

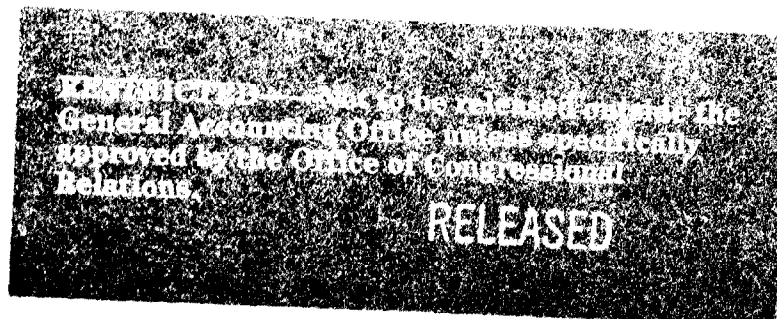
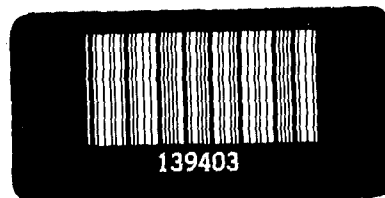
GAO

Report to the Chairman, Legislation
and National Security Subcommittee,
Committee on Government Operations,
House of Representatives

July 1989

SINGLE AUDIT ACT

Single Audit Quality Has Improved but Some Implementation Problems Remain





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-219869

July 27, 1989

The Honorable John Conyers
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In October 1987, the former Chairman requested that we review the implementation of the Single Audit Act of 1984 (Public Law 98-502, 31 U.S.C. 7501-7507). We divided our review into two phases. Our report on the first phase entitled, Single Audit Act: First-Year Reporting Has Been Extensive (GAO/AFMD-88-60), was issued in September 1988, and focused on the extent to which state and local governments receiving direct federal financial assistance are having the required single audits performed. The report identified a 96-percent compliance rate with this requirement.

This report describes the results of the second phase of our review. As agreed with your office, this review's objectives were to assess (1) the quality of single audits by determining their compliance with generally accepted government auditing standards and (2) the usefulness of single audit reports to report recipients.

We concluded that CPAs complied with auditing standards in 35 of the 40 audits we reviewed. In particular, we found in these audits sufficient evidence of studies and evaluations of internal controls over federal expenditures and testing of compliance with laws and regulations. Failure to meet these two audit requirements was the predominant problem CPAs had in conducting governmental audits, according to our 1986 review of CPA audit quality,¹ which included both single audits done under Office of Management and Budget (OMB) Circular A-102 prior to the passage of the act and grant audits.

For five CPA firms, however, we noted problems with segments of the audits relating to either internal controls, compliance testing, or reporting. The nature of the audit and reporting problems was significant enough that we plan to refer these firms to the appropriate state boards

¹CPA Audit Quality: Many Governmental Audits Do Not Comply With Professional Standards (GAO/AFMD-86-33, March 19, 1986).

of accountancy and the American Institute of Certified Public Accountants (AICPA) for their review.

We also found that general oversight among federal inspectors general is not provided consistently and that the degree of monitoring for audit quality varies. Therefore, we are recommending that OMB, which is responsible for prescribing policies and procedures to implement the act, define general oversight responsibilities to provide for expanded audit quality reviews.

Although report recipients are concerned about the usefulness of single audits, we found that most single audit reports contain findings and cover the majority of federal funds provided. However, the reports do not always identify which programs were tested for compliance or the extent of the compliance testing. To assist report recipients, especially program managers, in monitoring their programs, we are recommending that OMB require CPAs to identify all programs tested for compliance with laws and regulations. This would help program managers to decide if more audit coverage or other types of oversight are warranted for those programs which were not covered.

Background

The federal government administers approximately \$115 billion per year in federal financial assistance programs through state and local governments. Private citizens, the Congress, and federal, state, and local officials have a common interest in ensuring accountability over the funds in those government programs. They want and need to know if federal funds are being used properly and if programs are conducted in accordance with applicable laws and regulations. Fraud, waste, and abuse in federally funded activities and programs may lead to the loss of government funds, erode public confidence, and undermine the federal government's ability to operate effectively.

