Single Audit Quality – Actions To Address Government-wide Study

International Workshop on Accountability in Science Funding
Liverpool, England
June 20, 2008

Agenda

- Grant environment in U.S.

- National Single Audit Quality Project

- Actions underway to address project report recommendations
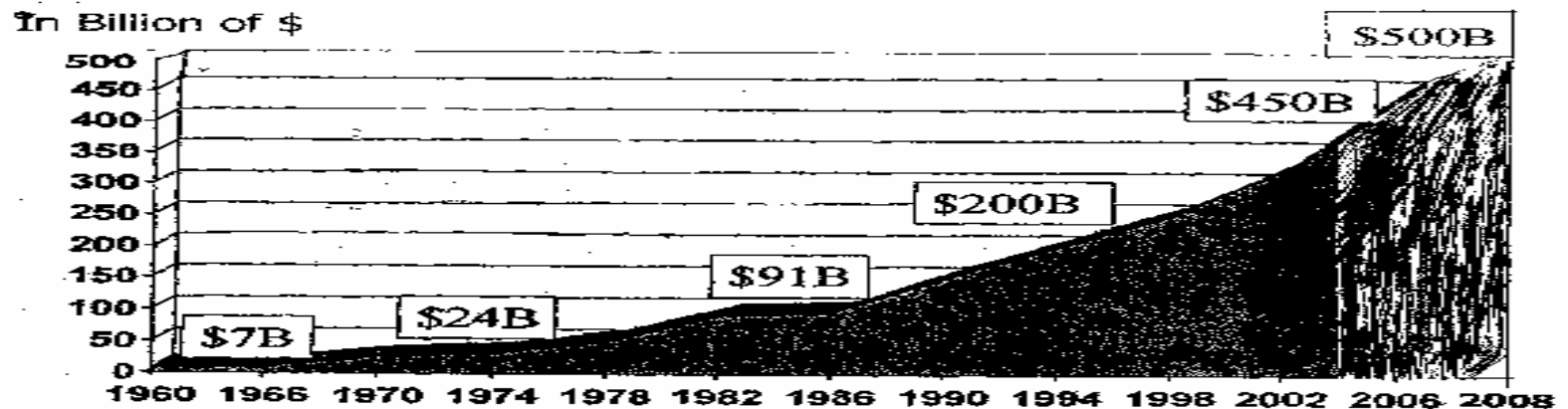
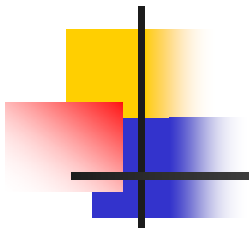# Distribution of Federal Grants

80% - state governments

8% - local governments

7% - universities

4% - non-profits

1% - tribal governments, for profits, others

2009 US Budget - $3.1 Trillion   Grants - $500 Billion

Steep Rise in Federal Grants Since 1960

In Billion of $

$500B
$450B
$200B
$91B
$24B
$7B

1960 1966 1970 1974 1978 1982 1986 1990 1994 1998 2002 2006 2008

Top 10 Federal Grant Programs   (In $ Billion)

- Medicaid $177.2
- Research   45.0
- Highway Planning & Construction   35.8
- Temporary Assistance for Needy Families   19.2
- Section 8 Housing Assistance   14.7
- Title 1 Education   12.3
- Special Education to States   10.1
- Head Start Education   6.8
- National School Lunch Program   6.8
- Foster Care   4.7
- Nutrition Program   4.6

Total $337.2

Grant Requirement Layers

- **Statutes** establish grant program, define purpose and make funds available
- **OMB Circulars** provide government-wide guidance
- **Public Policy Requirements** (e.g.; lobbying, drug free workplace)
- **Agency** Program & Administrative Regulations supplement the government-wide guidance

Why Single Audits Are Important

- More $ require more accountability
- Single Audit Act (1996 Amendments) require institutions spending>$500,000 in a year on federal awards to obtain an annual audit
- Audit covers all federal awards received by the institution (Known as a Single Audit)

Why Single Audits Are Important

- Approximately 35,000 state and local governments and not for profit institutions submit single audit reports annually.

- For most of these entities, the single audits are the ONLY on-site reviews of how federal dollars are expended.

Audit Requirements

- These audit reports must be submitted to central audit clearinghouse.
- Audits must be performed in accordance with federal audit standards and Circular A-133 requirements.

National Single Audit Sampling Project

- Given the many grant requirements and the extent that federal agencies, Congress and taxpayers rely on single audits, audit quality is critical.

