



United States Government Accountability Office
Washington, DC 20548

March 13, 2009

The Honorable Thomas R. Carper
Chairman
The Honorable John McCain
Acting Ranking Member
Subcommittee on Federal Financial Management, Government Information, Federal
Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Coburn, M.D.
United States Senate

Subject: *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*

Federal government grant awards to state and local governments and nonprofit organizations have risen substantially from \$7 billion in 1960 to \$500 billion budgeted in fiscal year 2009. In constant dollars,¹ federal grant awards rose from about \$42 billion in 1960 to \$500 billion in fiscal year 2009. The auditing of federal awards, including grant funds, administered by state and local governments and nonprofit organizations is intended to be a key accountability mechanism over the proper use of federal funding.² The President's Council on Integrity and Efficiency (PCIE)³ issued

¹Constant dollar amounts reflect adjustments for inflation (e.g. the purchasing value of the \$7 billion awarded in 1960 represents about \$42 billion in today's fiscal year 2009 dollars).

²The Single Audit Act, as amended, requires each reporting entity that expends \$500,000 or more in federal awards, including grants and other assistance, in a fiscal year to obtain an annual "single audit," which includes an audit of the entity's financial statements and a schedule of the expenditure of federal awards, and review of related internal controls.

³The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) were established by Executive Orders in 1981 and 1992, respectively, to continually identify, review, and discuss areas of weakness and vulnerability in Federal programs and operations to fraud, waste, and abuse. The councils were also established to develop plans for coordinated, governmentwide activities that address these problems and promote economy and efficiency in federal programs and operations.

its *Report on National Single Audit Sampling Project*⁴ in June 2007, which raised significant concerns about the quality of single audits and made recommendations aimed at improving the quality of those audits. The Single Audit Act, as amended, is intended to promote sound financial management, including effective internal controls over federal grant funds administered by state and local governments and nonprofit organizations. Due to concerns surrounding the effectiveness of the single audit process, your subcommittee held a hearing on October 25, 2007, at which we provided (1) a preliminary analysis of the recommendations made in the PCIE report for improving audit quality, and (2) additional considerations for improving the quality of single audits.⁵

You asked us to conduct additional audit work and analysis to identify any further actions needed to improve federal oversight and accountability for federal grant funds. Specifically, you asked that we (1) determine whether the federal oversight structure is adequate to monitor the efficiency and effectiveness of the single audit process, (2) identify potential changes that can be made to the single audit process and relevant guidance to improve accountability for federal grant awards, and (3) determine the current status of actions being taken to address the recommendations made in the PCIE report. On December 11, 2008, we briefed your staff on the results of our work. This letter summarizes the information provided during the briefing and the attached briefing slides have been updated with additional information as of January 23, 2009. Our scope and methodology are also discussed in the attached briefing slides.

We conducted this performance audit from February 2008 through January 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary of Results

Federal Oversight Process

The federal oversight structure for the single audit process does not include a designated function or entity to monitor whether or how well federal awarding agencies are implementing single audit requirements. As a result, the Office of

⁴PCIE *Report on National Single Audit Sampling Project* (June 2007). The project was conducted under the auspices of the Audit Committee of the PCIE, as a collaborative effort involving PCIE member organizations, as well as a member of the ECIE and three State Auditors. The project was performed to determine the quality of single audits using statistical methods and make recommendations to address noted audit quality issues.

⁵GAO, *Single Audit Quality: Actions Needed to Address Persistent Audit Quality Problems*, GAO-08-213T (Washington, D.C.: October 25, 2007).