In response to concerns that large amounts of federal financial assistance were not subject to audit and that agencies' oversight activities sometimes overlapped, the Congress adopted the Single Audit Act of 1984. It stipulates that state and local governments which receive at least \$100,000 in federal financial assistance must have a single audit conducted. Governments which receive between \$25,000 and \$100,000 in federal financial assistance have the option of complying with the audit requirements of the act or the audit requirements of the federal program(s) which provided the assistance. The audit requirements of the act can be satisfied through one financial and compliance audit of a

state or local government's entire financial operations or a series of financial and compliance audits for the same fiscal year of individual departments, agencies, or other government components. These audits entail a review of a government's financial operations, internal controls, and compliance with laws and regulations. The reports from these audits are intended to (1) offer report recipients, including the audited entities and federal, state, and local program managers, reasonable assurance that funds they provided were expended in accordance with applicable laws and regulations and (2) serve as the foundation for additional audits or other types of oversight.

The Single Audit Act does not require testing and reporting on all federal programs. Rather, the act requires that each major program (as defined in the act) and selected transactions from nonmajor programs be tested for compliance with applicable laws and regulations. While the act does not limit the authority of federal agencies to conduct other audits, single audits were intended to provide a basic foundation on which those audits and evaluations—such as program reviews, detailed compliance reviews, or economy and efficiency audits—would build. This would be done through a “preventive approach,” which would identify internal controls which may not be adequate to prevent non-compliance with laws and regulations.

Prior to the passage of the Single Audit Act of 1984, the traditional approach to audits of entities receiving federal assistance funds was one of detecting noncompliance with federal laws and regulations by testing numerous transactions for individual grants or a number of grants. The approach taken under the Single Audit Act concentrates on preventing noncompliance by ascertaining whether internal controls are in place and functioning to help ensure compliance with federal laws and regulations. This approach, combined with transaction and compliance testing, can help determine the degree of reliance the auditor can place on the internal control system.

The intent of this preventive approach is to help ensure long-lasting improvements by identifying the causes of noncompliance and by serving as a bridge for further audits. Appendix I is a document entitled, “Intent of the Single Audit Act of 1984,” which we prepared during the planning of our review. It was sent to over 120 federal, state, and local government and audit officials.

Objectives, Scope, and Methodology

The objectives in this phase of our review were to assess (1) the quality of single audits by determining their compliance with generally accepted government auditing standards and (2) the usefulness of single audit reports to report recipients.

The scope of our review included work at seven agencies² selected because they provide over 90 percent of the direct federal financial assistance to state and local governments.

To assess the quality of single audits, we selected a random sample of 40 single audits from a universe of 450 which had been conducted within the four metropolitan areas in our review. We cannot project the results of our study to the full universe of 450 audits because of certain limitations, which we discuss in appendix II. We performed quality control reviews on the sample of 40 single audit reports and the supporting working papers using a standardized data collection instrument, and we discussed our findings with the auditors responsible for the audit. Because audit standards require CPAs to retain the working papers for an audit, we performed this work mainly at CPA firm offices.

To assess the usefulness of single audit reports, we evaluated the 450 single audit reports to identify the types of findings, either internal control or compliance-related. Single audits should be useful to report recipients by providing assurance of the adequacy of internal controls and compliance with laws and regulations or by identifying areas where improvements are needed. From this universe, we selected a second sample of 40 audits, those which we judged to have the most substantive findings, to determine if corrective actions had been implemented by the recipient.

Finally, we interviewed independent auditors, audit resolution personnel, inspector general officials, and managers for over 30 programs at headquarters and regional offices to determine how single audits are used as a basis for future work, such as economy and efficiency audits and program reviews. We also gathered data from these sources on the types of federal guidance provided and their experiences in implementing the act, including the handling of oversight responsibilities for the recipients of single audits.

²The seven federal agencies evaluated during this review were the Departments of Agriculture, Education, Health and Human Services, Housing and Urban Development, Labor, and Transportation and the Environmental Protection Agency.

We conducted our work between October 1988 and May 1989 in accordance with generally accepted government auditing standards. We discussed our findings with CPA firm personnel responsible for the audits, federal agency inspectors general, program officials, and OMB officials to verify the accuracy and completeness of the facts in our report. We have incorporated their views where appropriate. However, in accordance with the requester's wishes, we did not obtain written comments on a draft of this report.

