The American Recovery and Reinvestment Act of 2009

March 16, 2010

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Jack Reagan
KPMG LLP
CBO Report

- Issued February 2010
- Recipients reported 600,000 FTEs in Q4 2009
  - Reported jobs existed in the absence of the stimulus package
  - Only counted FTEs from recipients and direct contractors
  - Excludes indirect employment from spending
  - Excludes the impact of tax cuts and transfer payments
- CBO estimates on the broader economy
  - Increase in employment
    - People employed increased between 1.0 and 2.1 million
    - FTEs increased between 1.4 to 3.0 million
  - ARRA Increase in real GDP
    - February 2010 estimate increased from 1.5% to 3.5%
    - March 2009 estimate increased from 1.4% to 3.8%
Vice Presidents Report on Implementing ARRA

- Issued in February 2010
- Council on Economic Activity reported that the Recovery Act added between 2 to 3% in real GDP
- Council on Economic Activity reported that the Recovery Act created or saved 1.5 to 2 million jobs
- As of January, 57% of Recovery Act funding put in economy
  - Obligated $334 Billion, outlayed $179 Billion
  - Provided $119 Billion in tax relief
- Three parts of the Act
  - Largest part of Act is in tax relief – 95% of Americans got tax relief
  - Second largest part of Act is aid to States and individuals – 80% of outlays were in this category
  - Third part is in projects – HSR, Health IT, clean energy, broadband
  - Total spending at September 30, 2009 is $195B, estimate was $185
General Requirements and Background
ARRA Funding - $787 Billion

Source: GAO

In January 2010, CBO estimated the cost had increased from $787B to $862B
ARRA SLG Spending By Year

Source: GAO
Large Programs in 2009 – Health

- Hold Harmless provision which maintains the FMAP rates at the highest rate from 2008 – 2011
- Across the Board increase of 6.2 percentage points
- Increase for states with a higher unemployment rate
- General Requirements
  - Eligibility standards not more restrictive
  - Meet prompt pay requirements
  - May not rebuild rainy day funds
  - May not require local governments to pay an increased share
- States are concerned about budgets after enhanced FMAP funding stops in January 2011
Large Programs in 2009 – Transportation

- **Funding**
  - Funding: $26.7
  - Obligated: 25.1
  - Reimbursed: 6.3

- **Highways**
  - Funding: $26.7
  - Obligated: 25.1
  - Reimbursed: 6.3

- **Transit**
  - Funding: 8.4
  - Obligated: 7.5
  - Reimbursed: 1.8

- States with resurfacing projects have higher reimbursements (e.g., Iowa)
- States that allocated to large complex projects have lower reimbursements (e.g., Mass & Penn)

- **General Requirements**
  - Eligibility standards not more restrictive
  - Meet prompt pay requirements
  - May not rebuild rainy day funds
  - May not require local governments to pay an increased share
## Major Programs in 2010 and beyond

<table>
<thead>
<tr>
<th>Agency</th>
<th>Program</th>
<th>Cost</th>
<th>Still to Outlay</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>HHS</td>
<td>Health IT</td>
<td>$20B</td>
<td>$20B</td>
<td>Incentive Payments and HER</td>
</tr>
<tr>
<td>HHS</td>
<td>NIH Grants</td>
<td>10B</td>
<td>9B</td>
<td>Payments in Aug &amp; Sept</td>
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<tr>
<td>Energy</td>
<td>Smart Grid</td>
<td>4.5B</td>
<td>4.5B</td>
<td>Awards made in Oct ’09</td>
</tr>
<tr>
<td>Education</td>
<td>1705 Loan Guarantees</td>
<td>4B</td>
<td>4B</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Weatherization</td>
<td>5B</td>
<td>4.5B</td>
<td>10k + units per month in ’10</td>
</tr>
<tr>
<td>DOT</td>
<td>High Speed Rail</td>
<td>8B</td>
<td>8B</td>
<td>Rail corridors – Jan 2010</td>
</tr>
<tr>
<td>DOC</td>
<td>Broadband</td>
<td>7.2B</td>
<td>7.2B</td>
<td>First awards Dec ‘09, Jan ’10</td>
</tr>
<tr>
<td>Education</td>
<td>Race to the top</td>
<td>4.3B</td>
<td>4.3B</td>
<td>Awards in spring 2010</td>
</tr>
</tbody>
</table>
How Recovery Act Funds Flow

