United States General Accounting Office

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Report to the Chairman, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives

June 2002

SINGLE AUDIT

Actions Needed to Ensure That Findings Are Corrected

G A O

Accountability ⋆ Integrity ⋆ Reliability

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Abbreviations

CIFG	Capital Investment and Formula Grants
CMS	Centers for Medicare and Medicaid Services
CDBG	Community Development Block Grant
CPD	Office of Community Planning and Development
FAC	Federal Audit Clearinghouse
HPCG	Highway Planning and Construction Grants
HUD	Department of Housing and Urban Development
OCFO	Office of the Chief Financial Officer
OESE	Office of Elementary and Secondary Education
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OSFA	Office of Student Financial Assistance
PIH	Office of Public and Indian Housing
REAC	Real Estate Assessment Center

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

June 26, 2002

The Honorable Stephen Horn
Chairman
Subcommittee on Government
Efficiency, Financial Management
and Intergovernmental Relations
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

The Single Audit Act, as amended (Single Audit Act), is intended to promote sound financial management, including effective internal control over federal awards administered by state and local governments and nonprofit organizations. According to Office of Management and Budget (OMB) figures, these awards amounted to about $325 billion in fiscal year 2001. The audits required by the Single Audit Act are a critical element in the federal government's ability to ensure that federal funds are properly used. Each year, about 30,000 single audits are conducted with several thousand identifying weaknesses in award recipients' financial management and internal control systems. The federal government must take timely and effective action to ensure that these weaknesses are corrected, not only to help ensure effective program operations but also to help minimize improper payments -- payments of federal funds that should not have been made or that were made for incorrect amounts.

Given the important role of single audits as an oversight and monitoring tool and the critical need to address audit findings, you requested information on how federal agencies use single audits and what agencies are doing to ensure that recipients of federal awards have corrected problems identified by these audits. On February 19, 2002, we briefed you on the results of our survey on how the 24 agencies subject to the Chief Financial Officers Act indicate that they use single audit results and subsequently summarized those results in a report.[1] This follow-up report focuses on what program managers for six large programs, two each at the departments of Education (Education), Housing and Urban Development (HUD), and Transportation (Transportation), do to (1) ensure that federal

[1]U.S. General Accounting Office, *Single Audit: Survey of CFO Act Agencies*, GAO-02-376 (Washington, D.C.: Mar. 15, 2002).

award recipients correct the current year and recurring findings identified in single audit reports and (2) summarize and communicate single audit results and recipient actions to correct audit findings to agency management for its use in evaluating agency oversight and monitoring of recipient performance and in identifying programwide and recipient-specific problem areas needing management attention.

Results in Brief

In examining the efforts of the departments of Education, HUD, and Transportation to ensure that recipients corrected single audit report findings, we found that each agency had procedures for obtaining and distributing the audit reports to appropriate officials for action. However, they often did not issue the required written management decisions or have documentary evidence of their evaluations of and conclusions on recipients' actions to correct the audit findings. In addition, program managers did not summarize and communicate information on single audit results and recipient actions to correct audit findings to agency management.

The three agencies have implemented procedures for obtaining single audit reports and distributing audit finding information to appropriate agency officials. These procedures varied from having (1) a designated unit review and evaluate audit findings and forward them to the appropriate organizational units for action to (2) diffused responsibility calling for program units to identify and obtain single audit reports with findings involving their programs and to take action on those findings.

Program managers did not consistently issue written management decisions to notify the recipients of the corrective actions the federal agency deemed necessary to correct the audit findings contained in the single audit reports. Our review of the audit files at the three agencies revealed that, as of March 2002, the agencies had issued management decisions for only 75 (about 30 percent) of the 246 audit findings contained in our sample of calendar year 1999 single audit reports.

The agencies noted several reasons for not preparing management decisions for all findings. These include

- the findings were insignificant and did not require further action,
- follow up with recipients was performed but not documented,

- the audit report that identified the finding also indicated that the recipient had corrected the audit finding as of the report issuance date, and

- review of subsequent single audit reports showed that the recipient corrected the finding.

The audit files generally did not contain documentation that agency officials considered any of these factors or used them as a justification for not preparing the required management decisions.

Regarding agency efforts to ensure that federal award recipients correct audit findings, we found that, while the audit files contained copies of recipient documents and other records, they did not contain agency evaluations of or conclusions on the adequacy of the actions cited in those records. Without such information, we could not determine the agency's position on the adequacy of the actions taken or on the need for additional actions.

Program managers also did not summarize and communicate information on single audit results and recurring and commonly occurring findings to agency management. Compiling and reporting single audit results centrally could reveal or confirm the existence of internal control and other problems. It can help strengthen accountability and oversight by providing management with information useful in the analyses of both programwide problems and recurring problems at specific recipients. Further, it can provide management officials with information relevant to agency efforts to reduce improper payments – a key element of *The President's Management Agenda*, *Fiscal Year* 2002, initiative to improve financial performance. Our analysis of the Federal Audit Clearinghouse (FAC) single audit database information[2] showed common types of findings at award recipients for several years and that individual recipients continued to have similar and recurring audit findings. For example, program eligibility and allowable costs findings were both repeat problems over a 3-year period for some recipients and were problems for several recipients in our sample.

[2]The FAC single audit database was established as a result of the Single Audit Act Amendments of 1996 and contains summary information on the auditor, the recipient and its federal programs, and the audit results.

To help ensure the effective implementation of the Single Audit Act and that recipients correct the weaknesses identified in single audit reports, we recommend that the Secretary at each of the three agencies develop and ensure the implementation of single audit guidance that meets all OMB Circular A-133 requirements. We also recommend that the Secretary at each of the agencies implement policies and procedures for reporting information to agency management on (1) the types and causes of findings identified in single audit reports and (2) the status of corrective actions. This information could be useful in evaluating agency efforts to ensure that recipients correct audit findings and identifying programwide and recipient-specific problem areas needing management attention.

In commenting on this report, Education and HUD agreed with the findings and recommendations. They provided several editorial and/or clarification changes and supplemental information that we considered and included in the report, as appropriate. Transportation's comments raised several issues concerning both the scope of our audit work and the appropriateness of our conclusions and recommendations. Despite the comments and the issues they raised, we continue to believe that our conclusions are sound and that the recommendations for agency actions are needed to help ensure the overall effectiveness of agencies' implementation of the Single Audit Act and of their consideration and use of single audit findings. The "Agency Comments and Our Evaluation" section of this report provides more detailed information on each agency's comments on a draft of this report, which are reprinted in appendixes I through III.

Background

The Single Audit Act is intended to, among other things,

- promote sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities;
- promote the efficient and effective use of audit resources; and
- ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use single audit work.

