



# **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

# 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:**

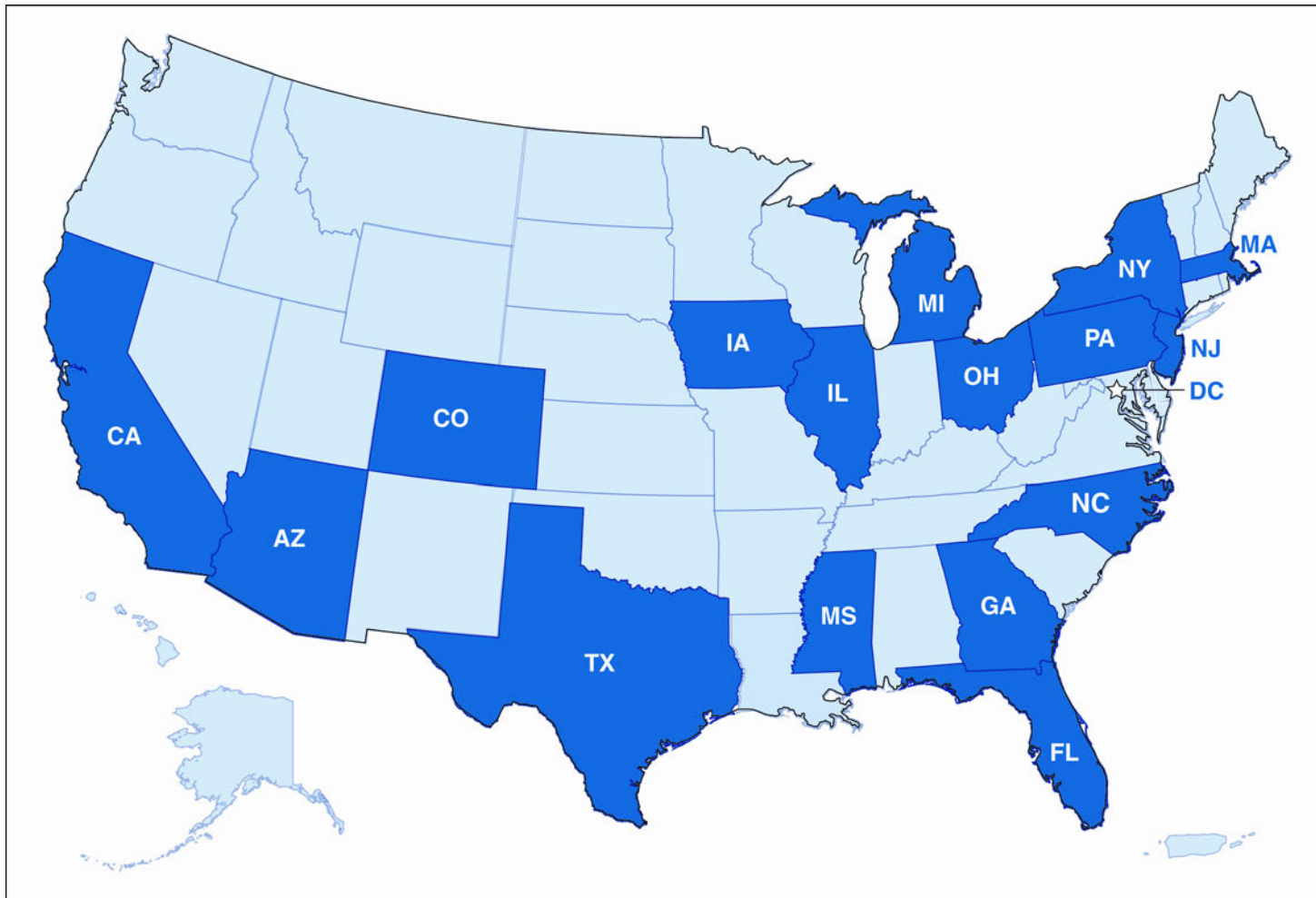
- conducting bimonthly reviews of selected states' and localities' use of funds
- commenting on recipient reports on the number of jobs created or preserved
- reviewing areas such as trade adjustment assistance, new education incentive grants, and efforts to increase small business lending
- monitoring 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
  - Localities sampled within selected states
  - About two-thirds of population and two-thirds of the intergovernmental assistance funds