- Longstanding questions about the quality of single audits led to government-wide study.

- Final report issued June 2007.

Project Objectives

The objectives of the project were to:

- Determine the quality of Single Audits by providing a statistically reliable estimate of the extent that these audits meet applicable requirements, standards and procedures, and

- Make recommendations for addressing audit quality issues, including recommendations for any changes to related audit standards and requirements.

Sample Design

- Selected a statistical random sample of 208 single audits from a universe of 38,000 audits submitted for the period April 1, 2003 to March 31, 2004

- Assessed the single audit quality in two strata:

Stratum No.	Single Audits of Grant Expenditures	Sample Size
One	$50 million and higher	96
Two	$500,000 to <$49,999,999	112

Review Methodology

- Assessed quality of each single audit based on:
  - evidence contained in audit workpaper documentation,
  - prevalence and severity of deficiencies and auditor's formal response to the deficiencies and
  - consensus of all members of project management team.

Classification of Audit Quality

- Acceptable
- Limited Reliability because of significant deficiencies
- Unacceptable

Summary of Results

	Acceptable	Limited Reliability	Unacceptable	Total
Stratum I (≥$50M)	61 (63.5 %)	12 (12.5 %)	23 (24 %)	96 (100 %)
Stratum II ($500K-<$50M)	54 (48.2 %)	18 (16.1 %)	40 (35.7 %)	112 (100 %)
Both	115 (48.5 %)	30 (16 %)	63 (35.5 %)	208 (100 %)

Four Major Types of Deficiencies

- Missing documentation to evidence audit work performed and/or basis for audit findings and opinion on compliance.
- Inadequate review and testing of grantee internal controls over compliance with grant requirements.
- Inadequate testing of grantee compliance with major programs grant requirements
- Incomplete and/or incorrect reporting of audit findings.

Recommendations to Address Deficiencies

Better Audit Guidance

- Revise current federal audit requirements and professional audit standards to:
  - Clarify extent auditor can rely on its internal control related to financial statements to

    satisfy compliance control work,
  - Require auditor to document reasons for not testing any one of the major program compliance requirements,
  - Require auditor to use statistical sampling for compliance testing,

Better Audit Guidance cont'd

- ➢ Provide unambiguous language for when audit findings must be reported and resolve any uncertainty in favor of disclosure, and
- ➢ Provide illustrative examples of properly presented audit findings.

Minimum Training Requirements

- Develop training program specific to conducting single audits with minimal content and duration (16 – 24 hours),

- Require all staff performing and supervising single audits to complete training as a prerequisite to initial audit, and

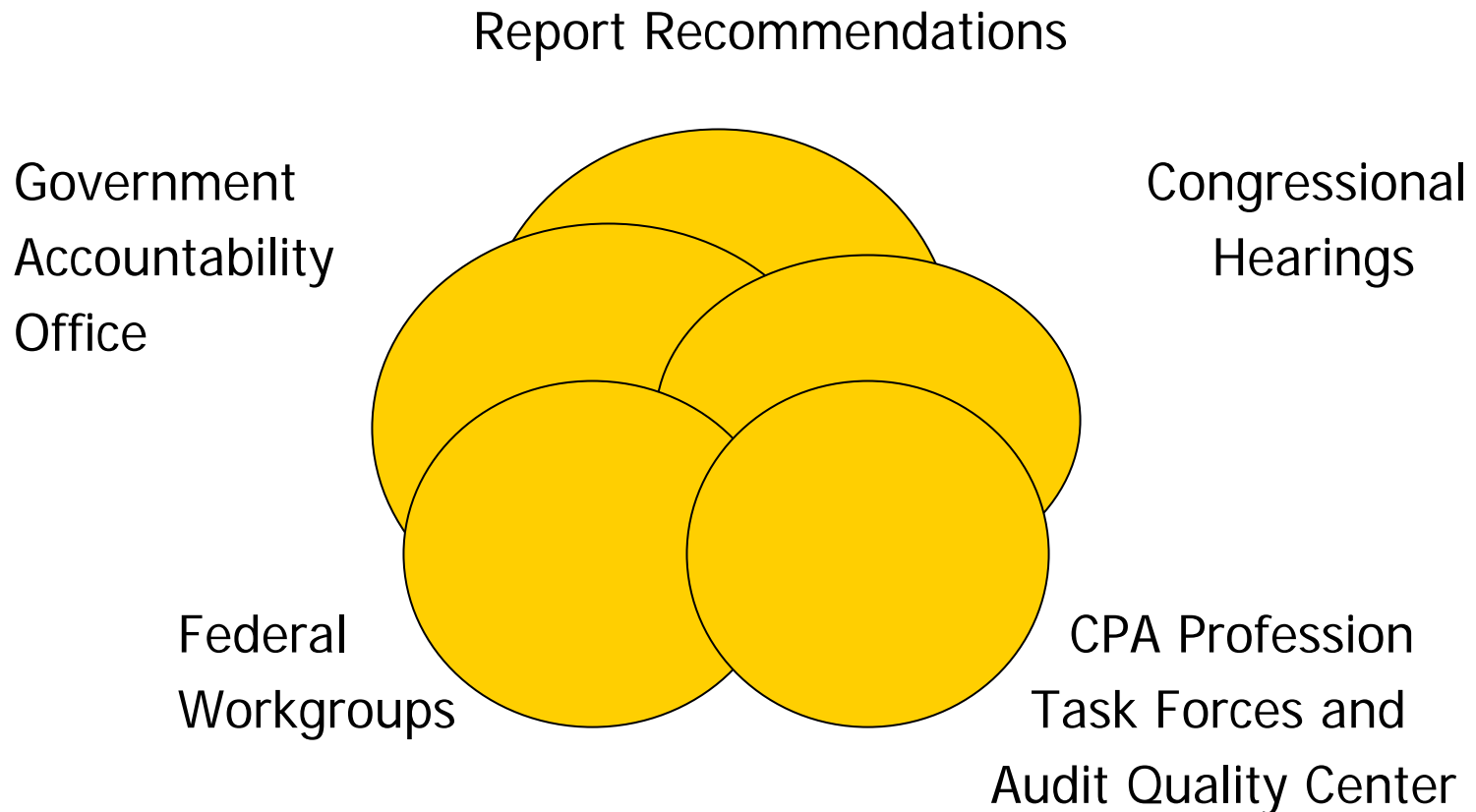- Require training for continued performance of single audits.