Appendix II contains a more detailed discussion of our objectives, scope, and methodology.

Quality of Single Audits

Based on our review of the random sample of 40 single audits selected for quality control reviews, we concluded that 35 satisfactorily complied with auditing standards. Five of the audits did not satisfactorily comply with auditing standards relating to evidence and four did not comply with reporting standards. Also, while there was a consensus among Office of Inspector General officials we interviewed that more single audits are now complying with standards than earlier audits, a number expressed the view that further improvements are still needed.

Our evaluation showed particular improvement in the CPAS' compliance with auditing standards for fieldwork in the portion of their audits involving studies and evaluations of internal controls and testing for compliance with laws and regulations. In our 1986 review of governmental audits, which included single audits done prior to the act and grant audits, noncompliance with these auditing standards was listed as the CPAS' predominant problem. Also, as in our 1986 report, we found some CPAS had problems in meeting reporting standards.

Evidence of Audit Work

We concluded that 35 of the 40 single audits we reviewed met audit standards for fieldwork. These standards generally encompass the planning and performance of the audit and the sufficiency and competency of evidential matter obtained to support an auditor's conclusions and opinions. Standards require that auditors retain a written record of their audit evidence in the form of working papers. The information contained in working papers constitutes the principal record of work that the auditor has performed and the conclusions that the auditor has reached.

For five audits, however, we found that the CPAs did not have sufficient evidence in the working papers to demonstrate that they had adequately tested the entities' internal controls over federal programs and their compliance with specified laws and regulations. Furthermore, in our judgment, their working papers did not contain sufficient evidence to support some of the conclusions, opinions, and statements included in their audit reports.

Internal Controls Over Federal Programs

The Single Audit Act requires the auditor to evaluate and report on whether the entity has internal accounting and administrative control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with laws and regulations. The AICPA's Audit and Accounting Guide: Audits of State and Local Governmental Units states that the auditor should evaluate all significant control cycles, such as revenues and purchases, that relate to major federal financial assistance programs, as defined by the act. The guide also indicates that the largest nonmajor programs must be included in the evaluation when major programs do not constitute at least half of all federal program expenditures made by the entity. The study and evaluation of internal control systems relating to all other nonmajor programs should, at a minimum, be comparable to a preliminary review, which consists of obtaining a general understanding of the internal control environment.

Based on our review of the working papers supporting 40 single audits, we believe 35 audits complied with standards of evidence for internal controls. In these audits there was sufficient evidence supporting the CPAs' reports that internal controls were studied and evaluated and that financial transactions were appropriately tested to support the opinions on the financial statements. For five audits, we noted that there was insufficient evidence in the working papers to show where either a preliminary or full review of accounting and administrative controls was performed for federal programs. For example, in some of the audits there were no audit programs, no documentation of the control procedures, and no evidence to show that control procedures were tested.

Compliance Testing for Federal Programs

For compliance testing, the act requires the auditor to determine and report on whether the entity has complied with laws and regulations related to federal financial assistance programs. The auditor is required to select and test a representative number of charges from each major

federal assistance program and to test for both general and specific compliance requirements.³ Also, if transactions from nonmajor programs are selected for testing in any part of the general purpose or basic financial statements or the study and evaluation of internal controls, such transactions should also be tested for specific compliance requirements with federal laws and regulations.

Of the 40 single audits reviewed, 35 had evidence of acceptable compliance testing. In these audits, the CPAS' working papers contained adequate documentation for compliance tests. Also, there was adequate support for the required testing of the general or specific compliance requirements. In the five audits without evidence of acceptable compliance testing, we found, for example, that CPAS had not fully tested general compliance requirements, such as cash management and civil rights. In several of these audits, the CPAS' working papers did not indicate that the specific compliance requirements, including eligibility and types of services allowed for major programs, had been tested. Because there was not enough detail in the working papers to permit reasonable identification of the work done and the conclusions reached, we had to rely on supplementary oral explanations from the CPAS.

