



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

mead  
SSA

18972

OFFICE OF GENERAL COUNSEL

July 23, 1981

B-202772

The Honorable Jack Brooks  
Chairman, Committee on Government  
Operations  
House of Representatives



Dear Mr. Chairman:

In connection with conference consideration of the omnibus reconciliation bills, Chairman Dingell's office requested our advice on [State audit requirements for proposed block grant and consolidated assistance programs]. Because of our recommendation that a single set of requirements be made applicable to all block grant and consolidated assistance programs in the bill, we concluded that these recommendations should be conveyed to you, as well as to Chairman Dingell.

We recommend the following:

1. That audits be required at least every 2 years.
2. That audits be made in accordance with standards issued by the Comptroller General.
3. That each audit include a financial and compliance audit.
4. That at reasonable intervals (but not necessarily every 2 years) the scope of the audit be expanded to cover issues of economy, efficiency, and effectiveness.
5. That these requirements be made applicable to all block grants and consolidated programs in the final bill.

These recommendations grow out of our own experience in auditing and reviewing Federal assistance programs. In view of the substantially reduced Federal oversight which is contemplated in these cases, it seems reasonable for Congress to require some continuing evidence that the oversight responsibility has been assumed by the States.

115956

017732

Such oversight responsibilities should clearly include financial and compliance audits at relatively frequent intervals. Workload and cost considerations suggest that an interval of 2 years is reasonable, and experience suggests that this would be a satisfactory frequency.

It is also necessary that oversight through the audit process include matters of economy, efficiency, and effectiveness. As we have indicated in our own guidance on this subject, it is not necessary that such issues be covered in every audit. However, we consider it essential that coverage of these matters be provided at some reasonable interval.

The Comptroller General's standards are the appropriate standards for these audits. They are the only generally accepted standards governing audits of government programs and organizations for economy, efficiency, and effectiveness. They also include standards for financial and compliance audits and incorporate the standards for financial audits established by the American Institute of Certified Public Accountants (AICPA). The Comptroller General's standards are required by statute to be used by the Inspectors General in auditing federally-assisted programs. They have been developed through an extensive dialogue with auditors at all levels of government and the AICPA, and have achieved a very wide acceptance in that community and in the accounting profession. In view of the fact that the requirement for auditing for economy, efficiency and effectiveness is new, it would be appropriate to provide that the States may seek advice and technical assistance from the appropriate Federal departments and agencies in planning and carrying out these audits.

Finally, we believe it would be highly desirable to have the audit requirements for all block grants and consolidated programs as uniform as possible. This would assure that there was adequate and consistent audit coverage among the programs and among the States. In addition, it would avoid some potentially significant administrative problems which could arise from differences in the audit requirements applicable to various programs. If grants with different audit requirements should flow through the same agency, for example, it could lead to an unnecessarily costly overlap and duplication of auditing efforts.

B-202772

We have long supported proposals for a single financial and compliance audit approach in connection with existing programs. This approach is now reflected in OMB's regulations in this area, Attachment P to Circular A-102. It is also reflected in S. 807, a grant reform bill now pending in the Senate. Efforts by the States to implement the single audit approach could be seriously impeded through the creation of differing requirements for financial and compliance audits.

I am enclosing proposed legislative language which, if enacted, would implement these recommendations. Should these recommendations be adopted, we would be pleased to work with your staff to prepare any necessary conforming technical amendments to the engrossed versions of S. 1377 and H.R. 3982. In view of our recommendation that a single set of audit requirements be enacted to cover all block grant and consolidated programs in the bill, I am also sending a similar letter to other appropriate committee chairmen in the Senate and the House.