Incentives to Improve

- Take action to address unacceptable audits
  - Review suspension and debarment laws for application to unacceptable audits,
  - Dialogue with professional and state regulating bodies to encourage development of stronger sanctions of CPA firms issuing unacceptable audits, and
  - Evaluate federal options to impose fines for unacceptable audits and/or not meeting training requirements.

Single Audit Improvement Process

Report Recommendations

Government
Accountability
Office

Congressional
Hearings

Federal
Workgroups

CPA Profession
Task Forces and
Audit Quality Center

Congressional Interest

- Senate Subcommittee on Federal Financial Management held hearings on the project on October 25,2007.
- Testimony was given by
  - President's Council on Integrity and Efficiency
  - Office of Management and Budget
  - Government Accountability Office
  - American Institute of Certified Public Accountants

AICPA Task Forces

- **Established seven task forces**
  - Sampling in a single audit
  - Internal control and compliance responsibilities in a single audit
  - Schedule of Federal Award Expenditures reporting issues
  - Reporting audit findings
  - Single audit training
  - Peer review monitoring of single audit
  - Compliance auditing considerations in single audits

- **Government Audit Quality Center**

Federal Work Groups

- **Eight work groups established**
  - Audit testing and sampling
  - Documenting compliance testing
  - Reporting audit findings
  - Single Audit training and continuing professional education
  - Suspension and debarment/Peer Review as options to address unacceptable audits
  - Coordination with AICPA and State Boards regarding sanctions
  - New and improved single audit process

Governmental Accountability Office

Has initiated review to obtain understanding of how federal agencies perform single audit oversight and coordination.

Potential End Results - AICPA

- Substantial revisions to AICPA single audit guidance as it affects :
  - ➢ internal control testing
  - ➢ compliance testing
  - ➢ sampling
  - ➢ documenting audit work
  - ➢ reporting audit findings

Potential End Results - AICPA

- AICPA best practices training curriculum for beginning, intermediate and advanced staff levels.

- ?? Required external peer review assessments of single audit practice.

- ??? Profession imposed sanctions – not addressed at all.

Potential End Results - OMB

- Revisions to OMB Circular A-133 strengthening audit requirements for
  - control and compliance testing
  - documenting audit work
  - reporting audit findings
  - mandated prerequisite single audit training and updates
- ?? Stronger sanctions to address substandard audits

Potential End Results – OIG Community

- Improved coordination in federal Inspector General community to :
  - Update standards for conducting quality control reviews of selected single audits.
  - ?? Provide more centralized information sharing and oversight of single auditors to identify and address poor performers.

Questions?

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