Management and Budget (OMB)⁶ and other single audit stakeholders are unable to identify pervasive and systemic single audit issues, determine the impact of the issues across federal programs to identify needed changes to the single audit process, and communicate results, best practices, and lessons learned. We also identified variations in the federal oversight process in performing key functions of the single audit process such as quality control reviews (QCR)⁷ and use of the Federal Audit Clearinghouse (FAC)⁸ to obtain single audit reports. These variations help to demonstrate the need to assess the efficiency and effectiveness of how federal agencies carry out their single audit responsibilities. GAO's internal control standards require ongoing monitoring of programs to ensure that objectives and goals are being addressed efficiently and effectively.⁹

Potential Single Audit Improvements

Single audit stakeholders have raised concerns about the complexity and relative costs and benefits of the audit requirements for single audits, especially at the smaller entities. Specifically, auditors of single audits are subject to similar audit requirements and the same guidance in OMB Circular No. A-133 and the Compliance Supplement when auditing an entity that expended \$500,000 of federal awards as they are when reviewing one that expended \$50 million or more.

We found that opportunities exist to evaluate the audit procedures being applied and determine whether the proper balance exists between risk and cost-effective accountability from the largest to the smallest of audited entities. Single audits of small entities could be simplified while still meeting the accountability objectives of the Single Audit Act. For audits of large entities, opportunities could be explored to identify best practices and provide guidance for achieving higher quality single audits. Our analysis shows significant disparities in the number of audits of small entities versus the number of audits of large entities and their respective coverage of federal award expenditures. The current one-size-fits-all approach to single audits, combined with the fact that less than 3 percent of audits cover about 85 percent of federal award expenditures subject to a single audit, presents a convincing case for re-examining the overall approach for performing single audits.

⁶To assist the single audit community in carrying out their respective audit responsibilities, OMB performs several activities, including issuing guidance for implementing single audit requirements as described in OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Compliance Supplement.

⁷Federal agencies are required by OMB to perform QCRs to evaluate the quality of selected single audits of entities with expenditures of \$50 million or more in federal awards to ensure that the audit (1) is conducted in accordance with applicable standards, (2) meets single audit requirements, (3) identifies any follow-up audit work needed, and (4) identifies issues that may require management attention.

⁸The Federal Audit Clearinghouse operates on behalf of OMB to disseminate single audit information to federal agencies and the public.

⁹GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

Actions to Address PCIE Recommendations

The PCIE report recommended that OMB work with other single audit stakeholders to address deficiencies and implement recommendations to improve single audit quality. As a result, OMB, the American Institute of Certified Public Accountants (AICPA), and the National Association of State Boards of Accountancy (NASBA)¹⁰ have several activities underway in response to the recommendations. OMB has established eight workgroups in areas such as audit findings, training, and compliance testing. According to OMB, one of the workgroups, the New and Improved Single Audit Process, will focus on identifying strategic improvements to the single audit process. OMB anticipates making revisions to OMB Circular No. A-133, and the PCIE checklist for performing QCRs during 2009. AICPA also established seven task forces to address the PCIE report recommendations. According to the AICPA, it has issued a proposed revised auditing standard, included guidance in the 2008 AICPA Audit Guide, and provided a white paper on continuing professional education (CPE) training to OMB for comment. The AICPA also anticipates finalizing revisions to applicable auditing standards and the 2009 AICPA Audit Guide, and is developing illustrative practice aids. NASBA has developed a process for tracking the status of federal agency referrals to state boards on poor performing auditors to ensure appropriate action and timely follow-up. NASBA plans to contact each federal grant awarding agency on a quarterly basis to inquire about outstanding referrals to determine whether the issue has been resolved.

Conclusions

Without a mechanism in place to monitor on an ongoing basis how the single audit process is implemented governmentwide, OMB and federal stakeholders are unable to measure the efficiency and effectiveness of this process, as well as its usefulness as an accountability tool over federal grant awards. The variations we found on how federal agencies we reviewed perform key functions of the single audit process demonstrate the need to assess whether federal agencies carry out their single audit responsibilities in an efficient and effective manner. We also believe opportunities exist to address concerns about the complexity and relative costs and benefits of audit requirements for single audits, while concurrently seeking the proper balance between risk and cost-effective accountability by (1) exploring a simplified approach for performing single audits of small entities, and (2) identifying best practices and providing guidance for achieving higher quality single audits of large entities. OMB, AICPA, and NASBA have initiated actions to address the PCIE report recommendations. However, most of these actions are not yet completed and their impact on (1) addressing longstanding single audit quality issues, and (2) identifying needed changes to the single audit process, is yet to be determined. Overall, we believe that a centralized federal effort would be beneficial in evaluating risk, cost–