- Federal Agencies
- State Legislature
- State Agencies
- Local Government
- Community Agencies & Businesses
- Citizens
How States Organized Compliance

Stakeholders

• State Agencies
• OPB
• Washington Bureau
• Local Governments
• Other Stakeholders

Accountability Community

• Chief IG
• Agency IGs
• Chief Financial Officer
• State Financial Auditor
• State Operational Auditor

Core Team

Agency Teams

Central Implementation Team

Fiscal Team

Transparency & Accountability
RECIPIENT REPORTS.—Not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains—

(1) the **total amount** of recovery funds received from that agency;

(2) the **amount** of recovery funds received that were **expended or obligated** to projects or activities; and

(3) a **detailed list** of all projects or activities for which recovery funds were expended or obligated, including—

(A) the name of the project or activity;

(B) a description of the project or activity;

(C) an evaluation of the completion status of the project or activity;

(D) an estimate of the number of jobs created and the number of jobs retained by the project or activity;

(E) for infrastructure investments made by State and local governments, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act, and name of the person to contact at the agency if there are concerns with the infrastructure investment.

(4) Detailed information on any **subcontracts or subgrants** awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006.
Accountability & Transparency Requirements

- **SET-ASIDE FOR STATE AND LOCAL GOVERNMENT REPORTING AND RECORDKEEPING**
- **PROTECTING STATE AND LOCAL GOVERNMENT AND CONTRACTOR WHISTLEBLOWERS.**
- **SPECIAL CONTRACTING PROVISIONS.**
  
  *To the maximum extent possible, contracts funded under this Act shall be awarded as fixed-price contracts through the use of competitive procedures. A summary of any contract awarded with such funds that is not fixed-price and not awarded using competitive procedures shall be posted in a special section of the website established in section 1526.*
- **PREFERENCE FOR QUICK-START ACTIVITIES**
- **PERIOD OF AVAILABILITY**
  
  *All funds appropriated in this Act shall remain available for obligation until September 30, 2010, unless expressly provided otherwise in this Act.*
- **LIMIT ON FUNDS**
  
  *None of the funds appropriated or otherwise made available in this Act may be used by any State or local government, or any private entity, for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool.*
- **BUY AMERICAN - USE OF AMERICAN IRON, STEEL, AND MANUFACTURED GOODS.**
- **WAGE RATE REQUIREMENTS**
  
  *Laborers and mechanics shall be paid prevailing wages consistent with the Davis-Bacon Act.*
Basic Principles and Requirements of Recipient Reporting

- Reporting for recipient and subrecipient vendors are segregated
- Subrecipient vendor reporting (new requirement and takes the reporting process to a third level of funding)
- Subaward reporting – not required by subrecipients
- New reporting elements for prime recipients – e.g. item 17: Recipient Officer Names and Compensation (top 5).
- Reporting of small subawards less than $25,000 (will be reported in 3 categories – aggregate sub-awards, awards to individuals and payments to vendors).
- All 1512 reporting is summarized separately for each quarter-end.
- Inventory of subrecipient delegations - prime recipients must maintain an updated inventory of sub-recipient delegations and crosscheck all data records.
- Recipients can delegate reporting to subrecipients – allowing sub-recipients to enter sub-recipient data directly on FederalReporting.gov (also referred to as the 1512(c)(4) requirements or FFATA Data elements).
Required Data Elements and Responsibilities