# 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'

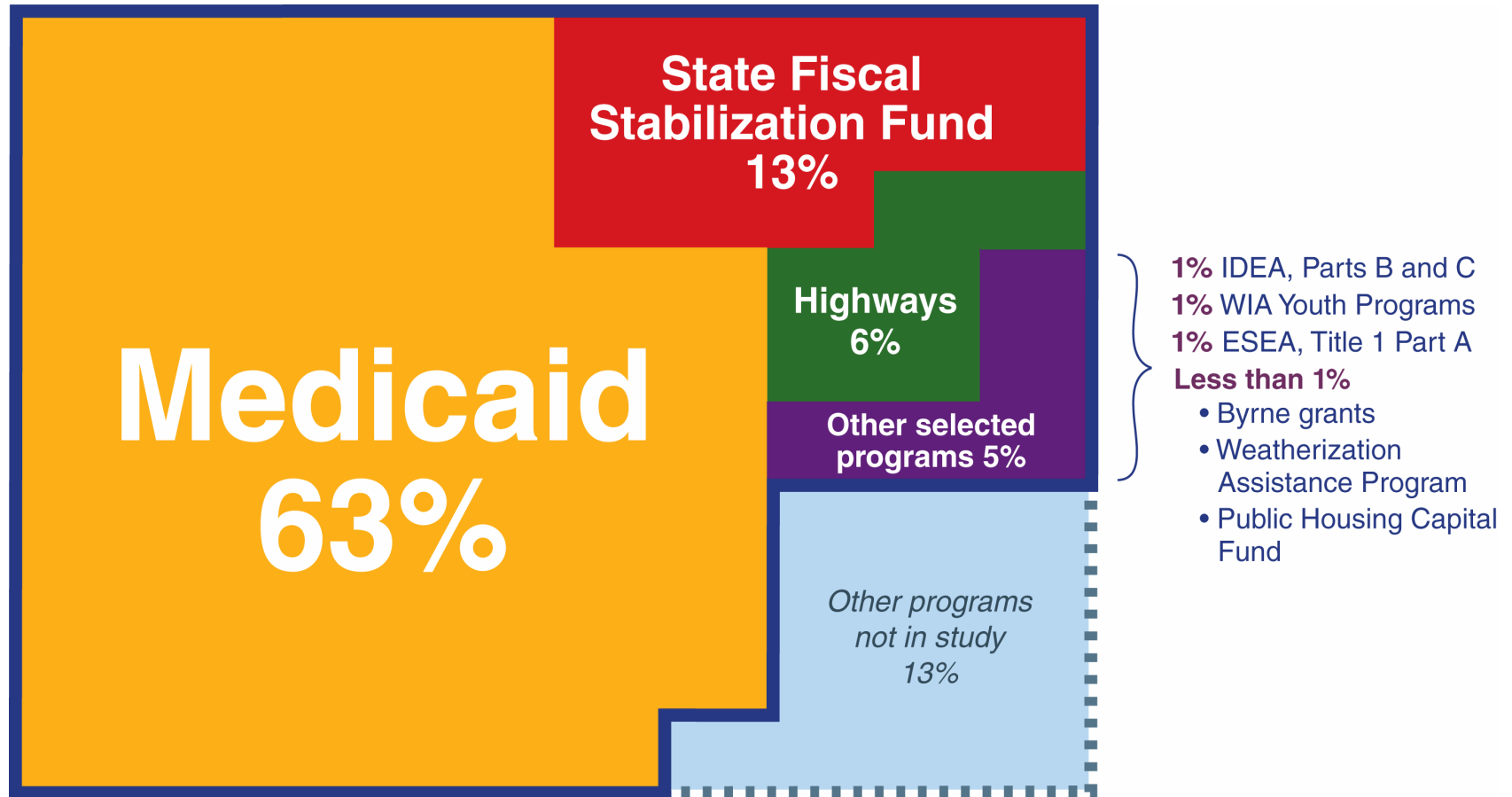
- Use of funds
- Up-front safeguards and ongoing monitoring, audits, and evaluations
- Plans to evaluate the impact of funds

# Program–Specific Reviews Across States

- April report focused on 3 largest programs -- Medicaid, Highway Infrastructure Investment & State Stabilization Funds
- July report covered 9 programs representing 87% of estimated FY 2009 Federal Recovery Act outlays to states and localities



# Programs in GAO Review: 87% of estimated Fiscal Year 2009 Federal Recovery Act Outlays to States and Localities



Source: GAO analysis of data from CBO and Federal Funds Information for States.

