

Meeting of New York/New Jersey and Mid-Atlantic Intergovernmental Audit Forums
Atlantic City, NJ - October 4, 2007

RESULTS OF NATIONAL SINGLE AUDIT SAMPLING PROJECT

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What was this project?

A project to accurately assess the quality of Single Audits government-wide, and provide a baseline for monitoring Single Audit quality in the future by performing quality control reviews (QCRs) of a statistical sample of single audits.

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What were the Project Objectives?

There were two project objectives:

- (1) Determine the quality of Single Audits, by providing a statistically reliable estimate of the extent that Single Audits conform to applicable requirements, standards, and procedures; and**

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What are the Project Objectives? (cont'd)

- (2) Make recommendations to address noted audit quality issues, including recommendations for any changes to applicable requirements, standards and procedures indicated by the results of the project.**

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Project Was Conducted under the auspices of the

Audit Committee of the President's Council on Integrity and Efficiency (PCIE)

The PCIE is primarily composed of the Presidentially-appointed Inspectors General (IGs).

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Project Participation

- A collaborative effort including PCIE Member Organizations and State Auditors.
 - Project Advisory Board
 - Project Management Staff
 - QCR Staffing
- Contract CPAs were engaged to perform Project QCR field work for some Project QCRs. Results of all project QCRs were issued and categorized by Federal officials.

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Project Advisory Board

Functioned as the “Board of Directors” for the project.

Consisted of seven Federal Senior Executives and three State Auditors.

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Project Management Staff

A group of experts from major Federal grantor agencies with responsibility for designing, and executing the project, with Board advice and direction.

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Participating Federal PCIE/ECIE Members:

-U.S. Departments of:
 Agriculture (QCRs)
 Defense (QCRs)
 Education (Board, Proj. Mgmt., QCRs)
 Health & Human Services
 (Board, Proj. Mgmt., QCRs)
 Homeland Security (QCRs)
 Housing and Urban Development
 (Board, Proj. Mgmt., QCRs)
 Interior (QCRs)
 Justice (QCRs)
 Labor (Board, Proj. Mgmt., QCRs)
 Transportation (Board, Proj. Mgmt., QCRs)

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Participating Federal PCIE/ECIE Members (cont'd):

-Agency for International Development (QCRs)
 -Environmental Protection Administration
 (Proj. Mgmt.)
 -Nat'l Aeronautics & Space Administration (QCRs)
 -National Science Foundation
 (Board, Proj. Mgmt., QCRs)
 -OMB (Board, Proj. Mgmt.)
 -Small Business Administration (QCRs)

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Three State Auditors Participated

- **Commonwealth of Virginia**
 (Board, QCRs)
- **State of Georgia**
 (Board, QCRs)
- **State of Illinois**
 (Board)

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Project Sampling Plan

The sample of **208 QCRs** was drawn from the Universe of Single Audits accepted by the Federal Audit Clearinghouse for a one-year period. It was a random, statistical sample.

[Exception: Single Audits with total Federal expenditures less than \$500,000 were excluded. This is because effective for audit periods ending in 2004, Single Audits were no longer be required for entities with Federal expenditures less than \$500,000.]

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Stratum	# Audits in Universe	Federal Award \$\$\$ in Universe	Number Of Audits In Sample
I – Large ≥\$50M	852	\$737 Billion+	96
II-Other \$500K- <\$50M	37,671	\$143 Billion+	112
BOTH	38,523	\$880 Billion+	208

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Project Coverage Areas

The Project covered portions of the single audit relating to the **planning, conduct and reporting** of audit work related to the **review and testing of internal controls and compliance testing pertaining to compliance requirements** for selected major Federal programs.

The scope also included review of audit work relating to the SEFA, and **content** of all of the auditor’s reports on the Federal programs.

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Coverage of Single Audit **Planning** included review of audit documentation re:

- Determination of major (Federal) programs;
- Attainment of minimum required percentage of coverage of Federal awards expended as major programs;
- Determinations that an auditee was a low-risk auditee; and
- Evidence that auditor reviewed that prior audit findings were followed-up on.

