



ENSURING ACCOUNTABILITY IN A TIME OF FINANCIAL AND FISCAL STRESS

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Outline

- American Recovery & Reinvestment Act
- Financial Institutions and Markets
- Long-Term Fiscal Outlook and Risk

American Recovery & Reinvestment Act

- Signed February 17, 2009
- Purpose:
 - 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 (CBO Estimate)

American Recovery & Reinvestment Act

GAO responsibilities include:

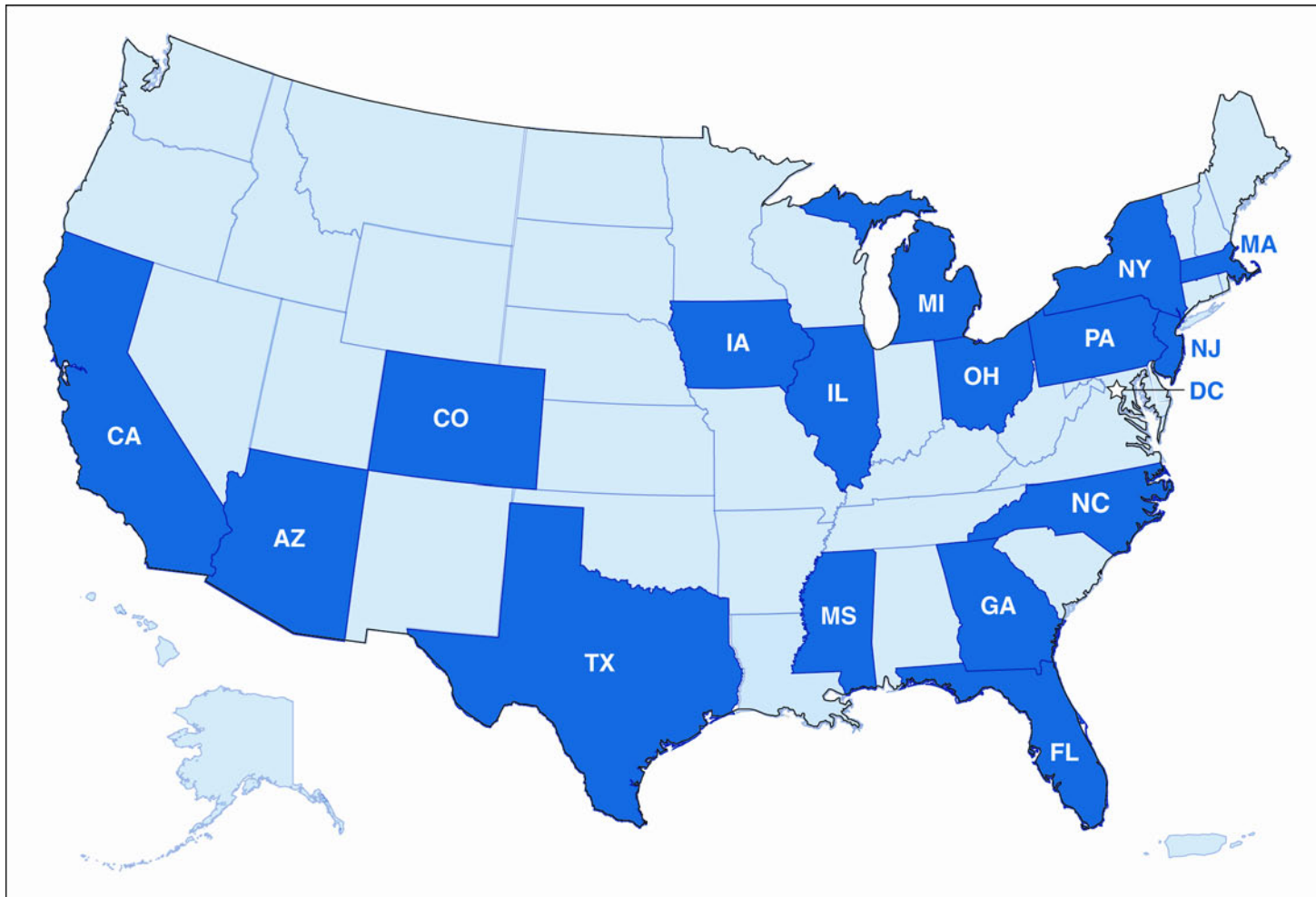
- conducting bimonthly reviews of selected states' and localities' use of the funds
- commenting on recipient reports on the number of jobs created or preserved
- reviewing areas such as trade adjustment assistance, new education incentive grants, and efforts to increase small business lending
- monitoring downturn's long-term effect on states (health care costs)

