

Implications of the Stimulus Funds for State and Local Auditors

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Today's Agenda

- Recovery Act – Implications for State and Local Auditors
 1. Economic Conditions in the States: Pre- and Post-Recovery Act
 2. Key Considerations for State and Local Government Auditors

Economic Conditions in the States

*A Changing (and Challenging)
Environment*

The Economy

- Most states in recession
 - 44 states in recession; 6 at risk
- 1st Quarter 2009 GDP declines 6.1%
 - Caps worst six-month decline in 51 years
 - Declines expected to last through at least 2009
- Revenue expected to weaken further
- Possible 9-10% unemployment
 - 8.5% at end of March 2009
- Housing sector remains weak
- Glimmers of hope
 - S&P 500 up 8.5% in March, 9.4% in April

Sources: Economy.com; Philadelphia Federal Reserve Bank

This downturn vs. Post 2001

- Last Time:
 - Housing sector strong in '01
 - Primarily income tax decline
- This Time:
 - Broad economic decline
 - Localities hit this time
 - Credit crisis this time

Preliminary 4th Quarter 2008 Revenue Weak

- Preliminary state tax collections for 4th quarter show a 4% decline in revenue
- Majority of states reporting had decline both in personal income and sales tax
- 1st and 2nd quarters of 2009 are expected to be even worse

Source: Rockefeller Institute of Government

March 2009 FTA State Tax Collections Survey

- 3-Month moving average shows total collections down 8.3%
- Individual income tax down 8.6%
- Sales tax declining 6.8%
- Corporate income tax down 1.9%

Federal Aid Becomes Top Revenue Source

- In a historic first, federal aid replaces state taxes as biggest source of revenue for state and local governments
 - Federal grants soared 15% in 1st quarter 2009
 - Exceeds for the first time sales, income and property taxes
 - Sales taxes had been the number one source of revenue since the mid-1970s
- Disruption in the traditional balance of state revenue sources demonstrates the severity of recession

The Recovery Act

*Impact on the State and Local
Government Auditors*

American Recovery and Reinvestment Act (the “Recovery Act”)

- Key Provisions
 - Signed into law on February 17, 2009
 - Public Law 111-5
 - Total funding - \$787 billion
 - Approximately \$244 billion to the states
 - Requires **unprecedented** accountability and transparency
 - Governor certifications
 - Quarterly reporting
 - Recovery.gov

Funding

Total Stimulus Funding

Categories of Total Stimulus Funding	Amount in Billions
Tax Relief	\$288
State and Local Fiscal Relief	144
Infrastructure and Science	111
Protecting the Vulnerable	81
Health Care	59
Education and Training	53
Energy	43
Other	8
TOTAL	\$787

Purposes of the Act

1. Preserve or create jobs.
2. Assist those most impacted by the recession (tax relief).
3. Provide investments for technological advances in science and health.
4. Invest in transportation, environmental protection, and other infrastructure.
5. Stabilize state and local government budgets.

States have been allocated \$244 billion or nearly 1/3 of total stimulus dollars

Analysis conducted on the final bill suggests the following breakdown for States:

Expenditure Type	Amount Across all States	Types of Programs
Education	\$ 64 B	Title 1, IDEA, K-12 and Higher Education Repair and Modernization, Education Technology, Child Care Development Block Grants, Head Start, Pell Grants
Infrastructure	\$ 42 B	Highway Infrastructure Investment, Transit Capital, Fixed Guideway Modernization, Clean Water State Revolving Fund, Drinking Water State Revolving Fund, HOME
Health and Human Services	\$117 B	Neighborhood Stabilization Program, Public Housing Capital Funds, Emergency Shelter Grants, Community Development Block Grants, SNAP, Low Income Energy Assistance, Child Support Enforcement, Community Services Block Grants, Medicaid, Byrne Justice
Fiscal Stabilization	\$ 9 B	State Fiscal Stabilization Fund
Clean Tech and Energy Conservation	\$ 8 B	Weatherization Assistance Program, State Energy Program
Workers	\$ 4 B	WIA Training and Employment Services, Extension, UI Increased Benefits, UI Modernization Act
TOTAL	\$ 244 B	

American Recovery and Reinvestment Act (the “Recovery Act”)

- Although extremely helpful, the stimulus funds alone will not fully solve states’ budget shortfalls
 - Still facing \$200 billion shortfall over next three years even after stimulus funds
- States will still need to cut spending, use rainy day funds, examine revenue increases
- States will need to focus on reporting, accountability, and transparency
- States will need to determine how to deal with the end of stimulus funding

American Recovery and Reinvestment Act (the “Recovery Act”)