Sincerely yours,



Acting Comptroller General  
of the United States

Enclosure

B-202772

Cross-Cutting Provision for State  
Auditing Requirements

Sec. \_\_\_ (a) For any block grant, consolidated assistance, or grant-in-aid program provided for or established by this Act, each State shall--

- (1) conduct financial and compliance audits of such programs; and
  - (2) audit the results of such programs, and the economy and efficiency of their operation.
- (b) Any financial and compliance audit required by this section shall be performed at least once during the twenty-seven (27) month period first succeeding October 1, 1981, and not less often than once every consecutive two year period thereafter. Audits required under paragraph (a)(2) of this section shall be performed at reasonable intervals, as determined by the State in consultation with the Secretary of the Federal agency responsible for administering the program to be audited.
- (c) Any audit described in paragraph (a) of this section shall be conducted in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.
- (d) The Director of the Office of Management and Budget shall prescribe regulations to carry out the requirements of this section. Such regulations may provide for waivers and exemptions from the requirements of this section, and may authorize a single independent financial and compliance audit in lieu of a separate financial audit of each individual grant received by the State.

B-202772

- (e) As used in this section, the term "State" means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

A substantially identical letter has been sent to the following:

The Honorable Orrin G. Hatch  
Chairman, Committee on Labor  
and Human Resources  
United States Senate

The Honorable Thomas F. Eagleton  
Ranking Minority Member  
Committee on Governmental Affairs  
United States Senate

The Honorable William V. Roth, Jr.  
Chairman, Committee on Governmental  
Affairs  
United States Senate

The Honorable John D. Dingell  
Chairman, Committee on Energy  
and Commerce  
House of Representatives

B-202772

Comparative Statement of Audit and  
Access Authorizations by Program--  
H.R. 3982 and S. 1377, as Engrossed

1. Puerto Rico Block Grant for Food Assistance

H.R. 3982, §1014, 7  
S. 1377, §167, p. 20

Puerto Rico block grant provisions contain no access authorization applicable to GAO.

2. Social Service Block Grants

H.R. 3964, §5311, p. 93  
S. 1377, §781, p. 252

House Access and Audit Authorization--

§5319, p. 98

"(c) Section 202 of the Intergovernmental Cooperation Act of 1968 shall apply to grants made under this subchapter."

Senate Access and Audit Authorization--

§782, p. 259

"(c) For other provisions requiring States to account for Federal Grants, see section 202 of the Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4212)."

3. Education Consolidation and Improvement Act of 1981  
(referred to as Elementary and Secondary Education Block Grants  
in Senate version)

H.R. 3982, §5341, p. 105--House bill divides programs into essentially two consolidation packages. The first covers financial assistance to meet special educational needs of children. The second consolidates Federal programs for elementary and secondary education.

S. 1377, §§1111, 1121, pp. 305, 330

Neither Senate nor House bill contain an access provision applicable to GAO.

4. Home Energy Assistance Block Grants

H.R. 3982, §5411, p. 143

S. 1377, §1132-1, p. 350

House Access and Audit authorization

§5415, p. 148

"(h) The Comptroller General of the United States shall, from time to time, evaluate the expenditures by States of grants under this subchapter in order to assure that expenditures are consistent with the provisions of this subchapter and to determine the effectiveness of the State in accomplishing the purposes of this subchapter."

§5418, p. 149

"[b](3) The Comptroller General of the United States may conduct an investigation of the use of funds received under this subchapter by a State in order to ensure compliance with the provisions of this subchapter.

"(c) Pursuant to an investigation conducted under subsection (b), a State shall make appropriate books, documents, papers, and records available to the Secretary or the Comptroller General of the United States or any of their duly authorized representatives, for examination, copying, or mechanical reproduction on or off the premises of the appropriate entity upon a reasonable request therefor.



"(d) In conducting any investigation under subsection (b), the Secretary or the Comptroller General of the United States may not request

any information not readily available to such State or require that any information be compiled, collected, or transmitted in any new form not already available."

Senate Access and Audit Authorization

§1132-5, p. 355

"(g) The Comptroller General of the United States shall, from time to time, evaluate the expenditures by States of grants under this subpart in order to assure that expenditures are consistent with the provisions of this subpart and to determine the effectiveness of the State in accomplishing the purposes of this subpart.

§1132-8, pp. 356-357

"[b](3) The Comptroller General of the United States may conduct an investigation of the use of funds received under this subpart by a State in order to insure compliance with the provisions of this subpart.

"(c) Pursuant to an investigation conducted under subsection (b), a State shall make appropriate books, documents, papers, and records available to the Secretary or the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical reproduction on or off the premises of the appropriate entity upon a reasonable request therefor.

