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MEMORANDUM

TO: County Mayors/County Executives
Directors of Schools
Finance Directors

FROM: Richard V. Norment, Assistant to the Comptroller
Jim Arnette, Director, Division of County Audit
Dennis Dycus, Director, Division of Municipal Audit

SUBJECT: American Recovery and Reinvestment Act

DATE: April 30, 2009

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Background

President Obama signed the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. The Act is sometimes referred to as the Recovery Act or the Stimulus Plan. Whatever the title, the stated objectives are:

1. To preserve and create jobs and promote economic recovery.
2. To assist those most impacted by the recession.
3. To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
4. To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
5. To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Financial Impact

ARRA will have some financial impact on many local governments; however, ARRA does not provide significant stabilization funds for most local governments except through the school department budget. The most significant level of ARRA funding will be for schools through the Title 1 and IDEA programs and general stabilization money provided to schools through the state budget process.

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The state agencies that will provide the majority of ARRA grants to local Governments are as follows:

- Finance and Administration (e.g. Criminal Justice Grants)
- Human Services
- Environment and Conservation
- Economic and Community Development
- Education

The Tennessee Department of Transportation will distribute a portion of ARRA funds directly to major urban areas but will not provide grants to rural county Highway Departments or rural municipal Street Departments.

Each of the above state agencies will provide access to several different ARRA grants. Many of the grants provided through these state agencies are competitive and involve an application process. Certain grants are available to city and county residents but only through non-profit agencies such as human resources agencies. Information about available grants is accessible through the State of Tennessee Recovery Website at <http://www.tnrecovery.gov> . Certain grants will be paid directly from the federal government. Local governments will need to search out these grants by requesting information through state agencies or via the federal government's recovery website at <http://www.recovery.gov> .

Implementation

Before any local government decides to apply for or accept ARRA grants, that government should determine whether it is willing and able to comply with the strict accounting, internal control, and reporting requirements of the grant. ARRA grants will be subject to accountability and transparency requirements that will necessitate additional accounting and reporting procedures.

The general reporting requirements for ARRA grants are set forth in Section 1512 of the Act as follows:

Not later than 10 days after the end of each calendar quarter, each recipient of recovery funds shall submit a report to the state agency that contains the following:

1. The total amount of recovery funds received.
2. The total amount of recovery funds received that were expended or obligated to projects or activities.
3. A detailed list of all projects or activities for which recovery funds were expended, 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. Specific information about infrastructure projects
 - f. Specific information about contracts and subcontracts

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The Office of Tennessee Recovery Act Management (TRAM) was established by the Governor to ensure accountability, transparency, and compliance with the American Recovery and Reinvestment Act for Tennessee. TRAM, in coordination with the various state agencies, is also responsible for determining what additional “data elements” local governments will be required to report to the Tennessee Recovery Website (or state agency website).

TRAM has issued 11 Directives for State and Local Agencies that receive ARRA grants. It is very important that each local government reads these Directives before applying for or accepting ARRA grants. Four of the most notable Directives are paraphrased below:

Local Governments are required to

1. Designate a senior accountable official for Recovery Act activities.
2. Account for ARRA funds separately in the government’s accounting system.
3. Follow internal control guidance prescribed by the Comptroller of the Treasury, Division of County Audit and Division of Municipal Audit.
4. Adopt a risk assessment process for all ARRA programs.

The Divisions of County Audit and Municipal Audit have published the entire list of TRAM Directives and presented internal control and risk assessment procedures that should assist local governments in complying with Directives three and four on the Comptroller’s Website at <http://www.tn.gov/comptroller>. Retrieve the information by navigating to the Division of County or Municipal Audit webpage and clicking on the ARRA button. The Division of County Audit has also made changes to the Uniform Chart of Accounts to facilitate compliance with Directive No. 2 above. These changes can also be viewed at the Division of County Audit’s webpage.

Additional compliance requirements that spell out how each ARRA grant can be expended will be issued as part of each grant agreement and updated as OMB develops new compliance supplements.

Reality of ARRA

ARRA grants are available for your government. However, local governments should recognize that the accountability and transparency requirements of the American Recovery and Reinvestment Act will not allow for business as usual. Government’s that do not comply with ARRA provisions may be required to repay ARRA grants.

ARRA is not the answer to local government budget problems. In fact, one of the most important questions local governments should ask with respect to ARRA is, how will my government be affected by ARRA funding when that funding is no longer available? ARRA funding may last for only a few months or for as many as three years depending on the program. Local governments need to understand the ramifications of accepting ARRA funding from beginning to end.

The general guidance provided in this letter represents the best guidance available to the Comptroller’s Office to date. The Comptroller of the Treasury will continue to monitor ARRA related developments and update websites for the most current guidance. Local governments are advised to visit state agency websites for guidance related to specific grants. In addition, CTAS and MTAS have websites that provide valuable information about ARRA grants.