
Single Audits & the Recovery Act

Western Intergovernmental Audit Forum Fall 2009

Honolulu, Hawaii
October 12, 2009

Session Objectives

- Discuss GAO's recent work on Single Audit
 - Discuss GAO's Recovery Act mandates and reports
 - Discuss how the Recovery Act could impact single audit work and reporting in the future
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Recent Events – Single Audit

- July 2007 PCIE Study on Single Audit Quality
 - October 2007 Hearing – Senate Subcommittee on Federal Financial Management, Committee on Homeland Security and Governmental Affairs
 - Establishment of Federal Workgroups and AICPA task forces
 - AGA Partnership project – Leveraging Single Audits
 - Ongoing Congressional interest and expectations
 - Persistent single audit quality problems affect grants management and accountability
 - March 2009 GAO report (GAO-09-307R), Single Audit Improvements
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Evolution of Single Audit Act and Its Underlying Principles

- Congress passed the Single Audit Act in response to concerns
 - that large amounts of federal financial assistance were not subject to audit and
 - that agencies sometimes overlapped on oversight activities
 - Objectives of the Single Audit Act:
 - promote sound financial management and effective internal control over federal awards
 - establish uniform requirements for audits of those awards
 - promote the efficient and effective use of audit resources
 - reduce burdens on grant recipients
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PCIE Report and Recommendations

- PCIE report presents compelling evidence that there continues to be a serious problem with single audit quality

 - PCIE report recommended a three-pronged approach to improving the quality of single audits:
 1. improving standards and guidance
 2. establishing continuing professional education as a prerequisite to conducting single audits
 3. enhancing the professional disciplinary processes for unacceptable audits
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GAO– Oct 2007 Testimony (GAO-08-213T)

- Actions must be taken to improve single audit quality and the related accountability over federal awards

 - There may be opportunities for
 - Considering size characteristics when implementing actions to improve single audit quality
 - Strengthening the cognizant agency oversight for larger auditees

 - Considering the recommendations of the PCIE within this larger context is important in achieving the proper balance between risk and cost-effective accountability
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GAO Report on Single Audits (GAO-09-307R)

- Less than 3 percent of audits cover more than 85 percent of federal expenditures subject to a single audit
 - Single audits of the smallest entities could be simplified
 - For larger audits, other opportunities could be explored to identify best practices and provide guidance
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GAO Report on Single Audits (GAO-09-307R)

GAO recommended that OMB

- designate an entity or group to (1) evaluate and comprehensively monitor the single audit process governmentwide, (2) assess how agencies carry out their single audit responsibilities, and (3) identify additional guidance needed to carry out single audits;
 - 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 the range of single audits; and
 - monitor the status of efforts to improve single audit quality.
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American Recovery and Reinvestment Act of 2009 (Recovery Act)

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American Recovery and Reinvestment Act of 2009 (Recovery Act)

- Signed February 17, 2009

- Purposes:
 - preserve and create jobs and promote recovery
 - assist those most impacted by the recession
 - invest in science and health-care technology
 - invest in infrastructure
 - stabilize state and local government budgets

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American Recovery and Reinvestment Act of 2009 (Recovery Act)

- The estimated total cost of the Recovery Act is about \$787 billion in spending and tax provisions
 - About \$280 billion will be administered through states and localities (including grants that go through states to individuals)
 - Approximately \$48 billion had been outlayed to states and localities as of September 11, 2009
 - About 84 percent of this amount was provided through the increased Medicaid Federal Medical Assistance Program and the State Fiscal Stabilization Fund (SFSF)
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Use of Single Audit Reports in Recovery Act Oversight

- Non- Federal entities are required to have an annual audit of their Federal awards
 - OMB announced that OMB Circular A-133 Compliance Supplement will notify auditors of compliance requirements which should be tested for Recovery Act programs
 - Federal Inspectors General are to reach out to auditing profession to ensure single audits are properly performed by
 - Providing technical assistance and training
 - Performing quality control reviews
 - Federal Inspectors General also will perform follow-up reviews of Single Audit quality with emphasis on Recovery Act funds
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Use of Single Audit Reports in Recovery Act Oversight

- Effective internal control is a major part of managing any organization to achieve desired outcomes and manage risk
 - Results of recent audits are a readily available source of information to use in determining if risks exist and the nature and extent of risks that have been identified
 - Material weaknesses and other conditions identified in an audit represent potential risks that can be analyzed for their significance and occurrence
 - Single Audit report provides a readily available source of information on internal control weaknesses and other risks for state and local governments receiving Recovery Act funding