### Prime Recipient
1. Federal Funding Agency Name
2. Award identification
3. Recipient D-U-N-S
4. Parent D-U-N-S
5. Recipient CCR information
6. CFDA number, if applicable
7. Recipient account number
8. Project/grant period
9. Award type, date, description, and amount
10. Amount of Federal Recovery Act funds expected to projects/activities
11. Activity code and description
12. Project description and status
13. Job creation narrative and number
14. Infrastructure expenditures and rationale, if applicable
15. Recipient primary place of performance
16. Recipient area of benefit
17. Recipient officer names and compensation (Top 5)
18. Total number and amount of small sub-awards; less than $25,000

### Sub-Recipient (also referred to as FFATA Data Elements)
1. Sub-recipient D-U-N-S
2. Sub-recipient CCR information
3. Sub-recipient type
4. Amount received by sub-recipient
5. Amount awarded to sub-recipient
6. Sub-award date
7. Sub-award period
8. Sub-recipient place of performance
9. Sub-recipient area of benefit
10. Sub-recipient officer names and compensation (Top 5)

### Sub-Recipient Vendor
1. D-U-N-S or Name and zip code of Headquarters (HQ)

### Federal Agency

### Sub-Recipient

### Vendor

### Prime Recipient

### Vendor
Section 1512 Timelines

Recipient Reporting Process and Timelines

- FederalReporting.gov will be used for reporting and reviewing data submissions, and the resulting information will be made publicly available on Recovery.gov.
- Provides for three methods to submit reporting to FederalReporting.gov:
  - Online data entry into Web browser
  - Uploading of Excel spreadsheets provided by OMB
  - Custom software extract in XML
- Guidance provides detailed timeline for submission, review and adjustments.
- Review Process
Federal Reporting Process

FederalReporting.gov → Recovery.gov → StateRecovery.com

Recipient → Sub-recipient
State Reporting Process

FederalReporting.gov

Central State Office

Reviewer
• State Czar
• OPB Reviewers
• IG & Accountability Reviewers

Recipient

Sub-recipient

Recovery.gov

StateRecovery.com
## Federal Reporting Time Line
### December 31, 2009 Reports

<table>
<thead>
<tr>
<th>Continuous</th>
<th>1 – 15 days after end of Quarter</th>
<th>16 – 22 days after end of Quarter</th>
<th>23 – 29 days after end of Quarter</th>
<th>30 days after end of Quarter</th>
<th>33–90 days after end of Quarter**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prime Recipients &amp; Subs Enter Draft Reporting Data</strong></td>
<td><strong>Prime Recipients Review Data Submitted By Sub(s)</strong></td>
<td><strong>Agency Review of Data Submitted</strong></td>
<td><strong>Recipient Reports Published on Recovery.gov</strong></td>
<td><strong>Prime Recipients Review Data Submitted By Sub(s)</strong></td>
<td><strong>Prime Recipients &amp; Subs Make Corrections</strong></td>
</tr>
<tr>
<td><strong>Agency, Prime and Sub Recipient Registration</strong></td>
<td><strong>Initial Submission</strong></td>
<td><strong>Prime Recipients &amp; Subs Make Corrections</strong></td>
<td><strong>Prime Recipients &amp; Subs Make Corrections</strong></td>
<td><strong>Agency Comments on Data</strong></td>
<td><strong>Agency Comment Period</strong></td>
</tr>
</tbody>
</table>

### Reporting Phase:
- **Initial Submission**
- **Recipient Review**
- **Agency Review**
- **Published**
- **Continual Review**

**Recipient Report Adjustments Possible**

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Federal Recovery Website

![Federal Recovery Website](image)

<table>
<thead>
<tr>
<th>Award Type</th>
<th>Number of Awards</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracts</td>
<td>35</td>
<td>$23,034,830</td>
</tr>
<tr>
<td>Grants</td>
<td>646</td>
<td>$2,293,575,898</td>
</tr>
<tr>
<td>Loans</td>
<td>6</td>
<td>$14,522,842</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>687</strong></td>
<td><strong>$2,331,133,370</strong></td>
</tr>
</tbody>
</table>