American Recovery & Reinvestment Act

State and Local Reporting Strategy for Bimonthly Reviews

- Longitudinal study of 16 states and the District of Columbia
 - A number of localities within selected states
- Program-specific review across states
 - April report focused on 3 largest: increased Medicaid FMAP funding; Highway Infrastructure Investment; State Fiscal Stabilization Funds
 - Forthcoming reports to cover additional programs

American Recovery & Reinvestment Act



1. Arizona
2. California
3. Colorado
4. Florida
5. Georgia
6. Illinois
7. Iowa
8. Massachusetts
9. Michigan
10. Mississippi
11. New Jersey
12. New York
13. North Carolina
14. Ohio
15. Pennsylvania
16. Texas
17. Washington, D.C.

Source: GAO analysis.

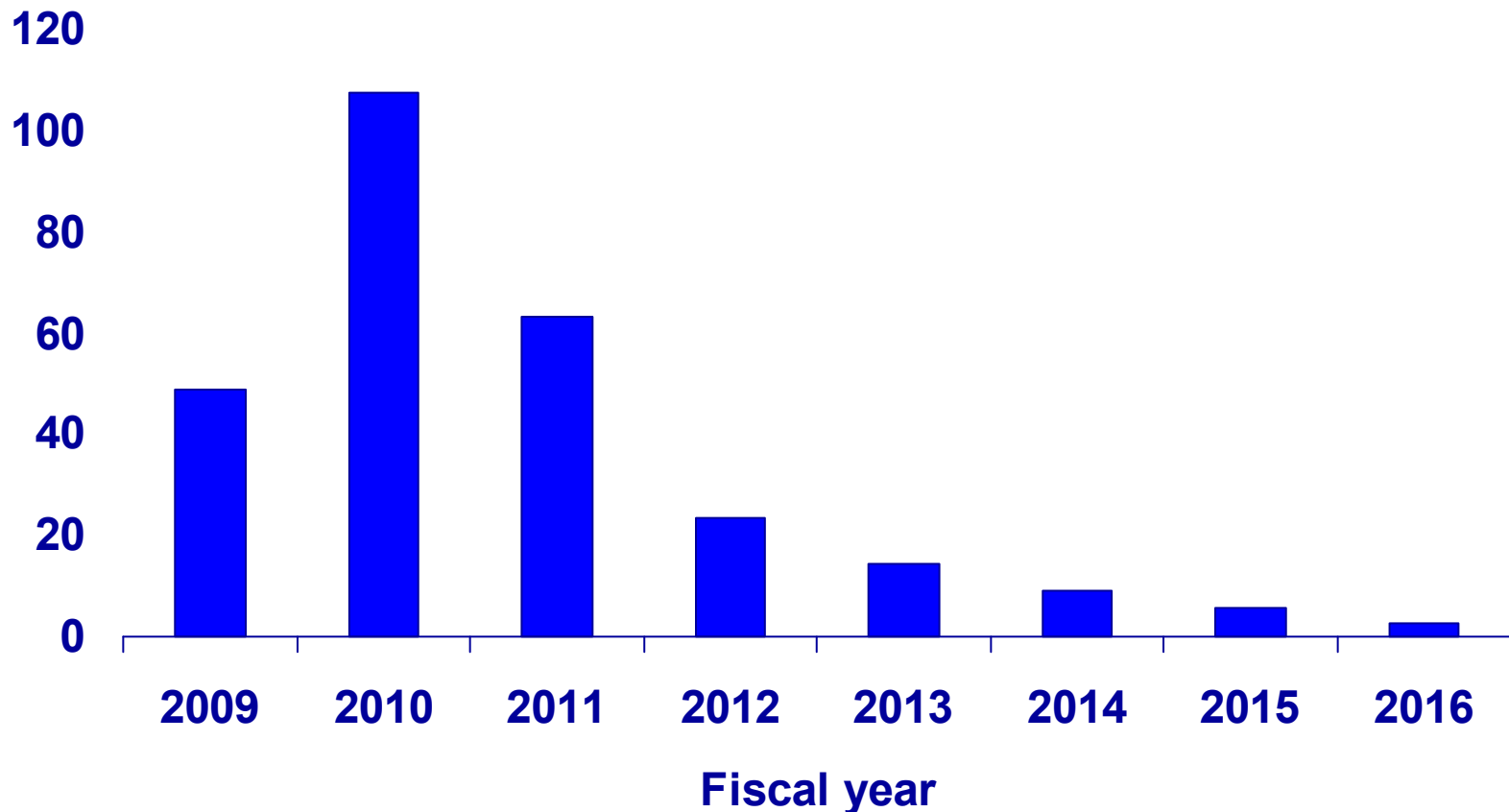
Reporting Objectives

Describe states' and localities

- Use of funds
- Up-front safeguards and ongoing monitoring, audits, and evaluations
- Plans to evaluate the impact of funds

