
American Recovery and Reinvestment Act: Accountability and Transparency

Western Intergovernmental Audit Forum
June 4, 2009

By Linda Calbom
GAO Western Regional Director

American Recovery and Reinvestment Act of 2009 (Recovery Act)

- Signed February 17, 2009
- Purposes:
 - preserve and create jobs and promote recovery
 - assist those most impacted by the recession
 - invest in science and health-care technology
 - invest in infrastructure
 - stabilize state and local government budgets
- Total cost, tax and spending: \$787 billion, including over \$580 billion in additional spending
 - ✓ \$280 billion of this will flow through States and Localities

GAO's Oversight of the Recovery Act

GAO responsibilities include:

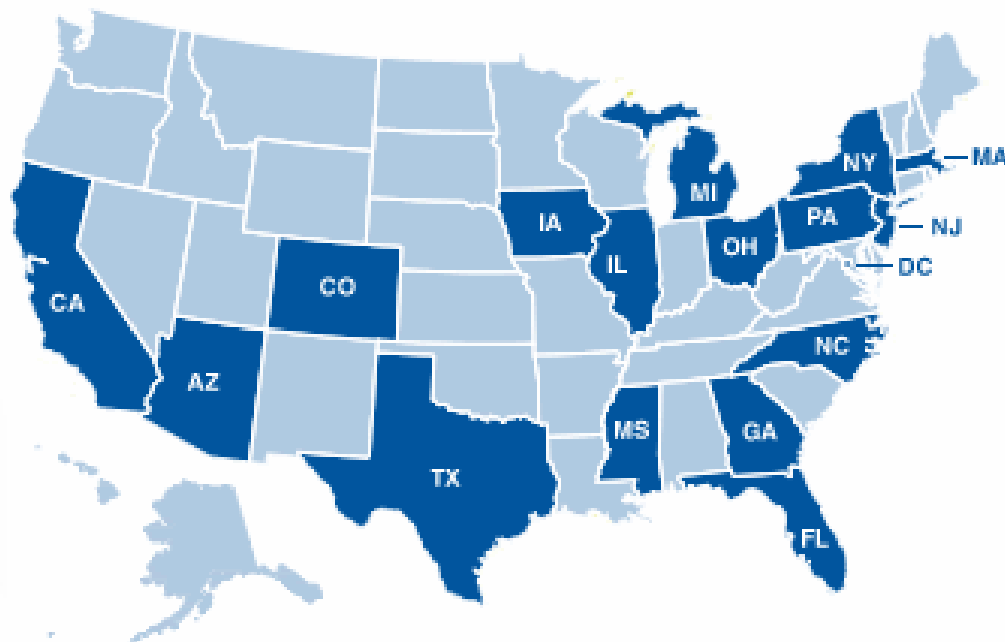
- conducting bimonthly reviews of selected state and localities use of funds,
- commenting on the estimates of the number of jobs created and retained by projects and activities, and
- reviewing areas such as trade adjustment assistance, new education incentive grants, and efforts to increase small business lending.

GAO's Coordination with the Accountability Community

- GAO is coordinating roles, planned approaches, and timelines with the broader accountability community including:
 - State and local government auditors
 - Recovery Accountability and Transparency Board
 - Inspectors General (IG)
 - Office of Management and Budget (OMB)

