



Testimony of William G. Holland, Illinois Auditor General

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

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Chairman Towns, Ranking Member Issa and Members of the Committee: I am pleased to be here today on behalf of the National Association of State Auditors, Comptrollers and Treasurers to discuss oversight related to the American Recovery and Reinvestment Act of 2009. While I may draw upon my experience as State Auditor in Illinois, I am here today to represent public servants and financial officials nationwide who take pride in ensuring that taxpayer dollars are monitored and used for their intended purposes.

Accountability is always our number one priority. However, the challenges of our current economy, coupled with the rapid spending authorized by the Recovery Act, make accountability more critical than at any other time in our government. We believe accountability can be achieved by clearly defining responsibilities and coordinating the various participants.

The Recovery Act and the Initial Implementing Guidance issued by the Office of Management and Budget specifically give federal departments and agencies, such as the federal Inspectors General, the GAO and the Recovery Accountability and Transparency Board, primary responsibility for maintaining accountability over Recovery Act funds. Substantial dollars are appropriated to each of those entities for that singular purpose.

The Recovery Act provides neither direct responsibility nor direct funds for oversight efforts at the State or local levels. Nonetheless, management of these dollars once they leave the federal government's hands, as well as the cost associated with that effort, is of utmost concern to our organization's members.

State Auditors already bear significant responsibility for oversight of federal program spending by State agencies pursuant to the Single Audit Act and its amendments. These audits are generally conducted annually and provide assurance to the federal government as to the management and use of such funds by recipient States and their subrecipients. The State of Illinois received \$17.3 billion from the federal government in State fiscal year 2008. This amount could be increased by up to \$8 billion with the addition of stimulus money in FY09. The

FY10 amounts are likely to be higher. OMB's Initial Implementing Guidance recognizes the importance of the Single Audit process in two key ways: first, in developing risk mitigation plans, federal departments and agencies are required to consider prior audit findings involving federal programs through which Recovery Act funds will be disbursed; and second, Single Audits are specifically identified in the guidance as an audit tool integral to promoting accountability over Recovery Act grants. Clearly, the importance of the Single Audit process is magnified rather than minimized by the Recovery Act's emphasis on accountability. Nonetheless, during this period of rapid spending, there may be a desire at the national level to increase or alter some existing accountability processes. It will be important to define and communicate any changes to the Single Audit process in a timely manner to the State audit community.

We have been fortunate that both the GAO and OMB have been reaching out to the entire accountability community to discuss implementation of the Recovery Act requirements; however, we are still uncertain as to our specific roles in the accountability continuum and what the costs and funding sources for fulfilling our roles will be. Staffing and other necessary resources in accountability offices throughout the nation are at an all time low. Due to the influx of stimulus money to the States, fulfilling our Single Audit functions will likely encompass more federal programs and incur additional audit hours and tests than in previous years.

In addition to uncertainty surrounding what role the State auditor will play in the accountability continuum for Recovery Act funds, we are concerned about coordination of those efforts with federal agencies. Before the passage of the Single Audit Act, each federal agency sent a team of auditors into the States asking the same questions and conducting virtually the same work. This was a very inefficient process. We are hopeful that the appropriations given in the Recovery Act to the GAO, the federal IGs and the Recovery Board do not lead to the same inefficiencies we experienced in the pre-Single Audit days. We believe the appropriated dollars would be better spent by the federal agencies on efforts to mitigate risk at the front end of the process; for instance, by conducting tests and reviewing prior audit findings to ensure that recipient agencies have a strong internal control process in place prior to their receipt and expenditure of Recovery Act funds. To the extent that Recovery Act funds flow through existing federal programs, those dollars will already be subject to audit in accordance with the Single Audit Act and OMB Circular A-133.

I should also note that financial officials other than the independent external auditor are very important to this discussion. Specifically, I am referring to the state comptrollers and treasurers that are responsible for the disbursement and reconciliation of funds. I can tell you that the comptrollers are very concerned about the reporting requirements and how that information will be gathered and reported. While much of the financial information is housed in the state's

accounting system, some of the information is actually gathered at the State agency level. This dichotomy brings up concern regarding reconciliation and whether the federal government is going to require central State reporting directly to recovery.gov, individual State agency reporting directly to recovery.gov or individual State agencies reporting to a federal agency which is then responsible for assuring that the information is posted to recovery.gov. We await further guidance from the federal government in that regard as reconciliation will be extremely important. We stand ready to work with our federal counterparts to assure the most efficient and effective method for reporting is established. I should also point out the important role that internal auditors will play within individual agencies or at the statewide level in assuring that pre-disbursement internal controls are functioning properly and effectively.

I am happy to be joined here today by the Chair of the Recovery Board and other important organizations. Individually and collectively, our groups have long been at the forefront of ensuring public accountability. In a talk at the White House Recovery and Reinvestment Act Implementation Conference last week, President Obama emphasized his commitment to accountability when he said, "If we see money being misspent, we will call it out." I can assure you that we in the accountability profession are ready to do our part.

Mr. Chairman, ranking member Issa and members of the Committee that concludes my statement. I am happy to respond to any questions you may have and thank you again for holding a hearing on this most important issue.