



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

GAO's Look at Single Audit and the Recovery Act

How To Prepare For Recovery Act Audits

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Single Audit and the Recovery Act

Session Objectives:

1. An overview of some of GAO's concerns with performance of Single Audit.
2. A look at the role of Single Audit in the accountability and transparency of Recovery Act funding, including a review of GAO's recommendations.

Background: Grants and Single Audits

- Federal government grants to state and local governments have risen substantially from \$7 billion in 1960 to \$500 billion budgeted in 2009 (before Recovery Act).
- Single audits
 - intended to be a key accountability mechanism for the use of federal grants.
 - conducted in accordance with OMB A-133 and Government Auditing Standards (GAO's Yellow Book)
 - quality has been a longstanding area of concern since the passage of the Single Audit Act in 1984.
- PCIE issued a report in 2007 showing a high rate Single Audits with unacceptable quality.

Background: Grants and Single Audits

Single Audit Reporting Requirements:

- An opinion (or disclaimer) about whether the financial statements and Schedule of Expenditures of Federal Awards (SEFA) are fairly presented in accordance with GAAP
- Report on internal controls related to the financial statements and major programs (“Yellow Book report”)
- Opinion on compliance with laws, regulations and contracts and grant agreements that may have a direct and material effect on major programs and the SEFA
- Schedule of findings and questioned costs
- List of major programs using the required risk-based methodology
- Determination of whether recipient is “high risk” or “low risk”

GAO Report on Single Audits (GAO-09-307R)

“Opportunities Exist to Improve the Single Audit Process and Oversight”

- 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 the federal awarding agencies are implementing single audit requirements.
- Variations exist across federal agencies in performing key functions of the single audit process such as quality control reviews and use of the Federal Audit Clearinghouse.

GAO Report on Single Audits (GAO-09-307R)

- The fact that less than 3 percent of audits cover more than 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 the smallest entities could be simplified for achieving higher quality audits and more effective accountability for those audits.
 - For larger audits, other opportunities could be explored to identify best practices and provide guidance for achieving higher quality single audits.

GAO Report on Single Audits (GAO-09-307R)

GAO recommended that OMB

- evaluate the single audit process, including federal agencies' roles and performance
- designate a federal 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 smallest audits while achieving the proper balance between risk and cost-effectiveness for all single audits; and
- monitor the status of OMB work groups, AICPA task forces, and other activities aimed at addressing the PCIE report recommendations and improving single audit quality.

Single Audit and the Recovery Act

American Recovery and Reinvestment Act Single Audits

- As of July 9, 2010, the federal government has paid out about \$137.1 billion (almost half) of the estimated \$282 billion of total Recovery Act funds for programs administered by states and localities.
- The Recovery Act imposed new transparency and accountability requirements on federal awarding agencies and their recipients.

Higher Risks Are Associated with Recovery Act Funds

- Recovery Act programs may be new and may not have the necessary internal controls and accounting systems in place.
- Funding increases for existing programs may exceed the capacity of existing internal controls and accounting systems.
- Risks are increased because of the need to spend funds quickly.

Single Audits As A Key Accountability Mechanism

The Single Audit process was identified as a key accountability mechanism over:

- recipient's use of federal funds and the related reporting, and
- use of funds for authorized purposes and mitigating instances of fraud, waste, error, and abuse.

Concerns Raised About Single Audits for Recovery Act Programs

- Single Audits may not provide the accountability needed for recipients to strengthen internal controls so that Recovery Act funds are effectively spent.
- The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take corrective action before additional funds are spent.
- Recipients with a June 30 fiscal year end have a reporting deadline of March 31—leaving management only 3 months to take corrective action on audit findings before the end of the subsequent fiscal year.

GAO's Recommendations to OMB for Improving Single Audits

Leverage Single Audit as an effective oversight tool for Recovery Act programs:

- Move to earlier reporting on internal controls,
 - Focus on Recovery Act programs,
 - Give relief for low-risk programs,
 - Fund more timely, effective Single Audits, and
 - Provide more timely Single Audit guidance and federal agency decisions on corrective action plans.

Matters for Congressional Consideration for Single Audits of Recovery Programs

- Amend the Single Audit Act or enact new legislation that provides for more timely internal control reporting on programs funded by the Recovery Act, as well as audit coverage for smaller Recovery Act programs with high risk.
- Create mechanisms to provide additional resources for Recovery Act-related audit work to support those charged with carrying out the Single Audit and related audits.

