



---

**REPORT ON  
NATIONAL SINGLE AUDIT  
SAMPLING PROJECT**

---

**PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY  
EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY**

**June 2007**



PRESIDENT'S COUNCIL ON INTEGRITY & EFFICIENCY  
EXECUTIVE COUNCIL ON INTEGRITY & EFFICIENCY



June 21, 2007

Dr. Linda M. Combs,  
Controller  
Office of Federal Financial Management  
Office of Management and Budget (OMB)  
Eisenhower Executive Office Building  
1650 Pennsylvania Avenue, Room 273  
Washington, DC 20503

Dear Dr. Combs:

Enclosed is the report on the National Single Audit Sampling Project (Project). The Project was conducted under the auspices of the Audit Committee of the President's Council on Integrity and Efficiency (PCIE), as a collaborative effort involving PCIE member organizations, as well as a member of the Executive Council on Integrity and Efficiency (ECIE) and three State Auditors. It was performed to determine the quality of single audits using statistical methods and to make recommendations to address noted audit quality issues. By agreement with OMB and the other participants, the U.S. Department of Education, Office of Inspector General, coordinated the administration of the Project, and prepared the Project report. As Chair of the PCIE Audit Committee and Inspector General for the U.S. Department of Education, I am pleased to transmit the report to you.

As you know, provisions of the Single Audit Act Amendments of 1996 (Public Law 104-156), give OMB a leading role relating to single audits. Consequently, the report is addressed to you. In the report, we recommend that OMB work with the American Institute of Certified Public Accountants (AICPA), the PCIE, the ECIE, and other parties, as appropriate, to address the deficiencies and other matters identified in this report, and to implement the recommendations.

If you have any questions about the contents of the report, please contact Mr. Hugh M. Monaghan, Director, Non-Federal Audits, Office of Inspector General, U.S. Department of Education at 215-656-6246 or Mr. George Rippey, Acting Assistant Inspector General for Audit, Office of Inspector General, U.S. Department of Education at 202-245-6900.

Sincerely,

/s/

John P. Higgins, Jr.  
Chair, PCIE Audit Committee

Enclosure

cc (w/copy of enclosure):

Gregory Friedman, Inspector General, U.S. Department of Energy

Daniel I. Werfel, Deputy Controller, Office of Federal Financial Management, OMB

Carrie A. Hug, Chief, Financial Standards and Grants Branch, OMB

Hai M. Tran, Policy Analyst, OMB

Susan S. Coffey, CPA, Senior Vice President, Member Quality and State Regulation  
American Institute of Certified Public Accountants

David A. Costello, President and Chief Executive Officer, National Association of State Boards  
of Accountancy

Sherri Rowland, CPA, Association Director, National State Auditors Association

**AUDIT COMMITTEE OF THE PRESIDENT'S COUNCIL  
ON INTEGRITY AND EFFICIENCY**

Hon. John P. Higgins, Jr., Chair  
Inspector General, Dept. of Education

Hon. Phyllis Fong  
Inspector General, Dept. of Agriculture

Hon. Greg Friedman  
Inspector General, Dept. of Energy

Hon. Gordon Heddell  
Inspector General, Dept. of Labor

Hon. Claude M. Kicklighter  
Inspector General, Dept. of Defense

Hon. Jon T. Rymer,  
Inspector General  
Federal Deposit Insurance Corp.

Dennis S. Schindel  
Acting Inspector General,  
Dept. of the Treasury

Sheldon Bernstein  
Inspector General,  
National Endowment for the Humanities

Edward Kelley  
Inspector General,  
Federal Housing Finance Board

Mary Ugone  
Chair,  
Federal Audit Executive Council

Hon. Patrick O'Carroll  
Inspector General,  
Social Security Administration

**PROJECT ADVISORY BOARD  
NATIONAL SINGLE AUDIT SAMPLING PROJECT**

Helen Lew, Chair  
Assistant Inspector General for Audit Services,  
Dept. of Education (Retired)

Theodore Alves  
Associate Deputy Inspector General,  
Dept. of Transportation

Deborah Cureton  
Associate Deputy Inspector General,  
National Science Foundation

James Heist  
Assistant Inspector General,  
Dept. of Housing and Urban Development

Hon. Russell Hinton  
State Auditor,  
State of Georgia

Hon. William G. Holland  
Auditor General,  
State of Illinois

Carrie A. Hug  
Branch Chief,  
Office of Federal Financial Management,  
Office of Management and Budget

Hon. Walter J. Kucharski  
Auditor of Public Accounts,  
Commonwealth of Virginia

Elliot P. Lewis  
Assistant Inspector General for Audit,  
Dept. of Labor

Joseph Vengrin  
Deputy Inspector General for Audit Services,  
Dept. of Health and Human Services

**PROJECT MANAGEMENT STAFF  
NATIONAL SINGLE AUDIT SAMPLING PROJECT**

Hugh M. Monaghan, Project Director  
Dept. of Education

George Datto  
Dept. of Housing and Urban Development

John Fisher  
Dept. of Health and Human Services

Celeste Griffith (Retired)  
Environmental Protection Agency

Kathy Leone  
National Science Foundation

Zaunder Saucer  
Dept. of Labor

Zachary Sudiak  
Dept. of Education

John Sysak  
Dept. of Transportation

Petra Swartzlander  
Dept. of Transportation

Hai M. ("Gil") Tran  
Office of Management and Budget

**ACKNOWLEDGEMENTS**

The following individuals also made noteworthy contributions to the Project:

*Office of Management and Budget:*  
Terrill Ramsey

*U.S. Dept. of Education:*  
Danny Jones, Marilyn Peck, George Rippey, and Bernard Tymes

*U.S. Dept. Of Health and Human Services:*  
Tammie Brown, Janet Fowler, and Brittanie Schmutzler

We also appreciate ideas provided by the following organizations during the planning and/or report preparation phases of the Project:

*American Institute of Certified Public Accountants  
National Association of State Boards of Accountancy  
National State Auditors Association  
U.S. Government Accountability Office*

Last, but not least, we appreciate the cooperation of the certified public accountants and governmental auditors whose audits were selected for review.

---

---

## TABLE OF CONTENTS

---

---

	<u>Page</u>
EXECUTIVE SUMMARY .....	1
BACKGROUND .....	6
PROJECT RESULTS.....	8
Part I – Assessment of Audit Quality.....	9
Part II – Types of Deficiencies Noted.....	16
Part III – Overall Conclusions and Recommendations.....	30
OTHER MATTERS .....	36
OBJECTIVES, SCOPE, AND METHODOLOGY .....	40
APPENDICES:	
A- Other Kinds of Deficiencies	
B- Cognizant and Oversight Agencies for Audits Reviewed in this Project	
C- Audit Quality by Type of Auditor	
D- Audit Quality by Type of Entity Audited	
E- Federal Agency and State Auditor Participants in National Single Audit Sampling Project	

---

---

## EXECUTIVE SUMMARY

---

---

### *Why We Did This Project*

Each year, the Federal Government spends billions of dollars on Federal awards to state and local government entities and non-profit organizations. To ensure that these monies are being used for their intended purpose, the Single Audit Act, as amended, requires each reporting entity that expends \$500,000 or more in Federal awards in a year to obtain an annual "single audit." The audit covers both the reporting entity's financial statements and Federal awards. On a selective basis, Federal agencies may conduct Quality Control Reviews (QCRs) of these single audits.

In June 2002, the Office of Management and Budget's (OMB) former Controller testified at a U.S. House of Representatives hearing about the importance of single audits and their quality. In his testimony, the OMB official referred to audit quality work performed by several Federal agencies that disclosed deficiencies. However, he said that the selection of audits for review was not statistically-based and that a statistically-based measure of audit quality was needed.

After meeting together, OMB and several Federal agencies decided to work together to develop a statistically-based measure of audit quality, known as the National Single Audit Sampling Project (Project). The State Auditor community was also invited to participate and three State Auditors contributed to the project.

The Project had two goals: (1) Determine the quality of single audits and establish a statistically-based measure of audit quality, and (2) Recommend changes in single audit requirements, standards and procedures to improve the quality of single audits.

### *What We Did*

We conducted QCRs of a statistical sample of 208 audits randomly selected from a universe of over 38,000 audits submitted and accepted for the period April 1, 2003 through March 31, 2004. The sample was split into two strata. Stratum I included audits of entities that expended \$50 million or more of Federal awards. Stratum II included audits of entities that expended at least \$500,000 of Federal awards, but less than \$50 million.

The universe of 852 large single audits (Stratum I) collectively reported total dollars of Federal awards five times more than reported in audits comprising the universe of the 37,671 other single audits (Stratum II). Because of this, we also analyzed the results by dollars of Federal awards associated with the 208 audits we reviewed. This analysis allowed us to determine the amount of Federal awards reported in the audits reviewed by audit quality categories.

The scope of the QCRs was limited to the audit work and reporting related to Federal awards. We did not review the audit work and reporting related to the general-purpose financial statements.

## *What We Found*

### *The Quality of Single Audits*

For the 208 audits drawn from the entire universe, the statistical sample showed that of the single audits we reviewed<sup>1</sup>:

- 115 were *acceptable* and thus could be relied upon. Based on this result, we estimate that 48.6% of the entire universe of single audits were acceptable. The 115 acceptable audits represented 92.9% of the Federal awards reported in all 208 audits we reviewed.
- 30 had significant deficiencies and thus were of *limited reliability*. Based on this result, we estimate that 16.0% of the entire universe of single audits were of limited reliability. The 30 audits of limited reliability represented 2.3% of the Federal awards reported in all 208 audits we reviewed.
- 63 were *unacceptable* and could not be relied upon. [Of these 63 audits, 9 had material reporting errors that resulted in the audits being considered unacceptable. The remaining 54 of the 63 unacceptable audits were substandard.] Based on this result, we estimate that 35.5% of the entire universe of single audits were unacceptable. The 63 unacceptable audits represented 4.8% of the Federal awards reported in all 208 audits we reviewed.

Based on *numbers of audits*, the results show significant percentages of unacceptable audits and audits of limited reliability. There is a noticeable difference in quality between the two strata, with a higher percentage of acceptable audits for the larger audits (Stratum I) and a higher percentage of unacceptable audits for Stratum II. These results are broken down by strata as shown below.

For the 96 audits reviewed for Stratum I, we concluded that:

- 61 (or an estimated 63.5% of all audits in the universe for Stratum I) were acceptable and thus could be relied upon. The 61 acceptable audits represent 93.2% of the Federal awards reported in the 96 Stratum I audits we reviewed.
- 12 (or an estimated 12.5% of all audits in the universe for Stratum I) had significant deficiencies and thus were of limited reliability. The 12 audits of limited reliability represent 2.2% of the Federal awards reported in the 96 Stratum I audits we reviewed.
- 23 (or an estimated 24.0% of all audits in the universe for Stratum I) were unacceptable and could not be relied upon. [Of these audits, 9 had material reporting errors that resulted in the audits being considered unacceptable. The remaining 14 of the unacceptable audits in Stratum I were substandard.] The 23 unacceptable audits represent 4.6% of the Federal awards reported in the 96 Stratum I audits we reviewed.

---

<sup>1</sup> The percentages indicated as estimates in this paragraph are point estimates of the quality of single audits based on the stratified sample results for the universe of all 38,523 single audits from which the stratified sample was drawn. Of the 38,523 audits in the entire universe, 37,671 were in Stratum II; consequently, the percentage estimates are significantly affected by the large number of audits in Stratum II. Because the percentage estimates for the entire universe are weighted based on the strata, they do not equal the percentage of sampled audits in each category. Also, due to rounding, these percentages do not add to exactly 100%.



For the 112 audits reviewed for Stratum II, we concluded that:

- 54 (or an estimated 48.2% of all audits in the universe for Stratum II) were acceptable and thus could be relied upon. The 54 acceptable audits represent 56.3% of the Federal awards reported in the 112 Stratum II audits we reviewed.
- 18 (or an estimated 16.1% of all audits in the universe for Stratum II) had significant deficiencies and thus were of limited reliability. The 18 audits of limited reliability represent 9.6% of the Federal awards reported in the 112 Stratum II audits we reviewed.
- 40 (or an estimated 35.7% of all audits in the universe for Stratum II) were unacceptable because they were substandard and could not be relied upon. The 40 unacceptable audits represent 34.1% of the Federal awards reported in the 112 Stratum II audits we reviewed. Seven of the 40 unacceptable and substandard audits also included material reporting errors.

These results indicate that single audits reporting large dollars of Federal awards are more likely to be of acceptable quality than other single audits.

### Types of Deficiencies

The most prevalent deficiencies include:

- Not documenting the understanding of internal controls over compliance requirements [27.1% of Stratum I and 57.1% of Stratum II; 56.5% overall];
- Not documenting testing internal controls of at least some compliance requirements [34.4% of Stratum I and 61.6% of Stratum II; 61.0% overall]; and
- Not documenting compliance testing of at least some compliance requirements [47.9% of Stratum I and 59.8% of Stratum II; 59.6% overall].