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Coverage of **conduct** of the audit work by determining whether:

- Audit documentation evidenced that required internal control review and testing and compliance testing was performed for compliance requirements for major programs selected for review;
- Audit work was documented that supported the auditor’s opinion on the Schedule of Expenditures of Federal Awards was presented fairly in all material respects in relation to the auditee’s financial statements as a whole;

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Coverage of **conduct** of the audit work by determining whether:

- Audit documentation indicated that adequate audit programs were prepared for the audit work relating to internal control review and testing, compliance testing and auditing of the SEFA; and
- Audit documentation indicated that audit standards were complied with respect to relying on work of any other independent auditors and internal auditors; use of audits of servicing organizations to the auditee, obtaining management representations and identifying litigation, claims and assessments.

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Coverage of **reporting** included the following determinations:

- Whether the following required parts of the report included required contents:
 - Report on Financial Statements and Schedule of Federal Awards; Report on Compliance and on Internal Control Over Financial Reporting Based on Audit of Financial Statements, and Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance;
 - Schedule of Expenditures of Federal Awards (SEFA);
 - Summary of Auditor’s Results Section of Schedule of Findings and Questioned Costs; and
 - Major Program Audit Findings in Schedule of Findings and Questioned Costs.

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Coverage of reporting included the following determinations:

- Whether audit documentation evidenced that programs identified as major programs were actually audited as such, in accordance with applicable requirements.
- The existence of support in audit documentation for the Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance and opinion on Schedule of Expenditures of Federal Awards (as accompanying supplementary information) in the Report on Financial Statements and Schedule of Federal Awards.

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Areas **Not** Covered-
The Financial Part of Single Audits

The Project **did not** include review of the content of, or the audit work performed related to the general-purpose financial statements, the auditor's opinion on those statements, or the auditor's review of internal control over financial reporting.

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Project Report

- Issued on June 21, 2007
- May be accessed directly on Internet at:
<http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>
- OR - from link at
<http://www.ignet.gov>

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The Results!

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Based on assessment of the Deficiencies found in each Project QCR, we classified each audit into the following groupings and categories

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ACCEPTABLE

- **Acceptable (AC)** – No deficiencies were noted or one or two insignificant deficiencies were noted.
- **Accepted with Deficiencies (AD)** – One or more deficiencies with applicable auditing criteria were noted that do not require corrective action for the engagement, but should be corrected on future engagements.

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LIMITED RELIABILITY

- **Significant Deficiencies (SD)** – Significant deficiencies with applicable auditing criteria were noted and require corrective action to afford unquestioned reliance upon the audit.

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UNACCEPTABLE

- **Substandard (SU)** -audits with deficiencies so serious that the auditor’s opinion on at least one major program cannot be relied upon.

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UNACCEPTABLE (Cont’d)

- Audits categorized in a **Material Reporting Error (MRE)** category : other serious deficiencies were not noted, but a material reporting error was noted and the report must be reissued for the report to be relied upon because:
 - At least one major program was incorrectly identified as a major program in the Summary of Auditor’s Results Section of the Schedule of Findings and Questioned Costs; or
 - The required opinion on the Schedule of Expenditures of Federal Awards was omitted.

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IMPORTANT NOTE ABOUT THE FOLLOWING 4 SLIDES

The following 4 slides are adapted from tables I, II and III from the Project Report – minus notes from Tables I and II.

They are presented here as overview information, however you should refer to the complete tables with notes contained in the Project Report.

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Table I

GROUP →	ACCEP TABLE	LIMITED RELIABILITY	UNACCEPTABLE
Stratum			
↓			
I – Large ≥\$50M	61 63.5%	12 12.5%	23 24.0%
II-Other \$500K- <\$50M	54 48.2%	18 16.1%	40 35.7%
BOTH	115 48.6%	30 16.0%	63 35.5%

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Table II (Part 1)

Group →	ACCEPTABLE		LIMITED RELIABILITY
↓			
Category →	Acceptable	Accepted with Deficiencies	Significant Deficiencies
↓			
I – Large ≥\$50M	16 audits 16.7%	45 audits 46.9%	12 audits 12.5%
II-Other \$500K- <\$50M	23 audits 20.5%	31 audits 37.7%	18 audits 16.1%
BOTH	39 audits 20.5%	76 audits 28.1%	30 audits 16.0%