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GAO and the American Recovery & Reinvestment Act

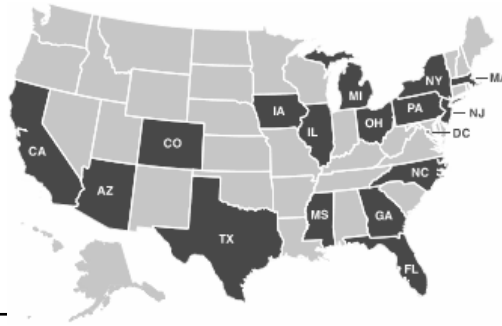
GAO responsibilities include:

- conducting bimonthly reviews of selected states' and localities' use of funds
- commenting on recipient reports on the number of jobs created or preserved
- reviewing areas such as trade adjustment assistance, new education incentive grants, and efforts to increase small business lending
- monitoring downturn's long-term effect on states (health care costs)

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Bimonthly Reviews Examine How States and Localities are Spending Recovery Act Funds

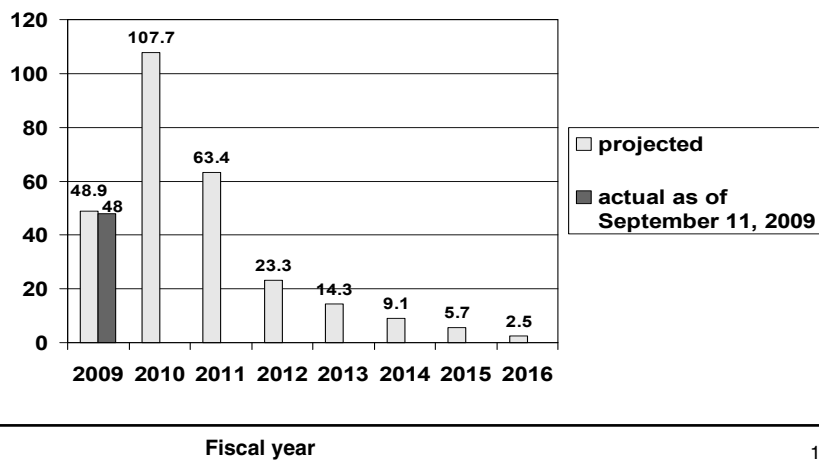
- The reviews will focus on 16 states and D.C.
- GAO has reported on April 23, July 7, and September 23, 2009.
- Next report expected mid-December 2009.



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Projected Versus Actual Federal Outlays to States and Localities Under the Recovery Act

Dollars (in billions)

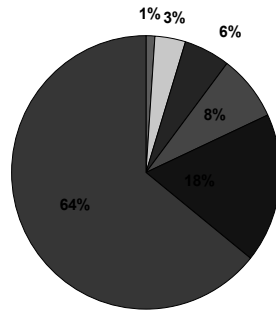


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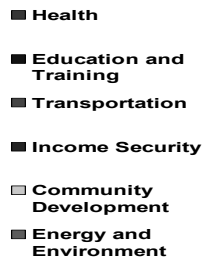
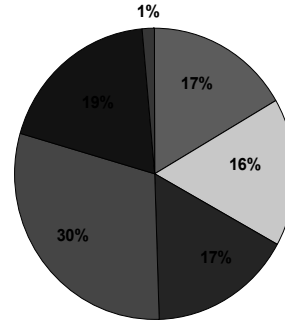
Source: GAO Analysis of data from CBO, Federal Funds Information for States, and Recovery.gov

Composition of State and Local Recovery Act Funding

Fiscal Year 2009



Fiscal Year 2012



Source: GAO analysis of CBO and FFIS data.