Timing of Federal Recovery Act Funding Made Available to States and Localities

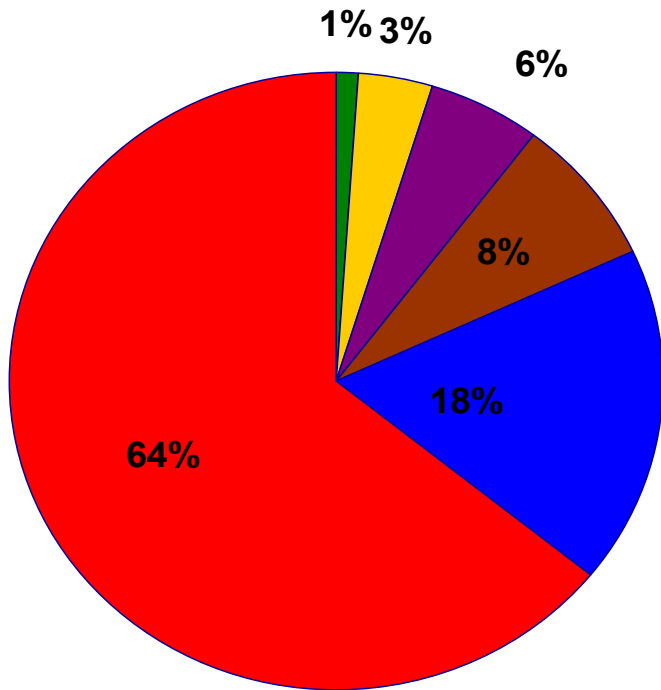
Dollars in billions



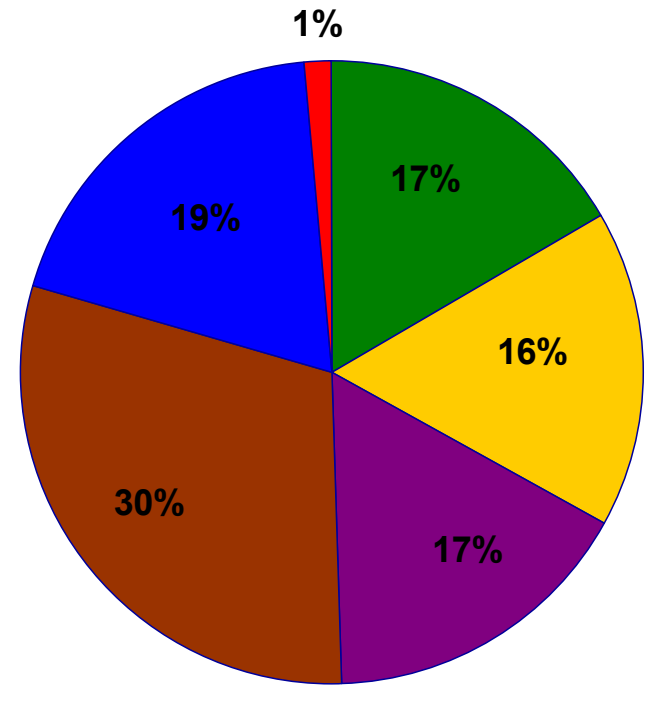
Source: GAO analysis of CBO and FFIS data, April 2009

Composition of State and Local Recovery Act Funding

Fiscal Year 2009



Fiscal Year 2012



Source: GAO analysis of CBO and FFIS data, April 2009

American Recovery & Reinvestment Act

Single Audits and Risks

- Under the current approach, certain risks associated with Recovery Act programs may not receive full consideration. Also, timing of audit reporting is problematic.
- Unique challenges associated with Recovery Act funding:
 - Sudden increase in funds that most recipients are experiencing
 - New government programs and programs that are new for the recipient entity
 - Need for timely and efficient oversight in response to the Recovery Act's accountability requirements

American Recovery & Reinvestment Act

GAO Recommendations on Audit Process

- 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; and
 - Evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act

American Recovery & Reinvestment Act: Other GAO Recommendations

- Administrative support to help states with oversight
- Methodologies to determine jobs created and retained
- Communication with state and local recipients
- Recipient reports and data collection requirements

American Recovery & Reinvestment Act Grant Applications

- Concern whether existing grants.gov infrastructure could handle influx of applications as key deadlines approach led OMB to direct agencies to develop alternatives... BUT
- No centralized source of information on how and when to use alternatives
- Recommended OMB improve policies to help minimize disruptions to the grants application process and increase likelihood that applicants can successfully apply

American Recovery & Reinvestment Act

HIT Policy Committee & SBA

- Appointment of 13 members to the Health Information Technology Policy Committee on April 3, 2009
- On April 16 reported on Small Business Administration efforts to, among other things, increase liquidity in the secondary markets for SBA loans

American Recovery & Reinvestment Act

Challenges for federal, state and local officials:

- Expectations for “an unprecedented level of transparency and accountability”
- Qualified personnel need to implement proper controls and accountability at all levels of government
- Close and ongoing coordination needed among federal, state, and local governments
- Accountability community: special responsibility to ensure collective efforts are well-coordinated.