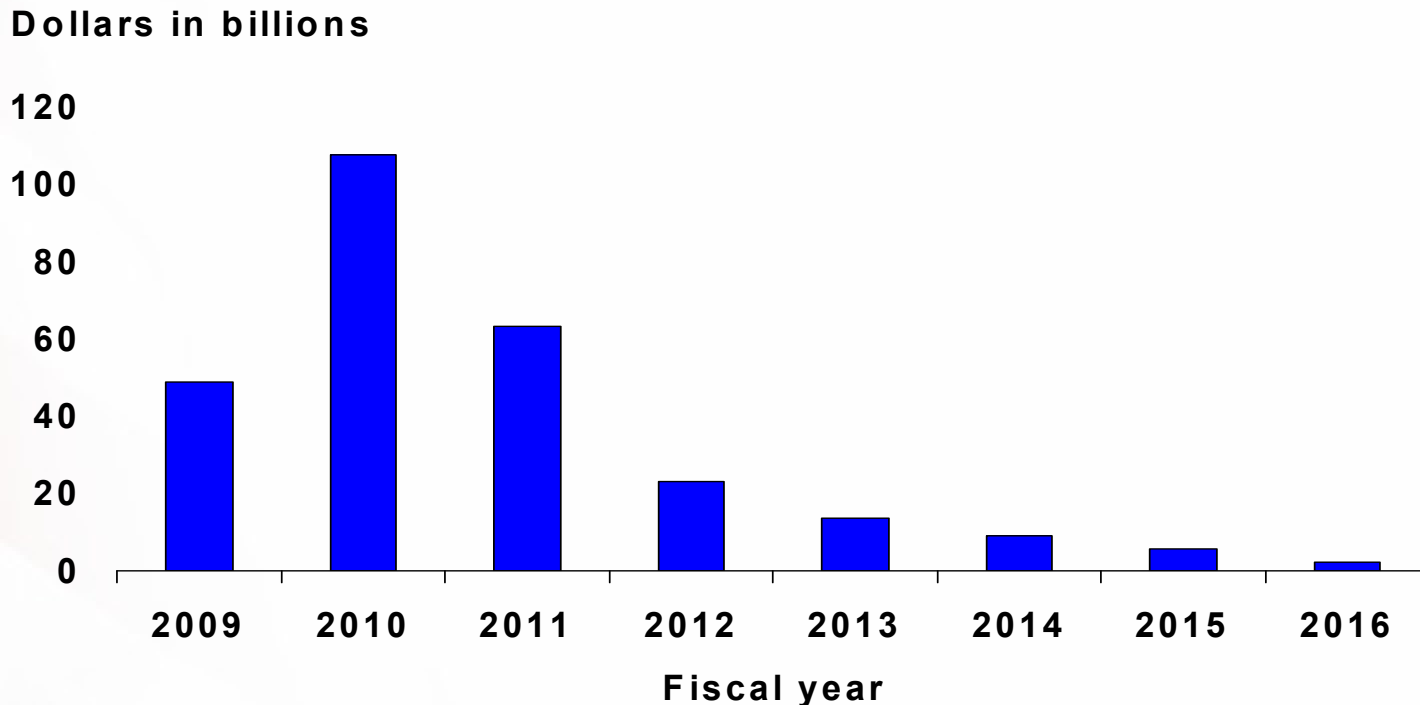
Bimonthly Reviews Examine How States and Localities are Spending Recovery Act Funds

- The reviews will focus on 16 states and D.C.
- The first review was completed April 23, 2009.



Recovery Act Spending by States and Localities will Occur Over Time

- Projected timing of Recovery Act funding made available to states and localities by fiscal year:



Source: GAO analysis of CBO and FFIS data.

GAO's First Report Under the Recovery Act Mandate Assessed Three Objectives

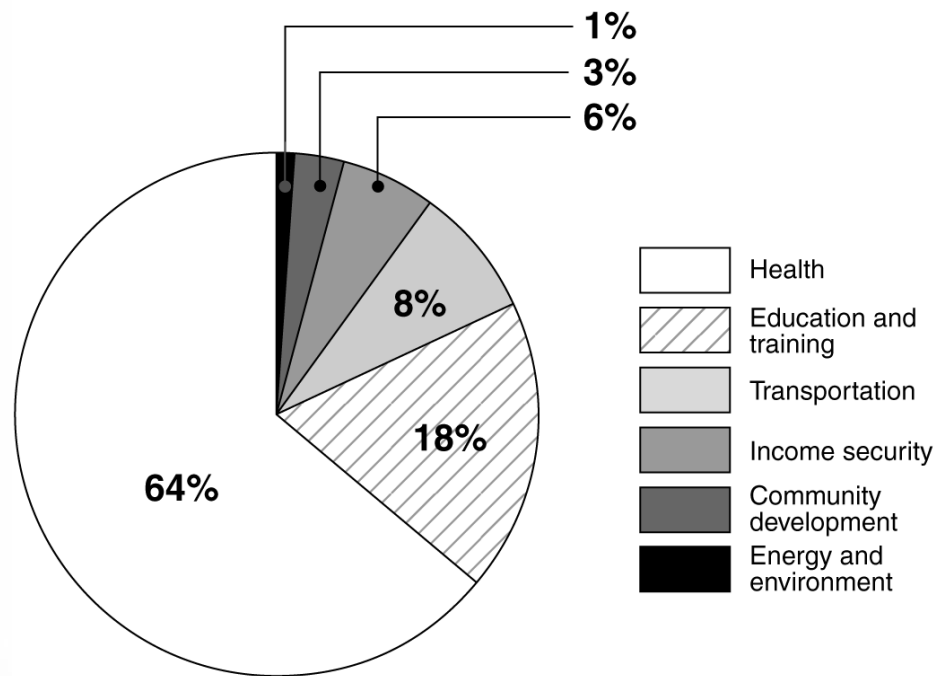
The objectives for this report were to assess;

- (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.