# Projected versus Actual Federal Outlays to States and Localities under the Recovery Act

Outlays in billions of dollars

120

100

80

60

40

20

0

□ Estimated

■ \$37.2 billion in Actual Federal Outlays as of July 24, 2009

2009

2010

2011

2012

2013

2014

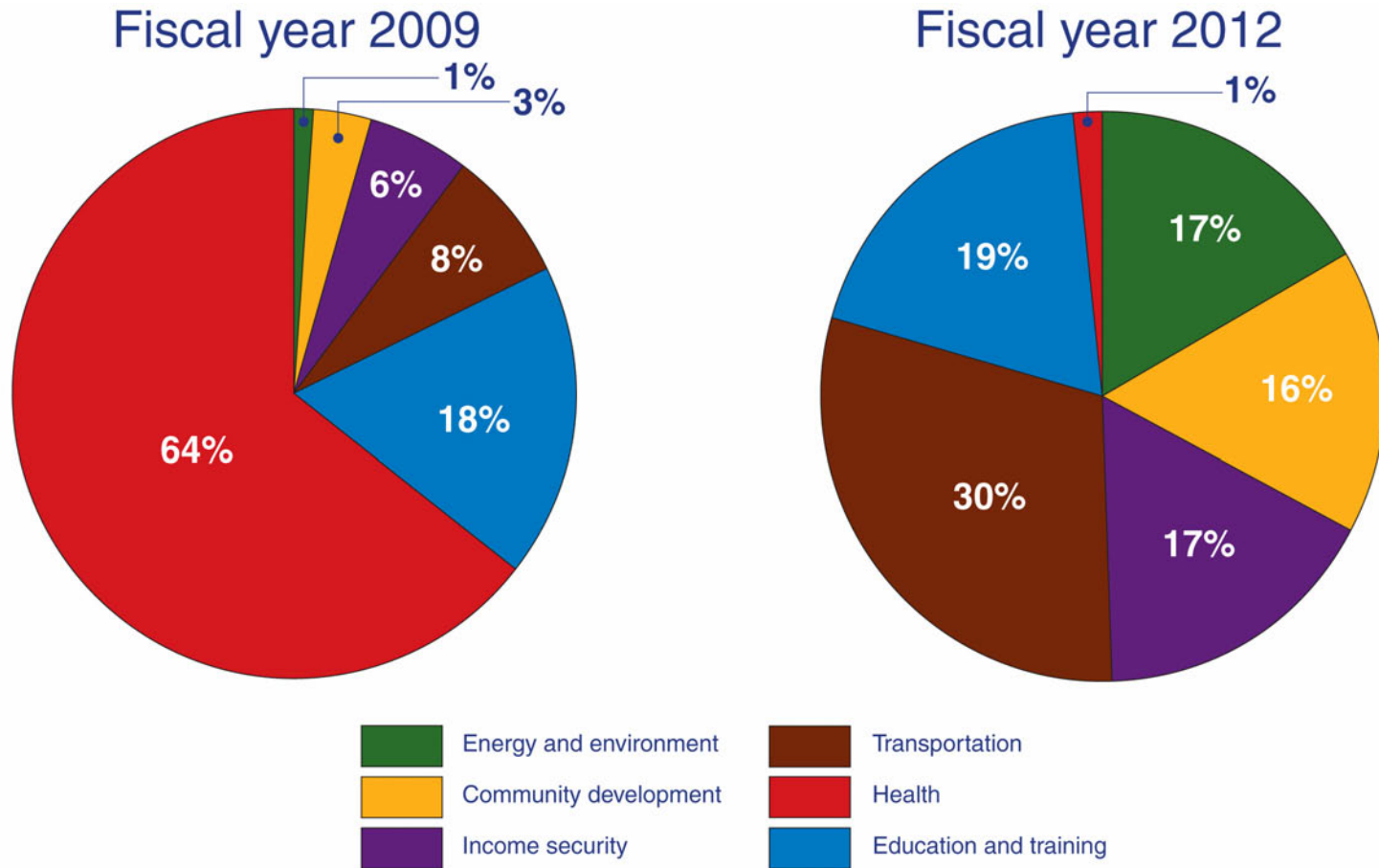
2015

2016

Fiscal year

Source: GAO analysis of data from CBO, Recovery.gov and Federal Funds Information for States.

# Comparison of State and Local Recovery Act Funding



Source: GAO analysis of CBO and FFIS data.