Financial Institutions and Markets

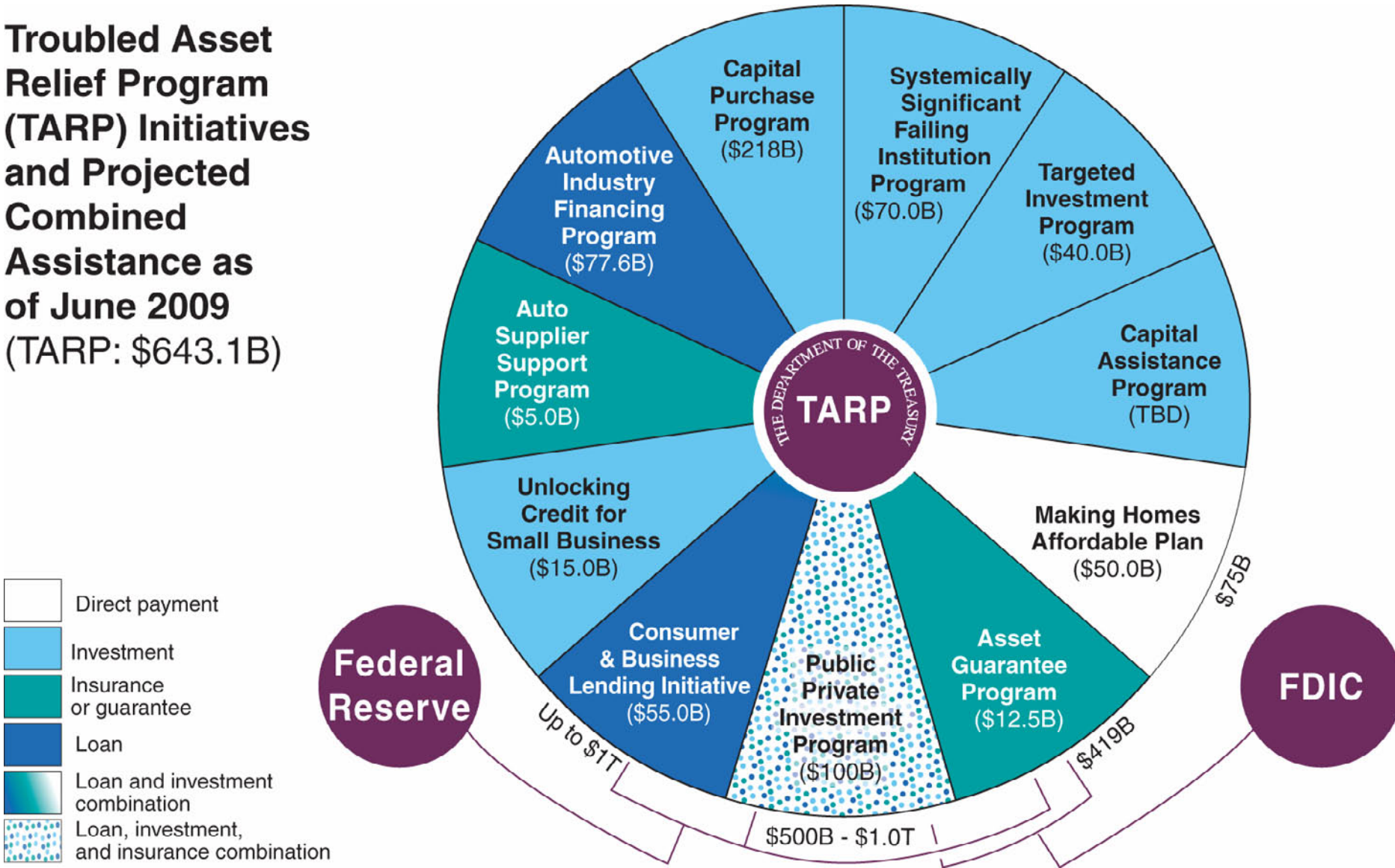
GAO Role in Financial Rescue

- Troubled Asset Relief Program (TARP) oversight
- Auditors of FDIC's Deposit Insurance Fund, FHFA, TARP, and U.S. Government Financial Statements
- Financial Regulatory System
- INTOSAI Task Force on Global Financial Crisis

Financial Institutions and Markets

- Emergency Economic Stabilization Act of 2008 created \$700 billion TARP in October 2008
- GAO given statutory oversight role
- GAO's TARP reports' recommendations follow 3 themes:
 - Monitoring the use of funds to meet the Act's objectives
 - Articulating a better communication strategy
 - Ensuring effective Treasury management structure

Troubled Asset Relief Program (TARP) Initiatives and Projected Combined Assistance as of June 2009 (TARP: \$643.1B)



Financial Institutions and Markets

FDIC's Deposit Insurance Fund

- Most recent audit of financial statements completed May 2009: Clean opinion but
 - Reported losses from actual and anticipated failures of \$42 billion
 - Reported Fund reserves of \$17 billion were well below statutory minimum level
 - Highlighted additional exposures to Fund from potential financial institution failures and systemic risk initiatives

