For those in the industry of government accountability, the term “unprecedented change in 2009” is an understatement. With the enactment of the American Recovery and Reinvestment Act of 2009, government financial management professionals embarked on a monumental undertaking: using existing limited resources to quickly develop a new, efficient, Web-based system of reporting and accounting for federal grant funds. Everyone recognized the enormity of the task; no one, however, could have foreseen the extraordinary levels of intergovernmental cooperation that would emerge.

On Feb. 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA or the Recovery Act) into law. ARRA provided $787 billion in funding, with approximately $246 billion going to the states. In addition to providing an unprecedented amount of funding, the act also required unprecedented levels of accountability and transparency.

As with most pieces of controversial legislation, the Recovery Act has had some unforeseen consequences. One such unforeseen consequence, however, was unexpectedly positive: the emergence of extreme levels of inter- (and intra-) governmental cooperation. As they have worked to implement the requirements of the act, governments and agencies at the local, state and federal levels have exhibited a surprising tenacity, coming together in the spirit of cooperation to accomplish what can be fairly labeled as a Herculean effort.

The Recovery Act: What’s the Big Deal?

In a perfect world, nobody would talk about unprecedented levels of cooperation because everyone would work together toward common goals, with cooperation being implied and not worthy of special mention. However, when one considers the thousands of governmental and non-governmental entities and players in the federal grants game in this country, with each working to satisfy the desires and aims of the citizen groups they represent, it is easy to understand how the notion of cooperative effort might seem foreign, or perhaps even quaint.

The Recovery Act was unprecedented in many ways. Not only did it include an enormous amount of money to be distributed in the name of economic stimulus, but it also called for the creation of complex processes and oversight bodies to help usher in a new era of government transparency and accountability. The legislation required these things to be developed and implemented in just a few months after the signing of the bill. All this happened at a time when the American economy was suffering its largest decline since the Great Depression and state budgets were at their weakest point in modern history.

The act called for the establishment of the Recovery Accountability and Transparency Board, a new entity with two goals: to provide transparency in relation to Recovery Act funds and to prevent and detect fraud, waste and mismanagement. It added new review and reporting responsibilities to the U.S. Government Accountability Office’s to-do list. Governors were required to certify the appropriateness of the use of Recovery Act funds. The act also required quarterly reporting by grant recipients and the development of a searchable Web site—www.recovery.gov—which would be used to educate and inform the American public on the use of the funds, providing previously unheard of access to data on government spending.

Despite the enormity of the mandates of the Recovery Act, the tasks served to hone the focus for governments at all levels. A lot of work had to be done very quickly. Cooperation was paramount to any hope for success. And in this, officials, agencies and entities at all levels proved that government cooperation and collaboration can and does work.

Mission Impossible?

Soon after the act was signed, the Obama administration quickly began staffing the Recovery Accountability and Transparency Board, under whose purview recovery.gov, the major tracking and accountability mechanism of the law, would reside. President Obama appointed Earl E. Dev-
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aney, former inspector general of the Department of Interior, as chairman. Twelve other inspectors general from various federal agencies joined Devaney to comprise the board.

The board had a daunting task ahead of it—to create a user-friendly, searchable Web site that would demonstrate to the American people how Recovery Act money was distributed by federal agencies and how the funds were being used by the recipients. The Web site had to be built, tested and implemented simultaneously as the data reporting process was being developed. There were seven short months from the enactment of the law in February until the first quarterly reporting deadline Oct. 10, 2009.

Perhaps one of the most complex aspects of the Recovery Act was the new Section 1512 reporting requirements, which called for the primary recipients of the funds to report quarterly on aspects of grants that had never before been reported. It required not just reporting the total amounts of funds received and spent on projects and activities, but details such as descriptions of projects, completion status and estimates on jobs created and retained. To those in the business of government accountability, these new reporting requirements amounted to the biggest change in modern governmental financial management. Per the Recovery Act, federal fund recipients at the state and local levels would now be required to take their disparate systems and processes (in the cases of many local nonprofit organizations, manual processes) and conform them to uniform data elements and reporting processes—elements and processes that were still being developed even as the clock was ticking down to the Oct. 10, 2009, deadline. If the time was short, the money was even shorter. There was no Recovery Act funding specifically earmarked to assist state and local governments with implementing the act’s unprecedented reporting requirements.