The Single Audit Act requires state and local governments and nonprofit organizations that expend $300,000 or more in federal awards in a fiscal year to have either a single audit or program-specific audit conducted.

Federal awards include grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, and direct appropriations and federal cost reimbursement contracts.

The Single Audit Act also requires recipients to forward an audit reporting package to the FAC for archival purposes and for distribution to each federal agency responsible for programs for which the audit report identifies a finding. The reporting package includes (1) the recipient's financial statements and schedule of expenditures of federal awards, (2) a summary schedule of prior audit findings, including the status of all audit findings included in the prior audit's schedule of findings and questioned costs for federal awards, (3) the auditor's opinion on the recipient's financial statements and schedule of expenditures of federal awards, reports on internal control and compliance with laws, regulations, and provisions of contracts or grant agreements, and (4) a schedule of findings and questioned costs.

Single audits are a key control for the oversight and monitoring of recipient use of federal awards. Federal agency actions to ensure that award recipients address audit findings contained in single audit reports are a critical element in the federal government's ability to efficiently and effectively administer federal awards. These findings can include internal control weaknesses; material noncompliance with the provisions of laws, regulations, or grant agreements; and fraud affecting a federal award.

The President's Management Agenda, *Fiscal Year 2002*, identifies the need to reduce improper payments as a significant element of the Administration's initiative to improve financial performance throughout the government. Single audits can have an impact on the government's efforts to address improper payments since many of the programs experiencing improper payments are audited as part of the over 30,000 single audits conducted annually. For example, recent estimates by the departments of Agriculture and HUD identified about $976 million and $2 billion in improper payments in food stamps and housing subsidy programs, respectively. These programs are often audited as part of a single audit.

Objectives, Scope, and Methodology

Our objectives were to determine what program managers for six large programs, two each at Education, HUD, and Transportation, do to (1) ensure that federal award recipients correct the current year and recurring findings identified in single audit reports and (2) summarize and communicate single audit results and actions taken to correct audit

findings to agency management for its use in evaluating agency oversight and monitoring of recipient performance and in identifying programwide and recipient-specific problem areas needing management attention. We selected these agencies because they are three of the four federal agencies that provide the largest amount of federal awards to state and local governments and nonprofit organizations. OMB documents show that, in fiscal year 2001, these agencies made grants totaling $84 billion to state and local governments. We did not include the Department of Health and Human Services, the agency with the largest amount of federal awards, in this review because of our current work[3] to evaluate the Centers for Medicare and Medicaid Services' (CMS) efforts to monitor its financial oversight to help ensure the propriety of Medicaid expenditures. That work included the review of single audit reports for fiscal year 1999 and found that the correction of audit findings and monitoring of CMS and its regional offices were limited and audit resolution activities were inconsistently performed across regions.

To assess how program managers ensure that federal award recipients corrected problems discussed in single audit reports, we reviewed the Single Audit Act, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Comptroller General's *Standards for Internal Control in the Federal Government* to identify agency responsibilities for correcting single audit findings. This review identified the following three areas of responsibility, which represent the criteria we used in making our assessment.

- Obtain single audit reports and distribute them to agency officials responsible for reviewing the report findings and taking actions on those findings.

- Issue written management decisions on audit findings within 6 months of the receipt of the audit report to notify recipients of actions the federal agency considers necessary to correct the audit findings.

- Follow up with award recipients to ensure that corrective actions occurred.

[3]U.S. General Accounting Office, *Medicaid Financial Management: Better Oversight of State Claims for Federal Reimbursement Needed*, GAO-02-300 (Washington, D.C.: Feb. 28, 2002).

The FAC single audit database was established as a result of the Single Audit Act Amendments of 1996 and contains summary information on the auditor, the recipient and its federal programs, and the audit results. We did not independently test the reliability of the database. However, at OMB's request, the Office of the Inspector General (OIG) at the Department of Commerce reviewed the database to assist OMB, the Census Bureau, and other users in assessing the accuracy of the fiscal year 1998 audit report information in the database. We reviewed the OIG's sampling methodology, monitored the audit scope and the progress of the review, and discussed the results with OMB and OIG officials. We concluded that the database for calendar year 1999 was reliable and adequate for our sampling purposes.

At each agency, we identified two large award programs and queried the FAC single audit database for calendar year 1999 single audit reports[4] to determine the 10 grantees receiving the largest amount of funding for each program. The programs identified for review were Title I[5] and Pell Grants[6] at Education, the Community Development Block Grant[7] (CDBG) entitlement and Section 8 Tenant-Based[8] (Section 8) programs at HUD, and Capital Investment and Formula Grants[9] (CIFG) and Highway Planning and

[4]We used calendar year 1999 single audit reports because that was the most recent year for which all audit reports and agency responses were available and it provided the most complete universe from which our selection of audit findings could be made.

[5]The objective of Title I is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

[6]The objective of the Pell Grant program is to provide eligible undergraduate postsecondary students who have demonstrated financial need with grant assistance to help with expenses.

[7]The primary objective of the CDBG program is to develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low or moderate income.

[8]The primary objective of the Section 8 Tenant-Based program is to assist very low income families in affording decent, safe, and sanitary housing.

[9]The objective of the Capital Investment and Formula Grants is to assist in financing the planning, acquisition, construction, preventative maintenance, and improvement of facilities and equipment in mass transportation services.

Construction Grants[10] (HPCG) at Transportation. For each grantee identified above, we queried the FAC single audit database to identify audit findings in the programs selected. The query identified 246 audit findings.

We interviewed agency officials and reviewed agency guidance to determine their procedures for ensuring that audit findings are communicated to appropriate officials and/or offices for action and assessment of recipients' corrective actions. We also provided each agency with a list of the audit reports and findings selected for review. For each finding, we requested documentation including written management decisions and evidence of agency follow up with recipients on the corrective actions taken and the appropriateness of those actions. We interviewed agency officials and reviewed the management decisions and documentation provided on agency follow up on recipient corrective actions.

Reporting single audit results and recipient actions to correct audit findings to agency management provides management with valuable information for use in assessing program risks and identifying areas needing action. To determine whether and how the three selected agencies summarized and communicated the single audit results and actions to correct audit findings to agency management, we interviewed officials at the three agencies to determine the reports generated to inform agency officials of the single audit results.

We conducted our review from October 2001 through March 2002 in accordance with generally accepted government auditing standards.

Agencies' Efforts to Ensure That Single Audit Findings are Corrected

Education, HUD, and Transportation had procedures in place that established responsibility for obtaining, distributing, and reviewing single audit findings and for communicating that information to appropriate officials for action. However, although required by OMB Circular A-133, agencies often did not issue written management decisions or have documentary evidence of their evaluations of and conclusions on recipient actions to correct the audit findings.