- **Total Funds Awarded:** $2,343,935,430
- **Total Funds Received:** $448,782,909

See Where the Money Is Going

Go to the Recipient Reported Data Map

View State Recovery Site

Top Zip Codes
## Award and Expenditure Data

<table>
<thead>
<tr>
<th></th>
<th>Number of Awards or Contracts</th>
<th>Awarded</th>
<th>Expended</th>
<th>Received/Invoiced</th>
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</thead>
<tbody>
<tr>
<td><strong>Grants</strong></td>
<td>646</td>
<td>2,293,575,898</td>
<td>353,296,590</td>
<td>444,664,626</td>
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<tr>
<td><strong>Contracts</strong></td>
<td>35</td>
<td>23,034,830</td>
<td>0</td>
<td>3,378,343</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>6</td>
<td>14,522,642</td>
<td>0</td>
<td>750,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>687</td>
<td>2,331,133,370</td>
<td>353,296,590</td>
<td>448,792,969</td>
</tr>
</tbody>
</table>

*Data updated frequently – current website information is as of February 24.*
State Fiscal Stabilization Fund

- Help stabilize State and local government budgets
- Limit reductions in education and other essential public services
- Require State’s commitment to advance essential education reform
  - Making improvements in teacher effectiveness and in the equitable distribution of qualified teachers for all students, particularly students who are most in need;
  - Establishing pre-K-to-college-and-career data systems that track progress and foster continuous improvement;
  - Making progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including limited English proficient students and students with disabilities; and
  - Providing targeted, intensive support and effective interventions for the lowest-performing schools.
- 81.8% to Education and 18.2% to Government Services
SFSF Funding Process – Phase One

- Application due July 1, 2009 providing
  - Assurances that the State was committed to advancing education reform in the four statutorily specified areas;
  - Baseline data that demonstrated the State's current status in each of the four education reform areas;
  - Maintenance-of-effort (MOE) assurance and information; and
  - Information on the uses of SFSF funds

- 67% of Education SFSF
- 100% of Government SFSF
SFSF Funding Process – Phase Two

Application for Phase Two must include
- The milestones for developing and implementing public reporting of required data;
- The date by which the State expects to reach each milestone;
- Obstacles that may prevent meeting the September 30, 2011 deadline;
- The nature and frequency of public reports regarding its progress; and
- Funding to develop and implement reporting (source—Federal, State, or local.)

The Phase Plan must:
- Describe the planning agency(ies) and the capacity related to those tasks;
- List agencies providing technical assistance and support for the plan, and the nature of such technical assistance;
- Include the budget for the development, execution, and oversight of the plan; and
- Describe the State’s reporting process for the plan (the nature and frequency of updated reports on actions taken under the plan and the website)

States are required to describe:
- Processes to review and verify the data on the indicators and descriptors; and
- The processes ensuring individual student information is not made publicly available.
### SFSF Allocations


<table>
<thead>
<tr>
<th></th>
<th>Puerto Rico</th>
<th>Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$529,741,859</td>
<td>39,524,124,000</td>
</tr>
<tr>
<td>Government Services</td>
<td>117,864,326</td>
<td>8,793,876,000</td>
</tr>
<tr>
<td>Total</td>
<td>647,606,185</td>
<td>48,318,000,000</td>
</tr>
</tbody>
</table>
Education Stabilization Funds

- State must restore support for Education funding
  - To greater of FY 2008 or FY2009 support
  - For Elementary and Secondary Education
  - Public IHE (Institutions of Higher Education), excluding
    - Tuition and fees paid by students and
    - Financial aid paid by the State to students
- No portion of SFSF can be retained by the State or paid to entities other than LEAs and IHEs
- LEAs have very broad permissions to use funds – still subject to applicable ARRA and Federal requirements
- IHEs may use to mitigate tuition hikes, to modernize and renovate facilities for instruction, housing or research
Government Services Funds