# GAO Recommendations Overview

- **Accountability and Transparency**
  - Leverage Single Audit as an effective oversight tool
    - Move to earlier reporting on internal controls
    - Focus on Recovery Act programs
    - Give relief for low-risk programs
    - Fund more timely, effective Single Audits
- **Reporting on Impact**
  - Provide examples of reporting on jobs created and retained
  - Clarify new or existing program performance measures
- **Communications and Guidance**
  - Clarify data quality and reconciliation requirements
  - Specify data certification and approval requirements
  - Ensure more direct communication on funds flowing to each state

# 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

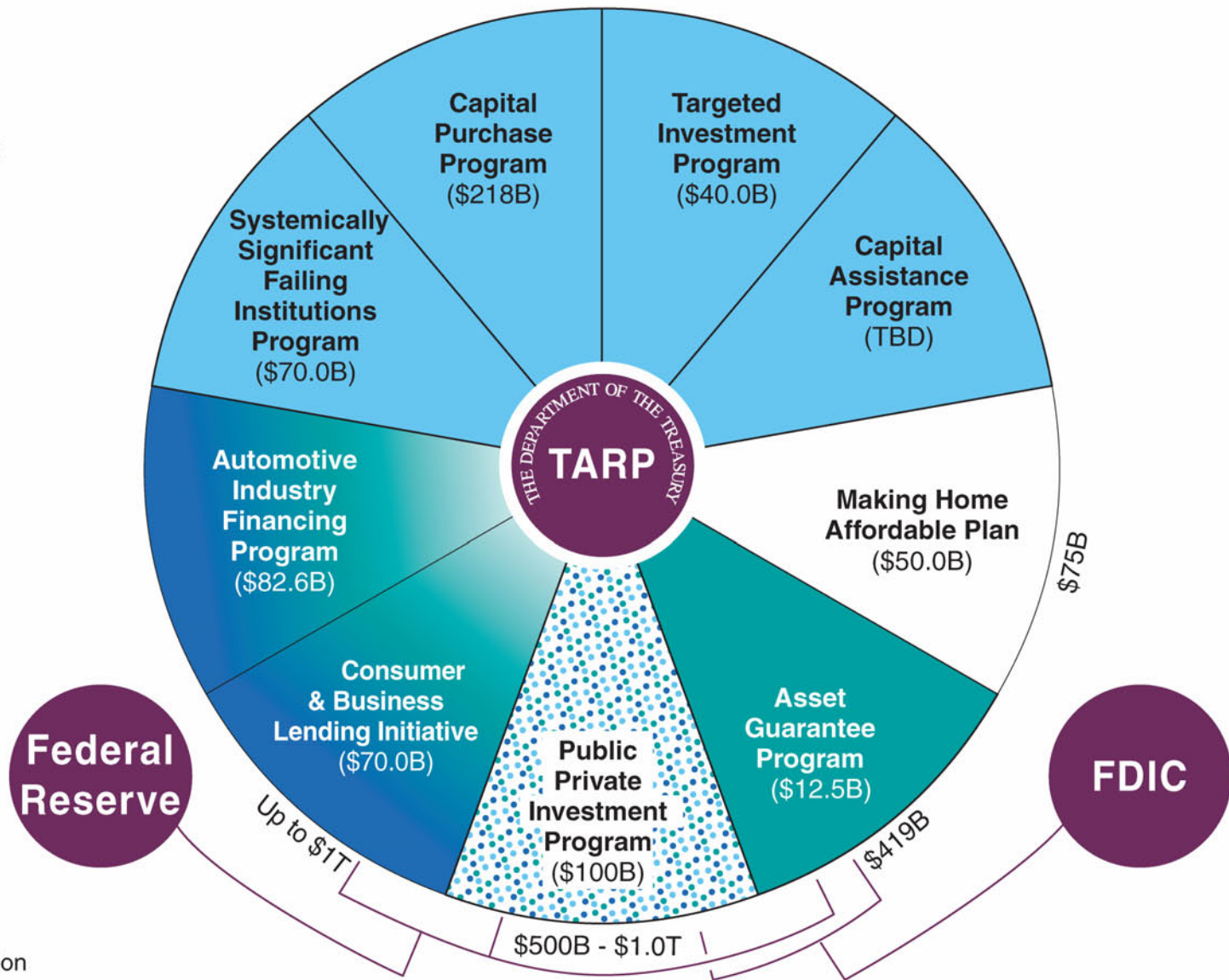
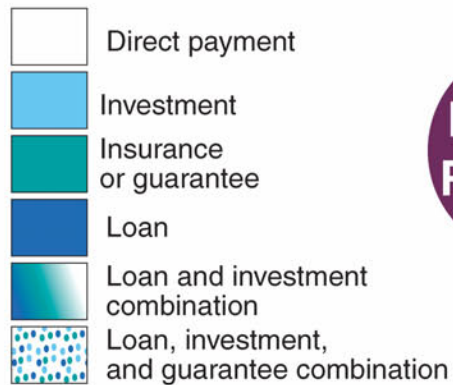
## GAO Role in Financial Rescue