[10]The objectives of the Highway Planning and Construction Program are to assist states in constructing and rehabilitating the National Highway System, foster safe highway design, and replace or rehabilitate unsafe bridges.

Guidance Existed for Obtaining Single Audit Reports and Distributing Reports to Appropriate Officials

If federal agencies are going to take action on single audit findings, they must first obtain the single audit reports or other documentation containing single audit findings relating to their programs and distribute this information to appropriate offices for action. The three agencies in our review had procedures for obtaining single audit reports and for distributing audit finding information to appropriate agency offices.

Receipt and Distribution of Single Audit Findings - Education

At Education, different offices receive and distribute single audit reports or audit findings. For example, the Office of the Chief Financial Officer's (OCFO) audit resolution coordinator receives copies of single audit reports with Title I program findings from the FAC and distributes audit finding information to the Office of Elementary and Secondary Education (OESE). OESE is responsible for the overall administration of the Title I program and resolving the audit findings and following up on corrective actions. The Office of Student Financial Assistance (OSFA) administers the Pell Grant program. OSFA receives copies of the single audit reports with Pell Grant findings directly from the FAC and distributes copies of the reports to the appropriate Pell Grant program offices for action.

Receipt and Distribution of Single Audit Findings - HUD

Although the FAC provides copies of single audit reports containing HUD program audit findings to the OCFO, officials responsible for the CDBG and Section 8 programs stated that their offices did not use those reports to identify single audit reports with findings. Rather, they obtained copies of single audit reports and/or audit finding information relating to their programs from other sources, including the award recipients and a HUD database developed by its Real Estate Assessment Center (REAC). OCFO officials noted that the office considers these procedures more efficient than having OCFO personnel review each single audit report, identify audit findings, and distribute those findings to the appropriate HUD offices.

To identify CDBG findings, the Office of Community Planning and Development (CPD) tasks its 42 field offices with identifying award recipients whose single audit reports contained CDBG-related audit findings. An August 2000 CPD memorandum instructed field offices to query the FAC single audit database to identify single audit reports containing audit findings related to the CDBG program and to obtain copies of these single audit reports directly from the federal award recipients. To perform this task, the field offices use award documents and other agency reports to identify award recipients for which they have oversight responsibility. They then query the FAC single audit database to identify

those recipients whose single audit reports contain findings and obtain copies of those reports directly from the recipients.

For the Office of Public and Indian Housing (PIH), program managers located in 43 PIH field offices generally obtain audit finding information for the Section 8 program from HUD's REAC database. Recipients electronically submit financial and compliance information, which is excerpted from single audit reports, directly into the REAC system for REAC analysis. According to HUD officials, this database contains information including the financial statements, notes to the financial statements, the schedule of expenditures of federal awards, the type of audit opinion, an identification of audit findings, and recipient corrective action plans. Findings that are in noncompliance with HUD regulations and agreements are referred to the HUD Departmental Enforcement Center for processing and follow up. PIH officials stated that the REAC database covers about 75 percent of the Section 8 program recipients and that program managers responsible for overseeing federal award recipients not covered by REAC could query the FAC single audit database to identify other single audit reports with findings. Once program managers identify reports with findings, they obtain copies of the single audit reports directly from the recipients. PIH is in the process of developing single audit guidance that it plans to issue during the summer of 2002.

Receipt and Distribution of Single Audit Findings - Transportation

The OIG receives single audit reports from the FAC and decides which single audit findings should be formally addressed by the Operating Administrations based on a number of factors. These factors include the dollar amount of expenditures, the number of federal award findings identified by the auditor, and the type of finding identified. Based on its decisions, the OIG sends "action" memoranda to the program field offices informing them of the single audit findings that require action and a response to the OIG. The OIG uses "informational" memoranda to inform the program field offices of single audit findings for which the OIG does not require a formal response. Although the OIG does not require a formal response on the "informational" memoranda, agency officials stated that they expect the field offices to ensure that recipients correct all findings, irrespective of the type of memorandum used to communicate the findings. An agency official noted that they developed this method of addressing audit report findings because they consider many findings insignificant and follow up by OIG officials is not an effective use of resources.

Written Management Decisions Generally Not Prepared

Our review found that the audit files at the three agencies contained written management decisions for 75 (about 30 percent) of the 246 findings. OMB Circular A-133 requires federal agencies to issue written management decisions on the audit findings contained in single audit reports within 6 months of receiving the recipient's single audit report. The management decisions should describe the corrective actions agencies consider necessary based on their evaluation of the audit findings and corrective action plans contained in the single audit reporting package. Since federal agencies are responsible for ensuring that the recipients implement adequate corrective action, it is important for management to clearly communicate the agency's expectations and time frames for action through management decisions.

The issuance of a management decision is also critical because, based on OMB Circular A-133, award recipients may consider an audit finding invalid and not warranting further action if all the following have occurred:

- a management decision was not issued,
- 2 years have passed since the audit report in which the finding occurred was submitted to the FAC, and
- the federal agency or pass-through entity[11] is not currently following up with the recipient on the audit finding.

As shown in table 1, the audit files reviewed contained documentation evidencing management decisions for 75 of the 246 audit findings contained in our sample audit reports.

[11]OMB Circular A-133 defines a pass-through entity as a nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

Table 1: Number of Audit Findings with Documented Management Decisions

Agency/program	Audit findings	Management decisions	
		Documented	Not documented
Education/Pell Grant	66	53	13
Education/Title I	47	13	34
HUD/Community Development Block Grants (CDBG)	37	3	34
HUD/Section 8	48	2	46
Transportation/Capital Investment and Formula Grants (CIFG)	17	4	13
Transportation/Highway Planning and Construction Grants (HPCG)	31	0	31
Total	246	75	171

Agency officials noted several possible reasons that management decisions were not prepared and available for our review including

- the findings were insignificant and did not require further action,
- follow up with recipients was performed but not documented,
- the audit report that identified the finding also indicated that the recipient had corrected the audit finding as of the report issuance date, and
- subsequent audit reports were reviewed to determine if the finding had been corrected.

The audit files generally did not contain an indication that agency officials considered any of these four factors or used them as a justification for not preparing the required management decisions. Since it is the federal agency's responsibility to ensure that corrective action implemented by the recipient will correct a finding, the agency should be on record as agreeing with the recipient's planned or completed corrective actions or pointing out other actions needed to correct the findings. In our view, none of the reasons cited justify the nonissuance of a management decision. For example, by including a finding in a single audit report, auditors are indicating that the finding is significant since government auditing

standards require auditors to report all significant findings in the report. The standards identify other means of communicating insignificant findings. Regarding the use of subsequent-year single audit reports to justify the nonissuance of a management decision, it should be noted that single audit reports must be issued no later than 9 months after the recipient's year-end. By waiting for the subsequent year's audit report, as many as 21 months could have expired from the end of the audit period for which the finding was initially reported to the receipt of the subsequent year's audit report. In our opinion, waiting for the subsequent audit report would not result in a timely notification to the recipient of the agency's position on an audit finding and the recipient's planned, in progress, or completed corrective actions.