- Accountability and Transparency
 - Funding for the “Watchdogs”
 - \$84 million – Recovery Accountability and Transparency Board
 - Earl Devaney, chair (former IG of Interior)
 - 10 other IGs are members of the Board
 - \$25 million – Government Accountability Office
 - Currently visiting 16 states plus DC to begin its work
 - \$221.5 million – Inspectors General
 - Shall review concerns raised by the public about specific investments using funds made available under the Act
 - Findings of reviews and audits should be posted to the IG’s website
 - \$0 – for state and local government accountability officials
 - However, Edolphus Towns (NY) introduced legislation (H.B. 2182) on April 30, 2009 that would set aside up to .5% of ARRA funds
 - OMB also working on guidance regarding administrative cost allocation

American Recovery and Reinvestment Act (the “Recovery Act”)

- Accountability and Transparency (cont.)
 - Governor certifications
 - §410 – state energy grants
 - §1201 – level of effort regarding transportation projects
 - §1511 – infrastructure
 - Infrastructure projects have received the full review and vetting required by law and that the Governor accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars.
 - § 1607 – general certification
 - Due in 45 days after the date of enactment of the Act

American Recovery and Reinvestment Act (the “Recovery Act”)

- Accountability and Transparency (cont.)
 - Quarterly reporting
 - § 1512 – not later than 10 days after the end of each quarter:
 1. Total amount received from that agency
 2. Amount of recovery funds spent or obligated to projects or activities
 3. A detailed list of all projects or activities for which recovery funds were expended or obligated including;
 - » The name of the project
 - » A description of the project
 - » An evaluation of the completion status
 - » An estimate of the number of jobs created and retained
 - » For infrastructure investments, the purpose, total cost, and rationale for funding the project
 4. Detailed information on any subcontracts or subgrants to include the data elements required by Federal Funding Accountability and Transparency Act of 2006 (FFATA)
 - First report is due October 10, 2009

American Recovery and Reinvestment Act (the “Recovery Act”)

- Accountability and Transparency (cont.)
 - Recovery.gov
 - One of the centerpieces of the Act to promote transparency
 - Recovery.gov is the responsibility of Recovery Accountability and Transparency Board
 - OMB is currently assisting with the development
 - Mission:
 - Education: explain the American Recovery and Reinvestment Act;
 - Transparency: show how, when, and where the money is spent;
 - Accountability: provide data that will allow citizens to evaluate the Act’s progress and provide feedback.
 - Much debate now about data and how the site will be populated
 - Centralized or decentralized (e.g., statewide or agency-by-agency)
 - For the federal government, reporting will be centralized at www.FederalReporting.gov
 - States have also launched their own recovery websites

American Recovery and Reinvestment Act (the “Recovery Act”)

- Areas of concern from the states’ perspective:
 - What are the expectations for greater oversight and accountability?
 - New programs, new compliance requirements, new matching requirements, etc.
 - Funding
 - Can these increased expectations be met without available funding?
 - Can grants be charged directly or indirectly?
 - Can OMB provide explicit guidance?
 - Human Capital Capacity
 - Most states have lost oversight/accountability professionals due to recent budget cuts
 - How can this challenge be met?
 - Will work need to be outsourced? Retirees?
 - Impact on new hires after Recovery Act funds are gone

American Recovery and Reinvestment Act (the “Recovery Act”)

- Areas of concern from the states’ perspective (cont.):
 - standard data elements must be developed in order to have consistency in reporting
 - OMB released guidance in Federal Register on April 1, 2009
 - Some initial concerns:
 - Use of DUNs number as a unique identifier
 - 10-day requirement limits/prohibits data validation
 - Can previous submissions be corrected?
 - Cash vs. accrual option will create comparability issues
 - “Cumulative” totals – quarter to date or year to date
 - Guidance is needed in the area of jobs created or retained
 - How can “indirect jobs” be tracked
 - created as a result of a demand for goods and services by direct funding

American Recovery and Reinvestment Act (the “Recovery Act”)

- Areas of concern from the states’ perspective (cont.):
 - Funding distribution notices
 - States must be informed by the Federal government (preferably from one central agency) when Recovery Act funds are distributed
 - This communication should be consistent and centralized
 - What are the expectations for “front end” or “real time” auditing?
 - Single audit issues
 - Compliance Supplement update, major program determinations, high-risk designations by OMB, new CFDA numbers, etc.
 - Increased focus on preventive, upfront internal controls
 - Agreed-upon procedures engagements?
 - Change required to Circular A-133?

American Recovery and Reinvestment Act (the “Recovery Act”)

- Milestones:
 - First round of OMB guidance to federal agencies
 - released on February 18, 2009
 - http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-10.pdf
 - Second round of OMB guidance to federal agencies
 - released on April 3, 2009
 - <http://www.recovery.gov/sites/default/files/m09-15.pdf>
 - GAO’s first report to Congress on April 23, 2009
- Next Steps:
 - Anticipated guidance from OMB:
 - Cost recovery guidance (expected May 11, 2009)
 - Job counting guidance (expected May 11, 2009)
 - OMB Revised *Compliance Supplement* (Expected on May 15, 2009; Addendum on June 30, 2009)
 - Data architecture (TBA)
 - Ongoing work of GAO
 - Periodic reports to Congress

These are interesting times....

Questions or Comments?