GAO's First Report Under the Recovery Act Mandate Focused on the Largest Programs

- About 90 percent of the estimated \$49 billion in Recovery Act funding to be provided to states and localities in FY2009 will be through health, transportation, and education programs.
- The three largest programs are:
 - ✓ Increased Medicaid Federal Medical Assistance Percentage (FMAP) grant awards
 - ✓ Funds for highway infrastructure investment
 - ✓ State Fiscal Stabilization Fund (SFSF)

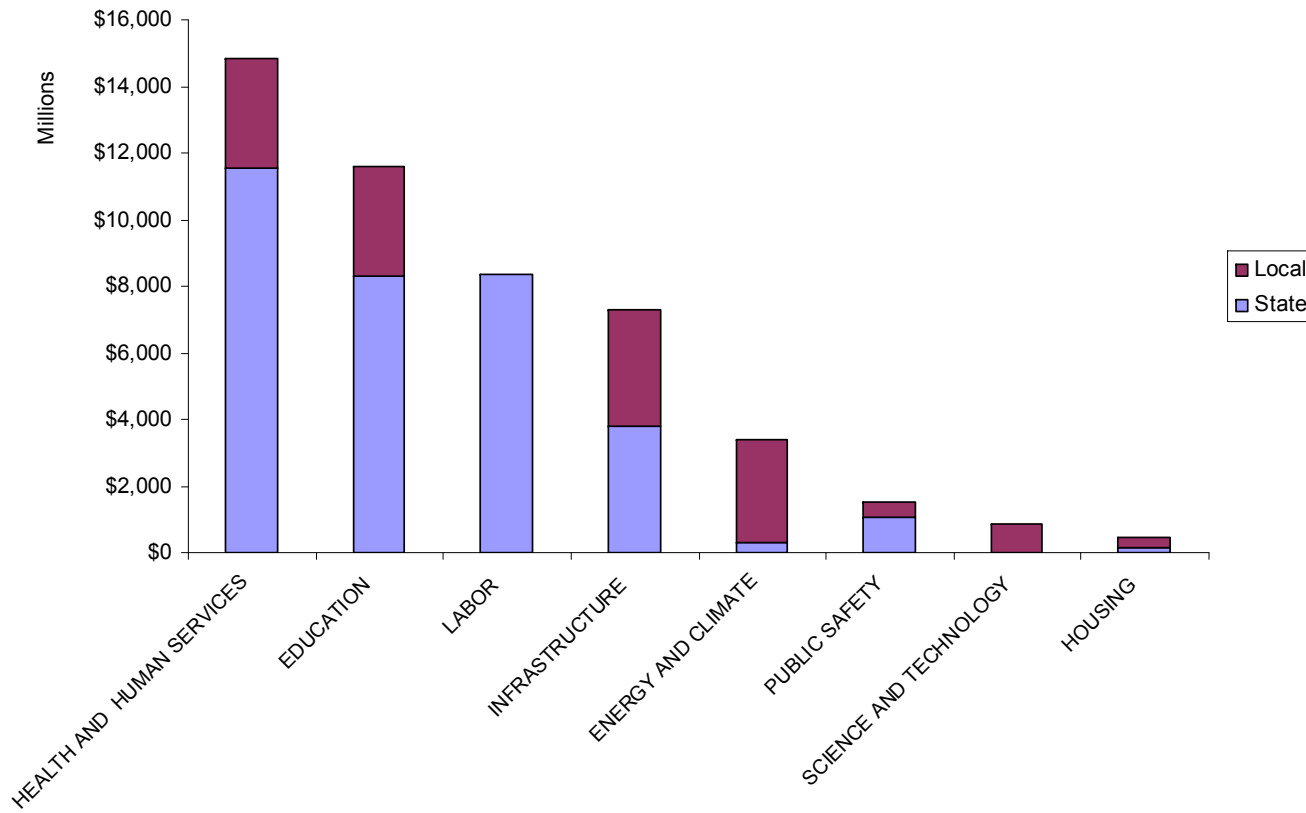
GAO's First Report Under the Recovery Act Mandate Focused on the Largest Programs



Source: GAO analysis of CBO and Federal funds information for States (FFIS) data.