The following section provides more detailed information on the results of our review of management decisions.

Management Decisions - Education

Our review of the audit files for the 113 Title I and Pell Grant audit findings at Education revealed that 66 of the findings had documented management decisions. Of the 47 with no written management decisions, 25 were in the Cooperative Audit Resolution and Oversight Initiative (CAROI) process, which is discussed in more detail below.

When either the OESE or Pell Grant program offices receive single audit findings, special teams assess the seriousness of the audit findings to determine the amount of attention needed for resolution. According to draft Education guidance, *Post Audit User Guide*, which has been in effect since 1987 and has been periodically updated, the purpose of this assessment process is to promote the most efficient use of external audits to assist management in achieving program goals and discharging its fiduciary responsibilities. The teams evaluate the audit findings based on criteria established in the draft guidance, which states that audit findings may be addressed using three approaches -- full resolution, abbreviated resolution, or technical assistance. The principle criteria used in evaluating each finding and determining the resolution approach is the seriousness of the finding, that is, the monetary or program compliance issues identified or the recurring nature of the finding. Full and abbreviated resolution approaches require written notification to the recipient. The guidance states that resolution by technical assistance does not require a written management decision. However, it does require that all communication with the auditee in the resolution of an audit finding using the technical assistance approach be documented and available in the audit file.

Education has also developed a process to facilitate management decisions on complex audit issues affecting multiple programs. This process, CAROI, uses a collaborative approach to resolve audit findings and their underlying causes. During the CAROI process, representatives from Education's program and OIG offices work collaboratively with state and local program managers to address complex audit findings affecting multiple programs. An agency official noted that the process may not be completed in the 6-month management decision time frame set forth in OMB Circular A-133. For those findings in our sample being addressed using the CAROI process, the 6-month requirement was not met. It should be noted, however, that an Education report[12] stated that CAROI projects have had a positive impact in reducing recurring findings identified in statewide audits.

Of the 25 single audit findings with no management decisions that are in the CAROI process, 22 relate to one recipient. Education officials told us that they are working with other federal agencies, including the Department of Justice, on fraud and other program-related issues involving this recipient.

Regarding the remaining 22 findings with no written management decisions, officials stated that, depending upon the approach the review team determined appropriate for the audit finding, program staff may have followed up with recipients but not prepared a management decision. They noted that, although no record of these discussions was in the audit files, this could have been the case for at least some of the 22 audit findings.

OMB Circular A-133 requires that management decisions clearly state whether or not the federal agency sustains the audit finding, the reasons for the decision, the expected corrective action, and that they describe any appeal process available to the recipient. Further, the Circular requires that, if the recipient has not completed corrective action as of the management decision date, the decision should give a timetable for this action. For the 66 findings with written management decisions, our review showed that the management decisions often did not contain all of the elements required by OMB Circular A-133. For example, 5 of the Title I management decisions and 25 Pell Grant management decisions did not include a timetable for follow up on the implementation of corrective

[12]Department of Education, *Management Challenges: Successes and On-Going Efforts*, (Washington, D.C.: June 2001 (http:///www.Ed. *Gov/Pubs/Planrpts* (downloaded May 24, 2002).

action. Further, 3 of the Pell Grant findings did not include expected action to correct the findings.

Management Decisions - HUD

HUD files contained only five written management decisions for the 85 CDBG and Section 8 program audit findings we reviewed. The audit files contained three written management decisions for the 37 CDBG audit findings. Fifteen of these findings were first-time findings and 22 were recurring findings. Of the recurring findings, 16 related to one recipient. Further, only two of the 48 Section 8 findings had written management decisions. Of these findings, 16 were first-time findings and 32 were recurring findings. Eighteen of the recurring findings were for one recipient. This recipient has been identified as having multiple internal control issues related to HUD and other federal agencies that require coordination with the OIG and other federal agencies. HUD officials stated that they were continuing to work with the recipient to resolve these issues.

Officials from both the Offices of Community Planning and Development and Public and Indian Housing noted that one possible reason for the lack of a written management decision was that program personnel reviewed the subsequent year's single audit reports and determined that no further action was necessary based on the status of corrective actions as cited in the report. Our review of the calendar year 2000 audit reports indicated that 27 (13 CDBG and 14 Section 8) of the 85 findings in our sample had been corrected. Therefore, this possibility did not account for most of the instances of missing management decisions. Further, as noted earlier, agencies generally receive subsequent single audit reports well after the 6-month time frame within which management decisions are required. So, at a minimum, the agency did not comply with OMB Circular A-133 timing requirements for the issuance of management decisions.

Like Education, HUD's management decisions did not include all OMB Circular A-133-required information. For example, two of the three CDBG program management decisions did not include a timetable for follow up.

In response to our work, HUD's Office of Community Planning and Development issued *Field Guidance on Single Audit Act Requirements* (CPD Field Guidance) on March 13, 2002. This guidance contains requirements outlined in OMB Circular A-133, including the requirements that management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected grantee action. If the recipient has not completed corrective action, the guidance requires

that the field offices establish a timetable for follow up. Finally, the guidance requires that management decisions describe the appeal process available to the recipient. In issuing this guidance, CPD referred to our review as showing that more detailed guidance was needed to help ensure that CPD properly carries out its oversight responsibilities. This guidance is a positive step toward ensuring that management decisions are issued for all audit findings related to the CDBG program. According to PIH officials, they plan to issue guidance covering the process for correcting audit findings contained in single audit reports in the summer of 2002.

Management Decisions - Transportation

Transportation files contained only four written management decisions for the 48 CIFG and HPCG audit findings we reviewed, all of which related to the 17 CIFG findings. Transportation guidance requires each Operating Administration to establish a system to ensure prompt responses to audit reports and implementation of audit recommendations. The guidance requires that the system provide for a complete record of actions taken on audit recommendations. Transportation assigns program managers in field offices the responsibility for preparing management decisions and following up on corrective action for those findings addressed in OIG "action" memoranda. Despite this guidance, we found few written management decisions in the audit files reviewed.

The OIG issued "action" memoranda for 4 of the 17 CIFG findings. Management decisions existed for 2 of these findings, 1 of which involved questioned costs of over $300,000 and for which the single audit report noted that corrective actions had been completed. The other 2 management decisions involved audit findings for which the OIG had issued "informational" memoranda. Further, of the 31 HPCG findings, the OIG issued two "action" memoranda that addressed 10 findings. The audit files did not contain written management decisions for these findings.

