of the state. According to the Governor's office, the state is developing a framework that would require these entities to report Recovery Act revenues and expenses to a central website.

Some State Agencies Have Made Spending Decisions for Recovery Act Funds

A few state agencies have made spending decisions for Recovery Act fund apportionments received:

- The Mississippi Department of Employment Security (MDES) received about \$40.7 million in Recovery Act funding for adult, dislocated worker, and youth activity programs under the Workforce Investment Act. MDES officials told us they planned to use the youth activity funding to provide summer youth programs across the state.
- The Jackson Public Housing Authority received a \$1.1 million allocation to its Public Housing Capital Fund from the Department of Housing and Urban Development (HUD) for capital and management activities, including modernization and development of public housing projects. The officials told us they planned to use the Recovery Act allocation to fund projects already included in their 5-year Capital Fund Plan—for instance, one project will redevelop housing in Jackson's North Midtown Community.
- The Mississippi Home Corporation (MHC) was allocated approximately \$21.9 million to provide additional gap financing to Low Income Housing Tax Credit (LIHTC) projects under the Taxpayer Credit Assistance Program (TCAP). MHC officials told us they had provided an initial notice to developers of LIHTC projects in the state about the additional funding provided under the Recovery Act for the TCAP but were waiting for HUD to issue final guidance before releasing details on their plans for administering the Recovery Act funding.

State Auditor Coordinating Plans for Safeguards and Controls

The State Auditor's office has taken and plans to take a number of steps to establish accountability. For example, in March 2009 the office hosted a meeting with staff from state agencies that are expected to receive Recovery Act funds to discuss accountability requirements and expectations. The office is planning to conduct training seminar for local officials and others concerned about accounting for and controlling the use of Recovery Act funds. Overall, the State Auditor believes the state has adequate controls for the use of Recovery Act funds but is concerned that the funding of new programs and the significant increase in funding of

current programs will stress the control system. In addition to the State Auditor, a legislative oversight committee and internal audit offices within each agency may provide oversight of Recovery Act funds. For example, the legislative committee staff in March 2009 said they began tracking the Recovery Act and the state's Recovery Act-related legislation and funding provided to Mississippi.

Mississippi's most recent Single Audit Act findings highlight two material weaknesses in internal control over financial reporting at one state agency that will receive Recovery Act funds. In its Single Audit report for fiscal year 2008, the State Auditor found that the Mississippi Department of Employment Security did not record the tax liens receivable account and corresponding Unemployment Insurance Premiums revenue account on the department's financial statements in accordance with generally accepted accounting principles. As a result, the State Auditor proposed, and management made an audit adjustment of, approximately \$35.5 million to properly state the department's current year financial statements. In addition, the State Auditor found that the department's internal controls over its tax lien receivable system were inadequate, and management proposed audit adjustments totaling approximately \$6.4 million to properly state the department's tax lien receivables. The State Auditor also identified one material weakness in internal control over compliance at the Mississippi Department of Human Services for the department's failure to verify and document compliance with the Davis-Bacon Act requirements for the Social Services Block Grant, which could result in questioned costs and funds due back to the federal granting agency.

Resources for Conducting Oversight Are Limited

State officials stated that the Recovery Act does not provide funding to oversight entities, but the federal government expects states to ensure accountability and transparency over expenditures. For example, officials from the State Auditor's office told us they had experienced significant staff turnover in recent years and relied on less-experienced staff to conduct audit work. In addition, the Lieutenant Governor expressed concern about whether the State Auditor could be funded to conduct additional Recovery Act-related auditing responsibilities, as was done for Hurricane Katrina related oversight. Officials from the State Auditor's office added that they normally charged the audit agency for the cost of audit services provided, but they were not sure whether Recovery Act funds could be used for this purpose. The State Auditor noted that the office would like to hire certified public accounting firms to conduct Recovery Act oversight work rather than increase staff. Further, the

officials noted that OMB should provide guidance regarding state level oversight, auditing, and administrative costs—such as how costs should be paid for and with what funds.

The legislative oversight committee also expressed concerns about the capabilities of the State Auditor’s office and some state agency internal audit functions. For example, in a recent report, the committee noted that low staffing levels and high turnover in the office’s Department of Audit’s Financial and Compliance Audit Division had resulted in a decreased experience level of audit staff and reduced institutional knowledge to use in forming auditor judgment.⁵ In addition, the committee noted there were limitations in the internal audit functions of some state agencies—for instance, state law required 19 agencies to establish an internal audit function; 13 had done so as of December 2008. Further, the committee reviewed the internal audit functions of 8 agencies and found that most focused on reviewing agency programs rather than testing internal controls. Finally, the committee found that the Executive Director for these agencies reviewed and approved the plans for their internal audit function, but this could limit the internal auditor’s freedom to determine the internal controls tested and programs reviewed.

Assessing the Impact of Recovery Act Funds Requires Clear Federal Guidance

Officials from the State Auditor’s office recommended that the federal government provide specific guidance for reporting on the use of Recovery Act funds to support job creation or retention because the reliability of such estimates depends critically on using a solid methodology. Furthermore, the officials recommended that OMB provide a clear definition of time-limited, part-time, full-time, and permanent jobs. Another concern was how to report on jobs created from the use of funds for programs, such as unemployment, food stamps, and Medicaid. These funds make up a large portion of the Recovery Act funding, but, according to state officials, the purpose of these programs is not job creation and retention.

The State Auditor’s office also expressed concerns about data reliability. For example, staff noted that standardization of data was lacking and the various decentralized reporting mechanisms, while certainly cheaper and

⁵Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review, *Report to the Mississippi Legislature #518, Enterprise Mississippi: A Vision for State Government* (Jackson, Miss., Dec. 9, 2008.).

less burdensome on state agencies, will not likely provide meaningful data on the impact of Recovery Act funds. Additionally, the staff noted that, if state agencies require their subrecipients to provide nonstandardized and nonuniform data, it will be difficult to identify trends at the state level. They also expressed concern that decentralized reporting would bypass the state-level efforts of accountability. Ultimately, they said state-level, centralized reporting using standardized and uniform data collection elements would be beneficial for state and federal oversight and would raise both the actual and perceived level of accountability.

As an example of state efforts to assess the impact of Recovery Act funds, MDOT hired a contractor to conduct an economic impact analysis of projects MDOT had preselected to receive Recovery Act funding. According to one of the contractor's staff, these projects were preselected on the basis that they were "shovel ready" during the first 90 days of the state receiving stimulus funds. The contractor used a forecasting model to measure the impact that an estimated \$726 million in transportation stimulus funding would have on the state of Mississippi with regard to increased economic spending and the number of jobs from 2009 through 2011.⁶

Mississippi's Comments on This Summary

We provided the Governor of Mississippi with a draft of this appendix on April 17, 2009. The Director of Federal Policy, who serves as the stimulus coordinator, responded for the Governor on April 20, 2009. The official provided technical suggestions that were incorporated, as appropriate.

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⁶According to the contractor, the REMI model (Regional Economic Models Inc.) is a forecasting model that determines the economic impacts of transportation developments by identifying the interrelationships and ensuing impacts in five major sectors of the economy: output; production and labor supply; labor and capital demand; wages, costs and prices; and market share.