

July 2007

Audit Committee News

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Sheldon Bernstein
IG/NEH

Edward Kelley
IG/FHFB

FAEC Representative:

Mary Ugone
DIGA/DOD

Highlights:

- National Single Audit Sampling Project

Next Meeting: Wednesday, July 25, 2007 at 2 pm,
Potomac Center Plaza, 550 12th Street, SW, Room 8070

National Single Audit Sampling Project

On June 21, 2007, the PCIE Audit Committee issued its report on the National Single Audit Sampling Project, an undertaking that took several years to complete. Fifteen Federal OIGs participated in some capacity in the project, which involved the conduct of quality control reviews (QCRs) of a statistical sample of 208 audits randomly selected from a universe of 38,523 audits submitted to the Federal Audit Clearinghouse from April 1, 2003, through March 31, 2004. The project results establish a statistically-based measure of audit quality for single audits and were used as a basis for recommending improvements to the single audit requirements, standards, and procedures.

For the 208 audits:

- 115 audits were *acceptable*, and thus could be relied upon, resulting in an estimate that 48.6% of all single audits were acceptable. The 115 acceptable audits represented 92.9% of the Federal awards reported in all 208 audits.
- 30 audits had significant deficiencies, and thus were of *limited reliability*, resulting in an estimate that 16.0% of all single audits were of limited reliability. The 30 audits of limited reliability represented 2.3% of the Federal awards reported in all 208 audits.
- 63 audits (35.5%) were *unacceptable*, and thus could not be relied upon, resulting in an estimate that 35.5% of all single audits were unacceptable. Of these 63 audits, 9 had material reporting errors, making the audits unacceptable. The remaining 54 audits were substandard. The 63 unacceptable audits represented 4.8% of the Federal awards reported in all 208 audits.

To permit additional analysis, the sample was divided into two strata: Stratum I – the largest single audits (i.e., audits covering \$50 million or more in total Federal expenditures), and Stratum II – all other single audits (i.e., audits covering \$500,000 up to \$50 million). The results showed a higher percentage of acceptable audits for Stratum I and a higher percentage of unacceptable audits for Stratum II.

Significant deficiencies identified by the Project include: (1) Not documenting the auditor's understanding of internal controls over compliance requirements [56.5%]; (2) Not documenting testing of internal controls of at least some compliance requirements [61.0%]; and (3) Not documenting testing of compliance requirements of at least some compliance requirements [59.6%].

To improve audit quality, we recommended a three-pronged approach to:

- 1) Revise the single audit criteria, standards, and guidance to address deficiencies identified by the Project;
- 2) Establish prerequisite and continuing training requirements for performing single audits; and
- 3) Establish sanctions that can be applied against those auditors who perform substandard work.

Copies of the report may be obtained at www.ignet.gov. We wish to thank all who participated in the project and contributed to the report. This project required significant resources, and could not have been completed without their assistance.

If you have any questions, please contact Kim Geier at (202) 245-7020.