Our review of the management decisions to determine if they contained all OMB Circular A-133-required elements revealed that none of the four Transportation management decisions did so. For example, they did not contain information on the reason for the decision to sustain or not sustain the audit finding or a description of the appeals process.

Follow Up Needed to Ensure Completion of Corrective Actions

Program officials at the three agencies told us that they follow up on the implementation of corrective actions through site visits, telephone conversations, and review of subsequent single audit reports. Although the audit files contained some information relating to corrective actions, we

found very little documentation identifying program or field office evaluations of and conclusions on the adequacy of the corrective actions taken by recipients. OMB Circular A-133 requires agencies to provide the recipient with a timetable for implementing corrective action and to ensure that the award recipient takes appropriate and timely corrective actions. The Comptroller General's *Standards for Internal Control in the Federal Government* states that agency efforts to monitor internal controls should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. The lack of documentation makes it difficult for management to ensure that program offices and award recipients are meeting their audit finding-related responsibilities in an appropriate and timely manner.

Corrective Action Follow Up - Education

Our review of the audit files for the 47 Title I and 66 Pell Grant audit findings showed that 5 Title I and 25 Pell Grant files did not contain documentation of follow-up actions. Education's program managers responsible for the Title I and Pell Grant programs stated that they verify that corrective action was implemented using site visits and subsequent single audit reports. Education's draft guidance requires program officials to maintain accurate records of all audit follow-up activities, including all correspondence, documentation, and analysis of the documentation. Based on our audit file review, we were unable to verify that the agency had evaluated and concluded on the adequacy of the recipient's corrective actions.

Corrective Action Follow Up - HUD

Our review of 85 single audit findings for the CDBG and Section 8 programs identified documentation of follow up for 28 of the findings. For example, the audit files contained evidence of a review of subsequent single audit reports for 14 findings and of follow up with the recipient and determination that the audit finding was resolved for 4 findings.

CPD and PIH officials advised us that program managers located in field offices are tasked with following up with recipients on audit findings contained in single audit reports. They told us that these offices used various procedures, including contacting the federal award recipients concerning the audit findings and corrective actions and reviewing the status of the audit findings in the subsequent single audit reports, to determine if the audit findings were corrected. If considered appropriate, field offices might also conduct on-site monitoring visits at the award recipients. While field office staff may have actively followed up on findings, our review of audit files provided by field office locations showed evidence of follow up or monitoring for only 28 of the 85 findings.

The March 2002 CPD Field Guidance requires each field office to maintain files that contain all audit-related communications with the CPD award recipients, including any appropriate reports from the FAC, audit reports, and, if applicable, the auditor's management letter.[13] As noted above, PIH officials stated that they also plan to issue guidance in the summer of 2002 covering the process for correcting audit findings contained in single audits.

Corrective Action Follow Up - Transportation

Our review of documentation provided by Transportation for the 17 CIFG and 31 HPCG audit findings revealed little evidence of follow-up activity in the audit files. Although these files contained some information relating to corrective actions, they generally did not contain documentation identifying agency evaluations of and conclusions on the adequacy of the corrective actions taken by recipients. Without documentation that corrective action is appropriate, timely, and implemented, management cannot be sure that program offices and award recipients are meeting their audit finding-related responsibilities.

During discussions with field office program managers, we determined that follow-up activities vary widely. For example, personnel in one field office told us that the office follows up with the recipient to ensure that corrective action has been implemented and that follow up is tracked and documented using an automated system. Other field office program managers told us that they review the subsequent year's single audit report to determine if the deficiency has been corrected and may verify that corrective action has been implemented during site visits to the recipient. However, the audit files reviewed did not contain evidence of agency evaluations of or conclusions on the adequacy of recipient actions to correct audit findings.

Audit follow-up guidance issued by the Office of the Secretary in 1989 requires each Operating Administration to establish a system to ensure prompt responses to audit reports and the implementation of audit recommendations and further states that the system must be capable of reporting in a timely and uniform manner in order to meet information and reporting requirements. Transportation's current guidance, which it issued in March 2000, makes no mention of several OMB requirements included in earlier agency guidance, including the contents of management decisions,

[13]The auditor's management letter contains findings that the auditor did not consider significant enough to include in the audit report.

timely responses to audit reports and follow up procedures, and maintaining records of follow-up actions.

Single Audit Results are Not Communicated to Agency Management

Based on discussions with officials at the three agencies, none of the program offices with management decision preparation and corrective action responsibilities reported single audit results or recipient actions to correct single audit findings to agency management. Although neither the Single Audit Act nor OMB Circular A-133 requires this reporting, the Comptroller General's *Standards for Internal Control in the Federal Government* note that agency officials, program managers, and others responsible for managing and controlling program operations need relevant, reliable, and timely information to make operating decisions, monitor performance, and allocate resources.

Discussions with officials at each of the three agencies revealed that, even when program or other offices have information on single audit results and recipient actions to correct single audit findings, this information is not communicated to agency management for review, analysis, and possible action.

- Although officials at Education's OCFO told us that their audit resolution tracking system was capable of reporting on the status of single audit findings, no reporting to Education management occurred.

- According to an OCFO official at HUD, the various program offices within HUD do not prepare reports on the status of audit findings contained in single audit reports.

- At Transportation, the OIG reports unresolved and incompletely corrected single audit findings in its semi-annual report to the Congress. However, the report does not include information on all single audit findings, since the OIG only tracks findings for which it issues "action" memoranda, and the report contains only general information and no specific details on the nature and extent of single audit findings.

Information for such management reporting can come from many sources including agency analyses of single audit findings and agency databases, such as HUD's REAC database. Another valuable source of information is the FAC single audit database. This database consists of information obtained from a data collection form that recipients send to the FAC as part of their single audit reporting package. It contains summary information

on the auditor, the recipient and its federal programs, and audit results. The database contains about 4 years of information on over 30,000 annual single audit reports. The various data query options available provide potential users, including program managers, auditors, and other interested parties, with significant amounts of readily available information on grant recipient financial management and internal control systems and on compliance with federal laws and regulations.

To determine the types and frequency of audit findings at the six programs in the three agencies included in our review, we queried the FAC single audit database and reviewed the sample single audit reports to determine if the grantees in our selection had similar types of audit findings. Our query showed that similar audit findings were reported for grantees in each of the programs. For example, 33 of the 66 audit findings we reviewed for the Pell Grant program were attributable to grantees' noncompliance with special tests and provisions applicable to the program. These findings typically involved situations where colleges or universities were unable to provide documentation to show that students receiving federal aid attended class. For Title I programs, 11 of the 47 audit findings reviewed were attributable to grantees' noncompliance with allowable costs provisions specified in the grant. Further, our query showed 16 of the 37 audit findings for recipients of HUD's CDBG program were attributable to noncompliance with the grants reporting requirements, and 18 of the 48 HUD Section 8 program audit findings were attributable to grantees' noncompliance with the special test and provisions requirements of the Section 8 grants.

