



Highlights of [GAO-08-213T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Federal government grants to state and local governments have risen substantially, from \$7 billion in 1960 to almost \$450 billion budgeted in 2007. The single audit is an important mechanism of accountability for the use of federal grants by nonprofit organizations as well as state and local governments. However, the quality of single audits conducted under the Single Audit Act, as amended, has been a longstanding area of concern since the passage of the act in 1984. The President's Council on Integrity and Efficiency (PCIE) recently issued its *Report on National Single Audit Sampling Project*, which raises concerns about the quality of single audits and makes recommendations aimed at improving the effectiveness and efficiency of those audits. This testimony provides (1) GAO's perspective on the history and importance of the Single Audit Act and the principles behind the act, (2) a preliminary analysis of the recommendations made by the PCIE for improving audit quality, and (3) additional considerations for improving the quality of single audits.

What GAO Recommends

GAO supports PCIE's recommendations and points out factors for consideration in determining actions, including (1) audit quality problems by size of audit and (2) the distribution of audits by size. GAO also suggests a separate effort to evaluate the framework for single audits.

To view the full product, including the scope and methodology, click on [GAO-08-213T](#). For more information, contact Jeanette Franzel at (202) 512-9471 or franzelj@gao.gov.

SINGLE AUDIT QUALITY

Actions Needed to Address Persistent Audit Quality Problems

What GAO Found

In the early 1980s, Congress had concerns about a lack of adequate oversight and accountability for federal assistance provided to state and local governments. In response to concerns that large amounts of federal financial assistance were not subject to audit and that agencies sometimes overlapped on oversight activities, Congress passed the Single Audit Act of 1984. The act adopted the single audit concept to help meet the needs of federal agencies for grantee oversight as well as grantees' needs for single, uniformly structured audits. GAO supported the passage of the Single Audit Act, and continues to support the single audit concept and principles behind the act as a key accountability mechanism for federal grant awards. However, the quality of single audits has been a longstanding area of concern since the passage of the act in 1984.

In its June 2007 *Report on National Single Audit Sampling Project*, the PCIE found that, overall, approximately 49 percent of single audits fell into the acceptable group, with the remaining 51 percent having deficiencies severe enough to classify the audits as limited in reliability or unacceptable. PCIE found a significant difference in results by audit size. Specifically, 63.5 percent of the large audits (with \$50 million or more in federal award expenditures) were deemed acceptable compared with only 48.2 percent of the smaller audits (with at least \$500,000 but less than \$50 million in federal award expenditures). The PCIE report presents compelling evidence that a serious problem with single audit quality continues to exist. GAO is concerned that audits are not being conducted in accordance with professional standards and requirements. These audits may provide a false sense of assurance and could mislead users of the single audit reports.

The PCIE report recommended a three-pronged approach to reduce the types of deficiencies found and to improve the quality of single audits: (1) revise and improve single audit standards, criteria, and guidance; (2) establish minimum continuing professional education (CPE) as a prerequisite for auditors to be eligible to be able to conduct and continue to perform single audits; and (3) review and enhance the disciplinary processes to address unacceptable audits and for not meeting training and CPE requirements.

In this testimony, GAO supports PCIE's recommendations and points out issues that need to be resolved regarding the proposed training and other factors that merit consideration when determining actions to improve audit quality. GAO believes that there may be opportunities for considering size when implementing future actions to improve the effectiveness and quality of single audits. In addition, a separate effort considering the overall framework for single audits could answer such questions as whether simplified alternatives can achieve cost-effective accountability in the smallest audits; whether current federal oversight processes for single audits are adequate; and what role the auditing profession can play in increasing single audit quality.