Financial Institutions and Markets

Consolidated Financial Statement Issues

- Ultimate effect of federal government's actions will be reflected in the U.S. government's consolidated financial statements for fiscal year 2009 and beyond
- Nature and magnitude of these actions have created new challenges for, among other things, federal financial reporting

Financial Institutions and Markets

Looking Ahead

- Housing
 - Analysis of proposals for the structure of Fannie Mae and Freddie Mac
 - Review of Treasury's efforts to establish a loan modification program
- Financial Regulation
 - Framework for Modernizing the Financial Regulatory System

Modernizing the U.S. Financial Regulatory System

Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System

- Explains the origins of the current financial regulatory system
- Describes market developments and changes that pose challenges to the current system
- Presents an evaluation framework that Congress and others can use to craft or evaluate potential regulatory reform efforts

(GAO-09-216, Jan. 8, 2009)

Outdated Regulatory System

Risks posed by:

- Emergence of large, complex, and interconnected financial conglomerates
- Less-regulated entities are playing increasingly critical roles in the financial system
- New and complex products pose challenges to system stability and consumer protection

For Crafting or Assessing Regulatory Reform Proposals: GAO Framework— 9 Essential Characteristics

- Clearly defined regulatory goals in statute
- Appropriately comprehensive
- Systemwide focus
- Flexible and adaptable
- Efficient and effective
- Consistent consumer and investor protections
- Regulators provided with independence, prominence, authority, and accountability
- Consistent financial oversight
- Minimal taxpayer exposure

Global Financial Crisis Task Force

- Created by International Governing Board in November 2008
- Purpose:
 - Enhance the knowledge base of NAOs on financial and economic matters related to the crisis
 - Provide a source of information to help governments and the global community respond to the crisis
- Membership: U.S.A. is lead, other countries include:

Austria	Estonia	Mexico	Spain
Cyprus	Hungary	Morocco	Sweden
Canada	Indonesia	Netherlands	United Kingdom
Chile	Italy	Poland	Venezuela
China	Japan	Russia	
Denmark	Korea	Slovakia	

Federal Financial Management: Need to Continue Progress

- Significant improvements in federal financial management -- but still a long way to go
- Important to ensure that information for decision-making is reliable