We also queried the FAC single audit database to determine if any of the programs selected for review had recurring types of audit findings. We found several instances in which single audit reports contained types of audit findings that were repeated in 3 or more consecutive years. For example, 4 of the 10 Education Pell Grant recipient reports identified eligibility findings that repeated in 3 or more consecutive years. For the Title I program, 4 grantees had subrecipient monitoring findings that repeated in 3 or more consecutive years. At HUD, a review of the database and single audit reports showed that 15 of the 37 CDBG audit findings were not corrected over a period of 3 successive years. Twelve of these 15 recurring audit findings occurred at one recipient. The remaining 3 recurring audit findings occurred at three other recipients. In addition, CDBG and Section 8 grants also had recipients with audit findings attributable to reporting, allowable costs, and eligibility that were repeated in 3 or more subsequent years. Transportation recipients selected for review had cash management, subrecipient monitoring, allowable costs,

and equipment and real property management findings that were repeated in 3 or more years at individual recipients.

This type of information could be a valuable tool in improving grants management by helping management evaluate agency oversight and monitoring activities and identify problem areas. It could also assist in setting priorities for actions needed to correct program problems. In addition, it can provide agencies with information needed to help them accomplish their responsibilities as established by *The President's Management Agenda*, *Fiscal Year 2002*, initiative to reduce improper payments in federal programs.

Conclusions

The first step in an agency's efforts to address single audit findings is obtaining single audit reports and distributing them to agency officials responsible for reviewing the report findings and taking actions on those findings. Each of the three agencies in our review had procedures for communicating audit reports and/or audit finding information to program or field offices for action.

OMB Circular A-133 requires agencies to prepare written management decisions on audit findings contained in single audit reports. Our review of the audit files at the three agencies found that they issued written management decisions for only 75 of the 246 audit findings contained in the single audit reports included in our review. The agencies noted several reasons for not preparing written management decisions, including (1) the audit findings were considered insignificant or not serious, (2) follow up with recipients was performed but not documented, (3) the single audit report stated that the recipient had corrected the finding prior to the report's issuance, and (4) the subsequent year's single audit report indicated that the recipient had corrected the finding. In our view, none of these reasons justify the nonissuance of a management decision. Further, the audit files generally did not contain any evidence that agency officials considered these factors or otherwise considered the preparation of management decisions.

Education, HUD, and Transportation do not adequately document their evaluations of and conclusions on the corrective actions taken by recipients to correct single audit findings. While the audit files contained copies of recipient documents and other records, they generally did not contain agency evaluations of or conclusions on the adequacy of the recipient actions cited in those records. This documentation is critical

because each agency relies heavily on program, regional, or field offices to ensure that corrective actions occur and none requires reporting on the corrective action status on all findings contained in single audit reports. Therefore, requiring documentation can help ensure that these offices perform their responsibilities in ensuring that recipients take all necessary corrective actions.

Through discussions with agency officials, we determined that none of the agencies report single audit results or the status of single audit findings and implementation of action to correct deficiencies to agency management. This reporting can strengthen accountability and oversight by providing management with information useful in the analyses of both programwide problems and recurring problems at specific recipients. Further, because many federal programs that are subject to single audits also experience improper payments, this reporting can be useful to agency management in addressing the requirements established in *The President's Management Agenda*, *Fiscal Year 2002*, for reducing such payments.

Recommendations for Executive Action

To ensure that recipients correct the weaknesses identified in single audit reports, we recommend that the Secretary for the departments of Education, HUD, and Transportation ensure that each has established and follows guidance that addresses the OMB Circular A-133 requirements for all agency programs whose awards are subject to the Single Audit Act. This guidance should clearly define the roles and responsibilities of each agency unit in ensuring appropriate and timely actions on single audit findings including:

- preparing and issuing management decisions that clearly communicate the results of agency analyses of single audit findings and the adequacy of corrective actions implemented or planned by the recipient,
- performing follow up procedures to ensure that the recipient implemented adequate corrective action, and
- documenting results of evaluations of and conclusions on recipients' actions to correct audit findings.

We also recommend that the Secretary of each of the three agencies implement policies and procedures for reporting information to agency management on (1) the types and causes of findings identified in single audit reports and (2) the status of corrective actions.

Agency Comments and Our Evaluation

Education agreed with the thrust of the report's findings and recommendations. Its comments (reprinted in appendix I) noted that it is important to ensure that recipients correct the weaknesses identified in single audit reports and that the department takes the necessary steps to ensure the implementation of single audit guidance as required under OMB Circular A-133. An attachment to the comments, which is not reprinted, provided several clarification points and suggested additions to the report, which we considered and included in the report, as appropriate.

HUD agreed with the report's findings and recommendations. Its comments (reprinted in appendix II) described actions that HUD is taking to improve its oversight and use of single audits to strengthen its program compliance and performance. They also contained several minor technical or editorial revisions that we considered and included in the report, as appropriate.

The Department of Transportation's comments (reprinted in appendix III) raised several issues about the scope of our audit work, the conclusions reached, and the recommendations made.

- Transportation questioned our audit scope and suggested that we should have conducted independent field testing to determine the extent and effectiveness of recipient actions taken. Our objective was to determine what agencies do to ensure that recipients take timely and appropriate action; not to independently reperform the steps that program and other offices, as applicable, would need to do to evaluate recipient corrective actions. To accomplish our objective, we examined agency audit files to determine the extent to which those files contained evidence of agency actions to ensure that recipients had taken appropriate and timely corrective actions on all audit findings. As we noted in the report, the audit files generally did not contain evidence of these actions either through written management decisions or through documentary evidence of agency evaluations of or conclusions on recipient corrective actions.

- Transportation noted that not all single audit findings are useful or meaningful and that our report did not recognize this point. Two points are relevant here. First, the Comptroller General's *Government Auditing Standards*, which auditors performing single audits are required to follow, requires auditors to "report the significant audit findings developed in response to each audit objective." The standards

also note that audit findings not reported, because of their insignificance, should be separately communicated to the auditee. The auditors included all of the findings discussed in our report in their single audit reports. Our objective was not to evaluate the usefulness of audit findings or whether auditors made the right determination as to significance in including the 48 findings in the reports covered by our review. Regarding the second point, the "Management Decisions – Transportation" section of the report that we provided for comment identified management decision information for findings addressed by both "action" and "informational" memoranda. In using these different memoranda, Transportation distinguished between serious or significant and other types of findings. We did not separately judge or evaluate the decision to use one or the other type of memoranda. However, OMB Circular A-133 does not distinguish between the serious or other types of audit findings. It clearly states that actions are required on all audit findings.