Though not occurring as frequently, one of the most consequential deficiencies was misreporting coverage of major programs. Specifically, we found that for 9 (9.4%) of the Stratum I audits and 7 (6.3 %) of the Stratum II audits, one or more major programs were incorrectly identified as having been audited as a major program. Though inadvertent, this is a very consequential error because report users may erroneously rely on opinions that major programs have been audited as major.

The number of audits in the acceptable group — including audits for which no deficiencies were noted — indicates that with the application of due professional care, proper single audits can be performed. For those audits not in the acceptable group, in our opinion, lack of due professional care was a factor for most deficiencies to some degree.

Part II of the “Results” section of this report fully describes the kinds of deficiencies disclosed in the QCRs and rates of occurrence.

### Testing and Sampling in Single Audits

As part of the Project, we also considered testing and sampling, which is presented in the “Other Matters” section of this report. 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.

Neither the law nor applicable auditing standards require minimum numbers of transactions be tested in single audits. They also do not specify how universes of transactions and selections of items for testing should be documented. However, we believe there should be uniformity in the approach for determining and documenting selections of transactions tested and the universes from which they are drawn.

### ***What We Recommend***

We recommend that OMB work with the American Institute of Certified Public Accountants (AICPA), the President’s Council on Integrity and Efficiency (PCIE), the Executive Council on Integrity and Efficiency (ECIE)<sup>2</sup>, and other parties, as appropriate, to address the deficiencies and other matters identified in this report and to implement our recommendations.

We are recommending a three-pronged approach to reduce the deficiencies noted and improve the quality of single audits:

- ***Revise and improve single audit standards, criteria and guidance*** - Revise and improve standards, criteria and guidance applicable to single audits to address deficiencies. The revisions should include specific documentation requirements as recommended in this report and include examples that illustrate proper documentation based on real compliance requirements and situations typically encountered when performing single audits. We also recommend that OMB and AICPA guidance be amended to require that compliance testing in single audits be performed using sampling in a manner prescribed by AICPA Statement on Auditing Standards No. 39, *Audit Sampling*, as amended. This will provide for some consistency in sample sizes.
- ***Establish minimum requirements for training on performing single audits*** - Require comprehensive training on performing single audits as a prerequisite for conducting single audits and continuing professional education that provides current information on single audits as a prerequisite for continuing to perform single audits. Specific content should be covered in the training.
- ***Review and enhance processes to address unacceptable single audits*** - Review the suspension and debarment process to identify whether (and if so, how) it can be more efficiently and effectively applied to address unacceptable audits, and based on that

---

<sup>2</sup> The PCIE is primarily composed of the Presidentially-appointed Inspectors General (IGs) and the ECIE is primarily composed of IGs appointed by agency heads.

review, pursue appropriate changes to the process. Enter into dialogue with the AICPA and State Boards of Accountancy to identify and implement ways to further the quality of single audits and address the due professional care issues noted in this Project. 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 continuing professional education requirements) and/or 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.

---

---

## BACKGROUND

---

---

The Single Audit Act Amendments of 1996 (Public Law 104-156, which amended the Single Audit Act of 1984, Public Law 98-502) [Act], establishes a requirement for annual audits of non-Federal recipients and subrecipients of Federal financial assistance grants and subgrants. The Act also gives the Director, OMB, the authority to prescribe guidance to implement the Act, and defines the responsibilities of Federal agencies with respect to single audits. Pursuant to that authority, OMB issued Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The Act and OMB Circular A-133 require that covered non-Federal entities<sup>3</sup> (i.e., auditees) that expend \$500,000 or more of Federal awards in a year shall have an annual single audit. This annual audit shall be conducted in accordance with generally accepted government auditing standards (GAGAS) published by the Comptroller General of the United States. Auditees procure their single audits from an auditor that is a public accountant or a Federal, State or local governmental auditor who meets the qualification requirements of GAGAS.

Under the Act and OMB Circular A-133, there is a Federal agency designated for each auditee required to have a single audit — the *Cognizant Agency for Audit* or *Oversight Agency for Audit*— to provide technical assistance and to fulfill other duties with respect to the single audit. Cognizant Agencies for Audit are designated for entities that expend more than \$50 million in a year in Federal awards. Their responsibilities include providing technical audit advice and liaison to auditees and auditors, obtaining or conducting QCRs of selected audits, and providing the results, when appropriate, to other interested organizations. For auditees that do not have a designated Cognizant Agency for Audit, Circular A-133 provides for identifying an Oversight Agency for Audit to provide technical advice to auditees and auditors upon request. In their capacity as a cognizant or an oversight agency for audit, on a selective basis, many Federal agencies conduct QCRs of single audits.

At a congressional hearing held on June 26, 2002, OMB's former Controller testified on audit quality review findings and subsequent actions taken by various Federal agencies. Among those findings and actions were:

- Multiple referrals of auditors to professional bodies by one large Federal agency for not properly selecting Federal programs to be tested in single audits;
- Findings by another agency that, in single audits, auditors did not perform adequate tests and, in some cases, gathered no evidence through tests of compliance requirements; and
- QCRs by another large agency found a high percentage of audits in which adequate testing had not been performed.

---

<sup>3</sup> Covered non-Federal entities are State, local government, or non-profit organizations, and other entities as defined in OMB Circular A-133§.105, Definitions: Non-Federal Entity and related definitions.

The former OMB Controller testified that, because audits selected for QCRs are not statistically-based, he did not know whether these kinds of problems significantly diminished Federal grant-making agencies' ability to rely on single audits. He stated that an accurate measure of audit quality was needed and that it needed to be statistically-based.<sup>4</sup>

After his testimony, several cognizant and oversight agencies, including members of the PCIE, expressed interest in assessing the quality of single audits using statistical methods. They met with OMB and other interested organizations and decided to conduct the Project.

The Project was conducted by performing QCRs of a stratified statistical sample of 208 single audits. It was conducted under the auspices of the PCIE's Audit Committee. PCIE members with a stake in the single audit process participated in the planning, management and/or conduct of the Project. A member of the ECIE also participated. The National State Auditors Association was invited to designate three State Auditors to participate in project planning and to conduct some QCRs. The U.S. Department of Education, Office of Inspector General, agreed to administer the project, provide the Chair of the Project's Advisory Board and the Director of the Project Management Staff, and issue the report. Appendix E lists the PCIE and ECIE member organizations and State Auditors who participated in the Project.

The objectives, methodology and scope are fully described in the last section of this report.

---

<sup>4</sup> Testimony of Mark W. Everson, (then) OMB Controller, at a hearing of the House Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations.

---

---

## PROJECT RESULTS

---

---

For the National Single Audit Sampling Project (the Project) we performed QCRs of 208 single audits randomly selected from a stratified universe of all single audits accepted by the Federal Audit Clearinghouse (FAC) for the one-year period April 1, 2003, through March 31, 2004. The scope of the QCRs covered the fieldwork and reporting relating to internal control over compliance and compliance with laws and regulations for selected major Federal programs. The scope also included reviewing audit work performed on the Schedule of Expenditure of Federal Awards (SEFA) and the content of all of the auditor's reports.

The Project QCRs did not review the content of, or the audit work performed on, the general-purpose financial statements, the correctness of the auditor's opinion on those statements, or the auditors' consideration of internal control over financial reporting.

We present the results in three parts: (I) Assessment of Audit Quality; (II) Types of Deficiencies Noted; and (III) Overall Conclusions and Recommendations. Part I presents our conclusions about the quality of the audits we reviewed and provides a statistically reliable estimate of the extent that single audits conform to applicable requirements, standards and procedures. We also analyzed the results by the dollars of Federal awards reported in the 208 audits we reviewed. Part II describes the deficiencies found and estimates the rate of occurrence of deficiencies by stratum (where possible given the sampling methodology). It also includes recommendations for revising specific requirements, standards and guidance to address deficiencies noted. Part III presents our conclusions and fully describes our recommended three-pronged approach to address the deficiencies disclosed by this Project and improve audit quality.

## Part I – Assessment of Audit Quality

We divided the universe of audits into two strata: Stratum I for the largest single audits (i.e., audits covering \$50 million or more of total Federal expenditures), and Stratum II for other single audits (i.e., audits covering \$500,000 up to \$50 million of total Federal expenditures). To determine the quality of single audits, we then used statistical sampling methods to estimate audit quality percentages for the universe and for each of the two strata. We also analyzed the results by the dollars of Federal awards reported in the 208 audits we reviewed.

The results show a noticeable difference in the quality between the two strata with a higher percentage of acceptable audits for Stratum I (the larger audits) and a higher percentage of unacceptable audits for Stratum II (the other audits). Both strata, however, include unacceptable audits and audits of limited reliability.

We categorized the results of each QCR into three groups and five categories:

<b>Group:</b>	<b>Category:</b>
Acceptable	Acceptable (AC) Accepted with Deficiencies (AD)
Limited Reliability	Significant Deficiencies (SD)
Unacceptable	Material Reporting Errors (MRE) Substandard (SU)

Whether an audit was deemed acceptable, of limited reliability or unacceptable, and in which category, was a judgment we made based on the severity of the deficiencies. This determination was made based on review of the original audit documentation and the auditor's formal response to the deficiencies identified.

To determine the quality of single audits, we used statistical sampling to estimate audit quality by percentages for the universe and for each of the two strata. Within each stratum, each audit had an equal chance of being selected for review and, in projecting the results, each audit was given equal weight. Results are presented based on this approach, with estimates of *percentages of audits* in the audit quality groupings and categories.

We noted significant differences in audit quality between Stratum I and Stratum II. To assess the effect of our results, we analyzed the results of the QCRs in relation to the dollar amounts of Federal awards covered in the audits that we reviewed. This analysis is presented following our presentation of the statistical estimates.

## Statistical Estimates of Audit Quality

By stratum and grouping, our analysis shows single audit quality to be as follows based on number of audits:

Table I – Audit Quality by Groupings with Statistical Estimates of Audit Quality Based on Numbers of Audits

Stratum	ACCEPTABLE		LIMITED RELIABILITY		UNACCEPTABLE		In Sample	In Universe
	In	Point	In	Point	In	Point		
	Sample	Estimate*	Sample	Estimate*	Sample	Estimate*		
I – Large	61	63.5%	12	12.5%	23	24.0%	96	852
II – All Other	54	48.2%	18	16.1%	40	35.7%	112	37,671
Total**	115	48.6%	30	16.0%	63	35.5%	208	38,523

\* At the 90% confidence level, the margins of error range between ±5.3 and 7.8 percentage points.  
 \*\* The 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%.

By number of audits, the following table summarizes the results of all 208 QCRs in the sample within groupings by category:

Table II – Audit Quality Within Groupings by Category with Statistical Estimates of Audit Quality Based on Numbers of Audits

Category	ACCEPTABLE				LIMITED RELIABILITY		UNACCEPTABLE				In Sample	In Universe
	Acceptable		Accepted With Deficiencies		Significant Deficiencies		Material Reporting Errors		Substandard			
	In	Point	In	Point	In	Point	In	Point	In	Point		
Stratum	Sample	Estimate*	Sample	Estimate*	Sample	Estimate*	Sample	Estimate*	Sample	Estimate*		
I – Large	16	16.7%	45	46.9%	12	12.5%	9	9.4%	14	14.6%	96	852
II – All Other	23	20.5%	31	27.7%	18	16.1%	0	0.0%	40	35.7%	112	37,671
Total**	39	20.5%	76	28.1%	30	16.0%	9	0.2%	54	35.2%	208	38,523

\* At the 90% confidence level, the margins of error range between ±2.1 and 7.9 percentage points.  
 \*\* The 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.

### Analysis of Results of Project QCRs by Dollars of Federal Awards Reported in the Audits Reviewed

For the audits in our sample, we also analyzed the results in relation to the dollar amounts of Federal awards reported in the audits. This analysis shows that for the 208 audits we reviewed, audits covering large dollar amounts of Federal awards (Stratum I) were significantly more likely to be acceptable than other audits (Stratum II). The following Table summarizes this analysis:



Table III – Distribution of Dollars of Federal Awards Reported in the Audits Reviewed in the Project by Audit Quality Groupings

Stratum	ACCEPTABLE	LIMITED RELIABILITY	UNACCEPTABLE	Total
I – Large	\$52,911,305,271 (93.2%)	\$1,270,684,096(2.2%)	\$2,621,245,403(4.6%)	\$56,803,234,770 (100%)
II – All Other	\$232,047,485 (56.3%)	\$39,690,326(9.6%)	\$140,497,532(34.1%)	\$412,235,343(100%)
Both Strata	\$53,143,352,756 (92.9%)	\$1,310,374,422(2.3%)	\$2,761,742,935 (4.8%)	\$57,215,470,113(100%)

### Acceptable Audits

Sixty-three and one-half percent (63.5%) of Stratum I single audits and 48.2% of Stratum II single audits we reviewed were found to be in the acceptable group. We estimate those percentages of audits in the acceptable group for the universes of the individual strata. Based on our entire sample of both strata, we estimate that 48.6% of all audits in both strata combined were in the acceptable group. [Of the 38,523 audits in the entire universe, 37,671 were in Stratum II; consequently, percentage estimates for the entire universe are significantly weighted by the large number of audits in Stratum II.]

