



## **Testimony for the Record**

**Presented by the National Association of State Auditors, Comptrollers and Treasurers**

**To the  
Committee on Oversight and Government Reform  
United States House of Representatives**

**Hearing on  
“Tracking the Money: Preventing Waste, Fraud, and Abuse of Recovery Act Funding”**

**July 8, 2009**

Chairman Towns, Ranking Member Issa and Members of the Committee: Thank you for the opportunity to provide our views on issues surrounding the implementation of the American Recovery and Reinvestment Act of 2009 (ARRA).

The National Association of State Auditors, Comptrollers and Treasurers (NASACT) is a national organization whose members are comprised of the top finance officers in each state. Our members have the titles of state auditor, state comptroller, and state treasurer. Both elected and appointed, these officials assure that taxpayer dollars are invested, expended and accounted for and that the flow of money into states is monitored, not only for waste, fraud and abuse, but for efficiency and effectiveness.

While accountability and transparency seem to be the buzzwords of the day, these are not new concepts for state auditors, comptrollers and treasurers. Each of these officials plays a vital role in assuring transparent expenditures and accountable processes. The effective and efficient expenditure of funds, including those provided by the Recovery Act, is the number one priority for our members.

We share fully your commitment to minimizing opportunities for waste, fraud and abuse as the Recovery Act is implemented. However, we have a number of concerns regarding our ability to realistically meet the challenges that lay before us.

Topping this list is the lack of funding for state and local accountability professionals and our capacity to carry out the objectives of the Recovery Act. There seems to be significant emphasis on accountability of Recovery Act funds at the federal level, as is shown through the significant dollars given to the federal inspectors general community and the Recovery Accountability and Transparency Board in the act. However, there is no similar provision for direct funding at the state and local levels. Foremost on our minds is how to address the efforts needed to face the inherent risks of fraud and abuse when significant amounts of money are distributed quickly – particularly without the necessary resources to do so.

We sincerely appreciate the Chairman’s previous concerns over the funding issues and applaud the introduction of a proposal (H.R. 2182) to set aside up to 0.5 percent to conduct oversight and planning activities. Unfortunately, since there are no requirements as to how the 0.5 percent may be spent by states, this proposal is unlikely to assist many of our members as they will be competing with higher

priorities for recovery dollars within the states. Money for audit or to upgrade dated accounting systems is not generally a priority when children lack needed school books. Given the option, most states will choose to carry out program objectives even where additional funding for administrative purposes is allowable. Thus, state accountability professionals are left without meaningful relief.

In March, Illinois Auditor General William G. Holland came before this committee to discuss several challenges facing the state audit community. These challenges remain today, although we now have a clearer picture of what will be required of state auditors and comptrollers in providing accountability over Recovery Act funds. It is very clear that our members will face additional responsibilities to accommodate the major emphasis placed on assuring unprecedented levels of accountability and transparency by both Congress and the Administration. Determining exactly how much work will be necessary to carry out the intentions of the Recovery Act however, remains an unknown, since information such as the final requirements for work conducted in accordance with the Single Audit is not yet available. This year, more than at any other time, timely guidance is sorely needed.

That being said, we should note that several of our members have been quite proactive in conducting audits, oversight, and review work on the front end to ensure that the appropriate internal controls are in place to minimize risk. We fear, however, that this work may cease if additional requirements are imposed without additional funding or Single Audit relief.

In terms of using the Single Audit for Recovery Act oversight, we understand that there is a desire to treat all, or substantially all, programs receiving ARRA funds as major programs. This anticipated directive would be particularly problematic as designating every federal program with ARRA expenditures as major, no matter how immaterial, would require a significant increase in staffing at a time when audit shops have had significant cuts in staff. In fact, we recently conducted a poll of our auditor and comptroller members to determine how the economic downturn has affected staffing in those offices. The findings are alarming and highlight the crisis we face in meeting the challenge of minimizing risk and conducting appropriate oversight of Recovery Act funds. Some state audit offices are reporting as much as a 26 percent reduction in staff just last year, and others have noted significant furloughs, hiring freezes and other cost savings measures that are having detrimental effects on their work. State comptroller offices are experiencing similar human capital and resource shortfalls. We remain very concerned that while the workload for our members continues to increase, staffing and resources will continue to decline.

Additionally, we believe that treating every program as major simply does not make sense since the vast majority of findings are repeat findings and the deficiencies are already known at the federal level. Since a large majority of ARRA funds will flow through existing programs, we do not feel that conducting additional work to reveal the same risk factors is the best use of our resources. There really is nothing distinctive about ARRA funds that should warrant special treatment and usurp the auditor's professional judgment within the existing guidelines and rules. We suggest that ARRA funds be considered with all other federal funds subject to the same existing processes that are used to determine major programs.

We also understand that there is a movement afoot to reduce the Single Audit submission deadline from nine to six months. A six-month deadline would be very difficult, if not impossible, to meet since most states' comprehensive annual financial reports (CAFRs) are not completed until December, approximately six-months after the end of the fiscal year. Changing the Single Audit deadline is not just an audit issue but rather an issue that must take into consideration a number of factors. Gathering the required financial statement information from component units remains the key obstacle for states to releasing financial statements in a timelier manner. Systems are also a problem in several states. States are not likely to compromise on receiving an unqualified audit opinion just to release their CAFRs earlier. A disclaimer

audit opinion would likely reduce a state's bond rating, a very undesirable result. Additionally, some states experience difficulties in preparing accurate and timely schedules of expenditures of federal awards, further delaying the auditor's ability to do timely Single Audit work.

Lastly, we understand that a proposal is being discussed that would require a certification on internal controls. From a practical point of view, it would be impossible to mandate specific internal controls in many cases. States and their myriad of agencies and systems are much too diverse for this. Entities will not be able to certify that controls are in place and operating without incurring significant costs to test the controls separately from their external audit. It also appears that the external auditor will be required to render an opinion on the effectiveness of internal control. In essence, it appears that the internal control aspects of Sarbanes-Oxley would be made applicable to Recovery Act funds. We should consider how much such measures cost the private sector and evaluate whether the value being added over current practice is really worth the additional work. We submit that current internal control reporting is almost as valuable as an opinion on internal control at a fraction of the cost.

So the real question is "How do we take on the additional work required to assure accountability and transparency over Recovery Act funds when staffing is at record lows?" Designated funding would provide some relief but will not fully solve the capacity issue. Finding experienced individuals to conduct this important work is elusive and concerning.

We believe that the money intended to help stabilize our country's economy should be expended in the most efficient and effective manner, and we intend to do our part. We hope, however, that we can work with Congress and others to establish proper channels to promote accountability and transparency over Recovery Act funds without placing an unrealistic workload on our already strained member offices.

We look forward to additional hearings on this important issue and would be happy to answer any questions or provide additional details. Mr. Chairman, Ranking Member Issa and members of the Committee, thank you for the opportunity to express our views.