- 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 focus on accountability and transparency and 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 federal financial reporting

# Financial Institutions and Markets: Looking Ahead

- Housing
  - Analysis of proposals for the structure of Fannie Mae and Freddie Mac
- 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

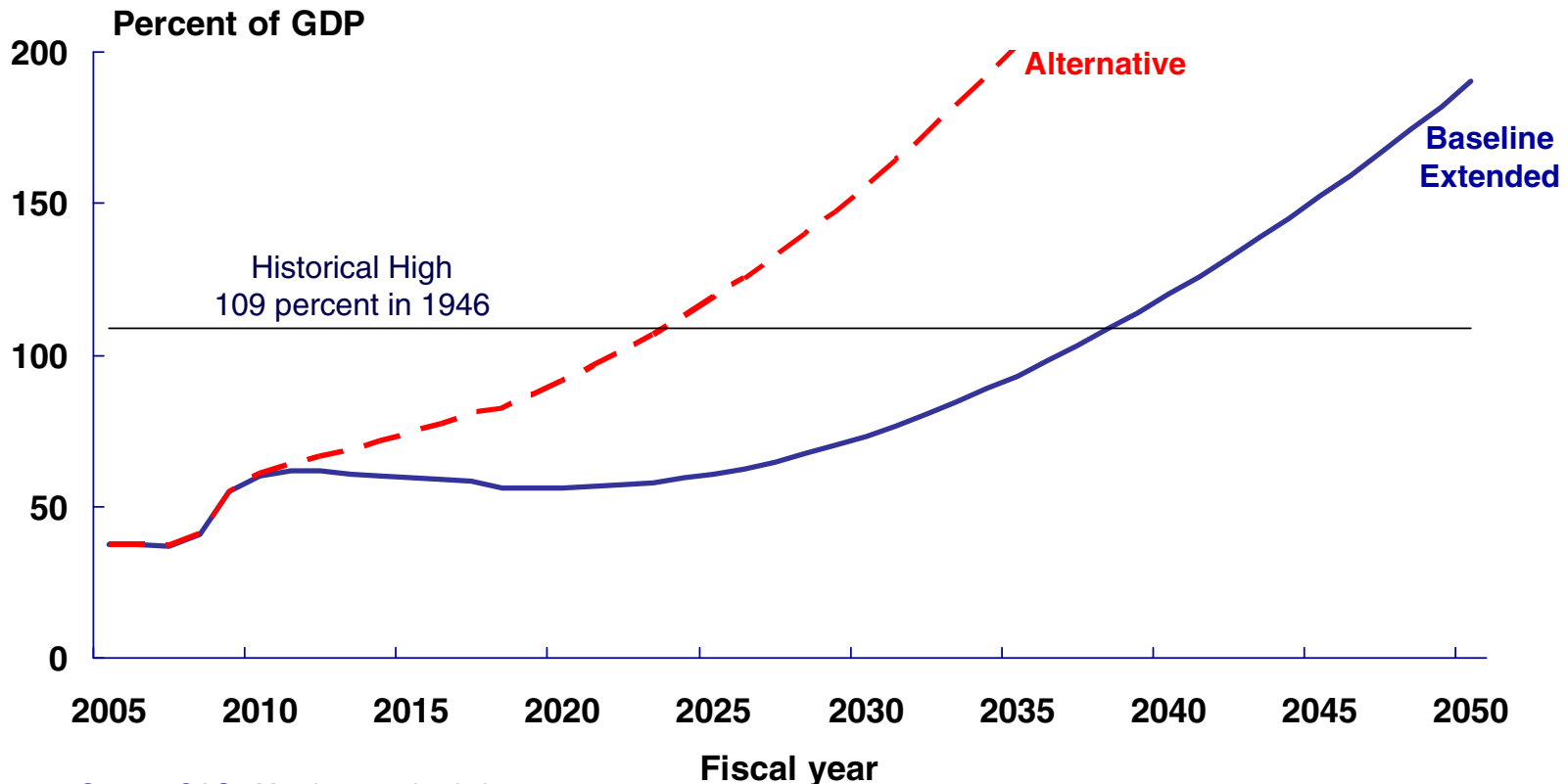
- Improve internal control—enhanced accountability and reduced improper payments
- Obtain clean opinion on U.S. government's consolidated financial statements
- Improve extent and reliability of cost information for evaluating federal program operations
- Implement more effective federal financial management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

# 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.

# 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 & 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)

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## On the Web

Web site: [www.gao.gov/cghome/index.html](http://www.gao.gov/cghome/index.html)

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