With respect to dollars of Federal awards reported in the audits we reviewed, our analysis showed that 93.2% of the Federal awards reported in all 96 Stratum I audits we reviewed were reported in acceptable single audits. Fifty-six and three-tenths percent (56.3%) of the Federal awards reported in all 112 Stratum II audits were reported in acceptable single audits. Ninety-two and nine-tenths percent (92.9%) of the Federal awards reported in all 208 audits in both strata combined were reported in acceptable single audits.

#### What audits fall into the Acceptable Group?

The acceptable group of audits includes audits that fall into two categories: *acceptable* and *acceptable with deficiencies*, as described below:

*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.

AD classifications were made when, collectively, the deficiencies were deemed to have limited effect on the reported results in that they did not call into question the correctness of auditor’s opinions or reports. This determination was based on an assessment of the severity of the deficiencies for the audit. Examples of the kinds of deficiencies typical for QCRs classified as AD include:

- Not including all required information in audit findings;

- Not documenting the auditor's understanding of the five components of internal controls, however, testing of internal controls was documented for most applicable compliance requirements; and
- Not documenting performance of internal control testing or compliance testing for a few applicable compliance requirements.

OMB Circular A-133 sets forth many requirements and procedures that are in addition to, and different from, those applied in an audit of financial statements only. Conducting a proper single audit requires a significant degree of specialized knowledge, which must be carefully applied. Because of the complexity of single audits, minor deficiencies are not unexpected.

### **Audits of Limited Reliability - Significant Deficiencies**

Twelve and one-half percent (12.5%) of Stratum I single audits and 16.1% of Stratum II single audits we reviewed were found to have significant deficiencies, and we estimate those percentages of audits with such deficiencies for the universes of the individual strata. Such audits involve deficiencies with applicable auditing criteria that require corrective action to afford unquestioned reliance upon the entire audit. We considered these audits to be of limited reliability. Based on our sample, we estimate that 16.0% of all audits in both strata combined were in the group of audits of limited reliability.

With respect to dollars of Federal awards reported in the audits we reviewed, our analysis showed that 2.2% of the Federal awards reported in all 96 Stratum I audits we reviewed were reported in single audits of limited reliability. Nine and six-tenths percent (9.6%) of the Federal awards reported in all 112 Stratum II audits were reported in single audits of limited reliability. Two and three-tenths percent (2.3%) of the Federal awards reported in all 208 audits in both strata combined were reported in single audits of limited reliability.

#### *What audits fall into the Group of Audits of Limited Reliability?*

Audits in this group are audits categorized as having significant deficiencies, as defined below:

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

SD classifications were made when multiple deficiencies were noted that, collectively, were deemed to have substantial effect on some of the reported results and, if unresolved, raise questions about the correctness of part of the auditor's opinions or reports. This determination was based on an assessment of the severity of the deficiencies for the audit. Examples of the kinds of deficiencies typical for QCRs classified SD include:

- Audit documentation did not contain adequate evidence of the auditor's understanding of the five elements of internal control and testing of internal controls for many or all applicable compliance requirements; however, documentation did contain evidence that most required compliance testing was performed;

- Audit documentation did not contain evidence of internal control testing and/or compliance testing for more than a few compliance requirements, or did not explain why they were not applicable for the auditee;
- Audit documentation did not contain evidence that audit work relating to the SEFA was adequately performed; and
- Audit documentation did not contain evidence that audit programs were used for auditing internal controls, compliance and/or the SEFA.

### **Unacceptable Audits**

Twenty-four percent (24.0%) of Stratum I single audits and 35.7% of Stratum II single audits we reviewed were found to be in the unacceptable group, and we estimate those percentages of audits in the unacceptable group for the universes of the individual strata. Based on our sample, we estimate that 35.5% of all audits in both strata combined were in the unacceptable group.

With respect to dollars of Federal awards reported in the audits we reviewed, our analysis showed that 4.6% of the Federal awards reported in all 96 Stratum I audits we reviewed were reported in unacceptable single audits. Thirty-four and one-tenth percent (34.1%) of the Federal awards reported in all 112 Stratum II audits were reported in unacceptable single audits. Four and eight-tenths percent (4.8%) of the Federal awards reported in all 208 audits in both strata combined were reported in unacceptable single audits.

#### *What audits fall into the Unacceptable Group?*

Audits in the unacceptable grouping include two categories: *Substandard Audits* and audits with *Material Reporting Errors*.

#### *Substandard Audits*

Audits categorized as substandard (SU) were those audits found with deficiencies so serious that the auditor's opinion on at least one major program cannot be relied upon.

Fourteen and six-tenths percent (14.6%) of Stratum I single audits we reviewed were substandard, whereas 35.7% of Stratum II single audits we reviewed were substandard. We estimate those same percentages of substandard audits for the universes of the individual strata. Based on our sample, we estimate that 35.2% of all audits in both strata combined were in the substandard category.

All audits categorized substandard were so categorized because audit documentation did not contain evidence that work was performed to support the auditor's opinion on compliance for one or more major programs and there were very serious departures from the requirements of OMB Circular A-133. SU classifications were made when multiple deficiencies were noted that collectively indicate that the auditor's report on compliance cannot be relied upon. This determination was based on an assessment of the severity of the deficiencies for the audit. Examples of the kinds of deficiencies typical for QCRs classified SU include:

- Audit documentation did not contain evidence of internal control testing and compliance testing for all or most compliance requirements for one or more major programs;
- Unreported audit findings; and
- At least one major program incorrectly identified as a major program in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs (plus other significant deficiencies).

#### *Audits with Material Reporting Errors (MRE)*

We noted nine (9.4%) of Stratum I audits were deemed unacceptable because of a material reporting error. There were no (0.0%) such audits in Stratum II, and we estimate those percentages of audits in the MRE category for the universes of the individual strata. Based on our sample, we estimate that 0.2% of all audits in both strata combined to be in the MRE category.

Audits were categorized in the MRE category when 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.

For eight of these nine audits, 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. As a result, the auditor's reports on compliance included an opinion on compliance for at least one major program that was not audited. The error occurred as a result of a mistaken identification of one or more programs as a major program because of what appeared to be inadvertent careless mistakes. Though inadvertent, such errors are serious because users may rely on the audit report and the auditor's opinion on a program, when in fact, the program has not been audited as a major program. For one of the nine audits, the required opinion on the SEFA was omitted.

#### **Conclusions**

These results indicate that there are audit quality problems that need to be addressed in both strata. The results also indicate that there is a noticeable difference in audit quality between the two strata, with a higher percentage of acceptable audits for the larger audits (Stratum I) and a higher percentage of unacceptable audits for the other audits (Stratum II).

For the sample of single audits we reviewed, audits reporting large dollar amounts of Federal awards (Stratum I audits) were significantly more likely to be of acceptable quality than other

single audits. A very high percentage of the Federal awards reported in our sample of Stratum I was in the acceptable audit category.

The following sections of this report describes the deficiencies we noted and present our recommendations to address them.

\*\*\*\*\*

### **Additional Information**

#### *Cognizant and Oversight Agencies for Audits Reviewed in this Project*

As noted in the “Background” section of this report, there is a Federal agency designated for each auditee required to have a single audit—the *Cognizant Agency for Audit* or *Oversight Agency for Audit*—to provide technical assistance and to fulfill other duties with respect to the single audit. Designated Cognizant Agencies for Audit have the responsibility to obtain and conduct QCRs of selected audits and provide the results, when appropriate, to other interested organizations. Oversight Agencies for Audit may or may not assume these responsibilities.

Given the role of Cognizant or Oversight Agencies for Audit, we are including Appendix B, which summarizes our audit quality assessments by the assigned Cognizant or Oversight Agencies for Audit.

We did not review quality control review activities by Cognizant or Oversight Agencies for Audit and this information in no way indicates or infers culpability for deficiencies by the Cognizant or Oversight Agency for Audit. The information is presented to identify those agencies that are responsible under A-133 for oversight of audit quality for the single audits selected for review in this Project.

#### *Audit Quality by Type of Auditor [Certified Public Accountant (CPA), Governmental or Joint] and Type of Entity Audited*

For information purposes, we also present summaries of audit quality results by type of auditor: CPA Firm, Governmental or Joint (Appendix C) and type of entity audited (Appendix D).

\*\*\*\*\*

Given the sampling methodology we used, we make no projections for the information presented in Appendices B, C and D.

## Part II – Types of Deficiencies Noted

### Introduction

This part of the report describes the deficiencies noted and their frequency among all the audits reviewed and in each of the two strata. We also indicate percentage estimates of the rates of occurrence of these deficiencies within the universes of the individual strata and for all audits.

In presenting the deficiencies below, we discuss causes identified by the auditors and causes that, in our opinion, contributed to the deficiencies. Recommendations are presented to address the causes attributed by the auditors and us.

As a preface to presenting the deficiencies, it is important to note that documenting audit work is a fundamental and essential requirement for an audit. *Government Auditing Standards* (GAS), which is applicable for all single audits, includes the following requirement:

“Working papers should contain...documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records...” [GAS (1994 revision), ¶ 4.37]

This part of GAS articulates an essential requirement that audit work must be documented, including identifying transactions and records examined, conclusions and judgments. In conducting QCRs, audit work was evaluated based on this GAS requirement. Therefore, if the audit documentation did not contain documentary evidence that the work was performed, we concluded the audit record did not support that it was performed. Some auditors asserted that the work was performed though not documented. That could be, but in the absence of audit documentation for audit work, the support required by GAS is missing.

Another fundamental requirement is the standard for due professional care. This standard is:

“Due professional care should be used in conducting the audit and in preparing related reports.” [GAS (1994 Revision), ¶ 3.26]

GAS goes on to say:

“Exercising due professional care means using sound judgment in establishing scope, selecting methodology, and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting the tests and procedures and in evaluating and reporting the audit results.” [GAS (1994 Revision), ¶ 3.28]

In the remainder of this part, we describe the kinds of deficiencies we noted in the QCRs, first describing those that we considered most significant because of their effect on the audit, frequency of occurrence, and/or susceptibility to being remedied by improving audit standards, requirements and/or audit guidance.

## 1. Misreporting of Audit Coverage of Major Federal Programs

There were 16 of 208 audits reviewed — 9 (9.4%) in Stratum I; 7 (6.3%) in Stratum II — for which one or more of the major programs selected for review in the QCR were incorrectly identified in the Summary of Auditor’s Results section of the Schedule of Findings and Questioned Costs (SFQC) as having been audited as a major program. Based on our sample, we estimate that this problem occurred in 6.3% of all audits in both strata combined.

OMB Circular A-133 §.505(d)(1)(vii) provides that major programs are identified in the Summary of Auditor’s Results section of the SFQC. The AICPA Audit Guides applicable to single audits<sup>5</sup> require that the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133* identify major programs by referring to the SFQC. Therefore, by incorrectly identifying a program as major in the Summary of Auditor’s Results section of the SFQC, the auditor erroneously expresses a compliance opinion on a program that was not audited. Consequently, report users, e.g., Federal or pass-through agency (e.g., State government) officials, may inappropriately rely on the erroneous information to conclude that the auditing procedures applied to major programs were performed.

For example, the single audit for a large local education agency reported that the “Title I Grants to Local Education Agencies” program (CFDA No. 84.010), with reported expenditures of over \$26 million, was audited as a major program. Likewise, at a large public housing agency, the more than \$5 million Public and Indian Housing Program was reported to have been audited as a major program. Neither program, however, was audited as a major program. Consequently, readers of these audits were misled that the auditor tested compliance requirements for the misreported programs. Such an error could have affected how programs were administered, if Federal agencies and pass-through entities relied on the erroneous auditors’ opinions when deciding the level of oversight and monitoring to provide the affected grantee.

Auditors indicated that these were inadvertent errors. We believe the auditors did not exercise due professional care to ensure that the identification of major programs was correct. We also believe that identifying major programs by placing them in the Summary of Auditor’s Results section of the SFQC, rather than in the report containing the opinion itself, diminishes the importance of the information, which could contribute to lack of attention to its correctness.

### Recommendation

- To emphasize the importance of correctly identifying major programs for which opinions on compliance are rendered, we recommend that OMB Circular A-133, SAS No. 74,

---

<sup>5</sup> In May 2003, the AICPA published an Audit Guide, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*. Throughout this report, this guide is referred to as the “2003 AICPA Audit Guide.” It superseded Statement of Position (SOP) 98-3, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*. As it relates to the issues in this report, the content of the AICPA Audit Guide was the same as SOP 98-3. In this report, reference to that content is identified as “2003 AICPA Audit Guide”. As of the date of issuance of this report, the most current pertinent audit guide is the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*, published in May 2006. We refer to this May 2006 version as the “Current AICPA Audit Guide.” We refer to both of these audit guides as the “AICPA Audit Guides.”

*Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, and the current AICPA Audit Guide be revised to require that major programs be identified in the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*, rather than in the Summary of Auditor's Result section of the SFQC.

## **2. Unreported Audit Findings**

For 22 of the 208 audits we reviewed, 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. We cannot estimate a rate of occurrence because audit findings do not necessarily exist for all of the audits that we reviewed. [An auditee that employs proper accounting, effective internal controls and properly administers their Federal programs will not have audit findings.] However, the number of occurrences we noted demonstrates that this condition exists to a significant extent.

OMB Circular A-133 §.510 describes the kinds of audit findings that the auditor shall report. If the audit work indicates these kinds of audit findings exist, they should be reported. If the auditor concludes that a matter that could appear to be a reportable finding is not, the auditor should document that conclusion.

The following are examples of conditions (documented in a management letter or audit documentation) that on their face, should have been reported but were not or the audit documentation should have included the reasons why the conditions should not have been reported.

### *Example 1*

Exceptions identified during the auditor's compliance testing were not reported as audit findings. The auditor explained to the reviewer that these exceptions were isolated instances, but this conclusion or the basis for it was not documented in the audit documentation.

### *Example 2*

In a management letter, the auditor stated that some required items were missing in 13 (5.7%) of 225 participant files tested. The items were needed to establish that participants were properly selected and subsidies were correct. Given that the entity expended more than \$200 million of Federal awards<sup>6</sup> to serve the population of participants, it is very likely that questioned costs resulting from the problem could exceed \$10,000. In response to our finding, the auditor disagreed that a finding was required. In the audit documentation, the auditor stated:

“Note: Discussed the findings with client. All issues were resolved by them and hence no findings.”

---

<sup>6</sup> Per the Schedule of Expenditures of Federal Awards



However, the auditor reported the matter in a management letter.

### *Example 3*

In the audit of a large public housing agency, a management letter noted that the auditee recorded adjustments to remove approximately \$6.6 million for unknown variances in its property ledgers and approximately \$175,000 of materials inventory. In reviewing the minutes, the auditor noted that the Board was not made aware of these adjustments, or did not formally approve of them. This was reported in the management letter but not in the single audit report. Also, in the prior audit report, there was a finding that the auditee had not taken the required physical inventory and that there were unknown variances related to property ledgers. This finding was identified in the prior report as both a financial statement finding and Federal award-related finding. The management letter states that the inventory process is not formal and complete, however, a finding was not reported in the audit report. We concluded that the matter of the large unknown variances that were written off and the inventory process not being complete should have been reported as a reportable condition and material weakness in the report. The auditor disagreed and, in response to our finding, the auditor asserted that determining how to classify a finding (i.e., as a reportable condition, material weakness, or management comment) is up to the auditor based on his professional judgment. He stated that there is no quantitative amount, no right or wrong answer, in determining what is a reportable condition or material weakness as long as the auditor's judgment is documented.

These examples illustrate the need to enhance OMB Circular A-133 and AICPA audit guidance for reporting audit findings. Single audits involve auditing the expenditures of public funds. Assurance is needed that findings of improper expenditures, improperly accounting for such funds, not complying with material major program compliance requirements, and other reportable conditions are reported as required. GAS (1994 Revision), ¶ 4.35, requires that working papers contain evidence that supports the auditor's significant conclusions and judgments.

In our opinion, when an auditor decides not to report documented exceptions, the audit documentation should disclose the reasons and basis for that decision, including addressing why it does not meet the reporting requirements in OMB Circular A-133 for audit findings. We believe the examples cited above should have been reported or the reasons for not reporting the conditions documented as noted below.

For the audit described in Example 1, the auditor may have validly concluded the matter did not need to be reported but the basis for the conclusion that it was an isolated instance should have been documented.

We believe that the situation described in Example 2 clearly demonstrates that a finding should have been reported. If AICPA audit guidance was strengthened, that conclusion could be clearer. Example 2 involves information missing from files supporting participant eligibility for Federal assistance. It is possible that an invalid determination was made that the participant was eligible for the assistance, i.e., "questioned costs."

Circular A-133 §.105 defines questioned costs to include “where the costs, at the time of the audit, are not supported by adequate documentation.” It appears that the auditor did not consider the questioned costs implications of the missing information. Furthermore, among the kinds of findings that must be reported under Circular A-133 §.510 are the reporting of known questioned costs when “likely questioned costs” are greater than \$10,000. However, OMB Circular A-133 and the AICPA Audit Guides do not include guidance for calculating likely questioned costs.

Example 3 did not involve misexpenditure of Federal awards. It did, however, involve an accounting adjustment to remove approximately \$6.6 million for *unknown variances* in its property ledgers and approximately \$175,000 of materials inventory at a public housing agency that (except for rental income) derives most of its revenues from Federal funds.

The auditor explained his decision not to include this as a reportable condition, asserting that determining whether a condition is a reportable condition is a matter of the auditor’s discretion. OMB Circular A-133 §.510, *Audit Findings*, addresses in significant detail requirements for reporting findings on Federal awards but does not cover matters such as illustrated in Example 3. Rather, such matters fall within the purview of OMB Circular A-133 §.505(d)(2), which requires including “findings relating to the financial statements which are required to be reported in accordance with GAGAS.” When findings that should be reported are not, audit resolution action will not occur and the non-compliance may not be corrected.

From auditor comments such as those discussed above, we conclude that the cause of this problem is a lack of auditor understanding, or acceptance, of the requirements on reporting findings. We also believe that lack of specificity in Circular A-133 and AICPA audit guidance on how to calculate “likely questioned costs” may contribute to some findings not being reported. Hence, there is a need for OMB Circular A-133 and the current AICPA Audit Guide to be revised to further clarify when findings must be reported.

### Recommendations

- OMB Circular A-133 and the current AICPA Audit Guide should be revised to make it clear when audit findings must be reported. Provisions should be included to clarify “likely questioned costs,” including example approaches for calculating likely questioned costs.
- To ensure that uncertainty as to whether findings should be reported is resolved in favor of disclosure, the following should be added as the last line of OMB Circular A-133, Audit findings reported; §.510(a): “If upon applying the preceding factors there is any uncertainty as to whether a matter should be reported, it must be reported.”

### 3. Compliance Testing Not Documented as Performed or Not Applicable

In many audits, we found that the audit documentation did not include evidence that the auditor tested major program compliance requirements or explain why certain generally applicable requirements identified in the OMB Compliance Supplement were not applicable to the audit. To varying degrees, this problem was found for 46 (47.9%) of the single audits reviewed in

Stratum I, and 67 (59.8%) of single audits reviewed in Stratum II. Based on our sample, we estimate that this problem occurred in 59.6% of all audits in both strata combined.

As discussed in Part I, when determining how to classify the audits by quality, we considered the severity of the deficiencies. For most audits considered substandard, the lack of documentary evidence for compliance testing was substantial. In these cases, audit documentation was lacking for all or most applicable compliance requirements pertaining to one or more major programs. Of the 14 Stratum I audits categorized as substandard, this was a problem for 12 audits. Of the 40 audits in Stratum II categorized as substandard, this was a problem for 36 audits. For 34 audits in Stratum I and 31 audits in Stratum II not categorized as substandard, the problem also existed but to a lesser degree. In these cases, some compliance requirements were not documented as having been tested or documentation to support why the requirements were not applicable was lacking, but for a fewer number of compliance requirements.

In some cases, the auditor documented that types of compliance requirements identified as generally applicable to the major program per the Part 2 matrix of the OMB Compliance Supplement were not applicable (e.g., by only marking “N/A” next to the item in an audit program) but did not explain why. GAS (1994 Revision), ¶4.35, requires that working papers contain evidence that supports the auditor’s significant conclusions and judgments. We believe determining that a requirement identified in the OMB Compliance Supplement as generally applicable for a major program is “not applicable” is a significant conclusion of judgment that warrants documentation.

When a program is not included in the OMB Compliance Supplement, the auditor must apply the procedures in Part 7 of the supplement to identify applicable compliance requirements. For these programs, the QCR determined whether the audit documentation included evidence that the Part 7 procedures were properly applied to identify compliance requirements that should be tested. Those audits that did not identify which compliance requirements to test are included in the error rates reported for this deficiency.

OMB Circular A-133 §.500 requires testing of internal control to support a low level of control risk and compliance testing. GAS (1994 Revision), ¶ 4.37, requires that “working papers should contain...documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records...”

Most auditors did not comment on a reason for this deficiency. Some practitioners explained that they did not perform audit procedures on the cash management compliance requirement based on content of “other auditing publications” (as referred to in AICPA Professional Standards AU §150.08), including training materials, audit programs and checklists published by a commercial provider. The scope of our project did not include assessing such publications. Auditors are responsible for adherence to pertinent requirements for OMB Circular A-133 audits.

Some auditors explained that they did not perform audit procedures on compliance requirements based on using program-specific audit guides published by for-profit entities, which are not covered under the scope of OMB Circular A-133. At least one auditor used supplemental audit guidance issued by a State pass-through entity that covered audit procedures from the State’s

perspective but did not cover all compliance requirements identified in the OMB Compliance Supplement.

From their responses, it appears that some auditors concluded that documenting why a compliance requirement is not applicable was not required based on guidance provided in Part 2 of the OMB Compliance Supplement. It states that an auditor may apply professional judgment when determining if compliance requirements applicable for Federal programs need to be tested at a particular entity. Neither OMB Circular A-133 nor the AICPA Audit Guides addresses the kind of documentation an auditor should create to document such professional judgment.

In all cases involving this deficiency, we believe the auditor did not exercise due professional care. We also believe that implementing the first recommendation described below would clarify the auditor's responsibility to document conclusions that compliance requirements are not applicable and should not be tested. Also, including additional programs in the compliance supplement that are covered relatively frequently in single audits would reduce the need for auditors to apply Part 7 of the OMB Compliance Supplement, and would foster uniform appropriate coverage of compliance requirements for those programs.

#### **Recommendations**

- OMB Circular A-133, SAS No. 74, the current AICPA Audit Guide and the OMB Compliance Supplement should be revised to clearly explain that for the types of compliance requirements indicated in the OMB Compliance Supplement Part 2 Matrix to be applicable for a Federal program, the auditor must document performance of compliance testing. An exception exists when the auditor concludes that a compliance requirement is not applicable for the specific audit. In such cases, the auditor must document why such exception applies. The current AICPA Audit Guide should also be revised to include illustrative examples of such documented explanations.
- OMB should expand the OMB Compliance Supplement to include programs known<sup>7</sup> to be frequently audited as major programs. The OMB Compliance Supplement is available at no cost on the internet rather than via purchase of a printed version. This should eliminate concerns that it will become too large if more programs are added.

#### **4. Deficiencies in Understanding and Testing of Internal Control Over Compliance**

Review and testing of internal controls over major program compliance are integral parts of a single audit.

##### **Obtaining Understanding of Internal Controls**

OMB Circular A-133 §.500(c) requires that the auditor perform procedures to obtain an understanding of internal control over compliance for Federal programs sufficient to plan the audit to support a low assessed level of control risk and to perform testing of internal controls.

---

<sup>7</sup> Such a determination can be made from data relating to major programs covered in single audits processed by the Federal Audit Clearinghouse.

The AICPA's audit guidance for single audits<sup>8</sup> explains that the auditor should perform procedures to provide sufficient knowledge of both the design of the relevant controls pertaining to each of the five internal control components (i.e., control environment, risk assessment, control activities, information and communication, and monitoring), and whether they have been placed in operation.

We found that in many single audits, auditors are not documenting their 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. We found this was the case for 26 (27.1%) of the single audits reviewed in Stratum I and 64 (57.1%) of the single audits reviewed in Stratum II. Based on our sample, we estimate that this problem occurred in 56.5% of all audits in both strata combined.

### **Testing of Internal Control**

OMB Circular A-133 §.500(c)(2) provides that, generally, the auditor shall plan the testing of internal control over major programs to support a low level of assessed control risk for the assertions relevant to the compliance requirements for each major program, and perform that testing as planned.

We found that in many single audits, the auditors did not document that they tested internal controls over compliance as required by A-133 §.500(c)(2). We found this to be the case for 33 (34.4%) of the single audits reviewed in Stratum I and 69 (61.6%) of the single audits reviewed in Stratum II. Based on our sample, we estimate that this problem occurred in 61.0% of all audits in both strata combined.

OMB Circular A-133 sets forth requirements for internal controls, and the AICPA Audit Guides devote an entire chapter to these requirements. The current AICPA Audit Guide, Chapter 10, provides substantial guidance on internal control over compliance for major programs and covers the topic in the same manner as the AICPA guidance that was in effect when the audits reviewed in the Project were conducted.<sup>9</sup> While the chapter includes good guidance, it does not include examples for documenting internal control review in the context of single audits. Such examples could be very helpful in addressing the kinds of deficiencies we noted.