Federal Financial Management: Key Challenges

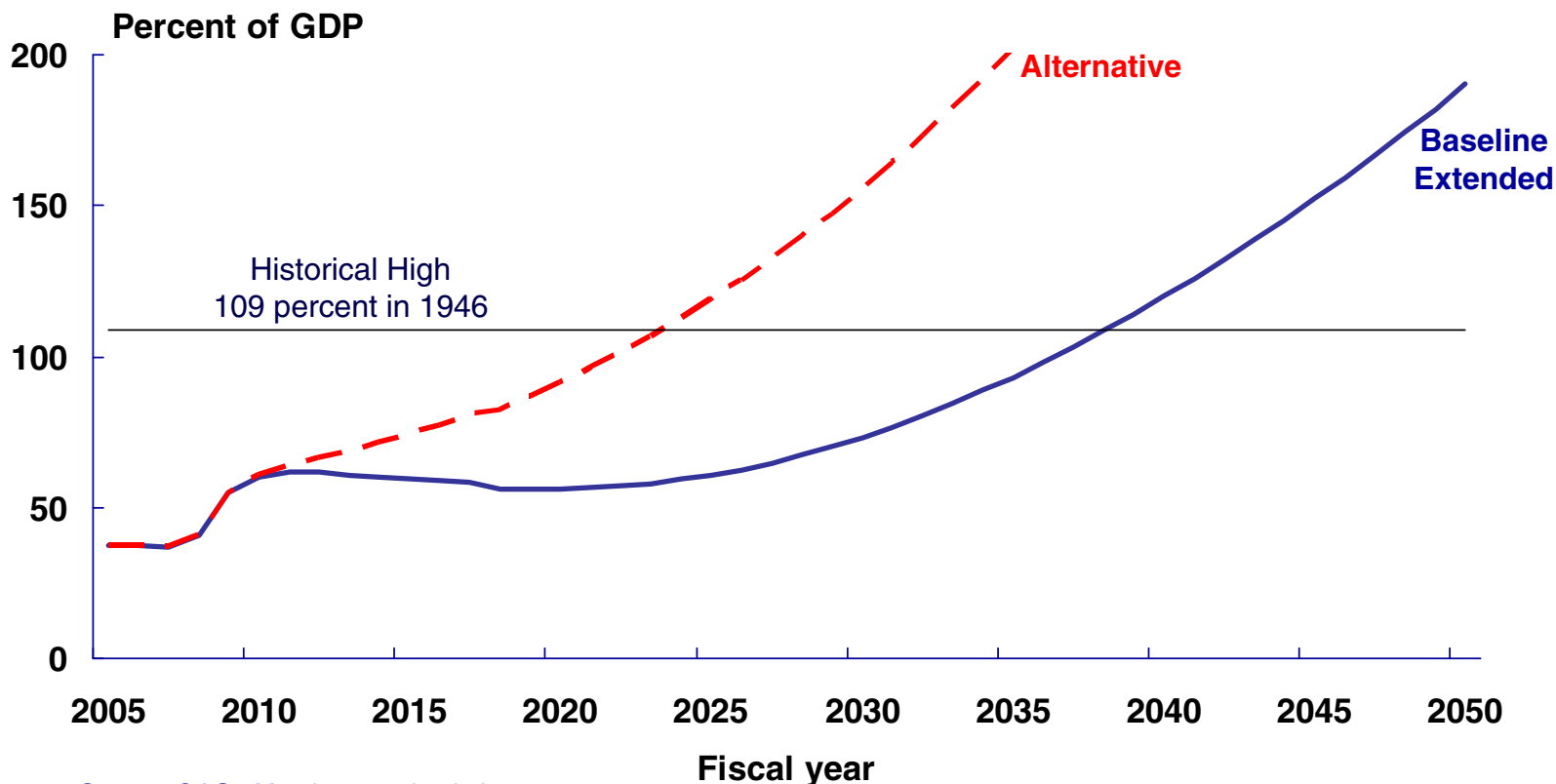
- Improve internal control—enhanced accountability and reduced improper payments
- Obtain clean opinion on U.S. government's consolidated financial statements
- Improve extent and reliability of cost information for evaluating federal program operations
- Implement more effective federal financial management systems
- Improve federal grant accountability
- Streamline and enhance relevance and effectiveness of federal accountability requirements and practices

Long-Term Challenges

- Today's focus—understandably—is on:
 - Dealing with financial system stress
 - Addressing the economic downturn
- BUT.... Underlying issues still need to be addressed:
 - Long-term fiscal challenge
 - Sustaining progress on federal financial management