- May use for “public safety and other government services” including education
- Allowable activities determined by State law, and “applicable requirements in ARRA and other Federal laws”
- Expend funds in a manner to
  - Create jobs,
  - Reduce unemployment,
  - Stabilize and improve the economy, and
  - Avert tax increases.
Recordkeeping, Documentation & Reporting

- Must track and account for funds separately
- If transferred to the general fund, the government must track to ultimate disposition
- State and Locals may supplant funds
- State and Locals may use to pay for Government Service funds to pay indirect costs on Education Stabilization funds
- Cost principles in A87 and A21 do not apply – cost principles are “reasonable and necessary”
- No specific Federal time and effort requirements – because there are no specific “SFSF activities”
- Must show – staff worked sufficient hours to justify the salary, level of salaries similar to peers, and they were not double paid
Monitoring Process

◆ On-Site Visits
  - One half of states annually (PR on-site review in 2010)
  - State will respond to a document request prior to visit focusing on:
    ♦ Allocation and use of funds
    ♦ Fiscal oversight
    ♦ Maintenance of effort
    ♦ Progress in the four reform areas
    ♦ Subrecipient monitoring
    ♦ Reporting (Section 1512)
  - Interview State, LEA and IHE staff
  - Two to Three days in duration
  - State will have 10 days to review and comment on draft report and 30 days to review and comment on final report
◆ Desk Reviews done in the year without an on-site review
Jobs Reporting
Jobs: Background and Definitions

- Recipients must report estimates of jobs directly created or retained by Recovery funded projects and activities on a quarterly basis – **Major change from**

  Based on GAO Recommendations
  - Recipients report on projects wholly and partly funded by Recovery Act

- **Aggregate job estimates are reported in numeric and narrative form**
  - Narrative includes types of jobs created or retained
  - Descriptions can rely on job titles, broad labor categories or recipient’s existing practice for describing jobs as long as terms are widely understood
  - Numeric estimate of FTEs

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Job Reporting– Created vs. Retained

- **Job Created** – Defined as a new position created and filled or existing unfilled position that has been filled as direct result of Recovery funding.

- **Job Retained** – Defined as an existing position that would not have been continued to be filled without Recovery funding.

- Recipients must distinguish between created and retained.
  - Job cannot be counted as both created and retained.
  - Jobs retained and created are reported in aggregate.
OMB guidance requires estimates to be reported as ‘full-time equivalents’ (FTE)

- FTE is calculated as total hours worked in jobs created or retained divided by the number of hours in a full time schedule.
- Converts part-time or temporary jobs into FTEs
- Charges to sponsored projects are applicable, i.e. individual charging 50% effort to ARRA funded project counts as .5 FTE – upheld in the December guidance
Job Reporting – Excluded Information

- Recipients should not report indirect or induced jobs, or employees not directly charged to Recovery Act supported projects/activities
  - Clerical Admin Staff
  - Institutional review board staff members
  - Departmental administrators
  - Brick layers if ARRA only paid for the bricks
- Only direct jobs paid by ARRA funding are to be reported due to possible insufficient insight or inconsistent methodologies to report indirect or induced jobs
Prime Recipient will collect job estimates from subrecipients and vendors

- Prime recipient requirements should be communicated to subrecipients and vendors
- Guidance should be developed to establish a methodology
- Templates should be created to establish process and data collection for estimating FTEs, i.e. Amount funded, funding allocated to jobs, jobs directly created or retained
Jobs Reporting – Quality Assurance

- Subrecipients or vendors can perform head count before and after funding
- Payroll data can also be compared based on allocated funding and receipt of funds
- Supporting documentation should be provided to detail process to determine FTEs
AP found

- Job counts that were more than 10 times as high as the actual number of paid positions
- Jobs credited to the stimulus program that were counted two and sometimes more than four times; and
- Jobs were credited to stimulus spending when none were produced.

Some recipients of stimulus money used the cash to give existing employees pay raises, but each reported saving dozens of jobs with the money, including one Florida day care that claimed 129 jobs saved.