Internal controls are very important in the administration of Federal programs and reviewing internal controls over compliance is a core requirement for performing and reporting on single audits. Internal controls relating to compliance requirements provide the means to prevent violations of regulations and program requirements. For example, implementing good internal control, such as approvals of expenditures by auditee officials knowledgeable about program rules and requirements for allowable costs, can prevent improper payments. Audit review and testing of internal controls may discern if such controls were established and functioning. If they were not, audit recommendations to address the matter may prevent improper payments.

The results of our QCRs indicate a need for practical guidance that illustrates how understanding and testing internal control should be properly documented.

---

<sup>8</sup> 2003 AICPA Audit Guide, ¶8.10 (¶10.10 of the 2006 current Audit Guide)

<sup>9</sup> At the time of our reviews, Statement of Position (SOP 98-3) and the May 2003 Audit Guide were applicable.

**Recommendation:**

- SAS No. 74 and the current AICPA Audit Guide should be revised to better describe the minimum audit documentation required to document the auditor's understanding of, and testing of, internal controls related to compliance by including examples for such documentation. The examples should illustrate proper documentation based on real compliance requirements presented in the OMB Compliance Supplement, including Special Tests and Provisions.

**5. Deficiencies in Risk Assessments as Part of Major Program Determination**

Though multiple Federal programs are administered by an auditee, single audits do not necessarily cover all of them. For auditees administering multiple Federal programs, OMB Circular A-133 sets forth a multi-step process for selecting certain programs that will be covered as "major programs."

A very important part of the multi-step process is a requirement that the Federal programs, for which the largest amount of expenditures were made (called "Type A" programs), be subjected to a risk analysis. Depending on the array of Federal program expenditures at an auditee and the risk analyses for Type A programs, programs with smaller amounts of expenditures ("Type B" programs) may also have to be subjected to risk analysis.<sup>10</sup>

We found the following kinds of deficiencies in risk assessments of programs:

- 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.

We found these kinds of deficiencies to have occurred for 13 (13.5%) of the single audits reviewed in Stratum I and 28 (25.0%) of the single audits reviewed in Stratum II. Based on our sample, we estimate that this problem occurred in 24.7% of all audits in both strata combined.

GAS (1994 Revision), ¶4.37, requires that "working papers should contain...documentation of the work performed to support significant conclusions and judgments..." The auditor's assessment of risk for a program is a significant auditor judgment that should be documented. Without documentation of the program risk assessments there is a lack of evidence that major programs have been properly selected. Some entities may administer a large number of Federal programs. A proper risk analysis process ensures that designated major programs are ones for

---

<sup>10</sup> The risk analyses must be conducted per procedures set forth in OMB Circular A-133 §.520 and criteria for program risk set forth in A-133 §.525.

which there are indications that they are most in need of audit coverage as major programs, for example, by virtue of having had problems reported in recent audits and program monitoring.

Auditors did not comment on the causes for not documenting program risk assessments. In these cases, we believe the auditors did not exercise due professional care documenting their audit work. AICPA audit guidance extensively explains how to determine a major program and to assess risk. Chapter 9 of the current AICPA Audit Guide is consistent with AICPA guidance that was applicable at the time the audits reviewed in the Project were performed. That guidance, however, does not include examples of documented risk assessments for individual Federal programs. Good examples for documenting risk assessments of Federal programs in the context of single audits are needed.

**Recommendation:**

- The current AICPA Audit Guide should be revised to provide specific guidance on, and examples of, the kind of documentation that auditors should create, as a minimum, to document risk assessments of individual Federal programs.

**6. Missing Audit Finding Information**

OMB Circular A-133 §.510 (b) prescribes information and elements that must be included in audit findings reported in single audits. Information that identifies the Federal awards affected by the finding and the elements of a finding (e.g., condition, cause, criteria, effect, etc.) should be included in the report's audit findings.

We found that in 49 of the audits we reviewed in both strata, one or more required reporting elements were not included in audit findings. Many of the audits we reviewed did not include audit findings; therefore, in the context of our sampling methodology, we cannot project and cannot estimate the rate of occurrence to the strata. However, the number of occurrences found demonstrates the existence of this deficiency to a significant extent.

Program officials of Federal and/or pass-through agencies resolve findings in single audit reports. Without including required information in audit findings, proper audit resolution action may be impaired. For example, one finding reported that an employee was paid at a wage less than required per the Davis-Bacon Act provisions; however, the dollar amount of underpaid wages was not described. Such information is needed for program officials to assess the finding and take corrective action.

Most auditors did not comment on the causes for omitting required reporting elements and information. Some asserted that they believed the audit findings, as written, were adequate. While OMB Circular A-133 explicitly identifies required information and elements to be included in audit findings, the AICPA Audit Guides do not include illustrative examples of properly presented audit findings. Such examples would be helpful.

**Recommendation:**

- The current AICPA Audit Guide should be revised to include illustrative examples of properly presented audit findings.

**7. Deficiencies in Presentation and Auditing of Schedules of Expenditures of Federal Awards (SEFA)**

OMB Circular A-133 §.310(b) requires the auditee to include a Schedule of Expenditures of Federal Awards as a supplementary schedule with the auditee's financial statements. The circular prescribes minimum content requirements for the SEFA. For each QCR, we reviewed the SEFA to determine if any of the content requirements were missing.

For 44 (45.8%) of the audits reviewed in Stratum I and 55 (49.1%) of the audits reviewed in Stratum II, one or more of the following required SEFA content items were omitted:

- Subgrant awards numbers assigned by pass-through entities not included
- Names of pass-through entities missing
- Grantor Federal agency names missing
- Grantor Federal agency subdivision names missing
- Multiple lines for CFDA numbers shown –total expenditures for CFDA not shown
- Programs that are parts of a cluster not shown as such
- Notes to SEFA missing
- Correct CFDA number; and
- Research and Development (R&D) programs not identified as such

Based on our sample, we estimate that this problem occurred in 49.0% of all audits in both strata combined.

The presentation of the SEFA is an auditee responsibility. The auditor is responsible for ensuring that information included in the schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The auditor must opine on whether the SEFA is presented fairly in all material respects in relation to the financial statements as a whole.<sup>11</sup>

Most SEFA deficiencies we found were not material to the financial statements as a whole. However, errors such as improperly identifying program CFDA numbers and not presenting programs as part of a defined cluster can result in the auditor not identifying applicable compliance requirements and incorrectly determining major programs. This is because compliance requirements are identified in both the OMB Compliance Supplement and Catalog of Federal Domestic Assistance by CFDA number. Also, multiple programs comprising a cluster are treated as one program in the major program determination process prescribed by OMB Circular A-133, and the amount of expenditures of Federal awards reported in the SEFA is a key factor in determining major program coverage.

---

<sup>11</sup> OMB Circular A-133 §.500(b) and §.505(a)



For 9 (9.4%) of the Stratum I audits reviewed and 18 (16.1 %) of the Stratum II audits reviewed, the audit documentation did not contain evidence of the work relating to auditing of the SEFA. Based on our sample, we estimate that this problem occurred in 15.9% of all audits in both strata combined.

AICPA audit guidance includes little explanation about the type of audit procedures an auditor should perform on the SEFA. Chapter 7 of the current AICPA Audit Guide is devoted mostly to the SEFA content and presentation and only provides audit procedures to assess the auditee's process for identifying Federal programs. We believe that including additional procedures for auditing the SEFA would reduce the extent of omissions and errors in the presentation and content of the SEFA. We also believe that because SEFA content is essential to determining major programs and identifying applicable audit requirements, audit procedures should be required that address SEFA content.

#### **Recommendations:**

- Chapter 5 of the current AICPA Audit Guide should be revised to describe all procedures an auditor should perform to audit the SEFA. Specific procedures should be included to:
  - Review and test internal control over the preparation of the SEFA, including controls to ensure that it is complete and accurate, and that CFDA numbers are correct;
  - Test to determine that the SEFA reconciles to corresponding amounts in the financial statements and that CFDA numbers are correct;
  - Review the SEFA to determine that its content and presentation meets the minimum requirements set forth in A-133 §.310 (b); and
  - Review that programs identified in the compliance supplement as part of clusters of programs are presented as such in the SEFA.
- The current AICPA Audit Guide should also be revised to include the following guidance:
  - Specific content and format issues may not be material to the financial statements as a whole, thus they may not be reportable findings; however, they often result from ineffective internal controls related to SEFA preparation.
  - Correct SEFA content is critical for determining major Federal Programs.
  - Correct CFDA numbers are critical for determining compliance requirements for major programs (as well as for the SEFA presenting useful information for SEFA users). The auditor must test the process for preparing the SEFA to ensure that Federal expenditures are reported by the appropriate CFDA numbers. This should include reviewing the OMB Compliance Supplement or, for Federal programs not

included in the supplement, the CFDA itself for the accuracy of the CFDA number. The guidance should also refer to Appendix VII of the CFDA, *Historical Profile of Catalog Programs*, which may help determine the correct CFDA numbers.

- Lack of or ineffective internal controls over SEFA preparation is a significant deficiency and, depending on the severity of the problem(s), a material weakness.

## **8. Management Representations Related to Federal Awards Missing or Misdated**

The 2003 AICPA Audit Guide, ¶ 6.68, requires the auditor to obtain three written representations from management on Federal awards, which are in addition to the management representations obtained in connection with the audit of the financial statements. These representations assert to the identification and completeness of Federal award programs, complying with compliance requirements, and identifying known instances of noncompliance.

We found that some or all of these management representations were not obtained for one (1.0%) of the single audits reviewed in Stratum I and six (5.4%) of single audits reviewed in Stratum II. Based on our sample, we estimate that this problem occurred in 5.3% of all audits in both strata combined.

For an additional two audits in Stratum II, the representations were obtained but dated five days prior to the dates of the auditor's report. If management's representations are made prior to the date of the auditor's report, the auditor will not have management's representations about events occurring during a "gap period," i.e., after the date the representations are made but prior to the date of the auditor's report. Thus, it is possible that, in the absence of management's representations for such a gap period, the auditor might not discern significant events that they otherwise would. This could possibly affect the opinions in the report.

The AICPA Audit Guides do not specifically address dating the representations but it would appear that they should be dated in the manner prescribed for other management representations. Professional auditing standards, *Management Representations*, AU § 333.09, state that such representations should be made as of the date of the auditor's report. We are recommending that AICPA Auditing Standards be amended to incorporate the requirement for these management representations and that both the standards and the current AICPA Audit Guide be revised to address dating of these representations.

### **Recommendations:**

- SAS No. 74 and the current AICPA Audit Guide should be revised to include the requirements for management representations about matters related to Federal awards covered in single audits. Guidance in the SAS should be comparable to the guidance on management representations provided in AU § 333, including illustrative representations and guidance on dating the representations.

## **9. Consideration of Audit Materiality at the Major Federal Program Level Not Documented**

We found that in 10 (10.4%) of the Stratum I audits reviewed and 20 (17.9%) of the Stratum II audits reviewed, the auditor did not document whether he or she considered materiality at the major program level. Based on our sample, we estimate that this problem occurred in 17.7% of all audits in both strata combined.

In single audits, the auditor must consider his or her findings in relation to each major program, which is a significantly lower materiality level than all programs combined. For example, if an auditor, reviewing an auditee with multiple Federal programs of which 10 are major programs, identifies non-compliance with allowability of costs requirements, the unallowable costs are to be evaluated in relation to each individual major program rather than all programs combined. If there was significant noncompliance with cost allowability requirements for one major program but not any others, the problem would be material to the affected program and would affect the auditor's opinion on compliance for that program, even though it was not material in relation to all major programs combined.

The AICPA Audit Guide, dated May 2003, ¶6.14, states that "in designing audit tests and developing an opinion on the auditee's compliance with compliance requirements, the auditor should apply the concept of materiality to each major program taken as a whole, rather than to all major programs combined." The AICPA or other applicable guidance does not state that this assessment must be documented for an audit; however, GAS (1994 Revision), ¶4.35, requires that working papers contain evidence that supports the auditor's significant conclusions and judgments. Without documentation, there is no assurance that the auditor considered materiality at the major program level, rather than in relation to financial statements as a whole (which is the customary level of materiality for audits other than single audits) or in relation to all major programs combined.

Most auditors did not comment on causes for this but one auditor expressed the view that his consideration of materiality was not required to be documented. Based on the requirements of GAS (1994 Revision), ¶4.35, we believe that documenting such considerations is required. However, we recognize that, absent a specific requirement for documenting the consideration of materiality at the major program level, this is not clear.

### **Recommendation:**

- SAS No. 74 and the current AICPA Audit Guide should be revised to require the auditor to document materiality determinations in single audits and include an illustrative example of the kind of audit documentation that would be appropriate.

## **10. Other Kinds of Deficiencies**

The preceding sections present deficiencies that we believe warrant revisions to audit standards, criteria and/or guidance to reduce their occurrence. We also noted other deficiencies that, in our opinion, are primarily due to lack of professional care by the auditors in adhering to the audit requirements. For these deficiencies, we believe that our recommendation in Part III below, to

develop and offer training on the performance of single audits and to establish minimal requirements for it as a prerequisite for conducting and continued performance of single audits, is the primary remedy.