Long-Term Fiscal Challenge

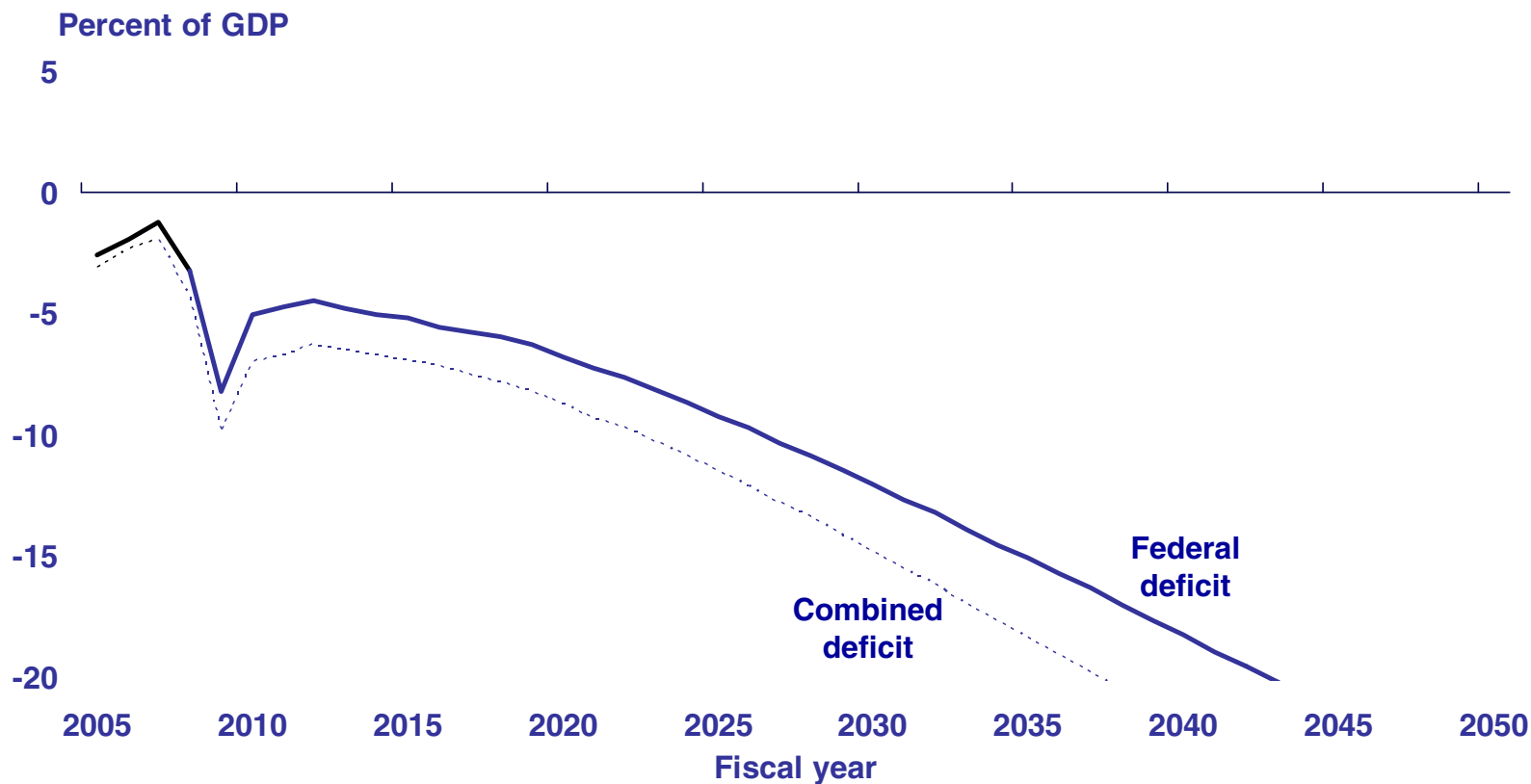
Debt Held by the Public as a Share of GDP Under Two Fiscal Policy Simulations



Source: GAO. March 2009 simulations

Notes: Data from GAO's simulations based on the 2008 Trustees' assumptions for Social Security and Medicare. We also run simulations using CBO's projections for Social Security and Medicare; the results are not materially different.

Federal and Combined Federal, State and Local Deficits as Shares of GDP



Source: GAO January 2009 analysis.

Note: Federal surplus/deficit is from GAO's Alternative Simulation based on the Trustees' assumptions for Social Security and Medicare. We also run simulations using CBO's projections for Social Security and Medicare; the results are not materially different.

Some Measures

- Impact on Debt held by the public:
 - FY 2005 actual: \$4.6 trillion (37.5% of GDP)
 - FY 2008 actual: \$5.8 trillion (40.8% of GDP)
 - FY 2009 projected: \$8.5 trillion (59.9% of GDP)
 - FY 2010 projected: \$9.9 trillion (67.1% of GDP)

Impact on Social Security:

- Projected gap between expected outlays & expected revenue widened from \$6.6 trillion in 2008 to \$7.7 trillion in 2009
- Negative cash flow 2016 (compared to 2017)
- Trust fund exhaustion 2037 (compared to 2041)

On the Web

Web site: www.gao.gov/cghome/index.html

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