¹⁰NASBA is a voluntary membership association of the boards of accountancy in the 50 states of the United States, the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. The purpose of the association is to protect, promote, foster, and advance the common interests and welfare of the various boards of accountancy. NASBA provides programs and services primarily related to the testing and licensing of certified public accountants in compliance with the requirements of boards of accountancy.

benefit, and efficiency and effectiveness of the single audit process, and in making adjustments to the process as necessary.

Recommendations for Executive Action

In order to monitor the risk, cost—benefit, and efficiency and effectiveness of the single audit process, we recommend that OMB take the following three actions:

- designate an entity or group to (1) evaluate and comprehensively monitor the single audit process governmentwide, (2) assess the efficiency and effectiveness of how agencies carry out their single audit responsibilities, and (3) identify additional guidance and resources needed to carry out single audit requirements;
- designate a federal workgroup such as its New and Improved Single Audit Process workgroup to evaluate the current single audit process to identify simplified alternatives for meeting the accountability objectives of the Single Audit Act for the audits of small entities, while achieving the proper balance between risk and cost-effective accountability for the smallest to the largest entities; and
- monitor the status of OMB workgroups, AICPA task forces, and NASBA referral project activities, and evaluate completed actions and their impact on addressing the PCIE report recommendations to improve single audit quality.

Agency Comments

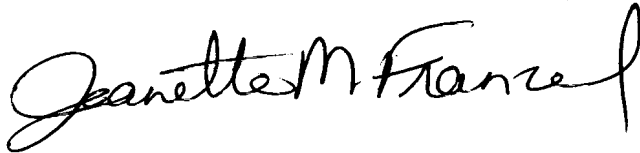
We provided a draft of this report to OMB. The agency responded by e-mail that it concurred with our observations and recommendations, and provided a technical comment which we have incorporated into this report. We also met with agency officials from the top six federal awarding agencies which accounted collectively for 94 percent (\$422.2 billion) of federal grant outlays to state and local governments in fiscal year 2007. We obtained oral comments from the agency officials responsible for performing cognizant agency for audit responsibilities¹¹ in accordance with OMB Circular No. A-133. They generally agreed with our observations and recommendations, and their comments have been incorporated as appropriate.

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We are sending copies of this report to the subcommittee. As we agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the report date. At that time, we will send copies to the Director of the Office of Management and Budget. The report will also be available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your

¹¹Each award recipient expending more than \$50 million is assigned a cognizant agency for audit. Generally, the cognizant agency for audit is the federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB assigns this responsibility to another agency. Some of the responsibilities of the cognizant agency includes performing QCRs, considering auditee requests for extensions, and coordinating a management decision for audit findings that affect federal programs of more than one agency.

staff have any questions about this report, please contact me at (202) 512-2600 or franzelj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in Enclosure II.

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive style with a large, looped initial "J".

Jeanette M. Franzel
Managing Director
Financial Management and Assurance

Enclosures (2)

Enclosure I: Briefing Slides



Single Audit

Opportunities Exist to Improve the Single Audit Process and Oversight

Briefing to the Staff of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security; Committee on Homeland Security and Governmental Affairs, United States Senate

December 11, 2008

[Updated as of January 23, 2009]