A Texas contractor whose business kept 22 employees to handle stimulus contracts saw its job count inflated to 88 because the same workers were counted four times.
Job Reporting – How did it go?

- The water department in Palm Beach County, Fla., hired 57 meter readers, customer service representatives and other positions to handle two water projects. But their total job count was incorrectly doubled to 114.

- A Colorado business hired 4,231 temporary workers for its stimulus project, but most of them worked for five weeks or less. The short-term positions should have been reported as 635 full-time, 40-hour-a-week jobs under the government's method of calculating stimulus work.
Jobs Reporting – Auditing

- Current indication – while 1512 Report will be subject to future audit, the Jobs Data is unlikely to be audited

- Whether some audit work over the validity of the Jobs Data will be required is still open
December 18, 2009 OMB Guidance

- Response to GAO November Report
- US DOE superseded Before and after Model
- Standardized the denominator of the calculation of jobs – calendar quarter based
- Prime recipients could make corrections during a fixed window – revised guidance permitted to make change during the fixed window and the second month of the ensuing calendar quarter – guidance on submission of corrections and presentation in recovery.gov is forthcoming
Frequently Asked Questions

- There seems to be inconsistency between OMB guidance and the supplemental guidance issued by the Federal Agency. Which one should we follow?

- How do I count jobs on projects that are split funded between ARRA and non ARRA sources?

- Is it sufficient to ask vendors, subrecipients and subrecipient vendors to tell us their job estimates or should we be requesting supporting documentation?
Section 1512 Quality Assurance
“Data quality is an important responsibility of key stakeholders identified in the Recovery Act. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted.”

Quality Assurance
Prime Recipients Responsibilities

Prime recipients are responsible for ensuring data quality and accuracy through a number of tasks including:

- Ownership of recipient data and sub-recipient data
- Initiation of appropriate data collection and reporting procedures
- Implements action of internal control measures to help ensure accurate and complete information
- Performance of data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues.
Several important concepts/reasons for building a well structured QA plan:

- **New Data Elements** – Many of the 99 data elements required under section 1512 are new for agencies.

- **Reporting on Vendors and Subrecipient Vendors** – Disbursements and jobs creation information are just a few of the new items required to be reported on for subrecipient and vendors.

- **Transparency** – The public display of this information is unprecedented. Information will be available publicly every quarter.

- **Timing** – The normal 45 day turnarounds have now been reduced to 10 days after each quarter.
Need to establish a quality assurance framework to handle the 1512 responsibilities which include:

- Reporting Model – Centralized vs. Decentralized
- Internal Control Processes and Procedures
  - Data Collection
  - Data Review and Correction
  - Data Reporting
- Assigning specific responsibilities to individuals/team of people

QA needs to be continuously performed throughout reporting process
Centralized Reporting Model

Prime Recipients and Sub-Recipients collect data from their respective vendors.
Delegated, Decentralized Reporting Model

FederalReporting.gov

State Agency (Prime Recipient)

Sub-Recipient(s)

State Agency Vendor(s)

Sub-Recipient Vendor(s)

Prime Recipients and Sub-Recipients separately submit information to FederalReporting.gov

Prime Recipients and Sub-Recipients collect data from their respective vendors
Fraud Prevention & Detection
ARRA Fraud Considerations

- A key objective of ARRA is to minimize fraud, waste and abuse
- Additional funding for audits, law enforcement and inspector general oversight
- Even a 5% error rate places $40 billion of total program funding potential at risk for fraud, waste and abuse
- The federal government expects states to embed anti-fraud, waste and abuse efforts into ongoing oversight of programs
- Existing systems and controls may not be capable of addressing increased expectations
- The public has zero tolerance for fraud, waste and abuse
Figure 1: Program Designed to Minimize Fraud, Waste, and Abuse

Lessons learned influence future use of preventive controls

Preventive controls  Detection and monitoring  Investigations and prosecutions

Potential fraud, waste, and abuse  Potential fraud, waste, and abuse  Potential fraud