Appendix A describes the other kinds of deficiencies noted and provides information about the number of occurrences.

### **Part III – Overall Conclusions and Recommendations**

The results of this Project indicate a number of single audits that are acceptable—a majority for the stratum of large audits and almost half of those in the stratum of other audits reviewed. Thus, these results indicate that acceptable single audits can be, and are being, performed. Also, our analysis of results in relation to the dollar amounts of Federal awards reported in the audits we reviewed indicates that single audits covering large dollar amounts of Federal awards were more likely to be of acceptable quality than other single audits.

However, the results also indicate significant numbers of audits of limited reliability with significant deficiencies and unacceptable audits with material reporting errors and that were substandard. These results pose a challenge: *What can and should be done to reduce audit deficiencies and eliminate audits that are of limited reliability or unacceptable?*

#### **A Recommended Three-Pronged Approach to Improve Audit Quality**

Based on consideration of the causes of deficiencies and our knowledge of single audits, we believe that a three-pronged approach is needed to improve audit quality:

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 on performing single audits as a prerequisite for conducting single audits and require single audit update training for continued performance of single audits; and
3. Review and enhance processes to address unacceptable audits and not meeting established training and continuing professional education requirements.

The Single Audit Act Amendments of 1996 designate the Director, OMB, as the Federal official responsible for issuing regulations and guidance on single audits. Therefore, we are addressing this report to OMB. However, other parties also have significant roles and responsibilities with respect to single audits and audit quality. Federal grantor agencies, including designated Federal Cognizant and Oversight Agencies, have responsibilities for single audits. The AICPA promulgates auditing standards, which are incorporated by reference into GAS, and issues the Audit Guides used to conduct single audits.<sup>12</sup> State auditors perform single audits, including audits of State governmental entities. Through the National State Auditors Association, state auditors participated in this Project. State Boards of Accountancy license certified public

---

<sup>12</sup> Given its interest in audit quality, the AICPA has established a Governmental Audit Quality Center.

accountants, who conduct many single audits. These Boards are members of the National Association of State Boards of Accountancy (NASBA), which is a forum to enhance the effectiveness of its members. Given the important roles of the other parties named above, we also recommend that OMB coordinate with these parties to implement our recommendations.

We identify three areas for improvement and recommend specific corrective actions that OMB implement to improve audit quality. While implementing any of these areas should help improve the quality of single audits, we believe adoption of all three is necessary to achieve effective results.

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

The first part of our recommended three-pronged approach is to revise and improve single audit criteria, standards and guidance to address the deficiencies noted in this review. Such will provide auditors direction that, if followed, should go a long way to reduce occurrence of the deficiencies and improve audit quality. Our specific recommendations in this regard are presented in Part II and the “Other Matters” section of this report.

### **2. Establish minimum requirements for completing comprehensive training on performing single audits as a prerequisite for conducting single audits and require single audit update training for continued performance of single audits.**

While the number of acceptable audits indicates that there are many auditors who understand and properly implement single audit requirements, the Project results indicate many auditors do not. Comprehensive training on performing single audits needs to be regularly available to audit practitioners at a cost affordable to them throughout the United States. Such training needs to be a prerequisite for auditors being allowed to perform single audits. Also, periodic update training should be required to continue performing single audits.

The deficiencies we noted indicate a need for training that emphasizes applying standards, procedures and requirements to situations that would be encountered in real single audits. The training should be “hands on.” It should cover requirements for properly documenting audit work in accordance with GAS and other topics related to the many deficiencies disclosed by this Project, including critical and unique parts of single audits, such as, but not limited to:

- Major program determination;
- Program risk assessment;
- Review and testing of internal controls over compliance;
- Compliance testing;
- Auditing procedures applicable to the SEFA;
- How to use the OMB Compliance Supplement; and
- Auditing major programs not included in the compliance supplement.

We believe that such training requires a minimum of 16-24 hours; a few hours of “overview” sessions will not suffice.

During the one-year period from which the sample for the Project was drawn, over 38,000 single audits were submitted. These audits were performed throughout the United States, in every state, by auditors located in cities and towns, large and small. This geographic dispersion of auditors results in the need for training in many locations through the United States, including training using state of the art technologies to deliver training to auditors at widespread locations, e.g., via webcasts. Turnover at audit firms and organizations and assignments of new CPAs and staff at audit firms to single audits for the first time, results in an ongoing need for training if single audits are to be properly conducted.

The rate of occurrence of single audits of limited reliability and that are unacceptable disclosed by this Project indicates that steps must be taken to make such training available, and that it be required as a prerequisite for performing or supervising single audits. Furthermore, subsequent periodic continuing professional education (CPE) consisting of update/refresher training specific to single audits should be required for auditors performing or supervising them. We are, therefore, making recommendations to require such training.<sup>13</sup>

### **Recommendations:**

OMB should:

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.
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 4 below.
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.
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. Also, OMB should develop, or arrange for the development of, minimum content requirements for specific single audit continuing professional education update training

---

<sup>13</sup> GAS already require 80 hours of continuing professional education for auditors every two years, including 24 hours directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operated. The recommended training will be creditable to the GAS "24 hours" requirement.

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.

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.

In making the recommendation to establish a requirement for comprehensive single audit training as a prerequisite to performing a single audit, we recognize that a number of details will need to be considered before the requirement can be established. These include: (1) the staff levels to which the requirements apply and curriculum content appropriate for different staff levels; (2) whether audit organizations may establish their own internal CPE programs to fulfill the requirement, and (3) whether past experience and/or training can fulfill the requirement (i.e., “grandfathering”). As a result of consideration of such details, we also recognize that it may be necessary to issue detailed implementation guidance in conjunction with establishing the CPE requirements.

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

Implementing our recommendations to revise and improve single audit criteria and guidance and to establish minimum training requirements will improve audit quality. However, we expect that there will still be some practitioners who do not submit acceptable single audits. We also expect that some practitioners will not comply with our recommendations for training and CPE requirements. To address these situations, effective and practical sanctions need to be available – a key component of the third part of our recommended three-pronged approach.

OMB Circular A-133 §.225 provides sanctions for not having an audit conducted properly. While four sanctions are specifically suggested, all of these apply to the auditee, not the auditor.<sup>14</sup> Although sanctions to an auditee are appropriate if they did not properly procure a single audit, most of the deficiencies identified in the unacceptable audits in this Project were caused by lack of due professional care by the auditor

OMB Circular A-133 § .400(a) (5) does require Cognizant Agencies to refer auditors to licensing agencies and professional bodies in the case of major inadequacies and repetitive substandard work.

Federal law and regulations other than the Single Audit Act Amendments of 1996 and OMB Circular A-133 also provide for suspension and debarment processes that can be applied to auditors of single audits. These processes can result in an auditor being suspended or debarred from performing single audits for a specified period of time.

---

<sup>14</sup> The suggested sanctions are: (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily; (b) Withholding or disallowing overhead costs; (c) Suspending Federal awards until the audit is conducted; or (d) Terminating the Federal award.

However, some Cognizant and Oversight Agency participants in this project indicated that such actions are rarely initiated. The reason given for not initiating such actions was the perception that a very large and costly effort was required to successfully bring such actions. We did not include a review of the suspension and debarment process or the accuracy of such perceptions. However, if suspensions and debarments could be imposed without large and costly efforts, they could be effective in deterring unacceptable work as well as removing the practitioners who perform unacceptable audits for a period of time.

The percentage of unacceptable audits is too high. With the goal of reducing their occurrence and deterring others from performing them, we believe that effective remedies need to be available when such audits are detected. Therefore, we are recommending that the potential effectiveness of existing or new ways to address unacceptable audits be studied. Such ways could include revising OMB Circular A-133 to include sanctions to be applied to auditors for unacceptable work and/or for not meeting training and CPE requirements.

Consideration should also be given to legislation to establish provisions for a fine that could be available to Federal Cognizant or Oversight Agencies for Audit as an option to address unacceptable audit work.

To address single audit quality, the AICPA has established the GAQC and issues annually an Audit Risk Alert on governmental audits. The results of this Project warrant the AICPA to identify and implement additional ways to address the problem of unacceptable single audits and lack of due professional care. Also, State Boards of Accountancy (who license CPAs) need to be informed of the results of this Project so they can strengthen their regulatory processes to address the noted lack of due professional care issues.

#### **Recommendations:**

We recommend 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;
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
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 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.



\* \* \* \* \*

These recommendations stem from the findings of this Project, based on review of the audit work performed by the independent public accountants (IPAs) who performed the audits. IPAs are responsible for ensuring the quality of the audits they perform and issue. However, other parties, whose work we did not review, have roles in the single audit process and, by their work, can influence the quality of single audits. In addition to the AICPA and State Boards of Accountancy, these parties include auditees who procure single audits, Federal Cognizant and Oversight Agencies for Audit, and Federal grantor and pass-through agencies that receive and review audits. We did not review the work of these parties and render no opinions about it. However, we hope that the results of this Project will inform and influence them to consider whether and how their work could be enhanced towards the goal of higher quality single audits.

---

---

## OTHER MATTERS

---

---

### Observations About Audit Testing and Sampling

Present single audit requirements do not prescribe the number of transactions to be tested; this is up to the auditor to determine. They also do not prescribe specific documentation requirements for selections of transactions tested and the universes from which they are drawn. To assess the extent of tests of transactions that auditors are performing, we reviewed documentation of testing for the allowable costs/cost principles compliance requirements for 50 (25 from each Stratum) of the audits we reviewed. This section describes the results of that review.

#### **OMB Circular A-133 and Auditing Standards Do Not Prescribe the Number of Transactions to Be Tested**

OMB Circular A-133 §.500 (c) requires auditors to perform *testing* of internal controls over major programs to support a low level of control risk for assertions relevant to the compliance requirements. Subparagraph d requires compliance testing to include tests of transactions and other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance. OMB Circular A-133 does not, however, specify the number of transactions that must be tested, or how they should be selected.

The 2003 AICPA Audit Guide<sup>15</sup>, which was effective when the audits that we reviewed were conducted, contained paragraphs on performing compliance testing (§6.36-§6.38). It discussed audit sampling in §6.45, which stated that: “The auditor generally uses sampling to obtain evidential matter.” The AICPA Audit Guides do not clearly specify when sampling must be used, and when alternative testing procedures are appropriate.

Single audits must be performed in accordance with *Government Auditing Standards*, which incorporate the Statements on Auditing Standards (SAS) that interpret the standards of field work issued by the AICPA.<sup>16</sup> SAS No. 39 covers audit sampling for the audits reviewed for this Project, and is incorporated into AICPA auditing standards at AU §350. It defines, but does not require, audit sampling and provides standards for its application when the auditor elects to use sampling. It does not specify the number of transactions that must be tested but does specify how sample items must be selected (i.e., “The sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected.”). SAS 39 also sets forth considerations and judgments an auditor should make in planning the sample.

---

<sup>15</sup> Its predecessor, AICPA Statement of Position 98-3, included the same language. Likewise, these provisions have not changed in the 2006 AICPA Audit Guide.

<sup>16</sup> This was applicable per §4.3 of the “relation to AICPA Standards” section of GAS (1994 Revision), applicable for the audits reviewed in this Project. It is also the case per §4.01 of the 2007 (most recent) Revision of GAS, except for standards specifically modified or excluded.

**How many transactions are auditors actually testing?**

To answer this question, we analyzed the documentation of audit testing for 50 audits—the first 25 audits drawn for which we obtained the data from each of the two sample strata—for the allowable costs/cost principles compliance requirements to determine the transactions tested by the auditor in relation to the universes from which they were drawn. The 50 audits we reviewed covered 91 major programs. For some programs, tests were stratified between payroll and other costs.

For the major programs covered in the 50 audits, we found that numbers of items tested varied, as indicated in the following tables<sup>17</sup>:

STRATUM I				
NO. OF TRANSACTIONS TESTED	DUAL PURPOSE TESTING (Internal control & compliance)	INTERNAL CONTROL TEST	COMPLIANCE TEST	TOTALS
Less than 10	5	-	-	5
10-19	3	-	4	7
20-29	10	1	-	11
30-39	11	-	1	12
40-59	10	-	-	10
60 or more	5	1	1	7
Totals	44	2	6	52

STRATUM II				
NO. OF TRANSACTIONS TESTED	DUAL PURPOSE TESTING (Internal Control & compliance)	INTERNAL CONTROL TEST	COMPLIANCE TEST	TOTALS
Less than 10	4	2	3	9
10-19	4	-	-	4
20-29	6	1	4	11
30-39	1	-	1	2
40-59	3	-	3	6
60 or more	5	-	-	5
Totals	23	3	11	37

<sup>17</sup> Numbers shown are numbers of major programs for which numbers of transactions tested for the allowable costs/cost principles compliance requirement were in the indicated ranges.