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Background

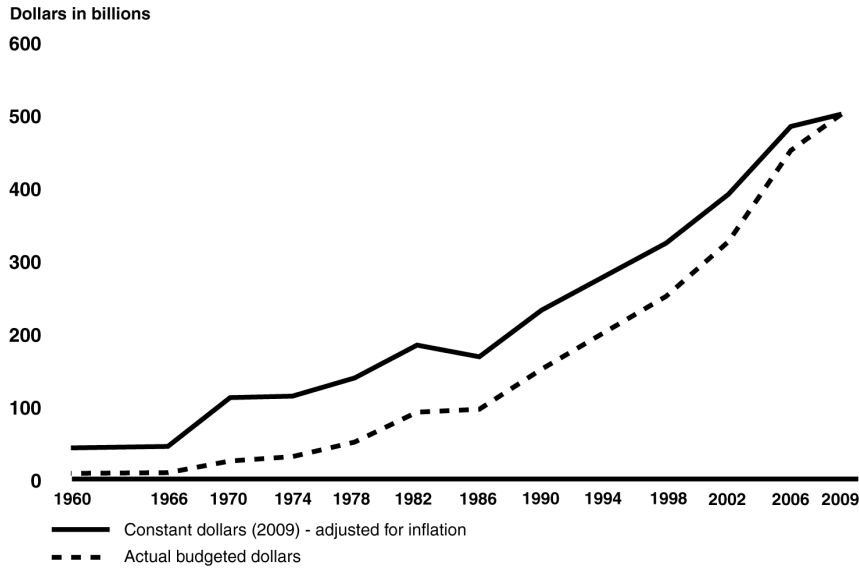
- Federal government grant awards budgeted for state and local governments and nonprofit organizations have risen substantially from fiscal year 1960 to fiscal year 2009 (see fig. on slide 4).
- The Single Audit Act, as amended, requires each reporting entity that expends \$500,000 or more in federal awards, including grants and other assistance, in its fiscal year to obtain an annual “single audit.”¹
- The single audit is intended to be an accountability mechanism for the expenditure of federal awards by state and local governments, and nonprofit organizations.

¹Entities that expend federal awards under only one federal program are not required to obtain a single audit but may elect to have a program-specific audit focused on financial expenditures, internal control, and compliance under that program. [31 U.S.C. § 7502(a)(1)(C)].



Background (cont.)

Federal Funds Budgeted for Grants, Fiscal Year 1960 through Fiscal Year 2009



Source: GAO analysis of the Office of Management and Budget (OMB) Compliance Supplement Update, OMB Presentation, June 12, 2008.



Background (cont.)

- The Office of Management and Budget (OMB) performs several activities to assist the single audit community—federal awarding agencies, grantees, and the auditors—in carrying out their respective single audit responsibilities as described in OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the related Compliance Supplement.² OMB’s activities include
 - issuing and revising OMB Circular No. A-133 and the Compliance Supplement,
 - providing outreach and training through professional conferences on changes to OMB Circular No. A-133 and the Compliance Supplement, and
 - providing guidance for submitting single audit reports to the Federal Audit Clearinghouse (FAC), which is designed as a repository for single audit reports.

²The Compliance Supplement provides auditors the information needed to understand federal programs’ objectives, procedures, and compliance requirements relevant to the single audit. It also provides auditors with guidance for determining whether federal programs are compliant with these requirements (laws, regulations, and provisions of contract or grant agreements).



Background (cont.)

- In June 2007, PCIE issued its *Report on National Single Audit Sampling Project*, which raised concerns about the quality of single audits and made recommendations.
 - PCIE reviewed a sample of 208 audits randomly selected from a universe of more than 38,000 single audits submitted and accepted into the FAC for the period April 1, 2003, through March 31, 2004.
 - The sample was split into two strata—audits of entities expending \$50 million or more of federal awards during their fiscal year and entities expending at least \$500,000 but less than \$50 million of federal awards (see slide 8).



Background (cont.)

PCIE found that out of 208 single audits reviewed:

- About 51 percent of the audits had deficiencies that were severe enough to classify the audits as unacceptable or limited in reliability.
- About 49 percent were acceptable, including those with deficiencies that did not require corrective action.