- Transportation's comments also discussed the agency's process for reviewing and tracking audit findings. They noted that the agency tracks significant findings in the joint OIG/management tracking system until documentation is provided that action has been completed and stated that less significant actions are tracked locally. The draft report we provided for comment generally contained this same information and discussed the types of memoranda the agency used to communicate single audit findings to appropriate agency offices. We do not take issue with the agency's process. However, as our report states, our review of audit files, irregardless of whether the agency handled the audit findings with "action" or "informational" memoranda, found that the files generally did not contain documentation identifying agency evaluations of and conclusions on the adequacy of the corrective actions taken by recipients.

- Transportation stated that our report recommends that each department create a new system or systems for communicating audit findings to top management. While our report recommends reporting to top management, it also notes that information for such reporting can come from such sources as agency analyses of single audit findings, agency databases, and the FAC single audit database. We do not recommend or suggest that agencies develop new systems. Agencies such as Transportation, that uses a joint OIG/management tracking system for significant findings, should use information obtained from that or other existing systems to summarize single audit results and the status of

recipient corrective actions and communicate that information to top management.

The final agency comment notes that documentation concerns alone are insufficient to demonstrate that agencies are ineffective at ensuring that grantees achieve the changes recommended by single audits to safeguard federal funds. Our report does not make the point that agencies are ineffective if they do not maintain appropriate documentation. Clearly, recipients can take timely and appropriate action to correct audit findings without regard to federal agency documentation that such action occurred. However, absent documentation that timely and appropriate actions occurred, agency management would have no basis for concluding that agency follow-up with recipients occurred or that recipient corrective actions, if any, were timely and appropriate.

We are sending copies of this report to the Ranking Minority Member, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, House Committee on Government Reform; the Chairman and Ranking Minority Member, Senate Committee on Appropriations; the Chairman and Ranking Minority Member, House Committee on Appropriations; the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member, House Committee on Government Reform; the Chairman and Ranking Minority Member, Senate Budget Committee; and the Chairman and Ranking Minority Member, House Budget Committee. We are also sending copies to the Director of the Office of Management and Budget and agency CFOs and IGs. Copies of this report will be made available to others upon request. This report will also be available on GAO's home page (http://www.gao.gov).

Please call me at (213) 830-1065 or Tom Broderick, Assistant Director, at (202) 512-8705 if you or your staff have any questions about the information in this report. Key contributors to this report were Marian Cebula, Cary

Chappell, Mary Ellen Chervenic, Perry Datwyler, Taya Tasse, and Jack Warner.

Sincerely yours,

Sally E. Thompson
Director, Financial Management and Assurance

Comments From the Department of Education

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

JUN 10 2002

Ms. Sally E. Thompson
Director, Financial Management and Assurance
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. Thompson:

The Secretary has asked that I respond to your request for comments on the GAO draft report entitled *Single Audit: Actions Needed To Ensure That Findings Are Corrected* (GAO-02-705), which was transmitted to the Department of Education on June 4, 2002.

We are pleased to note from your report that the Department is doing a good job in carrying out its responsibilities under the Single Audit Act. We know there is room for improvement. Let me state from the outset that the Secretary and I are strongly committed to making significant progress towards sound financial management and instituting a Culture of Accountability within the Department of Education. Your report is welcomed and will help us to make further improvements in our ability to comply with responsibilities under the Single Audit Act.

We have long recognized the importance of single audits as a critical management tool and, over the years, have adopted some unique and innovative approaches. For example, as you have noted in your report, the Cooperative Audit Resolution and Oversight Initiative (CAROI) is a practical approach to addressing complex and recurring single audit findings. Through CAROI, the Department works to bring all key partners, both Federal and State, to the table to address audit findings. We've had excellent results in resolving issues in a meaningful and permanent way. One example is our collaborative effort with the State of Pennsylvania. Over 120 findings, involving complex and high dollar issues, were resolved in a relatively short period of time. As a result of CAROI, Pennsylvania's subsequent single audit did not contain any repeat findings. Another improvement in place is "Triage," a process by which the Department assesses the seriousness of single audit findings to determine the amount of attention needed for resolution. We are committed to making additional improvements in the Department's single audit process.

We agree with the general thrust of your findings and recommendations. We believe it is important to ensure that recipients correct the weaknesses identified in single audit reports and that the Department takes the necessary steps to ensure the implementation of single audit guidance as required under OMB Circular A-133.

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Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

We also concur with your recommendation that agency management be kept apprised of single audit findings and grantee corrective actions. While the Department could improve in this area by more effectively sharing information centrally across program areas, this activity is in large measure already taking place. Management issues hundreds of decisions a year on single audit findings addressing program compliance requirements. At ED, these decisions are made at the Assistant Secretary's level. Thus, the Assistant Secretaries (or their designees) are aware of and involved in addressing the compliance issues affecting programs for which they are responsible. We also communicate to agency management on repeat or serious audit findings through the CAROI and Triage processes discussed above.

We are also attaching additional, more detailed comments and clarifications for your consideration.

Thank you for the opportunity to comment. My staff and I, as well as staff from Title I and the Office of Federal Student Aid (FSA), are prepared to respond if you or your representatives have any questions.

Sincerely,

Jack Martin

Attachment

Comments From the Department of Housing and Urban Development

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-0100

JUN 11 2002

OFFICE OF THE CHIEF FINANCIAL OFFICER

Ms. Sally E. Thompson
Director, Financial Management and Assurance
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Thompson:

Thank you for the opportunity to review and comment on the General Accounting Office's (GAO) proposed report entitled *Single Audit: Actions Needed To Ensure That Findings Are Corrected* (GAO-02-705). We agree with the GAO's findings and recommendations pertaining to the U.S. Department of Housing and Urban Development (HUD) and are taking action to improve our oversight and use of single audits to strengthen HUD's program compliance and performance. The following sections provide our specific comments on GAO's recommendations and requests for consideration of minor technical or editorial revisions.

HUD Comments on the GAO Recommendations

Recommendation: The GAO recommends that "the Secretary for each of the three agencies ensure that the agency has established and follows guidance that addresses the OMB Circular A-133 requirements for all agency programs whose awards are subject to the Single Audit Act."