The Recovery Act contained another controversial and unprecedented provision: state governors were called upon to provide funding certifications. In addition to a general certification, whereby a governor accepts responsibility for Recovery Act spending, governors were also expected in some instances (such as highway spending), to certify that the funds were being spent for an appropriate government purpose. Some likened these requirements to controversial provisions contained in the Sarbanes-Oxley Act, which requires corporate CEOs to sign off on corporate financial statements, thereby accepting final responsibility for their accuracy. This requirement puts members of the National Association of State Auditors, Comptrollers and Treasurers right in the middle of the fray, as they are the professionals who must provide the data and ensure that it is as accurate and as complete as possible.

To make things even more complex, quite a bit of disparity emerged regarding how states would and should report. Should the reporting be centralized or decentralized? Traditionally, federal grant reports were submitted in a decentralized manner, with the state agency receiving the funds reporting back through the appropriate federal funding channel. However, since governors were being asked to certify the appropriateness of spending and the accuracy of the reported data, some states desired centralized reporting.

In addition to the new reporting requirements, the act included an additional layer of accountability that would take the form of new responsibilities for the Government Accountability Office. Sixteen states (and Washington, D.C.) were selected for bimonthly reviews on the use of funds, safeguards and monitoring, audits, and impact evaluations. The Government Accountability Office also would perform program-specific reviews, first focusing on Medicaid Federal Medical Assistance Percentage funding, highway infrastructure investments and then state fiscal stabilization funds. For the first time, the Government Accountability Office was asked to examine, on a nationwide basis, how states expend federal grant funds.

Early on, it identified internal control as a crucial area for attention at the local and state levels. In the fall of 2009, the U.S. Office of Management and Budget launched a Single Audit Pilot Project to report early internal control deficiencies.

Beyond these major hurdles, the logistics of bringing all the pieces of the puzzle together at just the right moment seemed daunting: developing never-before-reported data elements and a reporting hierarchy and architecture; addressing upfront fraud concerns; staffing and establishing an oversight body; developing the technology to present the data to the public in an easy-to-use Web site; testing the process; and finally, implementing it.

To achieve what seemed impossible to some, many parties worked together to ensure the best possible levels of communication and collaboration. The Oct. 10 reporting deadline came and went, and to the relief of all, recovery.gov worked. Some issues with the process are still being resolved, but the initial success of the effort is a testament to the will and
Collaborating for Success

With so much at stake and so many parties involved at every level of government, how did the initial implementation of the Recovery Act succeed? Collaboration and cooperation were the essential ingredients for success.

Immediately after the historic Recovery Act was signed, all the various parties responsible for implementing the provisions of the act went to work. The National Association of State Auditors, Comptrollers and Treasurers, along with industry peers like the National Governors Association, National Association of State Chief Information Officers, National Association of State Purchasing Officers, National Association of State Budget Officers, The Council of State Governments and others, reached out to their members to assess the act’s provisions and develop lists of risk areas and items of concern. The Office of Management and Budget, the Government Accountability Office and the Recovery Accountability and Transparency Board provided regular briefings to state officials, facilitating opportunities for states to offer input as the new reporting framework and guidelines were developed. A flurry of webinars and teleconferences emerged as everyone sought answers to how they could successfully implement the act.

Working with those federal entities, states helped determine the outcome of critical aspects of the process, notably whether Recovery Act reporting should be centralized, decentralized or both. Ultimately, federal, state and local stakeholders were able to reach a solution that would allow for both types of reporting, including centralized batch reporting, which was a huge technological accomplishment.

The Office of Management and Budget worked closely with state officials to develop a reporting process that had a chance of being successfully implemented by the Oct. 10 deadline. States reviewed multiple drafts of guidance documents, offering practical input on the development of the data elements and definitions. The federal officials responded to input from the states and locals to develop a workable solution.

To help facilitate the process, each state assigned a key Recovery Act point of contact, or “recovery czar” as they were called early on. The National Governors Association held regular calls to allow these key contacts to establish a network of support and interaction as each state worked within its own unique environment to meet the act’s requirements.

The Government Accountability Office participated in calls with the state auditors to provide early reviews of potential internal control issues and to discuss how state auditors could perform their duties and meet the requirements of the Recovery Act.

State auditors and comptrollers developed training programs to be used by state agencies to foster awareness of the potential for fraud and abuse as the funds began to make their way from the federal, to the state, and finally to the local levels. Sixteen states volunteered to participate in the Office of Management and Budget’s Single Audit Pilot Project, further enhancing efforts to curtail potential internal control issues that might be encountered at the recipient level as funds were disbursed.

In short, there was an enormous effort on the part of all parties to make sure we “got it right” the first time. The act called for never-before seen levels of reporting and accountability. Citizens were expecting, and demanding such. Government was in the spotlight and was expected to deliver on huge promises. Working together, government financial managers and accountability officials at all levels—federal, state and local—were able to realize a monumental accomplishment on Oct. 10. When the first reports on the use of Recovery Act funds hit the streets, a new era of accountability and transparency debuted in America.