The breakout of acceptable audits between large and small entities was as follows:

- Sixty-four percent of the large audits (\$50 million or more in federal award expenditures) were acceptable, while
- Forty-eight percent of the small audits (at least \$500,000 but less than \$50 million in federal award expenditures) were acceptable.



Summary of PCIE Study on Single Audit Quality

Stratum ^a	Universe	Sample size	Acceptable		Unacceptable or limited reliability ^d	
			Number of audits	Point estimate ^b	Number of audits	Point estimate ^b
I	852	96	61	64%	35	36%
II	37,671	112	54	48%	58	52%
Total	38,523	208	115^e	49%^c	93^f	51%^c

Source: PCIE's *Report on National Single Audit Sampling Project* (June 2007).

^aStratum I – Included large audits of entities that expended \$50 million or more of federal awards during their fiscal year.

Stratum II – Included audits of entities that expended at least \$500,000 of federal awards, but less than \$50 million during their fiscal year.

^bAt the 90 percent confidence level, the margins of error range between plus or minus 5.3 and 7.8 percentage points.

^cThe point estimates for the total were computed with formulas for a stratified random sample, which give more weight to Stratum II because it represents a much larger proportion of the universe. Due to rounding, these percentages do not add to exactly 100 percent.

^dLimited reliability audits are categorized as having significant deficiencies with applicable auditing criteria noted, requiring corrective action to afford unquestioned reliance on the audit.

^eThe 115 audits that were deemed acceptable represented about 93 percent of the federal awards reported in all 208 audits reviewed.

^fThe 93 audits that were deemed to be unacceptable or of limited reliability represented about 7 percent of the federal awards reported in all 208 audits reviewed.



Background (cont.)

- The PCIE report recommended that OMB work with the single audit community to implement a three-pronged approach to reduce the types of deficiencies found and to improve the quality of single audits by
 - revising and improving single audit standards, criteria, and guidance;
 - establishing minimum continuing professional education (CPE) requirements as a prerequisite for auditors to be eligible to conduct and continue to perform single audits; and
 - reviewing and enhancing the disciplinary process to address unacceptable audits and compliance with training and CPE requirements.



Background (cont.)

On October 25, 2007, GAO testified before this subcommittee and provided its perspective on the (1) Single Audit Act and underlying principles, (2) a preliminary analysis of the recommendations made in the PCIE report for improving audit quality, and (3) additional considerations for improving single audit quality.³

- At the hearing, GAO, OMB, and the American Institute of Certified Public Accountants (AICPA) agreed that actions are needed, and they continue to work on resolving the single audit quality issues raised in the PCIE report.
- The subcommittee asked GAO to conduct additional audit work and analysis as necessary to identify further actions to improve federal oversight and accountability for federal grant funds.

³GAO, *Single Audit Quality: Actions Needed to Address Persistent Audit Quality Problems*, GAO-08-213T (Washington, D.C.: October 2007).



Objectives

Our objectives were as follows:

- Determine whether the federal oversight structure is adequate to monitor the efficiency and effectiveness of the single audit process.
- Identify potential changes that can be made to the single audit process and relevant guidance to improve accountability for federal grant awards.
- Determine the current status of actions being taken to address the recommendations made in the PCIE report.



Scope and Methodology

- To address objective 1: we analyzed documentation and interviewed officials from OMB to obtain an understanding of the single audit process and OMB's role and responsibility in ensuring effective implementation of OMB Circular No. A-133 and related guidance.
- We selected the top six federal awarding agencies, which accounted for 94 percent (\$422.2 billion) of federal grant outlays to state and local governments in fiscal year 2007.⁴ The selected agencies were the Departments of
 - Health and Human Services,
 - Transportation,
 - Education,
 - Housing and Urban Development,
 - Agriculture, and
 - Homeland Security.
- We also analyzed documentation and interviewed officials from these agencies on how they perform their "cognizant agency for audit"⁵ oversight responsibilities in accordance with OMB Circular No. A-133 and related guidance.