Single Audit Reporting

In conducting a single audit, the auditor has reporting responsibilities in addition to expressing an opinion on the general purpose or basic financial statements of the governmental unit. With respect to federal financial assistance programs, the auditor is required to report on (1) the schedule of federal financial assistance, which shows the total expenditures for each federal program, (2) internal control (accounting and administrative) systems used in administering federal programs, (3) compliance with laws and regulations, and (4) fraud, abuse, or illegal acts, when discovered.

Of the 40 single audits we reviewed, 36 met reporting standards for federal financial assistance programs. Four of the five audits with insufficient evidence of compliance with fieldwork standards for internal control and compliance testing did not meet reporting standards. In one of these audits, the CPA did not issue any of the additional reports required by the act. In other audits, internal control reporting problems

³OMB's Compliance Supplement for Single Audits of State and Local Governments (Revised April 1985) specifies the general and specific program requirements for significant federal financial assistance programs. General requirements are national policies prescribed by statute or executive order and include civil rights, cash management, and political activity. Specific requirements are directed toward the programs being audited and include types of services allowed and eligibility.

included reporting on accounting and administrative controls that were not studied and evaluated. Three reports on the federal programs' compliance with laws and regulations overstated the amount and type of testing performed by the CPA. In three of the audit reports, we also found problems, such as omitting federal programs and using erroneous expenditure amounts, with the schedule of federal financial assistance.

Some of the 36 reports which met reporting standards contained problems of a technical nature which did not affect the quality of the audits. CPAs incorrectly included or omitted information or used reporting language which was inappropriate. In several instances, CPAs used the suggested language in the AICPA's Audit and Accounting Guide: Audits of State and Local Governmental Units when it did not apply to the particular circumstances of the audit. For example, the report on internal controls over federal programs stated that the auditor evaluated internal controls for major programs when there were no major programs, as defined by the act.

Referrals

Despite the overall improvement in single audits, we believe that the insufficient audit evidence and reporting problems we found in five audits we reviewed were significant enough that we plan to refer the CPA firms performing those audits to the appropriate state boards of accountancy and the AICPA for their review. In determining whether to refer, we took into account the nature and significance of the problems we found and the effect those problems had on the audit as a whole. By reviewing CPAs' audit work and reporting and taking disciplinary action, if warranted, the state boards of accountancy and the AICPA increase the public accounting profession's awareness of the consequences of performing poor quality audits.

General Oversight Responsibilities Need Clarification

The Single Audit Act requires OMB to prescribe policies, procedures, and guidelines to implement the act. Under the Single Audit Act, OMB has established "cognizant responsibility" for federal agencies to oversee implementation of the act for about 1,800 recipients of federal financial assistance, including states and the largest cities and counties. According to OMB Circular A-128, smaller governments required to complete single audits are under the "general oversight" of the federal agency from whom they receive most of their funds. These smaller governments account for about 11,200 recipients, out of a universe of 13,000.⁴ All but

⁴Based on the Bureau of Census list of entities required to complete single audits.

2 of the 40 audits we reviewed, including all the problem audits, were of entities under general oversight.

Together, the act and OMB Circular A-128 define cognizant responsibilities as including (1) providing technical advice and liaison to federal assistance fund recipients and auditors, (2) obtaining or making quality control reviews, (3) coordinating additional audit work, and (4) generally ensuring implementation of the act's requirements. In contrast, neither the act nor OMB has defined the responsibilities of federal agencies providing general oversight.

Our review of the seven federal agencies' inspector general offices showed that cognizant responsibilities are handled effectively. Officials at all seven agencies reviewed indicated that they actively contact and work closely with federal fund recipients for whom they are cognizant. They provide technical assistance, conduct complete desk reviews of all cognizant recipients' single audits, conduct quality control reviews of up to 10 percent of those audits,⁵ and report semiannually to the President's Council on Integrity and Efficiency (PCIE) on the quality of those single audits reviewed.

We found that the extent and types of general oversight provided by the seven federal agencies when they are not acting as cognizant agencies are more limited and that they vary among the agencies. For purposes of general oversight, six of the seven federal agencies stated that they rely on the recipient to send the agency the single audit report rather than actively contacting the recipient to monitor the audit's progress or provide technical assistance. Also, we found that five federal agencies conduct complete desk reviews of general oversight recipients using guidelines prescribed by PCIE, while two other agencies indicated that they limit such desk reviews to a one-page checklist, which primarily assures that the major segments of the single audit are included. In addition, two of the seven agencies we reviewed indicated that they do not conduct quality control reviews unless they are cognizant; the other five agencies stated that general oversight recipients are considered for quality control reviews of single audits. We noted that two of the states included in our review perform desk and quality control reviews; however, we did not assess the quality of these reviews.