California State and Local Recovery Act Funding

California State and Local Recovery Act Funding



Source: Department of Finance, www.recovery.ca.gov, March 27, 2009

What GAO Found: Uses and Planning for Recovery Act Funds

Increased Medicaid FMAP Funding

- Generally, for FY 2009 through the first quarter of FY 2011, the increased FMAP provides for:
 - The maintenance of states' prior year FMAPs
 - A general across-the-board increase of 6.2 percentage points in states' FMAPS
 - A further increase to the FMAPs for those states that have a qualifying increase in unemployment rates
- California's FMAP increase for the first two quarters of 2009 was 11.59 percentage points, the highest for the States in our sample

What GAO Found:

Uses and Planning for Recovery Act Funds

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.
 - ✓ For the most part, states 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 (DOT) on the specific projects.

What GAO Found: Uses and Planning for Recovery Act Funds

State Fiscal Stabilization Fund

- The states and D.C. must apply to the Department of Education for SFSF funds.
- Education awards once it determines that an application contains key assurances and information on how the state will use the funds.
- The states and D.C. 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.
- California was allocated almost \$4 billion from the initial release of the SFSF funds. The state's application was approved by on April 17 and it is in the process of apportioning these funds to local educational agencies.

What GAO Found: States' & Localities' Accountability Approach

- Selected states are taking various approaches including appointing Recovery Czars, establishing task forces, and developing public web sites to ensure that internal controls are in place to manage risk up-front.
- The results of recent audits, including Single Audit reports, are a readily available source of information to use in the risk assessment process.
- Several states expressed concerns regarding the lack of funding provided to state oversight entities in the Recovery Act given the additional requirements placed on states to provide proper accounting and ensure transparency.

What GAO Found: Accountability Approach in California

- The Governor established the California Federal Economic Stimulus Task Force to ensure both accountability and transparency in how funds are spent, consistent with the Recovery Act and the state's own goals.
- The Task Force will also manage California's recovery Web site (www.recovery.ca.gov), the state's principal vehicle for reporting on the use and status of Recovery Act funds.
- On April 3, 2009, the Governor appointed a Recovery Act Inspector General to make sure Recovery Act funds are used as intended and to identify instances of waste, fraud, and abuse.
- The State Auditor plans to use past audit results to target state agencies and programs receiving stimulus funds that have a high number and history of problems, and is closely coordinating with us on these efforts.

What GAO Found: States' & Localities' Plans to Evaluate Impact

- OMB has issued two broad sets of guidance to the heads of federal departments and agencies for implementing and managing activities enacted under the Recovery Act.
- State officials that we spoke with are pursuing a number of different approaches for measuring the effects of Recovery Act funding.
- Officials in most states expressed concern about the definitions of jobs retained and jobs created under the Recovery Act, as well as methodologies that can be used for estimation of each.

GAO's Recommendations to OMB

Single Audit

To provide additional leverage as an oversight tool for Recovery Act programs, the Director of OMB should adjust the current audit process to:

- focus the risk assessment auditors use to select programs to test for compliance with 2009 federal program requirements on Recovery Act funding
- provide for review of the design of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010
- evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.

GAO's Recommendations to OMB

Reporting on Impact

The Director of OMB should continue OMB's efforts to identify appropriate methodologies that can be used to:

- assess jobs created and retained from projects funded by the Recovery Act
- determine the impact of Recovery Act spending when job creation is indirect
- identify those types of programs, projects, or activities that in the past have demonstrated substantial job creation or are considered likely to do so in the future. Consider whether the approaches taken to estimate jobs created and jobs retained in these cases can be replicated or adapted to other programs.

GAO's Recommendations to OMB

State and Federal Data Collection

In consultation with the Recovery Accountability and Transparency Board and States, the Director of OMB should

- evaluate current information and data collection requirements to determine whether sufficient, reliable and timely information is being collected before adding further data collection requirements.
- consider the cost and burden of additional reporting on states and localities against expected benefits.

Administrative Support and Oversight

- The Director of OMB should timely clarify what Recovery Act funds can be used to support state efforts to ensure accountability and oversight, especially in light of enhanced oversight and coordination requirements.

GAO's Recommendations to OMB

Communications

To foster timely and efficient communications, the Director of OMB should develop an approach that provides dependable notification to

- prime recipients in states and localities when funds are made available for their use
- states, where the state is not the primary recipient of funds, but has a state-wide interest in this information
- all non-federal recipients, on planned releases of federal agency guidance and, if known, whether additional guidance or modifications are expected.

GAO's Ongoing Efforts

- GAO's second bimonthly review of states is underway.
 - ✓ Expanded scope to include additional programs and localities
 - ✓ Report is expected to be issued the week of July 6
- GAO will review quarterly reports filed by fund recipients and comment on the reports' estimates of the number of jobs created and retained by projects or activities supported by Recovery Act funds.
- GAO's oversight work on the Recovery Act will be updated regularly at www.gao.gov/recovery