⁴OMB Update, April 2008.

⁵Each award recipient expending more than \$50 million is assigned a cognizant agency for audit. Generally, the cognizant agency for audit is the federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB assigns oversight responsibility to another agency.



Scope and Methodology (cont.)

- To address objective 2 we analyzed documentation and interviewed officials from the top six federal awarding agencies, OMB, AICPA, the National Association of the State Boards of Accountancy (NASBA),⁶ and Census Bureau officials responsible for the FAC to identify potential improvements to the overall single audit process. Using fiscal year 2007 single audit data from the FAC, we compiled, stratified, and analyzed the total number of single audits completed to determine the coverage of single audits performed by federal expenditure category.
- To address objective 3 we analyzed documentation and interviewed officials from OMB, AICPA, and NASBA to determine the current status of actions being taken to address the recommendations in the PCIE report.
- We conducted this performance audit from February 2008 through January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁶NASBA is a voluntary membership association of the boards of accountancy in the 50 states of the United States, the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. The purpose of the association is to protect, promote, foster, and advance the common interests and welfare of the various boards of accountancy. NASBA provides programs and services primarily related to the testing and licensing of certified public accountants in compliance with the requirements of boards of accountancy.



Federal Oversight Process

- GAO's internal control standards require ongoing monitoring of programs to ensure that objectives and goals are being addressed efficiently and effectively.⁷
- The current design of the federal oversight structure for the single audit process does not include a designated function or entity for monitoring whether or how federal awarding agencies are implementing single audit requirements.
- The current design of the single audit process has resulted in variations across federal agencies in performing key functions of the single audit process such as quality control reviews (QCR)⁸ and use of the FAC.

⁷GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

⁸QCRs are conducted to ensure that the audit (1) is conducted in accordance with applicable standards, (2) meets single audit requirements, (3) identifies any follow-up audit work needed, and (4) identifies issues that may require management attention.



Federal Oversight Process (cont.)

- The six agencies we reviewed had not consistently implemented the OMB Circular No. A-133 requirement to perform QCRs to evaluate the quality of audits for expenditures of \$50 million or more in federal awards.
 - Four of those six agencies had performed QCRs. Only two of the four had documented policies and procedures with criteria for determining which completed single audits to select in performing a QCR.⁹
- We also found that some agencies had elected to obtain single audit reports directly from their grant recipients rather than using the FAC.

⁹QCR data are as of fiscal year 2006, which were the most complete data available from the six federal agencies reviewed.



Federal Oversight Process (cont.)

- Because there is no designated federal function or entity monitoring the implementation of the single audit process, OMB and other single audit stakeholders are unable to
 - identify pervasive and systemic single audit issues,
 - determine the impact of the issues across federal programs to identify needed changes to the single audit process, and
 - communicate results, best practices, and lessons learned.
- As a result, there is a lack of assurance at the federal government level that the single audit process is being implemented governmentwide in an efficient and effective manner.



Potential Single Audit Improvements

- Auditors of single audits are subject to similar audit requirements and the same guidance in OMB Circular No. A-133 and the Compliance Supplement, even if the amounts of federal awards expended by the audited entities vary significantly. As a result, single audit stakeholders have raised concerns about the complexity and relative cost—benefit of the requirements for audits, especially for the smaller entities.
- Our analysis of fiscal year 2007 single audit data reported in the FAC shows significant disparities in the number of audits of smaller entities versus the number of audits of large entities and their respective coverage of federal award expenditures (see slide 18). Specifically,
 - 2.6 percent of the total number of single audits covered about 85 percent of the total federal award expenditures subject to a single audit, and
 - 52.1 percent of the total number of single audits covered over 2 percent of the total federal award expenditures subject to a single audit.



Potential Single Audit Improvements (cont.)