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Table II (Part 2)

UNACCEPTABLE

Group	Material Reporting Errors	Substandard
I - Large ≥\$50M	9 audits 9.4%	14 audits 14.6%
II-Other \$500K-<\$50M	0 audits 0.0%	40 audits 35.7%
BOTH	9 audits 0.2%	54 audits 35.2%

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Table III

Distribution of Dollars of Federal Awards Reported in the 208 Audits Reviewed in the Project by Quality Groupings

Group Stratum	ACCEPTABLE	LIMITED RELIABILITY	UNACCEPTABLE	TOTAL
I - Large ≥\$50M	\$52.91 Billion 93.2%	\$1.27 Billion 2.2%	\$2.62 Billion 4.6%	\$56.80 Billion 100%
II-Other \$500K-<\$50M	\$232.0 Million 56.3%	\$39.7 Million 9.6%	\$140.5 Million 34.1%	\$412.2 Million 100%
BOTH	\$53.1 Billion 92.9%	\$1.3 Billion 2.3%	\$2.7 Bil. 4.8%	\$57 Billion 100%

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Kind of Deficiencies Noted in Project with Estimates of Rates of Occurrence

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- At least Some Compliance Testing Not Documented as Performed or Not Applicable

Stratum I - 46 audits (47.9%)
Stratum II - 67 audits (59.8%)
Both - estimated 59.6%

NOTE: This condition ranges from one of the 14 types of compliance requirements not documented as covered for one major program to all compliance requirements not documented as covered for one or more major programs.

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- Not documenting understanding of internal controls over compliance as required by A-133 §.500(c)(1) in a manner that addresses the five elements of internal control.

Stratum I - 26 audits (27.1%)
Stratum II - 64 audits (57.1%)
Both - estimated 56.5%

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- Not documenting testing of internal controls over compliance as required by A-133 §.500(c)(2).

Stratum I - 33 audits (34.4%)
Stratum II - 69 audits (61.6%)
Both - estimated 61.0%

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■ **Misreporting of Audit Coverage of Major Federal Programs - i.e., one or more of the major programs selected for review in the QCR were incorrectly identified as having been audited as a major program**

Stratum I – 9 audits (9.4%)
 Stratum II – 7 audits (6.3%)
 Both – 16 audits (6.3%)

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■ **Unreported Audit Findings - i.e., we found audit documentation or management letter content that included matters that we concluded either should have been reported as audit findings or the audit documentation should have explained why they were not reported as findings.**

Both Strata: 22 of 208 audits – because audit findings may not exist for all audits, we cannot estimate rates of occurrence.

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■ **Missing Audit Finding Information i.e., one or more of the reporting elements prescribed by OMB Circular A-133 were not included.**

Both Strata: 49 of 208 audits – because audit findings may not exist for all audits, we cannot estimate rates of occurrence.

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■ **Deficiencies in Risk Assessments as Part of Major Program Determination**

Stratum I – 13 audits (13.5%)
 Stratum II – 28 audits (25.0%)
 Both – estimated 24.7%

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We found the following kinds of program risk assessment deficiencies:

- Required risk analyses were not documented at all;
- The basis for the assessments of risk was not documented;
- The documentation indicated that the risk assessment was not performed or not properly performed for reasons including: not considering all programs, improperly clustering programs, not clustering programs, or mistakenly categorizing a program as Type A or as Type B; and
- The risk assessment decision was not consistent with information in the audit documentation.

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■ **Audit Programs Missing or Inadequate for Part of Single Audit**

Stratum I – 16 audits (16.7%)
 Stratum II – 43 audits (38.4%)
 Both – estimated 37.9%

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Audit Programs – What was missing in how many audits?

