

Single Audits: Are They Helping to Safeguard Federal Funds?

by Maxine Hattery

The financial management subcommittee of the Senate Committee on Homeland Security and Governmental Affairs held an October 25 hearing on the quality of single audits for recipients of federal assistance. On the witness panel were representatives of AICPA, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and the President's Council on Integrity and Efficiency (PCIE), whose study provided the focus of the hearing. In testimony and in response to questioning by Chairman Tom Carper (D-DE) and Senators Tom Coburn (R-OK) and Claire McCaskill (D-MO), the witnesses agreed that there is a problem in single audit quality.

The Report and Recommendations

In its June 2007 *Report on National Single Audit Sampling Project*, the PCIE found that, overall, approximately 49 percent of single audits fell into the acceptable group, with the remaining 51 percent having deficiencies severe enough to classify the audits as limited in reliability or unacceptable. Presenting the project results and recommendations at the hearing was Project Director Hugh M. Monaghan, Director of Non-Federal Audits for the Department of Education Office of Inspector General. The study analyzed results in terms of number of audits and the amount of federal assistance audited, he said. By number of audits, results indicate that a majority of large audits reviewed (audits of recipients of \$50 million or more in federal assistance) and almost half of other audits reviewed (at least \$500,000 but less than \$50 million) were acceptable. PCIE's analysis of the results in terms of the dollar amounts of federal awards audited indicate that single audits of large dollar amounts were more likely to be acceptable. Mr. Monaghan said that the results also indicate that there are significant numbers of audits of limited reliability with significant deficiencies and unacceptable, substandard audits.

AICPA's Director of Governmental Auditing and Accounting, Mary Foelster, suggested three possible reasons that more large-award recipients may have high-quality audits: (1) more robust governance structures, (2) more federal agency oversight, and (3) more staff and resources. Firms that perform few single audits face learning "a multitude of rules and regulations from federal agencies, GAO, and AICPA."

The PCIE report recommends that OMB take a "three-pronged approach to improve the quality of single audits:" (1) revise and improve single audit criteria, standards, and guidance to address deficiencies identified by the project, (2) establish minimum requirements for completing comprehensive training as a prerequisite for conducting single audits and require single audit update training; and (3) review and enhance processes to address unacceptable audits and noncompliance with training and continuing professional education requirements.

The recommendations had a high level of support on the witness panel, with a few reservations regarding training and enforcement. OMB's Acting Controller, Daniel I. Werfel, and Ms. Foelster expressed reservations about the cost effectiveness of enforcement of single audit requirements using potential new sanctions, preferring other existing tools currently available to federal agencies, including the use of the suspension and debarment process. Jeanette Franzel, GAO's Director of Financial Management and Assurance, qualified GAO's support for the

training recommendation by pointing out that training all auditors who might sometime perform a single audit would entail training a large universe of auditors. Ms. Franzel also identified other training issues that need to be addressed, such as cost-benefit, leveraging mechanisms already in place, the effect of the proposed requirements on the availability of qualified and willing audit firms, and monitoring and enforcement.

Ms. Foelster agreed that training all auditors would raise cost-benefit issues. Many firms are trying to practice due professional care, she said, but single audits are complex, and in some cases auditors lack the understanding they need.

As initial steps in responding to PCIE's recommendations, Mr. Werfel, reported that OMB plans to (1) provide additional guidance to auditors, (2) clarify when audit findings must be reported, (3) emphasize more specific documentation of audit activities and findings, and (4) clarify requirements for sample selection. OMB will also ensure that new audit training is developed and will discuss strengthening enforcement measures with key stakeholders.

Ms. Foelster said that the AICPA has established task forces on sampling and materiality; internal control and compliance; reporting issues associated with the Schedule of Expenditures of Federal Awards; reporting audit findings; training and continuing professional education; practice monitoring; and compliance auditing. The AICPA's Governmental Audit Quality Center (GAQC)—whose members audit about 83 percent of the federal expenditures covered by single audits performed by CPA firms—will also be evaluating the report, she said, to “determine what new activities and tools the center can offer its members and others” and “consider whether there are any other actions that the AICPA should be taking” including any beyond PCIE's recommendations.

Beyond the PCIE Report Recommendations

OMB and GAO are also looking beyond the report's recommendations. Mr. Werfel and Ms. Franzel both identified a need for greater consistency in federal agency oversight of the single audit. OMB is also working with stakeholders to evaluate whether a more robust peer review process can be used to help agencies ensure that auditing standards are followed. OMB is also exploring longer-term reforms, Mr. Werfel said, that would use the single audit to help in assessing the risk and extent of improper payments in the implementation of the Improper Payment Information Act (IPIA).

Ms. Foelster called for federal agencies to look for ways to streamline single audit requirements, especially for audits of recipients that receive relatively small dollar amounts, and Ms. Franzel suggested considering streamlined or less-complex approaches for small audits. For audits of larger recipients, Ms. Franzel suggested strengthening cognizant agency oversight. Efforts that target larger recipients, she said, could have a significant effect in terms of the dollars covered by high-quality audits.

Ms. Foelster, assured the subcommittee in her testimony that “the AICPA and its members take the results of this study very seriously.” She said, “We are dedicated to working with the OMB, the GAO, and other federal agencies on how to resolve the issues raised in the PCIE report.” Mr. Werfel added state auditors and state boards of accountancy to the list of potentially contributing

organizations “to ensure extensive input and consensus.” Ms. Franzel told the subcommittee that GAO is ready to work with them. In his closing comments, Chairman Carper asked GAO to report on progress, and the hearing ended with agreement among all the witnesses to work together toward high-quality auditing of the hundreds of billions of dollars awarded in federal grants and other assistance each year.

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