"(d) In conducting any investigation under subsection (b), the Secretary or the Comptroller General of the United States may not request any information

not readily available to such State or require that any information be compiled, collected, or transmitted in any new form not already available."

5. Consolidated Refugee Education Assistance

H.R. 3982, §5441, p. 150

No comparable consolidation in Senate version.

House bill contains no access provision applicable to GAO.

6. Community Services Block Grant

S. 1377, §1133-1, p. 357

H.R. 3982 integrates existing community service programs into The Social Services Block Grant.

Senate Access and Audit Authorization

§1133-5, p. 362

"(h) The Comptroller General of the United States shall, from time to time, evaluate the expenditures by States of grants under this subpart in order to assure that expenditures are consistent with the provisions of this subpart and to determine the effectiveness of the State in accomplishing the purposes of this subpart."

§1133-9, p. 364

"[b](3) The Comptroller General of the United States may conduct an investigation of the use of funds received under this subpart by a State in order to insure compliance with the provisions of this subpart.

"(c) Pursuant to an investigation conducted under subsection (b), a State shall make appropriate books, documents, papers, and records available to the Secretary or the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical

reproduction on or off the premises of the appropriate entity upon a reasonable request therefor."

"(d) In conducting any investigation under subsection (b), the Secretary or the Comptroller General

of the United States may not request any information not readily available to such State or require that any information be compiled, collected, or transmitted in any new form not already available."

7. Headstart (Senate version only)

S. 1377, §1134-1, p. 364

Senate Access Audit and Authorization

§1134-13, p. 371

"(b) The Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipients that are pertinent to the financial assistance received under this subpart."

8. Maternal and Child Health Block Grants

H.R. 3982, §6211, p. 185

S. 1377, §731, p. 217

House Access and Audit Authorization

§506, p. 191

"(d) For other provisions relating to accounting and auditing with respect to Federal grants to States, see section 202 of the Intergovernmental Cooperation Act (42 U.S.C. 4212)."

Senate Access and Audit Authorization

§506, p. 221

"(c) The provisions of section 202 of the Intergovernmental Cooperation Act of 1968 (42 U.S.C. §4212) shall apply to block grants under this

title."

9. Health Services

S. 1377, §1104-1, p. 281

H.R. 3982, §6201, p. 179 (referred to as Comprehensive and Preventive Health Service Program)

House Access and Audit Authorization

§6201, p. 183

"(D) For other provisions requiring States to account for Federal grants, see section 202 of the Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4212)."

Senate Access and Audit Authorization

§1104-3, p. 288

"(i) The Comptroller General of the United States shall, from time to time, evaluate the expenditures by States of grants under this subpart in order to assure that expenditures are consistent with the provisions of this subpart and to determine the effectiveness of the State in accomplishing the purposes of this subpart."

§1104-3, p. 290

"[b](3) The Comptroller General of the United States may conduct

an investigation of the use of funds received under this subpart by a State in order to insure compliance with the provisions of this subpart."

"(c) Pursuant to an investigation conducted under subsection (b), a State shall make appropriate books, documents, papers, and records available to the Secretary or the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical reproduction

on or off the premises of the appropriate entity upon a reasonable request therefor.

"(d) In conducting any investigation under subsection (b), the Secretary or the Comptroller General of the United States may not request any information not readily available to such State or require that any information be compiled, collected, or transmitted in any new form not already available.

#### 10. Preventive Health Services Block Grants

S. 1377, §1107-1, p. 295.

H.R. 3982, §6201, p. 179 (referred to as Comprehensive and Preventive Health Service Program)

#### House Access and Audit Authorization

§6201, p. 183

"(D) For other provisions requiring States to account for Federal grants, see section 202 of the Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4212)."

Senate Audit and Access Authorization

§315, p. 298

"(h) The Comptroller General of the United States shall, from time to time, evaluate the expenditures by States of grants under this subpart in order to assure that expenditures are consistent with the provisions of this subpart and to determine the effectiveness of the State in accomplishing the purposes of this subpart."

§318, p. 300

"[b](3) The Comptroller General of the United States may conduct an investigation of the use of funds received under this subpart by a State in order to insure compliance with the provisions of this subpart.