Coverage Area ↓	Stratum I Missing in ↓	Stratum II Missing in ↓
Internal Control Review	10 audits	25 audits
Schedule of Expenditures of Federal Awards	8 audits	28 audits
Compliance Testing	5 audits	24 audits

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■ **Indications that Current Compliance Requirements Were Not Considered**

Stratum I – 4 audits (4.2%)
 Stratum II – 20 audits (17.9%)
 Both – estimated 17.6%

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Other Deficiencies are described in the Report and Appendix A to the Report

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Other Matters-Testing and Sampling

We examined transaction testing for 50 audits (25 from each stratum) and found inconsistent numbers of transactions selected for testing of internal controls and compliance testing for the allowable costs/cost principles compliance requirement.

Also, many single audits did not document the number of transactions and the associated dollars of the universe from which the transactions were drawn.

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RECOMMENDATIONS

A Three-pronged Approach to Reduce the Deficiencies Noted and Improve Single Audit Quality

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First Prong

Revise and improve single audit criteria, standards and guidance to address deficiencies identified by the Project.

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To address the deficiencies for which we believe amendments will be helpful:

We make specific recommendations to amend:

- OMB Circular A-133
- SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*
- AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*

We also recommend that for compliance testing, it be required to use sampling per SAS No. 39, as amended

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Second Prong

Establish minimum CPE requirements for completing comprehensive training (16-24 hours) on performing single audits as a prerequisite for conducting single audits

and

require single audit update training for continued performance of single audits.

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For the Second Prong we make the following five specific recommendations to OMB:

1. Amend OMB Circular A-133 to establish the requirement that as a prerequisite to performing a single audit, staff performing and supervising the single audit must have completed a comprehensive training program of a minimum specified duration (e.g., at least 16-24 hours) that covers the content developed in accordance with recommendation 4 below.

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2. Amend OMB Circular A-133 to establish requirements that every 2 years after completing the comprehensive training, auditors performing single audits complete continuing professional education of a minimum specified duration that covers the content developed in accordance with recommendation No. 4.

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3. Amend the "Auditor Selection" section of OMB Circular A-133 to provide that single audits may only be procured from auditors who meet the training requirements established as a result of the prior two recommendations.

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4. In consultation with Cognizant and Oversight Agencies for Audit, the National State Auditors Association and the AICPA and its Governmental Audit Quality Center (GAQC) develop, or arrange for the development of, minimum content requirements for comprehensive training (e.g., at least 16-24 hours) on conducting single audits.

The minimum content should cover the essential components of single audits and should emphasize aspects of single audits for which deficiencies were noted in this Project.

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Also, OMB should develop, or arrange for the development of, minimum content requirements for specific single audit continuing professional education update training for single auditors who have previously taken the initial training. In addition, establish a process to modify the content of the training to address new or changing requirements.

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5. Encourage professional organizations, including the AICPA, the National State Auditors Association and qualified training providers, to offer training that covers the required content. Encourage them to deliver the training in ways that enable auditors throughout the United States to take the training at locations near or at their places of business, including via technologies such as webcasts. The training should be available at an affordable cost.

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Third Prong

Review and enhance processes to address unacceptable audits and not meeting established training and continuing professional education requirements.

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For the Third Prong we make the following three specific recommendations that OMB, with Federal Cognizant and Oversight Agencies and legal counsel, as appropriate:

1. Review the process of suspension and debarment to identify whether (and if so, how) it can be more efficiently and effectively applied to address unacceptable audits, and based on that review, pursue appropriate changes to the process;

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2. Enter into dialogue with the AICPA and State Boards of Accountancy, through the National Association of State Boards of Accountancy, to identify ways the AICPA and State Boards can further the quality of single audits and address the due professional care issues noted in this Project, and encourage them to implement the ways identified; and

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3. Identify, review, and evaluate the potential effectiveness of other ways (existing or new) to address unacceptable audits.

These other ways could include, but not be limited to, revising Circular A-133 to include sanctions to be applied to auditors (for unacceptable work and/or for not meeting training and CPE requirements) and/or

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considering potential legislation that would provide for a fine to be available to Federal cognizant and oversight agencies as an option to address unacceptable audit work.

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Obtain the report from the Internet at:

<http://www.ignet.gov>

At this page, scroll down and click link at the red star

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Thank you!

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