⁵A quality control review includes an examination of the auditor's working papers to ensure that the audit conforms with all applicable professional standards. Typically, it involves substantially more time and effort than a desk review, which is a review of the audit report.

General oversight efforts vary among agencies and are more limited than cognizant responsibilities. Thus, some recipients without cognizant agencies are less likely than other recipients to have detailed desk reviews and quality control reviews performed at the federal level. Our previous reports showed that the smaller the entity and the CPA firm, the greater the likelihood of a substandard audit. Since entities receiving general oversight are by definition the smaller entities, substandard audit work may not be identified or reported annually to the Congress. We believe there is a need to define general oversight responsibilities to ensure that expanded desk and quality control reviews are performed for some of each agency's general oversight recipients.

The Usefulness of Single Audit Reports

Single audits can help report recipients, including the entities and federal, state, and local program managers, to carry out their managerial and program responsibilities in three ways. First, a good single audit containing no material internal control weaknesses or significant compliance findings can assure report recipients that federal funds are adequately controlled and properly expended in accordance with the applicable federal laws and regulations. Second, those reports that identify material internal control weaknesses and instances of noncompliance with laws and regulations can be used to institute and monitor corrective actions. Finally, they can be used to identify areas or entities that need additional auditing work, including economy and efficiency reviews and program evaluations.

Throughout our review, federal program managers we interviewed expressed concerns about the usefulness of single audits, particularly a lack of audit findings and inadequate coverage of programs tested for compliance with federal laws and regulations. Our review showed, however, that 64 percent of the single audit reports contained specific findings and that the audits covered a majority of the federal funds provided. There were a total of 1,434 findings. Sixty percent were compliance weaknesses and about 40 percent were internal control weaknesses. (See appendix III.) We also found that in the random sample of audits on which we performed detailed quality control reviews, 92 percent of federal dollars were tested for compliance with laws and regulations. Testing of the largest federal financial assistance programs is consistent with the Congress' intent under the act. While 62 percent of the programs were not tested in our sample, they accounted for only 8 percent of the total federal dollars.

We reviewed a second sample of 40 single audit reports to determine whether the audited entity's management took corrective actions on the report's findings. From this judgmental sample of those audits with the more substantive findings, we determined that corrective actions had been taken in response to findings in 35 of the 40 audits. We were unable to determine the disposition of findings for five reports in one metropolitan area.

Program managers and other report recipients we interviewed have difficulty in using single audit reports because they cannot readily determine from the reports whether their programs were tested for compliance or the extent of compliance testing.

Auditors are not required to identify programs tested for compliance with federal laws and regulations as part of the single audit report. However, identifying these programs could assist report recipients in deciding if follow-up work is warranted, particularly in cases where general compliance findings, such as cash management weaknesses, are not referenced to a specific program.

Conclusions

Based on our review of 40 single audits, we concluded that CPAs complied with auditing standards in 35 of the audits. With few exceptions, CPAs conducted adequate evaluations of internal controls and testing for compliance with laws and regulations, the two predominant problem areas cited in our 1986 report.

General oversight among federal inspectors general is not provided consistently and the degree of monitoring for audit quality varies. Neither the act nor OMB specifies the role of a general oversight agency.

We believe that, in some instances, single audit reports can be made more useful to program managers for monitoring their programs. Program managers and other report recipients above the audited entity level cannot readily identify from the reports which programs were or were not tested for compliance with laws and regulations. Identifying programs tested could help program managers to (1) better manage their programs and allocate scarce audit resources to those programs not covered by the single audit and (2) build on the information provided in single audit reports through program evaluations and economy and efficiency reviews.