We recognize that the number of transactions tested, by itself, does not permit a conclusive judgment about the adequacy of compliance testing. The number of transactions in the universe, and the total dollars associated with them, are needed for more meaningful analysis. However, this information was not documented for a large number of the tests above (i.e., 39 of the 54 programs of Stratum I; 17 of the 37 programs of Stratum II).

## Conclusion

The applicable criteria on testing—the law, OMB Circular A-133, applicable auditing standards, and the AICPA Audit Guides—do not require specific or minimum numbers of tests of transactions in single audits. The auditor has discretion to determine the numbers of transactions tested, however, we believe that comparable numbers of transactions for Federal programs should be tested in comparable single audits. Therefore, we are recommending that audit sampling be required and conducted in accordance with recently promulgated revisions to SAS No. 39, to be effective for future single audits. These revisions provide for consistency in determining sample sizes, as explained below.

The AICPA recently issued SAS No. 111, *Amendment to Statement on Auditing Standards No. 39, Audit Sampling*, which becomes effective for audit periods beginning on or after December 15, 2006. This new standard clarifies that an auditor using nonstatistical sampling will ordinarily use a sample size comparable to a statistical sample. The new provisions state that:

“An auditor who applies statistical sampling uses tables or formulas to compute sample size based on these judgments. An auditor who applies nonstatistical sampling uses professional judgment to relate these factors in determining the appropriate sampling size. Ordinarily, this would result in a sample size comparable to the sample size resulting from an efficient and effectively designed statistical sample, considering the same sample parameters.”

[Excerpt from new ¶ 22 of SAS No. 39, as revised by SAS No. 111]

It should be expected that valid sampling tables or formulas should yield similar sample sizes for different audits of comparable entities involving the same sampling parameters.<sup>18</sup> Consequently, audits of comparable entities conducted under the new provisions of SAS No. 111 should result in comparable sample sizes—even when nonstatistical sampling is used.

To provide uniformity in determining the number of transactions tested and in documenting tests performed and universes from which they are drawn, we are making the following recommendations.

## Recommendations:

- We recommend that OMB amend Circular A-133 to:

---

<sup>18</sup> We consider comparable entities to have comparable sizes, comparable programs and related risks, comparable internal control assessments, etc.

- Require that internal control testing and compliance testing be performed using sampling in a manner prescribed — either statistical or nonstatistical—by SAS No. 39 (as amended by SAS No. 111); and
  - Require that numbers of transactions and associated dollars for sample universes and tested transactions be documented.
- We also recommend that OMB work with the AICPA to revise SAS No. 74 and the current AICPA Audit Guide to reflect these changes, and to provide clarifying guidance for implementing the SAS No. 111 revisions in the context of single audits. The clarifying guidance should include specific tables or formulas (or references to tables or formulas) that auditors should use to compute the required sample sizes for statistical samples, and guidance for determining the sample sizes for non-statistical samples that are of a size comparable to a statistical sample, as required by SAS No. 111. The current AICPA Audit Guide should also include clear explanations on how to use the tables and formulas, and include illustrative examples based on situations auditors would be likely to encounter in real single audits.

The clarifying guidance should also clearly explain the meaning of the adverb “ordinarily” in the requirement of the new ¶22, SAS No. 39, quoted above, in a single audit context. Specifically, the guidance should make it clear that this is the normal expectation, and describe circumstances when exceptions (if any) would be appropriate, and requirements for documenting such exceptions.

Finally, the current AICPA Audit Guide should also explain how sample universes and transactions tested should be documented, including illustrative examples.

---



---

## OBJECTIVES, SCOPE, AND METHODOLOGY

---



---

### Objectives

The objectives of the project were to:

- 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
- 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.

### Methodology

#### Selection of Audits, Major Programs and Statistical Methodology

**The Project involved the conduct of QCRs of a stratified statistical sample of 208 audits randomly selected from a universe of all audits submitted and accepted by the Federal Audit Clearinghouse for the period April 1, 2003 through March 31, 2004.** This universe was divided into two strata:

Stratum I – Large single audits, i.e., entities with Federal award expenditures of \$50 million and more; and

Stratum II – Other single audits of entities with Federal award expenditures of \$500,000 or more but less than \$50 million.

The following table summarizes the strata and the universes from which they were drawn:

Stratum	Total Federal Award Expenditures per Audit	Number of All Audits in Universe*	Total Federal Awards Expended for All Audits in Universe**	Number of Audits in Sample
I	\$50,000,000 and higher (Large Audits)	852	\$737,171,328,433	96
II	\$500,000-\$49,999,999 (Other Audits)	37,671	\$143,077,774,976	112
TOTAL		38,523	\$880,249,103,409	208

\* Based on all single audits submitted to Federal Audit Clearinghouse from 4/1/03-3/31/04, except that audits for entities with total Federal Award Expenditures less than \$500,000 were excluded, because single audits are no longer required for such entities.

\*\* Some Federal award expenditures reported for single audits include Federal awards received by subrecipients from pass-through entities which are also covered by single audits of the pass-through entities. The \$737,171,328,433 of expenditures for the universe of Stratum I included \$42,888,498, 211 received through a pass-through entity. The \$143,077,774,976 of expenditures for the universe of Stratum II included \$63,319,321,829 received through a pass-through entity.

Within each of these strata, the indicated number of single audits were randomly drawn, so that each audit in the stratum universe had an equal chance of being selected for review. Samples were drawn to yield estimates at a 90 percent confidence level at the precision levels indicated in the tables of this report.

Each single audit included opinions on major programs identified in the Summary of Auditors Results Section of the Schedule of Findings and Questioned Costs. If one, two or three major programs were identified, documentation of audit work relating to the one, two or three major programs was reviewed in the QCR. If four or more major programs were identified, three were randomly selected (using computer-generated random numbers) applied to the programs as listed, and audit documentation was reviewed for the selected three major programs.

### **Scope**

The QCRs 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 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. The scope 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.

By conduct of the QCRs, we assessed the quality of each single audit selected for review with respect to the following aspects:

### Reporting

The assessment 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.
- 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.

### Auditor Qualifications

This part of the QCR consisted of a determination that the single audit was conducted by a licensed public accountant or a Federal, State or local governmental auditor, which met the qualifications requirements of GAGAS, and that the auditor met GAGAS external quality control (peer) review requirements.

### Audit Planning

There are important audit planning aspects unique to single audits. The QCRs included review of documentation relating to these aspects, to determine if they were documented as properly conducted:

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

### Conduct of the Audit Field Work and Audit Work Relating to Auditing of the SEFA

- Each QCR included a determination 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;
  - 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;
  - 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; and
  - A project instrument was developed and used for assessing the quality of each audit selected for quality control review.

In each QCR, auditing of major programs was assessed using instruments developed for such assessments: one for programs included in the OMB Compliance Supplement; the other for



programs not so included. A modified instrument was developed and used for assessing program specific audits selected as part of the sample.

The proposed results of each individual QCR were communicated to each auditor. They were given the opportunity to comment on the proposed deficiencies, and provide information to refute deficiencies with which they did not agree. We fully considered those responses in reaching conclusions about deficiencies for each QCR and in assessing the quality of each audit.

*Assessment of Quality of Each Audit Selected for Review*

Upon completion of the QCR, we analyzed the results and categorized the audit into one of five audit quality categories as described fully in Part I of the “Results” section of the report.

\* \* \* \* \*

Our work, which includes the conduct of QCRs and compilation of results, was performed from October 13, 2004 through March 16, 2007.

The Project was performed as a performance audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

APPENDIX A – OTHER KINDS OF DEFICIENCIES

Part II of the “Project Results” section of this report presents deficiencies that we believe warrant revisions to audit standards, criteria and/or guidance to reduce occurrence of the deficiencies.

We noted other deficiencies of various kinds that, in our opinion, are primarily attributable to lack of due professional care by auditors adhering to existing requirements, rather than the need for revised standards, criteria and/or guidance.

These kinds of deficiencies are described in this Appendix, with information about numbers of occurrences noted. For these deficiencies, as well as those discussed in Part II of the report, we believe that if implemented, the recommendations presented in Part III of the report will reduce occurrence of the deficiencies and improve audit quality.

\* \* \* \* \*

Low-risk auditee determination not documented or incorrect

Applying criteria set forth in OMB Circular A-133 §.530, an auditee may be deemed a *low-risk* auditee. Ordinarily, under the “percentage of coverage rule” set forth in OMB Circular A-133 §.520(f), at least 50% of Federal awards expended must be covered as major programs in a single audit. However, for low-risk auditees, a minimum percentage of coverage of 25% is applicable. Consequently, the determination of an auditee as a low-risk auditee is a significant auditor judgment.

The 2003 AICPA Audit Guide, ¶ 7.22, required that the auditor document the risk assessment process used in determining major programs (OMB Circular A-133 §.520), of which the percentage of coverage rule and (by reference in OMB Circular A-133 §.520(f)) the low-risk auditee determination process is a part.

We found that in two (2.1%) of the Stratum I audits reviewed and 10 (8.9%) of the Stratum II audits reviewed, the auditors did not document their determination of the auditee as a low-risk auditee. Based on our sample, we estimate that this problem occurred in 8.8% of all audits in both strata combined.

We found that in none of the Stratum I audits reviewed, and three (2.7%) of the Stratum II audits reviewed, the auditor made an error in determining the low-risk status of the auditee or incorrectly reported that status. Based on our sample, we estimate that this problem occurred in 2.6% of all audits in both strata combined. Of the three audits involving this deficiency, two Stratum II audits involved an improper determination that the auditee was a low-risk auditee, with the effect that the required 50% minimum percentage of coverage requirement was not met. (Also see next deficiency.)

Minimum Percentage of Coverage Requirement Not Met

As explained in the prior deficiency, there is a minimum percentage of coverage requirement.

We found that for seven (6.3%) of the Stratum II audits reviewed (none in Stratum I), the minimum percentage of coverage requirement was not met. This number includes the two audits discussed in the last paragraph of the immediate prior deficiency, for which the cause of the deficiency was improper determination of low-risk status. One of the remaining instances was caused by incorrect inclusion of the Medicaid program as a major program, resulting in other major programs not comprising the minimum percentage of coverage. The audits for which this deficiency occurred involved improper application of the rule. Based on our sample, we estimate that this problem occurred in 6.1% of all audits in both strata combined.

Audit Programs Missing or Inadequate for Part of Single Audit

Generally accepted auditing standards, AU §311.05 require a written audit program that sets forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit.

For 16 (16.7%) of the Stratum I audits reviewed and 43 (38.4%) of the Stratum II audits reviewed, audit documentation did not contain audit program coverage for parts of the single audit, or the audit program coverage was inadequate. Based on our sample, we estimate that this problem occurred in 37.9% of all audits in both strata combined. For these instances audit program coverage was missing, or inadequate because it did not set forth in reasonable detail the audit procedures necessary to accomplish the audit objectives.

For the 16 audits in Stratum I for which this was noted, audit programs were missing or inadequate for the internal control review for 10 audits, audit coverage of the SEFA for eight audits, and compliance testing for five audits. [For some audits, audit programs of two kinds were missing or inadequate.] For one audit, audit programs were missing or inadequate for all three components.

For the 43 audits in Stratum II for which this was noted, audit programs were missing or inadequate for the internal control review for 25 audits, audit coverage of the SEFA for 28 audits, and compliance testing for 24 audits. [For some audits, audit programs of two kinds were missing or inadequate.] For 11 audits, audit programs were missing or inadequate for all three components.

Part of a Major Program or a Major Program Cluster Not Tested

Per the definition in OMB Circular A-133, §.105, where a CFDA number is assigned for an award, *Federal Program* is defined as all Federal awards to a non-Federal entity assigned a single number in the CFDA. Therefore, all awards with the same CFDA number should be “added together” to comprise the Federal program, for single audit purposes.

There are some Federal programs that are treated as a *cluster* of programs. These are research and development programs (R&D), student financial aid (SFA) programs; and “other clusters” as designated or per the definition of a *cluster of programs* in OMB Circular A-133, §.105. Per that definition, OMB Circular A-133 provides that a cluster of programs shall be treated as one program for determining major programs.

We found audits for which one or more of the component programs that comprised a cluster, or one or more awards that should have been included together with other awards assigned the same CFDA number as a program, were not included for auditing as part of the cluster or program.

We found this problem in five (5.2%) of the Stratum I audits reviewed, and four (3.6%) of the Stratum II audits reviewed. Based on our sample, we estimate that this problem occurred in 3.6% of all audits in both strata combined.

“Summary of Auditor’s Results” Section Was Missing Some Information, or Some Information Was Erroneous

OMB Circular A-133 §.505(d) provides that the Schedule of Findings and Questioned Costs shall include a Summary of Auditor’s Results. Elsewhere in the report or this appendix, we covered deficiencies involving three kinds of information included in this Summary: identification of major programs, the dollar threshold distinguishing Type A and Type B programs, and the statement whether the auditee qualified as a low-risk auditee.

