



Legislative Post Audit Compliance and Control Report Highlights

American Recovery and Reinvestment Act:
A Preliminary Assessment of the Risk That Recovery Act Moneys
Won't Be Appropriately Accounted for or Spent

Report Highlights

December 2009 • 10CC02

Audit Concern

The American Recovery and Reinvestment Act of 2009 imposes a number of responsibilities on states to separately account for moneys, to ensure that they are spent in accordance with the requirements, and to report on the moneys spent and the number of jobs created and retained. Because of the risks associated with this huge inflow of moneys, the Legislative Post Audit Committee authorized a preparedness review to provide an early indication of the adequacy of agencies' systems for recording, using, monitoring, and reporting on Recovery Act moneys.

Other Relevant Facts for Question 1

In 1984, Congress passed the Single Audit Act. The Act requires entities that spend more than \$500,000 in federal moneys in a year to obtain a Single Audit. Single Audits address compliance and control concerns.

In Kansas, Legislative Post Audit contracts with certified public accounting firms to conduct the Statewide Single Audit.

AUDIT QUESTION 1: *What procedural weaknesses related to programs receiving Recovery Act moneys were identified in the most recent Statewide Single Audit?*

AUDIT ANSWER and KEY FINDINGS:

- The 2008 Statewide Single Audit identified seven findings related to four programs that will receive Recovery Act moneys.
 - Three findings related to the Medicaid program administered by the Kansas Health Policy Authority, and included not reconciling records and not maintaining adequate computer controls to prevent potentially improper payments.
 - Three findings related to the Temporary Assistance for Needy Families program and the Foster Care and Adoption Assistance program, administered by SRS. These included problems with eligibility determination, and an allegation of potential misuse of money by agency officials. (State and federal officials are working to verify the allegation.)
 - One finding related to the Special Education program administered by the Department of Education for not maintaining proper documentation of enrollment figures.
- Four of the findings—two at SRS and two at the Health Policy Authority—were repeated from the 2007 Statewide Single Audit because the agencies hadn't made corrections.
- The accounting firms currently conducting the 2009 Statewide Single Audit are following-up on these findings and the results of their work will be available in early 2010. To avoid duplicating their work, in this audit we didn't check whether the agencies had corrected the weaknesses the auditors identified in 2008.

Summary of the 8 Recovery Act Programs Reviewed

Corporation Commission	Department of Health and Environment	Department of Transportation	Governor's Grants Program	Kansas Housing Resources Corporation			Department of Social and Rehabilitation Services
				Homelessness Prevention and Rapid Re-Housing	Tax Credit Assistance Program	Weatherization	
Efficiency Kansas	Clean Water	Highway Infrastructure Investment	Byrne Justice Assistance Grant				Child Care Development Grant (a)
\$38,284,000	\$35,374,185	\$348,242,169	\$12,660,141	\$8,360,995	\$17,151,110	\$56,441,771	\$18,415,435

Accounting for Recovery Act Moneys

Agency officials have established separate funds or accounting codes.
 Agency officials have notified any sub-recipients in writing about the need to separately account for Recovery Act moneys.
 Agency officials have assessed the capacity of the accounting systems to handle the increased level of transactions.
 Agency officials have assessed whether they have sufficient accounting staff to handle the increased transactions.
 Agency officials have added or adjusted accounting staff if needed.

Monitoring Spending of Recovery Act Moneys

Agency officials have an established contact with the granting agency who can answer questions about allowable uses of Recovery Act moneys.
 Agency officials have a copy of the grant award to refer to, and appear to be familiar with its terms.
 Agency officials have notified any sub-recipients of the Recovery Act moneys in writing about the allowable uses of the moneys.
 Agency officials appear to have reasonable procedures in place to monitor sub-recipients' use of Recovery Act moneys.
 The agency's sub-recipient monitoring procedures are recorded in writing for employee reference.
 The agency has assessed whether it has sufficient staff to monitor any sub-recipients' use of Recovery Act moneys.
 The agency has hired additional employees to monitor sub-recipients' use of Recovery Act moneys if needed.

Quarterly Reporting on Recovery Act Moneys

Agency officials have registered with the federal website federalreporting.gov.
 Agency officials have downloaded spreadsheets from the website and appear to be familiar with the reporting requirements.
 Agency officials met the first deadline (October 10, 2009) for reporting information about the use of Recovery Act moneys.
 Agency officials notified sub-recipients of Recovery Act moneys in writing about the information they will need to report to the agency.
 Agency officials have established reasonable procedures for checking the reasonableness of the information reported by sub-recipients.
 The agency's procedures for checking the reasonableness of information reported by sub-recipients are recorded in writing for employee reference.

(a) Because a series of one-time projects were in the early planning stages, our assessment focused solely on increases and retroactive adjustments SRS made to benefits paid to recipients of child care assistance. This part of the program accounted for about \$7.9 million or 43% of the total Recovery Act funding SRS received for child care assistance.

Source: LPA analysis of agency records and interviews.

AUDIT QUESTION 2: *Have selected agencies receiving Recovery Act moneys taken adequate steps to ensure that the Recovery Act moneys they receive will be appropriately accounted for and spent?*

AUDIT ANSWER and KEY FINDINGS:

- Overall, there is a fairly low risk that the agencies we reviewed won't be in compliance with Recovery Act requirements.
- Kansas agencies appear to be aware of the Recovery Act requirements, and have taken reasonable steps to comply. These are summarized in the accompanying figure.
 - We didn't identify any issues that need to be addressed from the standpoint of how agencies will account for Recovery Act moneys.
 - We identified a few issues with how agencies will monitor Recovery Act spending. These include needing to commit some existing procedures to writing, further developing other procedures, and hiring additional staff at one program.
 - We identified some issues with how agencies will report on Recovery Act spending. These include needing to provide or clarify written notification to sub-recipients about quarterly reporting requirements, committing some existing procedures to check the reasonableness of sub-recipient reports to writing, and further developing other reporting procedures.
- Most of the issues we identified can be addressed relatively easily by putting existing policies and procedures into writing, further developing some procedures, or modifying existing documents.
- In separate work, we also found that the Department of Transportation's process for selecting highway projects to fund appears to comply with Recovery Act requirements.

Other Relevant Facts for Question 2

Kansas will receive more than \$2 billion in formula grants because of the Recovery Act through 2011.

The requirements Congress and granting agencies have placed on Recovery Act moneys fall into three broad areas—accounting, monitoring spending, and quarterly reporting.

We selected eight programs that will receive large amounts of Recovery Act moneys to review in more depth from the following agencies:

- *Kansas Corporation Commission*
- *Department of Health and Environment*
- *Department of Transportation*
- *Governor's Grants Program*
- *Kansas Housing Resources Corporation (3 programs)*
- *Department of Social and Rehabilitation Services*

We selected the Department of Transportation for review because auditors from the Government Accountability Office (GAO) found that, in some states they reviewed, transportation departments didn't appear to meet federal requirements for selecting projects to fund with Recovery Act moneys.

We Recommended

- We made recommendations to each of the agencies to address the specific issues we found.

Agency Response: *In general, the agencies agreed with the report and our recommendations. Except, officials from the Department of Health and Environment indicated they weren't responsible for reviewing reasonableness of job information reported by sub-recipients, but Office of Management and Budget guidance says they are.*

**DO YOU HAVE AN IDEA FOR
IMPROVED GOVERNMENT EFFICIENCY OR COST SAVINGS?**

If you have an idea to share with us, send it to ideas@lpa.ks.gov, or write to us at the address shown. We will pass along the best ones to the Legislative Post Audit Committee.

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