Comments: We agree with this recommendation and are in the process of developing Departmental guidance for all HUD program areas whose awards are subject to the Single Audit Act. In addition, HUD's Office of Public and Indian Housing (PIH) is in the process of preparing guidance for its field office staff. This guidance will reflect the requirements listed in OMB Circular A-133 for monitoring and follow-up of single audit reports and management decisions. PIH will also update its Monitoring Guidebook, which is currently being revised, to reflect these requirements. The PIH guidance will be consistent with the HUD Office of Community Planning and Development's (CPD) field staff guidance noted in the GAO audit report.

Recommendation: The GAO recommends that "the Secretary of each of the three agencies implement policies and procedures for reporting information to agency management on (1) the types of findings identified in single audit reports and (2) the status of corrective actions."

Comments: We agree with this recommendation, and have plans to assure that a central single audit tracking system is available to cover all HUD program activity. However, we believe a more cost effective and efficient use of resources would be to enhance the

Federal Audit Clearinghouse (FAC) database system to produce finding reports and corrective action tracking and status information, versus individual agency systems efforts. Therefore, it is suggested that the second sentence at the top of page 5 be reworded to read: "We also recommend that the Federal Audit Clearinghouse provide the capability to easily produce reports on (1) the types of findings identified in single audit reports and (2) the status of corrective actions for use by agency program managers." Additionally, we suggest that the first sentence below the bullets on page 33 be reworded to read: "We also recommend that the Federal Audit Clearinghouse provide a user-friendly capability to report information by agency program on (1) the types...."

Other HUD Comments

We request the GAO's consideration of the following clarifying or editorial revisions to the final report.

1. On page 9, footnote number 8 refers to the Section 8 program and the Office of Public and Indian Housing's (PIH) responsibility for overall management. This statement is not accurate. PIH has responsibility for oversight and management of only the Section 8 Tenant-Based programs, as was noted during the close-out meeting with GAO staff. HUD's Office of Multifamily Housing has responsibility for the Section 8 Project-Based programs. Therefore, we believe a clarification to that effect is necessary in this report to accurately depict the duties and responsibilities of PIH. Also, on page 9, last line above the footnotes, please delete the "and" between "Development" and "Block" and add the word "entitlement" after "(CDBG)."

2. On page 13, the report states that recipients electronically submit financial and compliance data to REAC for database entry. REAC does not perform database entries. Recipients input data into the REAC system. The report failed to mention that recipients' submissions also include the top-level financial statements (not just "financial statement data"), notes to the financial statements, and the schedule of expenditures of Federal awards. Therefore, we suggest adding the following phrase at the end of the first sentence in the last paragraph: "which includes all financial statements, notes to the financial statements, and the schedule of expenditures of Federal awards."

3. On page 14, the first line before the sentence that begins with "PIH officials stated..." insert "Findings that are in non-compliance with HUD regulations and agreements are referred to the HUD Departmental Enforcement Center for processing and follow-up."

4. On page 21, second paragraph, the first sentence should be reworded to delete "CDBG" and "Section 8" and state "Officials from both the Offices of Community Planning and Development and Public and Indian Housing noted...."

Again, the Department appreciates the opportunity to comment on this proposed report before publication. If you have any questions, please contact James M. Martin, Assistant Chief Financial Officer for Financial Management, at (202) 708-0638.

Sincerely,

Angela M. Antonelli
Chief Financial Officer

Comments From the Department of Transportation

U.S. Department of Transportation

Assistant Secretary for Administration

400 Seventh St., S.W.
Washington, D.C. 20590

June 12, 2002

Ms. Sally E. Thompson
Director Financial Management and Assurance
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Thompson:

The Department appreciates the opportunity to review the General Accounting Office (GAO) draft report, "Single Audit: Actions Needed to Ensure that Findings Are Corrected." The draft report findings and recommendations are based primarily on incomplete paperwork that GAO identified in agency single audit files. While examining agency files relating to single audits is a useful first step for gauging agency actions, it does not provide sufficient evidence to demonstrate whether agencies are taking effective action with single audit findings. This would require the draft report to go beyond the agency files and evaluate the validity and potential utility of the single audit recommendations and conduct independent field-testing to determine the extent and effectiveness of actions taken.

The key to understanding agency actions on single audit findings is the realization that not all single audit findings are useful or meaningful, an issue missed in the draft report. Simply examining the number of audit findings does not address the utility of findings, a significant issue with single audits. For example, we routinely receive single audit recommendations about separation of duties by grantees in finance related areas. Separation of duties may not be possible for small recipient organizations because there may only be one staff person to cover multiple functions; however, accounting firms are compelled to report such findings even though corrective action, such as hiring additional staff, may not be cost effective. We did not discern any evaluation regarding such quality issues involving audit findings, or an attempt to sort out or prioritize single audit findings in the GAO draft report.

The U.S. Department of Transportation has a logical process for identifying audit findings, prioritizing its efforts, and determining if the actions were taken. For perspective, it is important to realize that in FY-2001 the Department provided about $30 billion in grant assistance to State and local governments and transportation authorities around the country. During the same period, we received single audits with recommendations valued at about $10 million, or about .03 of 1 percent of the total funds allocated. With the Office of Inspector

General's (OIG) assistance, each single audit report is analyzed and evaluated against 10 criteria, including the dollar impact of the finding, the finding's apparent significance, and whether the grantee has already taken corrective action, to help prioritize management actions in response to single audits. The reports are then provided to modal field offices for appropriate action. Significant findings are tracked in the Department's joint OIG/management tracking system until documentation is provided that action has been completed. Less significant actions are tracked locally, as we adhere to the general tenet that it is unwise to spend more on corrective actions than the sums identified as a result of the audit findings.

The report recommends that each Department create a new reporting mechanism for communicating single audit findings to top management based on the presumption that it could assist agencies in identifying trends in single audit findings. In order for the GAO draft report to construct a convincing case for creating such a system or systems, it would need to present a sound cost benefit analysis. Further, since the report identified common findings across agencies, it should consider whether it makes sense to build a separate system at each Department or whether it would be more efficient to create a single Governmentwide system. Finally, the report would need to consider whether the Federal Audit Clearinghouse system, which already enables reporting relative to the type of audit findings associated with the 14 compliance supplement requirements, could address this issue. We do not see evidence of any such analyses in the draft report.

Overall, the Department tries to apply sensible good Government principles to its implementation of the A-133 Single Audit program. We approach these audits based on a logical system for prioritizing action, work with grantees to ensure appropriate actions are taken, and centrally track the priority audit findings through to completion. While the documentation concerns noted in the draft report can be addressed, documentation concerns alone are insufficient to demonstrate that agencies are ineffective at ensuring grantees achieve the changes recommended by single audits to safeguard Federal funding.

Again, we appreciate this opportunity to review and comment on the draft report. Please contact Martin Gertel on 366-5145 with any questions.

Sincerely,

Melissa J. Allen

Melissa J. Allen

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