"(c) Pursuant to an investigation conducted under subsection (b), a State shall make appropriate books, documents, papers, and records available to the Secretary or the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical reproduction on or off the premises of the appropriate entity upon a reasonable request therefor.

"(d) In conducting any investigation under subsection (b), the Secretary or the Comptroller General of the United States may not request any information not readily available to such State or require that any information be compiled, collected, or transmitted in any new form not already available."

11. Alcohol and Drug Abuse Block Grants

H.R. 3982, §6231, p. 197

No comparable program in Senate version

§6231, p. 201

"(d) For other provisions requiring States to account for Federal grants, see section 202 of the Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4212)."

12. Community and Migrant Health Centers Program

H.R. 3982, §6245, p. 205

No comparable program in Senate version

House Audit and Access Authorization

§6247, p. 206

"(h)(1) Each entity which receives a grant under subsection (d) shall provide for an independent annual

financial audit of any books, accounts, financial records, files, and other papers and property which relate to the disposition or use of the funds received under such grant and such other funds received by or allocated to the project for which such grant was made. For purposes of assuring accurate, current, and complete disclosure of the disposition or use of the funds received, each such audit shall be conducted in accordance with generally accepted accounting principles. Each audit shall evaluate--

"(A) the entity's implementation of the guidelines established by the Secretary respecting cost accounting,

"(B) the processes used by the entity to meet the financial and

program reporting requirements of the Secretary, and

"(C) the billing and collection procedures of the entity and the relation of the procedures to its fee schedule and schedule of discounts and to the availability of health insurance and public programs to pay for the health services it provides.

"A report of each such audit shall be filed with the Secretary at such time and in such manner as the Secretary may require.

"(2) Each entity which receives a grant under subsection (d) shall establish and maintain such records as the Secretary shall by regulation require to facilitate the audit required by paragraph (1). The Secretary may specify by regulation the form and manner in which such records shall be established and maintained.

"(3) Each entity which is required to establish and maintain records or to provide for an audit under this subsection shall make such books, documents, papers, and records available to the Secretary or the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical reproduction on or off the premises of such entity upon a reasonable request therefor. The Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have the authority to conduct such examination, copying, and reproduction."



B-202772

## AMENDMENT TO H.R. 3982

1. Section 1601 of title VI, p. 539 of the engrossed version of H.R. 3982, is amended by adding the following new subsection, beginning on line 22:

"1601(c)(1). For the purpose of evaluating and reviewing block grant, consolidated assistance, or other grant programs established or provided for by this Act, the Comptroller General shall have access to any books, accounts, records, correspondence or other documents that are related to such programs, and that are in the possession, custody, or control of States, political subdivisions thereof, or any of their grantees."

"(2). In conjunction with a review or evaluation under paragraph (1), no recipient of Federal assistance under this Act shall be required to create or prepare new records to comply with paragraph (1)."

2. Conforming technical amendments: Subsections 5418(c) and (d), p. 149, lines 28, 31, and 32, are amended by striking the words "or the Comptroller General of the United States"; on line 28 of subsection 5418(c), substitute "his" for "their."

## AMENDMENT TO S. 1377

1. Add new section 1111 immediately following line 40, section 1110-2, p. 304, of S. 1377, as engrossed:

"1111(a). For the purpose of evaluating and reviewing block grant, consolidated assistance, or other grant programs established or provided for by this Act, the Comptroller General shall have access to any books, accounts,

records, correspondence or other documents that are related to such programs, and that are in the possession, custody, or control of States, political subdivisions thereof, or any of their grantees."

"(b). In conjunction with a review or evaluation under paragraph (a), no recipient of Federal assistance under this Act shall be required to create or prepare new records to comply with paragraph (a)."

2. Conforming technical amendments: Section 1104-3, p. 290 (lines 36, 39, 40), section 1107-3, p. 300 (lines 35, 38, 39), section 1132-8, p. 356 (line 40), p. 357 (lines 3, 4), and section 1133-9, p. 364 (lines 13, 14, 16, 17), is amended by striking "or the Comptroller General of the United States," and by substituting "or any of his duly authorized representatives" for "or any of their duly authorized representatives."