Recommendations

We recommend that the Director of the Office of Management and Budget

- establish and define responsibilities for agencies that provide general oversight and
- amend OMB Circular A-128 to require auditors to identify in single audits those programs tested for compliance with laws and regulations—and to differentiate among those tested as major or nonmajor programs and those tested in connection with the audit of the general purpose financial statements.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this report. At that time, we will send copies of the report to the Director of the Office of Management and Budget, federal inspectors general, and interested congressional committees. We will also make copies available upon request.

This report was prepared under the direction of John J. Adair, Director, Audit Oversight and Policy. Major contributors are listed in appendix IV.

Sincerely yours,



Brian P. Crowley
Acting Assistant
Comptroller General

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Abbreviations

AICPA	American Institute of Certified Public Accountants
CPA	certified public accountant
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency

Intent of the Single Audit Act of 1984

The overall intent of the Single Audit Act was to legislate implementation of the single audit concept rather than to continue relying on administrative implementation under OMB Circular A-102. The intent was to increase the progress and ensure the permanency of its implementation and also establish more definitive criteria than existed under A-102. The intent of the act can be broken into several areas.

First, the Single Audit Act intended to eliminate audit duplication and overlap, as well as eliminate gaps that existed in audit coverage, through a more rational approach that would increase efficiency and effectiveness. This was to be achieved by providing for a single financial and compliance audit of an entity covering all the recipient's funds, with a major and expanded focus on both accounting and administrative internal controls. The audit would be regularly conducted on an organizationwide basis to determine whether the financial statements of the government being audited present fairly its financial condition and results of operations and to provide reasonable assurance that federal assistance programs are managed in accordance with applicable laws and regulations. The act intended that single audits provide sufficient information to federal, state, and local officials to assure that financial records are accurate and weaknesses in internal controls and noncompliance with laws and regulations have been identified.

Second, the act intended that single audits provide a basic foundation on which other audits and evaluations—such as program reviews, detailed compliance reviews, or economy and efficiency audits—would build. Specifically, the act intended to increase the likelihood that recipients of federal financial assistance would comply with laws and regulations through a “preventive approach.” Such an approach would identify, on an early warning basis, those instances where internal controls might not be adequate and would concentrate on preventing noncompliance through corrections of the weaknesses. This preventive approach is intended to help ensure long-lasting improvements by treating the causes of noncompliance as well as serving as a bridge—a more efficient and effective basis—for further audits. Program managers would be assisted in carrying out their managerial and program responsibilities with the knowledge of which entities' systems provide reasonable assurance that funds are being properly accounted for and which systems do not.

Third, the act intended to identify accountability and ensure resolution of audit findings by requiring that material noncompliance and internal control weaknesses be addressed in a corrective action plan which is to

be submitted to appropriate federal officials. Cognizant agencies are assigned responsibility, under the act, for ensuring that the corrective action plans are submitted to the appropriate federal officials. OMB Circular-128, issued pursuant to passage of the Single Audit Act, identified cognizant agencies as responsible for monitoring audit resolution that affects programs of more than one agency, while individual recipients and the relevant federal agency are responsible for resolution of agency-specific findings.

Lastly, the act intended to address the need for establishing uniform single audit requirements, for example, in specifying the federal dollar threshold which would trigger the requirement for a single audit and the more in-depth testing of major federal programs for compliance with applicable laws and regulations. The act also required the use of generally accepted government auditing standards in the performance of single audits.

The act assigns OMB responsibility for prescribing policies, procedures, and guidelines to implement the uniform audit requirements and requires each federal agency to amend its regulations to conform to the requirements of the act and OMB's policies, procedures, and guidelines. OMB issued Circular A-128 to implement the uniform audit requirement of the act and subsequently issued a question and answer paper on specific questions related to implementation of the audit requirements.

Objectives, Scope, and Methodology

The objectives in this second phase of our review were to assess (1) the quality of single audits by determining their compliance with generally accepted government auditing standards and (2) the usefulness of single audit reports to report recipients.

At the outset of this review, we contacted federal, state, and local government and audit officials to identify issues of concern, beyond those in our two primary objectives, relating to the implementation of the Single Audit Act. We also did this to assist us in planning our audit scope and approach. Over 75 respondents identified a number of issues, and we have addressed all of those involving audit quality and the use of the audits in this report in accordance with the objectives of our review. A number of the other issues identified, including the act's application to nonprofit recipients and the need for revisions to OMB's Compliance Supplement, have been resolved or are being addressed by OMB or PCIE.