Single Audits Completed for Fiscal Year 2007

Federal award expenditure categories	Federal award expenditures	Percentage of total federal award expenditures	Total audits	
			Per category	Percentage of total audits
\$500K < \$2M	\$19,579,049,234	2.1%	18,482	52.1%
\$2M < \$5M	27,620,950,288	2.9%	8,723	24.6%
\$5M < \$10M	27,321,370,170	2.9%	3,938	11.1%
\$10M < \$50M	68,567,556,098	7.3%	3,395	9.6%
\$50M or more	801,182,038,803	84.8%	927	2.6%
Total	\$944,270,964,593^a	100.0%	35,465	100.0%

Source: GAO analysis of fiscal year 2007 data from the FAC as of November 24, 2008.

^aTotal federal expenditures in this analysis include some federal expenditures multiple times because some award dollars are passed through to subrecipients.



Potential Single Audit Improvements (cont.)

- The current one-size-fits-all approach to single audits combined with the fact that less than 3 percent of audits cover about 85 percent of federal expenditures subject to a single audit presents a convincing case for re-examining the overall approach for performing single audits.
 - Single audits of small entities could be simplified to achieve higher quality audits and more effective accountability for those audits.
 - Opportunities could be explored to identify best practices and provide guidance for achieving higher quality single audits of large entities.



Actions to Address the PCIE Recommendations

- OMB established eight work groups to address the PCIE report recommendations.
- According to OMB, it anticipates that revisions to OMB Circular No. A-133, and the PCIE checklist for performing QCRs will be completed during 2009 (see slide 21).



Actions to Address the PCIE Recommendations (cont.)

Status of OMB Work Group Actions		
Work group	Anticipated product(s)	Proposed timeline(s)
1. Audit Findings	Revisions to OMB Circular No. A-133	Fall 2009
2. Compliance Testing	Revisions to OMB Circular No. A-133 Compliance Supplement	Spring 2009
3. Audit Testing and Sampling	Comment on AICPA Audit Guide, Government Auditing Standards and Circular No. A-133 Audits	Fall 2009
4. Training	Revisions to OMB Circular No. A-133	Fall 2009
5. Suspension and Debarment	Revisions to OMB Circular No. A-133 which will identify criteria for single audit procurement	Fall 2009
6. Sanctions and Punitive Actions	Monitoring of the activities of NASBA and AICPA	Continuous
7. PCIE QCR Checklist Revision	Revised PCIE QCR Checklist with guidance emphasizing the significance of performing QCRs	Spring 2009
8. New and Improved Single Audit Process	Revisions to OMB Circular No. A-133 with proposals for immediate improvements to the single audit process	Fall 2009
	Identification of strategic improvements to the single audit process	Continuous

Source: OMB.



Actions to Address the PCIE Recommendations (cont.)

- AICPA established seven task forces to address the PCIE report recommendations. It issued a proposed revised auditing standard and provided clarifying guidance in the audit guide during 2008. According to the AICPA, it anticipates finalizing revisions to applicable auditing standards and the AICPA Audit Guide, and developing illustrative practice aids in 2009 (see slide 23).
- AICPA developed a white paper that proposes a training curriculum for auditors who perform single audits and provided it to OMB for consideration as they prescribe specific CPE requirements.
- According to AICPA, it has provided OMB with some drafts for the anticipated products to be completed in 2009, as shown on slide 23.



Actions to Address the PCIE Recommendations (con't)

