



Georgia Department of Audits and
Accounts

The uncertainties of auditing ARRA in Georgia

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Breaking news...

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

Source: Bureau of Economic Analysis, May 2009

ARRA to Created/Save Jobs

- ARRA objective: Create 3.5 million jobs in USA
- 106,000 jobs in Georgia
- 90% to private sector
- *Unemployment Rates
 - Nation = 8.9%
 - Georgia = 9.3%
 - Unemployment in Georgia increases 3.8% in 18 mo.

- *Source: Georgia Dept. of Labor Website



Stimulus Update May 1, 2009

Georgia state agencies are expecting to receive \$6.35 billion in American Recovery & Reinvestment Act funds. Of this amount, approximately \$2.83 billion has been awarded from federal agencies to the state of Georgia. As additional applications are processed, more funds are expected to be awarded to the state.

Georgia Stimulus Funds

Education.....	\$2,356,766,385
Health.....	\$1,896,261,389
Transportation.....	\$1,092,974,412
Energy/Environment.....	\$367,495,612
Employment.....	\$356,065,218
Public Safety.....	\$177,656,758
Housing/Community.....	\$97,966,630
<i>Total Stimulus Funds.....</i>	<i>\$6,345,186,404</i>

Audit Challenges

- Unprecedented Risk
- Shrinking human capital/Additional Work
- Can't accurately estimate increase in work

DOAA Takes Proactive Measures

- 2 Audit Risk Alerts Issued
 - March 3, 2009
 - March 24, 2009
 - Contractual Provisions
 - Reporting Requirements
 - Financial Management
 - Review I/C – Identify risks within agency
 - Controls should not be circumvented

Risk Mitigation Efforts

- Conducted Training Sessions for Agency ARRA Designees and Financial Professionals
 - Basics of Internal Control
 - Concepts of Risk Assessment
 - Concepts and Compliance Areas Identified in OMB Compliance Supplement
 - Training Exercise on Risk Assessment and Mitigation for Job Creation/Retention Reporting Requirements

Jobs Created: Risks Identified

1. Double Counting Jobs
2. Inaccurate counting of split-time positions
3. Employing Illegal Immigrants
4. ARRA funds used for pay increases/bonuses
5. Jobs will be counted that already exist
6. Employing unqualified workers
7. Contractors will not use correct methodology for calculating FTE's
8. Re-employing retired workers, not putting unemployed back to work

Risk on top of Risk

- ARRA Funds head into Risky Areas

- Department of Human Resources
 - Recent Legislation Will Reorganize Department/Inability to Demonstrate Compliance With State Budget Statutes

- Department of Transportation
 - Financial Management System Unsuitable for Day-To-Day Management

Department of Human Resources

- Jimmy Carter Reorganization in 1972
 - Health and Social Services Agency
- Department too large to effectively manage
 - \$3.5 billion annual budget
 - > 15,000 employees
 - 10 major Programs in FY 2009 (not counting ARRA impact)
 - Management letter 58 pages
 - 9 Yellow Book & 17 Federal Findings
- On July 1, 2009 DHR is split into 3 agencies

Department of Transportation

- Budgetary Deficits
 - Exceeded \$2.2 billion as of June 30, 2007
- Financial mismanagement
 - General ledger not suitable for day-to-day operations
 - Debt violates the Georgia Constitution
- Change orders/cost overruns = 30%
- Cost overruns = Risk transferred to State?

Shrinking Human Capital - Additional Work

- State Auditors draw the short straw
- State Budget decreases
 - Original 2009 budget – State Funds = \$21.1 billion
 - Current 2009 budget – State Funds = \$18.6 billion
- Georgia's Rainy Day Fund Consumed
 - \$1.7 Billion @ June 30, 2007
 - \$1.2 Billion @ June 30, 2008
 - \$0.0 ???? @ June 30, 2009
- DOAA currently has 40 vacant positions due to budget cuts

GAO Review

- GAO listening to State's concerns regarding the lack of ARRA funding for accountability and oversight.

- Best estimates provided to GAO for 2nd report
 - FY 2009 audits - 6500 to 8500 hours/4 to 5 FTE's
 - FY 2010 audits – 20,000+ hours/12+ FTE's
 - FY 2011 audits – 12,000+ hours/7+ FTE's

*ARRA audit hours exceed current staffing levels

GAO Recommends in 1st Report

- That the Director of OMB “*adjust the single audit process to provide for review of the design of internal controls over 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010.*”
 - How will this impact the Single Audit deadline?
 - What are the expectations for ‘real time’ auditing?

More Questions

- Will pending legislation provide relief to State Auditors?
- When will OMB provide explicit ARRA audit guidance?
 - High-risk designations?
 - Will ARRA programs be clustered?
 - Consideration of Programs < Type B Threshold?
 - Extent of Procedures?
 - How will we be required to test the accuracy of jobs created/jobs retained?

ARRA: Departing Thoughts...

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- Although extremely helpful, the stimulus alone will not fully solve states' budget shortfalls.
- States will need to determine how to deal with the end of stimulus funding.
- Will new jobs really be created?
 - Will the unemployment rates go down as 'jobs created' are reported?

Questions?