The scope of our review included work at seven agencies.¹ These agencies were chosen for our study because they provide over 90 percent of the direct federal financial assistance to state and local governments. Because the management of federal programs and the audit quality review process are decentralized, we conducted work at federal agencies in Washington, D.C., and their regional offices in four regionally dispersed metropolitan areas. The metropolitan areas included in our review were Atlanta, Georgia; Detroit, Michigan; Philadelphia, Pennsylvania; and San Francisco, California.

To assess the quality of single audits, we selected a random sample of 40 second-cycle or third-cycle audits from a universe of 450 entities which received first-cycle audits² to conduct quality control reviews. A quality control review includes an examination of the auditor's working papers to ensure that the audit conforms with all applicable professional standards. Our quality control reviews specifically evaluated the CPAS' preparation of the schedule of federal financial assistance, identification of major federal financial assistance programs, evaluation of internal controls, tests for compliance with laws and regulations, and overall reporting. We also identified the amount of federal dollars associated with the individual programs for the 40 audits. We then determined the

¹The seven federal agencies evaluated during this review were the Departments of Agriculture, Education, Health and Human Services, Housing and Urban Development, Labor, and Transportation and the Environmental Protection Agency.

²The first single audit reporting cycle covered fiscal years ending between December 31, 1985 and December 30, 1986. Second and third reporting cycles covered fiscal years ending between December 31, 1986 and December 30, 1987, and December 31, 1987 and December 30, 1988, respectively.

extent of compliance testing of individual federal programs and the percentage of federal financial assistance covered under compliance testing.

We limited our sample to 10 audits in each of the four regions. Each recipient had single audits completed for the first and second cycles, and each CPA had never received a quality control review by a federal agency. Our sample was further designed to include a stratification of federal financial assistance recipients, including cities, counties, townships, school districts, and special districts (such as housing authorities and planning commissions). We selected for review the recipients' most recent single audits. The audits we reviewed were from the second single audit reporting period, except for one metropolitan area in which we included reports from the third reporting period.

In performing the quality control reviews, we examined the audit reports and the supporting working papers in the sample using a standardized data collection instrument and discussed our findings with the auditors responsible for the audit. Because audit standards require CPAs to retain the working papers for an audit, we performed our work mainly at CPA firm offices. In the context of our work, we measured audit quality against the extent of compliance with generally accepted government auditing standards in effect at the time these audits were performed.³

In regard to usefulness, single audits should assure report recipients of the adequacy of internal controls and compliance with laws and regulations or should identify areas where improvements are needed. To assess the usefulness of single audit reports, we evaluated the 450 single audit reports to identify the types of findings, either internal control or compliance-related. We selected a second sample of 40 audits, those which we judged to have the most substantive findings, to determine if corrective actions had been implemented by the recipient.

Finally, we interviewed independent auditors, audit resolution personnel, inspector general officials, and program managers for over 30 programs at headquarters and regional offices to determine how single audits are used as a basis for future work, such as economy and efficiency audits and program reviews. We also gathered data from these sources on the types of federal guidance provided and the problems

³Standards for Audits of Governmental Organizations, Programs, Activities, and Functions (1981 Revision). The 1988 revision, Government Auditing Standards, did not apply to the audits in our review.

encountered in implementing the act, including cognizant agency versus general oversight responsibilities.

We conducted our work between October 1988 and May 1989 in accordance with generally accepted government auditing standards. We discussed our findings with CPA firm personnel responsible for the audits, federal agency inspectors general, program officials, and OMB officials to verify the accuracy and completeness of the facts in our report. We have incorporated their views where appropriate. However, in accordance with the requester's wishes, we did not obtain written comments on a draft of this report.

Extent and Types of Findings Identified in 450 Single Audit Reports

Findings	Number of reports with findings	Number of findings
Material internal control weaknesses	78	240
Other internal control weaknesses	136	335
Noncompliance with questioned costs	113	216
Noncompliance without questioned costs	268	643
Total	595^a	1,434

^aThis figure totals more than 450 because some reports included more than one type of finding. Of the 450 reports, 286 (64 percent) identified at least one finding.

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