Status of AICPA Task Force Actions		
Task force	Completed/anticipated product(s)	Completed/proposed timeline(s)
1. Sampling/Materiality Issues in a Single Audit Environment	New chapter in AICPA Audit Guide, <i>Government Auditing Standards and Circular A-133 Audits</i> (Audit Guide)	Fall 2009
2. Internal Control & Compliance Responsibilities in a Single Audit Environment	Clarification to Chapter 9 "Consideration of Internal Control Over Compliance for Major Programs" of the 2008 AICPA Audit Guide	Issued November 2008
	Practice Aid templates (both in a narrative and checklist format) to assist auditors in documenting their understanding and testing of internal control over compliance	Summer 2009
	Examples of internal control and compliance documentation for certain A-133 compliance requirements using the Practice Aids described above	Fall 2009
3. Reporting Audit Findings in a Single Audit	Illustrative Findings Template Practice Aid	Summer 2009
	Examples of actual findings write-ups using the Illustrative Findings Template Practice Aid	Fall 2009
4. Single Audit Training Needs and Continuing Professional Education (CPE) Evaluation	Single Audit Training Curriculum white paper issued to OMB for its consideration	Issued July 2008
5. Schedule of Expenditures of Federal Awards (SEFA) Reporting Issues	Clarification to Chapter 7 "Schedule of Expenditures of Federal Awards" of the 2008 AICPA Audit Guide	Issued November 2008
	Illustrative Audit Program for the SEFA	Summer 2009
	Illustrative Auditor Disclosure Checklist for the SEFA	Summer 2009
6. Practice Monitoring in a Single Audit Environment	Recommendations to the AICPA Peer Review Board	Spring 2009
	Conduct periodic meetings with Inspector General community after recommendations from all the task forces are completed to facilitate, enhance, and improve the effectiveness of the Peer Review Program	To be determined
7. Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance	Exposure Draft of a new auditing standard titled <i>Compliance Auditing</i> issued and out for public comment. This proposed standard would supersede Statement on Auditing Standards (SAS) No. 74, <i>Compliance Auditing Considerations of Governmental Entities and Recipients of Governmental Financial Assistance</i> , which is the current auditing standard in this area.	Issued December 2008
	New compliance auditing standard	Summer 2009

Source: AICPA.



Actions to Address the PCIE Recommendations (con't)

- NASBA developed a process in May 2008 for tracking the status of federal agency referrals on poor-performing auditors to state boards to ensure appropriate action and timely follow-up.
 - On a quarterly basis, NASBA stated it plans to contact each federal grant awarding agency to inquire about outstanding referrals.
 - NASBA stated it will follow up with the agency 2 weeks after each quarterly referral to determine whether the issue has been resolved.



Conclusions

- Without a mechanism in place to monitor on an ongoing basis how the single audit process is implemented governmentwide, OMB and federal stakeholders are unable to measure the efficiency and effectiveness of this process, as well as its usefulness as an accountability tool over federal grant awards. Variations in how federal agencies we reviewed perform key functions of the single audit process demonstrate the need to assess whether federal agencies carry out their single audit responsibilities in an efficient and effective manner.
- Opportunities exist to address concerns about the complexity and relative costs and benefits of audit requirements for single audits, while achieving a proper balance between risk and cost—effective accountability. This can be accomplished by exploring a simplified approach for performing single audits of small entities, and identifying best practices and providing guidance for achieving higher quality single audits of large entities.
- OMB, AICPA, and NASBA have initiated actions to address the PCIE report recommendations; however, most of these actions have yet to be completed and their impact on (1) addressing long-standing single audit quality issues, and (2) identifying needed changes to the single audit process is yet to be determined.



Recommendations for Executive Action

In order to monitor the risk, cost—benefit, and efficiency and effectiveness of the single audit process, we recommend that OMB

- designate an entity or group to (1) evaluate and comprehensively monitor the single audit process governmentwide, (2) assess agencies' efficiency and effectiveness in carrying out their single audit responsibilities, and (3) identify additional guidance and resources needed to carry out single audit requirements;
- designate a federal work group such as its “New and Improved Single Audit Process” work group to evaluate the current single audit process to identify simplified alternatives for meeting the accountability objectives of the Single Audit Act for the audits of small entities, while achieving the proper balance between risk and cost—effective accountability for the smallest to the largest entities; and
- monitor the status of OMB work groups, AICPA task forces, and NASBA referral project activities, and evaluate completed actions and their impact on addressing the PCIE report recommendations to improve single audit quality.

Enclosure II: GAO Contact and Staff Acknowledgements

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