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GAO's Coordination with the Accountability Community

- GAO is coordinating roles, planned approaches, and timelines with the broader accountability community including:
 - State and local government auditors
 - Recovery Accountability and Transparency Board
 - Inspectors General (IG)
 - Office of Management and Budget (OMB)

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Overall Look at Single Audits Program Determination

- Single Audit Act and OMB Circular No. A-133 call for a “risk based” approach to determine which programs will be included in Single Audit testing
 - Prescribed approach to determine which programs will be subject to detailed compliance testing relies heavily on
 - the amount of federal expenditures during a fiscal year and
 - whether findings were reported in the previous period

OMB Guidance to Date

- Initial Implementing Guidance (issued February 18, 2009):
<http://www.recovery.gov/files/Initial%20Recovery%20Act%20Implementing%20Guidance.pdf>
- Follow-Up OMB Implementing Guidance (issued April 3, 2009): <http://www.recovery.gov/sites/default/files/m09-15.pdf>
- 2009 Compliance Supplement (issued May 26, 2009):
<http://www.whitehouse.gov/omb/grants>
- Addendum No 1 to the Compliance Supplement (issued August 6, 2009):
<http://www.whitehouse.gov/omb/asset.aspx?AssetId=1567>
- Addendum No. 2 to the Compliance Supplement (to be issued October 16, 2009)

Other Recovery Act/Single Audit Issues

- Timeliness problems (9 month reporting deadline, plus extensions)
 - Usefulness of Single Audit Reports as a grants monitoring and accountability tool
 - Subrecipient monitoring issues
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Current View on Usefulness of Single Audits

- Unanimous support that the basic financial audit needs to continue to be performed
 - Broad consensus that the required testing on existing programs should continue
 - Federal funding currently audited under single audit dwarfs the amounts of stimulus funds
 - IGs use information on internal control and compliance to support conclusions on large grant programs in the financial audit of their departments
 - Federal program officials use the single audit as part of their oversight of grant programs
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What GAO Found: Single Audit Approach May Need to be Adjusted

- Single Audit Act and OMB Circular No. A-133 call for a “risk based” approach to determine which programs will be included in Single Audit testing
 - Under the current approach for risk determination, certain risks may not receive full consideration
 - Unique challenges associated with Recovery Act funding:
 - ✓ sudden increase in funds that most recipients are experiencing
 - ✓ new government programs and programs that are new for the recipient entity
 - ✓ need for timely and efficient oversight in response to the Recovery Act’s accountability requirements
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GAO’s Recommendations to OMB to Adjust Current Single Audit Process

- focus on Recovery Act funded programs
 - develop requirements for reporting on internal controls during 2009, before significant expenditures in 2010, as well for ongoing reporting
 - evaluate options for providing relief for low-risk programs
 - develop mechanisms to help fund additional single audit costs
 - take steps to achieve sufficient participate and coverage in the single audit pilot program
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GAO's Recommendations to OMB to Reduce Impact of Untimely Single Audit Reporting

- Formally advise federal cognizant agencies to adopt a policy of no longer approving extensions to submit single audit reporting package
- Widely communicate this revised policy to those who have responsibility for conducting single audits and submitting the reporting package

GAO's Matter for Congressional Consideration

Congress could consider legislative proposals which could address:

- Amending the Single Audit Act that provides for more timely internal control reporting as well as audit coverage for smaller Recovery Act programs with higher risk
- Consider mechanisms to provide additional resources to support those charged with carrying out the single audit and related audits

Impact of the Recovery Act: Auditor Perspective

- Economic Recovery and Reinvestment Act of 2009
 - Accountability & Transparency
 - Recovery.gov (announcements, agreements, program managers, governors, mayors)
 - Recovery Board, GAO, Inspectors, whistleblowers
 - QCRs built into the OMB guidance – results to be placed on Recovery.gov
 - Single audit reporting packages to be made available on the Internet
 - *Compliance Supplement*
 - OMB Guidance issued on continual basis (see next slide)
 - Changes to major program determination process?
 - Other changes?
 - Stay tuned!
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Message Points to State and Local Governments

- Consider whether control procedures in place over federal expenditures are appropriate, working properly, and designed to prevent unallowable expenditures
 - Consider whether additional controls and system requirements will be needed to ensure that Recovery Act funds are able to separately identified and tracked
 - If applicable, consider whether new controls needed to meet the stringent reporting requirements back to federal agencies
 - If Recovery Act funds will be passed down to subrecipients, that controls are in place to ensure appropriate subrecipient monitoring and also whether any new controls will need to be established related to new subrecipient reporting responsibilities
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GAO's Ongoing Efforts

- Planning for GAO's next bimonthly review of states is underway.
 - GAO will review quarterly reports filed by fund recipients and comment on the reports' estimates of the number of jobs created and retained by projects or activities supported by Recovery Act funds. GAO's first comments are due November 25, 2009.
 - GAO's oversight work on the Recovery Act will be updated regularly at www.gao.gov/recovery
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Single Audits & the Recovery Act

Questions or Comments?

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