Other information is also included in this Summary including: types of auditor’s reports (unqualified opinion, qualified opinion, etc.), whether there are reportable conditions or noncompliances, and whether reportable conditions were material weaknesses. We found audits for which some of this other information was either missing or erroneous.

Missing information included types of report opinions and whether there were reportable audit findings. Erroneous information included wrong types of report opinions and incorrect CFDA Numbers of Major Programs.

We found this for 17 (17.7%) of the Stratum I audits reviewed and 17 (15.2%) of the Stratum II audits reviewed. Based on our sample, we estimate that this problem occurred in 15.2% of all audits in both strata combined.

Error in Threshold Distinguishing Type A and Type B Programs

A component of the process for determining major programs is categorization of Federal awards as either large (Type A) programs or other (Type B) programs. OMB Circular A-133 §.520 specifies the criteria for making the determination of whether a program is Type A or Type B. [This determination requires a computation of a threshold amount. For programs or clusters for which expenditures of Federal awards exceed the threshold, the program or program cluster is a Type A program; otherwise, the program is a Type B program.] OMB Circular A-133 §.505(d)(1)(viii) requires that the computed threshold amount be identified in the report.

Under the methodology for selecting major programs, Type A programs are much more likely to be selected as major programs. Errors in calculating the threshold can impact proper selection of major programs.

We found errors in the threshold computation for 13 (13.5%) of the Stratum I audits reviewed, and five (4.5%) of the Stratum II audits reviewed. Based on our sample, we estimate that error in the threshold computation occurred in 4.7% of all audits in both strata combined. For three of the audits in Stratum I (none in Stratum II), the error resulted in major programs not being properly determined.

Indications that Current Compliance Requirements Were Not Considered

OMB publishes a Compliance Supplement annually in the spring for use in performing single audits. OMB Circular A-133 §.500(d)(3) and the 2003 AICPA Audit Guide, ¶6.23 and ¶6.24, articulate the need for auditors to ensure that current compliance requirements are used for single audits. These criteria also require the auditor to perform reasonable procedures to ensure that the auditor considers applicable changes in compliance requirements not reflected in the Compliance Supplement. Thus, the requirement for using current compliance requirements is clearly expressed.

For four (4.2%) of the Stratum I audits reviewed, and 20 (17.9%) of the Stratum II audits reviewed, we found indications in the audit documentation that current compliance requirements were not used. Such indications included use of audit programs for compliance steps dated one or more years earlier than publication of the latest compliance supplement. Based on our sample, we estimate that this situation occurred in 17.6% of all audits in both strata combined.

\* \* \* \* \*

Other deficiencies

We also found the following other deficiencies for which the rates of occurrence were low, i.e., less than five percent for either stratum, or both combined. Like the above deficiencies in this appendix and the report, we believe that if implemented, our overall

Other Kinds of Deficiencies

recommendations presented in Part III of the report will reduce occurrence of the deficiencies and improve audit quality.

- No opinion on Schedule of Expenditures of Federal Awards (one audit in Stratum I);
- Required reference to management letter was missing (one audit in Stratum I; six in Stratum II);
- Documentation of application of standards relating to use of internal auditors or other auditors not adequate (one audit in Stratum I);
- Auditor's reports not dated (one audit in Stratum II);
- Reference made to a nonexistent management letter (one audit in Stratum II);
- Report said audit was performed per OMB Circular A-133, but it wasn't; it was performed per a HUD audit guide for for-profit entities (one audit in Stratum II);
- Erroneous reference in report to finding or reportable condition (two audits in Stratum II);
- Some required report content omitted (two audits in Stratum II);
- Schedule of Prior Year Audit Findings omitted (two audits in Stratum I; three audits in Stratum II);
- Multiple errors in determining major programs (one audit in Stratum I);
- Grouping of awards without CFDA Numbers into major program not clear (one audit in Stratum I);
- Erroneous unqualified opinion on a major program (one audit in Stratum I);
- Much audit documentation missing (one audit in Stratum I);
- Supervision not documented (one audit in Stratum I; four audits in Stratum II);
- Medicaid payments improperly included as Federal awards (one audit in Stratum I; three audits in Stratum II);
- No documentation to support an audit finding (one audit in Stratum I)
- Procedures required by AU Section 337 (Litigation, Claims and Assessments) not documented (two audits in Stratum II);
- Audit work relating to Schedule of Prior Year Findings not documented (two audits in Stratum I; three audits in Stratum II); and
- All audit work performed at management agent; none at site (one audit in Stratum II).

**Appendix B - National Single Audit Sampling Project Report**  
**Cognizant and Oversight Agencies for Audits Reviewed in this Project**

**Stratum I**

<u>Cognizant/Oversight Agency</u>	<u>AC</u>	<u>AD</u>	<u>Reliable (AC+AD)</u>	<u>Limited Reliability (SD)</u>	<u>MRE</u>	<u>SU</u>	<u>Unacceptable (MRE+SU)</u>	<u>Total</u>
Dept. of Agriculture	0	0	0	0	0	1	1	1
Dept. of Defense	0	1	1	0	0	1	1	2
Dept. of Education	8	11	19	3	0	2	2	24
Dept. of Health and Human Services	0	14	14	2	0	2	2	18
Dept. of Housing and Urban Development	3	8	11	3	6	3	9	23
Dept. of Interior	0	2	2	0	0	0	0	2
Dept. of Justice	0	1	1	3	1	1	2	6
Dept. of Labor	3	0	3	0	0	0	0	3
Dept. of Transportation	2	2	4	1	1	1	2	7
Environmental Protection Agency	0	1	1	0	0	1	1	2
National Aeronautics and Space Administration	0	2	2	0	0	0	0	2
National Science Foundation	0	2	2	0	1	1	2	4
Small Business Administration	0	0	0	0	0	0	0	0
US Agency for International Development	0	1	1	0	0	1	1	2
<b>Stratum I Totals</b>	<b>16</b>	<b>45</b>	<b>61</b>	<b>12</b>	<b>9</b>	<b>14</b>	<b>23</b>	<b>96</b>

**Stratum II**

<u>Cognizant/Oversight Agency</u>	<u>AC</u>	<u>AD</u>	<u>Reliable (AC+AD)</u>	<u>Limited Reliability (SD)</u>	<u>MRE</u>	<u>SU</u>	<u>Unacceptable (MRE+SU)</u>	<u>Total</u>
Dept. of Agriculture	0	2	2	1	0	4	4	7
Dept. of Defense	0	1	1	0	0	0	0	1
Dept. of Commerce	1	0	1	0	0	0	0	1
Dept. of Education	10	10	20	1	0	13	13	34
Dept. of Health and Human Services	5	5	10	3	0	9	9	22
Dept. of Housing and Urban Development	0	9	9	10	0	11	11	30
Dept. of Interior	0	0	0	0	0	1	1	1
Dept. of Justice	3	2	5	1	0	1	1	7
Dept. of Labor	1	1	2	1	0	0	0	3
Dept. of Transportation	0	0	0	0	0	0	0	0
Dept. of the Treasury	1	0	1	0	0	0	0	1
Environmental Protection Agency	1	0	1	0	0	0	0	1
Federal Emergency Management Administration	1	0	1	0	0	0	0	1
National Aeronautics and Space Administration	0	1	1	0	0	0	0	1
National Science Foundation	0	0	0	0	0	0	0	0
Small Business Administration	0	0	0	1	0	0	0	1
US Agency for International Development	0	0	0	0	0	1	1	1
<b>Stratum II Totals</b>	<b>23</b>	<b>31</b>	<b>54</b>	<b>18</b>	<b>0</b>	<b>40</b>	<b>40</b>	<b>112</b>

**Appendix C - National Single Audit Sampling Project Report**

**Audit Quality by Type of Auditor**

**Stratum I**

<u>Auditor Type</u>	<u>AC</u>	<u>AD</u>	<u>Reliable (AC + AD)</u>	<u>Limited Reliability (SD)</u>	<u>MRE</u>	<u>SU</u>	<u>Unacceptable (MRE + SU)</u>	<u>Total</u>
Certified Public Accountant	14	38	52	12	9	14	23	87
Government	1	7	8	0	0	0	0	8
Dual Signature - CPA and Government	1	0	1	0	0	0	0	1
<b>Stratum I Totals</b>	<b>16</b>	<b>45</b>	<b>61</b>	<b>12</b>	<b>9</b>	<b>14</b>	<b>23</b>	<b>96</b>

**Stratum II**

<u>Auditor Type</u>	<u>AC</u>	<u>AD</u>	<u>Reliable (AC + AD)</u>	<u>Limited Reliability (SD)</u>	<u>MRE</u>	<u>SU</u>	<u>Unacceptable (MRE + SU)</u>	<u>Total</u>
Certified Public Accountant	19	30	49	18	0	39	39	106
Government	4	1	5	0	0	1	1	6
Dual Signature - CPA and Government	0	0	0	0	0	0	0	0
<b>Stratum II Totals</b>	<b>23</b>	<b>31</b>	<b>54</b>	<b>18</b>		<b>40</b>	<b>40</b>	<b>112</b>



**Appendix D - National Single Audit Sampling Project Report**

**Audit Quality by Type of Entity Audited**

Stratum I								
<u>Entity Type</u>	<u>AC</u>	<u>AD</u>	<u>Reliable</u> <u>(AC + AD)</u>	<u>Limited</u> <u>Reliability</u> <u>(SD)</u>	<u>MRE</u>	<u>SU</u>	<u>Unacceptable</u> <u>(MRE + SU)</u>	<u>Total</u>
College or University (CU)	4	12	16	1	1	2	3	20
County (COU)	1	4	5	4	1	3	4	13
City (CITY)	2	3	5	0	0	0	0	5
Indian Tribal Governmental Entity (ITG)	0	0	0	0	0	0	0	0
Local Education Agency (LEA)	0	1	1	1	1	1	2	4
Non-Profit Entity (NP)	4	10	14	3	1	4	5	22
Other Type of Entity (OT)	2	0	2	0	0	0	0	2
Public Housing Agency (PHA)	0	3	3	1	3	2	5	9
State Agency (STA)	3	4	7	1	2	2	4	12
Statewide Audit / Territory (STW)	0	8	8	0	0	0	0	8
Other Local Government Entity (LG)	0	0	0	1	0	0	0	1
<b>Stratum I Totals</b>	<b>16</b>	<b>45</b>	<b>61</b>	<b>12</b>	<b>9</b>	<b>14</b>	<b>23</b>	<b>96</b>
Stratum II								
<u>Entity Type</u>	<u>AC</u>	<u>AD</u>	<u>Reliable</u> <u>(AC + AD)</u>	<u>Limited</u> <u>Reliability</u> <u>(SD)</u>	<u>MRE</u>	<u>SU</u>	<u>Unacceptable</u> <u>(MRE + SU)</u>	<u>Total</u>
College or University (CU)	6	2	8	0	0	2	2	10
County (COU)	1	2	3	1	0	1	1	5
City (CITY)	0	1	1	0	0	1	1	2
Indian Tribal Governmental Entity (ITG)	0	0	0	0	0	2	2	2
Local Education Agency (LEA)	4	10	14	1	0	11	11	26
Non-Profit Entity (NP)	7	11	18	15	0	21	21	54
Other Type of Entity (OT)	1	1	2	0	0	0	0	2
Public Housing Agency (PHA)	0	1	1	0	0	1	1	2
State Agency (STA)	0	0	0	0	0	0	0	0
Statewide Audit / Territory (STW)	0	0	0	0	0	0	0	0
Other Local Government Entity (LG)	4	3	7	1	0	1	1	9
<b>Stratum II Totals</b>	<b>23</b>	<b>31</b>	<b>54</b>	<b>18</b>	<b>0</b>	<b>40</b>	<b>40</b>	<b>112</b>

<b>APPENDIX E - Single Audit Sampling Project Report</b>			
<b>Federal Agency and State Auditor Participants in National Single Audit Sampling Project</b>			
<b><u>PARTICIPANTS</u></b>	<b><u>Project Advisory Board</u></b>	<b><u>Project Management Staff</u></b>	<b><u>Conduct QCRs</u></b>
<b><u>Federal Agency Participants:</u></b>			
Office of Management and Budget	X	X	
Dept. of Agriculture			X
Dept. of Defense			X
Dept. of Education	X	X	X
Dept. of Health and Human Services	X	X	X
Dept. of Homeland Security			X
Dept. of Housing and Urban Development	X	X	X
Dept. of Interior			X
Dept. of Justice			X
Dept. of Labor	X	X	X
Dept. of Transportation	X	X	X
Environmental Protection Agency		X	
National Aeronautics and Space Administration			X
National Science Foundation	X	X	X
Small Business Administration			X
US Agency for International Development			X
<b><u>State Auditor Participants:</u></b>			
State Auditor, State of Georgia	X		X
Auditor General, State of Illinois	X		
Auditor of Public Accounts, Commonwealth of Virginia	X		X
All Federal agencies listed are members of the PCIE, except the National Science Foundation, which is a member of the ECIE.			