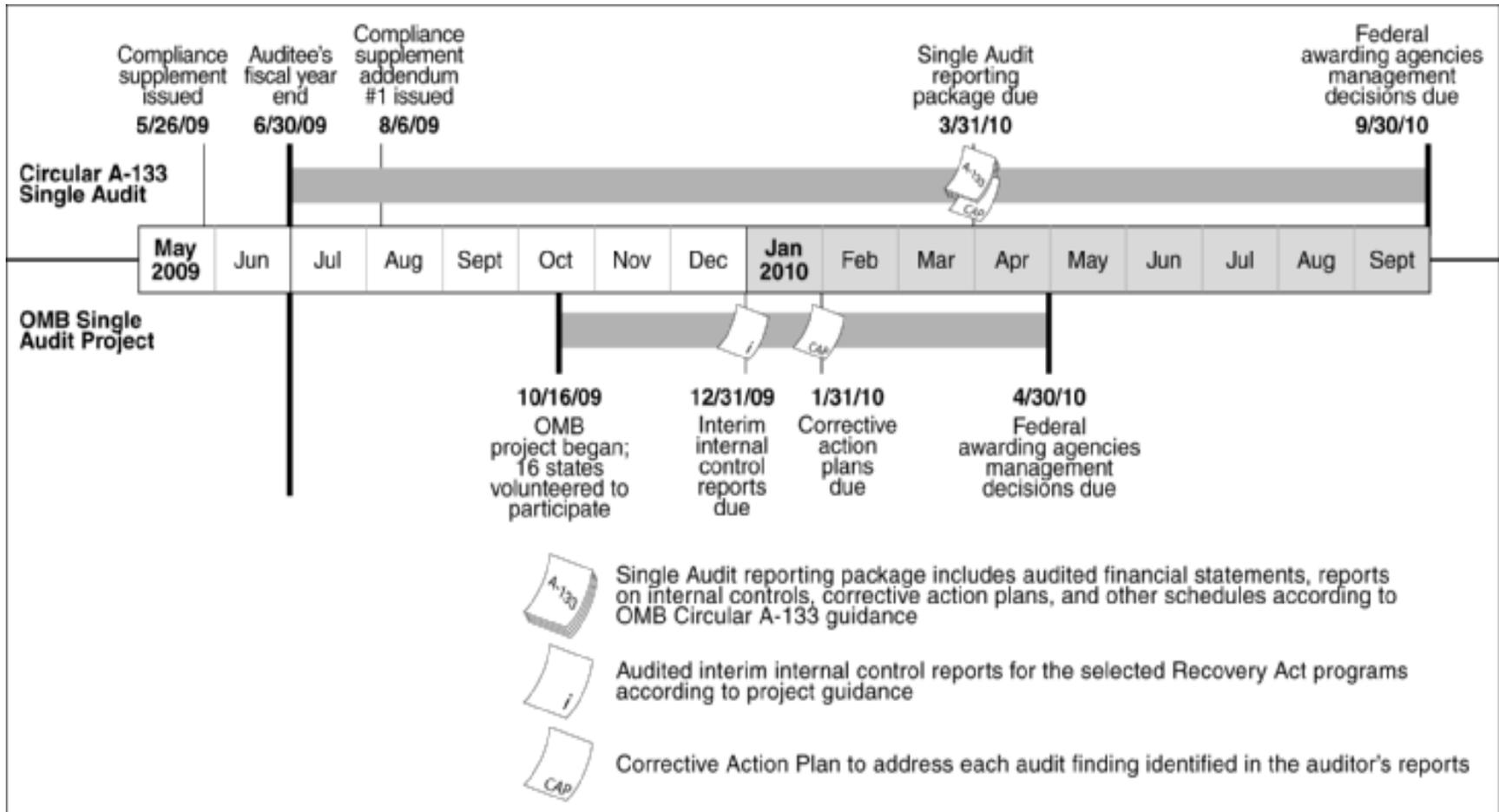
OMB Implemented a Single Audit Internal Control Project

- OMB developed the Single Audit Project to address concerns about the timeliness of Single Audit reporting for Recovery Act programs.
- One goal was to encourage auditors to communicate audit deficiencies in internal control over compliance for selected major Recovery Act programs 3 months sooner than the current 9 month time frame.
- Participation in the project was voluntary.

16 States Volunteered to Participate in the OMB Single Audit Internal Control Project

- Alaska
- California
- Colorado
- Florida
- Georgia
- Louisiana
- Maine
- Missouri
- Nevada
- North Carolina
- Ohio
- Oklahoma
- South Dakota
- Tennessee
- Texas
- Virginia

Timelines of OMB Circular A-133 Single Audits and OMB's Single Audit Internal Control Project for June 30 Fiscal Year End



Source: GAO.

Results of OMB's Single Audit Internal Control Project

- Auditors' interim internal control reports were submitted earlier.
- Program management's corrective action plans were submitted earlier and some corrective actions were taken.
- Effective audit resolution at US Departments of Health and Human Services, Education, and Labor, but not at Transportation, Energy, and Agriculture.

Closed Recommendations for Improving Single Audits Related to Recovery Act Programs

GAO recommended that OMB:

- Develop mechanisms to help fund the additional Single Audit costs and efforts related to Recovery Act programs.
- Advise the federal cognizant agencies to adopt and widely communicate a policy of no longer approving extensions of the due dates of Single Audits submissions beyond the 9-month deadline, and
- Take steps to achieve sufficient participation and coverage in OMB's Single Audit Internal Control Project.

GAO Recovery Act Reports

- Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability GAO-10-604, May 26, 2010
- Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability GAO-10-437, March 3, 2010
- Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability GAO-10-231, December 10, 2009
- Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed GAO-09-1016, September 23, 2009
- Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses GAO-09-829, July 8, 2009
- Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential GAO-09-580, April 23, 2009

Thank you!