Future Challenges

Despite the monumental accomplishment of launching recovery.gov on time and with a reasonable level of functionality, as can be expected, some things did not go exactly as planned.

There was confusion about the final data elements for the reporting model: the data model went through several versions, with each including significant changes, and the database structure and hierarchy was not clearly identified prior to the first reporting date. Grant recipients were not receiving guidance in all cases from a single voice, as inconsistent directives were coming down from the Office of Management and Budget and some federal agencies. As can be expected for such a monumental task undertaken in such a short time frame, training was an issue, especially as standardizing and streamlining the process was occurring simultaneously as the process was being developed and implemented. Although the stakeholders were eventually able to reach a solution for centralized batch reporting of
data, that only occurred just a few weeks prior to the reporting deadline. Finally, as all parties were working feverishly to implement the data submission process, the processes to review the data (and when needed, to appeal inappropriate data) were not adequately fleshed out prior to the reporting deadline.

As states approach the second quarterly reporting deadline, there are still many challenges in the future for Recovery Act reporting, and indeed for expanded federal grants reporting in general.

From a state perspective, the biggest challenge for the future of expanded reporting such as that seen through the implementation of the Recovery Act is the lack of resources. The act came into being to address the biggest economic crisis the country has faced since the 1930s. As the country goes, so go state governments. The increased reporting requirements - could not have come at a worse time for state and local governments, which are experiencing budget shortfalls and economic woes in tandem with the major corporations and car manufacturers. Yet state and local governments are being asked to do more work with fewer people and smaller budgets than ever. Increasingly, states are requiring furloughs and experiencing staff cuts and layoffs. Throughout much of 2009, state accounting professionals made the Recovery Act their priority – now they have to get back to their “normal” jobs. Despite America’s taste for increased accountability and transparency, this level of output cannot be sustained by state and local government employees. If increased transparency and accountability are to be a priority, resources to support state and local governments as they carry out the priorities must be found.

The first quarter reporting was successfully carried out, and the process is, for all intents and purposes, working. However, consistent directives from the Office of Management and Budget and federal agencies are essential to future success. States must know when Office of Management and Budget rules take precedence and when federal agencies have discretion. Such a small matter may not seem problematic on the surface, but a review of the complex systems, processes and training put into place to enable the reporting required by the Recovery Act quickly reveals the implications of any small changes to the process. The federal government must begin speaking with a single voice so that the states and locals can respond in kind.

Perhaps the biggest threat to the Recovery Act’s goal of instituting greater transparency and accountability regarding the expenditure of federal grant funds is the looming potential for fraud. Through the act, grantees received unprecedented amounts of money. In many cases, the final recipients of the funds had no previous reporting processes in place. A large and rapid influx of funds can often result in massive fraud, as we saw during attempts to provide aid to states after Hurricane Katrina. Government accountability professionals must proceed with caution and do everything possible to prevent the potential for fraud upfront. State comptrollers have begun providing agency-level training to address this concern and state auditors are working to identify internal control deficiencies that may allay some of the possible opportunities for fraud. These efforts must continue and increase. We must be diligent on this matter.

A future challenge only slightly less threatening than potential fraud is the politicization of the reporting process. Defining the data elements to be used for the expanded reporting called for in the Recovery Act was not easy, especially data elements such as “jobs created” or “jobs retained.” Changes to data element definitions and calculations as the process gets refined also complicate the matter. Political use of the data reported through recovery.gov is inevitable. However, hopefully most will keep in mind the positives that may be gained as this new accountability and transparency paradigm progresses from infancy to its next stage and seek to minimize politicizing the process.

A full examination of the future challenges for government accountability and transparency must ask: what’s next? What will citizens expect after the Recovery Act? If governments can provide quarterly data on grants reporting, why can’t they provide more timely financial statements, or even real-time data on government spending? There are no easy answers to these questions. Regardless, it is safe to say that the implementation of the Recovery Act has ushered in a new era of accountability and transparency. As importantly, it also has fostered a new spirit of cooperation and collaboration among government financial management and accountability professionals at all levels.

About the Author

Glen B. Gainer III was elected as West Virginia’s 19th state auditor in November 1992 and was re-elected in 1996, 2000, 2004 and 2008. He earned his bachelor’s degree in political science at the University of Charleston. He is a past president of the National Electronic Commerce Coordinating Council and the National Association of State Comptrollers and has served as president of the West Virginia Jump Start Coalition.