Source: GAO.
## Sample Antifraud Program Elements

<table>
<thead>
<tr>
<th>Prevention</th>
<th>Detection</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agency Leadership</strong></td>
<td><strong>Internal Audit</strong></td>
<td><strong>Response</strong></td>
</tr>
<tr>
<td><strong>Internal Audit</strong></td>
<td><strong>Compliance and Monitoring Functions</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Fraud and misconduct risk assessment</strong></td>
<td><strong>Hotlines and whistleblower mechanisms</strong></td>
<td><strong>Internal investigations and investigative protocols</strong></td>
</tr>
<tr>
<td><strong>Standards of conduct, policies and procedures</strong></td>
<td><strong>Auditing and monitoring</strong></td>
<td><strong>Enforcement and accountability protocols</strong></td>
</tr>
<tr>
<td><strong>Employee and third-party due diligence</strong></td>
<td><strong>Forensic data analysis</strong></td>
<td><strong>Disclosure protocols</strong></td>
</tr>
<tr>
<td><strong>Communication plan</strong></td>
<td></td>
<td><strong>Remedial action protocols</strong></td>
</tr>
<tr>
<td><strong>Training programs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Process-specific fraud risk controls</strong></td>
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An effective antifraud program should incorporate entity-level program elements to emphasize oversight, management accountability and an appropriate “tone at the top,” including the following specific elements:

- Oversight Committee Function
- Internal Audit Function
- Compliance and Monitoring Function
Preventive fraud controls are important tools for heightening awareness of fraud risks and building a proactive, rather than reactive, approach to fraud awareness.

An effective fraud prevention program should include the following specific elements:

- Fraud and Misconduct Risk Assessment
- Standards of Conduct
- Communication Plan
- Training Programs
- Employee and Third-Party Due Diligence
- Process-Specific Fraud Risk Controls
Detection

- Preventive controls can reduce, but not eliminate the propensity of fraudulent activity. As a result, detective controls are necessary to identify instances of fraud, waste and abuse.

- An effective fraud detection program should include the following specific elements:
  - Hotline and Whistleblower Mechanisms
  - Auditing and Monitoring, including:
    - Substantive Testing of Specific Fraud Risk Issues
    - Ongoing Monitoring of Antifraud Controls
  - Forensic Data Analysis
When instances of fraud, waste and abuse are identified, an appropriate response is necessary to investigate the impacts, enforce antifraud rules and remediate control weaknesses.

An effective fraud response program should include the following specific elements:

- Internal Investigative Protocols
- Enforcement and Accountability Protocols
- Disclosure Protocols
- Remedial Action Protocols
Practical Implementation

High-level Practical Implementation Plan for State Agencies and Sub-Grantees

- State Agencies
  - Assignment of responsibility for fraud & compliance monitoring
  - Develop antifraud guidance and templates to be distributed to sub-recipients
  - Provide training and communication
  - Monitor compliance
  - Coordinate investigations with Inspector General
High-level Practical Implementation Plan for State Agencies and Sub-Grantees (continued)

- **Sub-Grantees**
  - Perform fraud risk assessment
  - Assess current state of antifraud programs to address risks identified
  - Design and implement new antifraud programs
  - Monitor vendor activities
  - Investigate and report on non-compliance
ARRA Impact on the Single Audit
ARRA Programs are to be considered “higher” risk

Impact on Type A Risk Assessments
- The $1 concept

Impact of New Clusters on 2 Year Look Back
- ARRA funding eliminates effect of Prior Year Audit

Impact on Type B Risk Assessments
- Type B’s with ARRA funding – Used first to replace Low-Risk A’s

Consideration of Fraud
- Fraud controls are a focus of ARRA program
Appendix VII
- CFDA numbers
  - Several new numbers
- Clusters of Programs
  - Several new and Several Revised
- Major Program Determinations
  - May increase number of Major programs
- Award Terms and Conditions
  - ARRA programs may not be in the Supplement
- Schedule of Expenditures of Federal Awards
  - Separate presentation of ARRA expenditures
Addendum #1 – Part 3

- Activities Allowed or Unallowed: Adds a new unallowable activity to ensure ARRA monies are not used for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool.

- Davis-Bacon Act: Includes the ARRA and related OMB implementing guidance as a source for requirements.

- Procurement and Suspension and Debarment: Adds a new audit objective to determine:
  - Whether an award includes Buy-American
  - Compliance with Buy-American ARRA provisions
  - If any waivers have been granted
Addendum #1 – Part 3 (continued)

- Reporting: Clarifies that the reporting requirements imposed by Section 1512 of the ARRA are not applicable for audit periods with ending dates in June, July, and August of 2009.

- Subrecipient Monitoring: Adds a new audit objective to determine if the subrecipient has communicated to their first-tier subrecipients the requirement to register in the Central Contractor Registration. This is a big consideration.
Three (3) New special tests and provisions: Adds audit objectives for three new special tests:

1) Separate accountability for ARRA funding
2) Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (DCF) presentation requirements
3) Requirements for the prime recipient to identify for their subrecipient
   a) Federal awards and CFDA numbers
   b) The amount of Recovery Act funds
   c) SEFA and DCF presentation requirements
Addendum #1 – Part 4

- The agencies that have included new programs:
  - Education
  - Housing and Urban Development
  - Environmental Protection Agency
  - Homeland Security
  - Department of Labor

- Heath and Human Services did not include any programs, but new programs/requirements are expected in the 2010 Supplement
Addendum #1 – Part 5, Cluster Changes

- Identifies cluster changes due to the Recovery Act
- Clarifies treatment of Federal Pell Grant (FPG) and Federal Work Study (FWS)
  - Disbursements under these programs were made without separate identification of the Recovery Act.
  - All expenditures for FPG and FWS should be reported under the Student Financial Aid cluster.
- Expected change for 2010 – Federal Agency (DOE) should be providing ARRA and non-ARRA amounts granted.
Auditors are encouraged to promptly inform management of identified control deficiencies related to ARRA funding.

Entities receiving ARRA funds may face a material increase in resources needed to:

- Properly manage ARRA
- Monitor and account for federal awards
- Effectively operate related internal controls

Auditors should consider “capacity” issues as part of internal controls considerations. Major issue in current environment – too few resources to administer adequately.
SEFA Changes

- ARRA Programs to be separately identified in SEFA and Data Collection Form.
- Disclosures related to payments made to subrecipients.
Impact on Internal Control Testing

- **Internal Control**
  - Changes to Part 6 of Compliance Supplement
  - Impact on Control Risk
    - May be higher due to newness of program and lack of resources
  - Impact on **Internal Control** Sample Sizes
    - Higher Risk may result in larger samples
    - Low/Moderate/High = 25/40/60
- **Impact on Sample Size Universe**
  - Separate Samples not necessarily required
  - Depends on program - must be representative
Impact on Compliance Testing

- Compliance
  - Inherent Risk and Control Risk
    - May result in larger samples
  - Impact on Compliance Risk
    - May be higher due to newness of program and lack of resources
  - Impact on Compliance Sample Sizes
    - May be larger
  - Impact on Sample Size Universe
    - Separate Samples not necessarily required, but generally easier
    - Depends on program - must be representative
Other Matters

- Cost Allocation Plans
  - Allows for recovery of 0.5% of total recovery act funds received by the state

- Subrecipient Monitoring
  - Heightened focus on requirement
  - Question as to what has been historically done in adequate

- Section 1512 Reporting
  - Not all ARRA Programs subject to reporting
  - Inconsistent and fluid guidance
Challenges

- Oversight Within Existing Resources
- Guidance and Information Inconsistent
- Real Time
- Build Up of Expectations
- Paradigm Shift re: Unprecedented Accountability and Transparency
- Funding Cliff
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