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GAO'S REVIEW  
OF SINGLE AUDIT  
IMPLEMENTATION

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THANKS MARV FOR THE NICE INTRODUCTION. THE LAST TIME I WAS INTRODUCED BEFORE A GROUP LIKE THIS, THE MC SAID "WE HAD A REAL GOOD SPEAKER LINE UP, BUT HE GOT SICK, SO WE GOT WALT HERRMANN INSTEAD." WITH THAT HE TURNED THE PODIUM OVER TO ME.

SERIOUSLY, I APPRECIATE THE OPPORTUNITY TO MEET WITH YOU AND TALK A LITTLE ABOUT THE WORK WE DONE RELATIVE TO SINGLE AUDITS. ALSO, I REALLY APPRECIATE GETTING A CHANCE TO BE ON BEFORE BILL BROADUS. AS YOU WILL SEE, HE IS A TOUGH ACT TO FOLLOW. ALSO, IF HE WENT FIRST, I WOULD PROBABLY ONLY GET A MINUTE AND A HALF FOR MY PRESENTATION. THIS WAY I GET MY 2 CENTS WORTH IN FIRST, AND BILL GETS THE MINUTE AND HALF. I TRIED TO WARN BOB CROWL ABOUT HAVING TWO OLD KENTUCKY BOYS TALKING DURING THE SAME SESSION, BUT 'HE DIDN'T LISTEN.

WHAT I WANT TO COVER TODAY IS JUST A LITTLE BACKGROUND ON SINGLE AUDITS AND THEN TALK ABOUT WHAT WE HAVE DONE IN OUR WORK AND THE CONCLUSIONS WE HAVE COME UP WITH.

FIRST, THE BACKGROUND. MOST OF THIS IS NOT NEW TO ANY OF YOU, BUT THIS IS JUST TO KIND OF PUT EVERYTHING IN PERSPECTIVE.

## HOW THE SINGLE AUDIT BEGAN

1. THE IDEA OF A SINGLE AUDIT GOES BACK QUITE A BIT. THE

FIRST YELLOW BOOK -- WHICH WAS ISSUED IN 1972 -- TALKS ABOUT:

--MUTUAL INTEREST OF GOVERNMENT OFFICIALS AT

VARIOUS LEVELS OF GOVERNMENT.

--COOPERATION BY FEDERAL, STATE, AND LOCAL GOVERNMENTS

IN AUDITING PROGRAMS TO ELIMINATE DUPLICATION OF

EFFORT, AND

--RELYING ON THE WORK OF OTHER AUDITORS

2. IN 1979 THE GAO AND THE JFMIP BOTH ISSUED REPORTS STATING

THAT THE SYSTEM FOR AUDITING FEDERAL GRANTS WAS NOT VERY

EFFECTIVE. THE GAO REPORT POINTED OUT THAT:

--80 PERCENT OF FEDERAL FUNDS WERE NOT BEING AUDITED BY

FEDERAL AGENCIES.

--FURTHER, AUDITS WERE PERFORMED ANNUALLY FOR SOME GRANTS

THAT WERE TOO SMALL TO WARRANT THAN AN OCCASIONAL

AUDIT, AND

ALSO, THERE WAS AN

--INCONSISTENCY IN FEDERAL LAWS AND REGULATIONS THAT  
PREVENTED AUDIT AGENCIES FROM COMBINING THEIR AUDIT  
EFFORTS

3. BECAUSE OF THESE STUDIES, AND OTHER NOISE IN THE  
SYSTEM, OMB ISSUED ATTACHMENT P TO OMB CIRCULAR  
A102 IN OCT 1979. THIS DOCUMENT CALLED FOR A  
NEW APPROACH TO GRANT AUDITS -- A SINGLE COORDI-  
NATED AUDIT OF GRANT RECEIPIENTS ON AN ENTITY-WIDE BASIS.  
THE ISSUANCE OF ATTACHMENT P ITSELF WAS JUST THE BEGINNING.  
THERE WERE A NUMBER OF IMPORTANT ITEMS STILL OPEN
- POLICIES AND PROCEDURES NEEDED TO BE DEVELOPED
  - PILOT AUDITS NEEDED TO BE DEVELOPED
  - AN OPERATIONAL FRAMEWORK AT THE WORKING LEVEL  
NEEDED TO BE ESTABLISHED.

IN THE NEXT TWO YEARS SOME OF THESE ITEMS WERE TAKEN CARE  
OF, OTHERS WERE NOT. AS A RESULT ONLY A FEW SINGLE AUDITS WERE  
DONE AND THESE WERE ALL OVER THE BALL PARK IN TERMS OF WHAT AUDIT  
WORK WAS ACCOMPLISHED.

THIS LED TO HEARINGS BEING HELD BY THE INTERGOVERNMENTAL RELATIONS AND HUMAN RESOURCES SUBCOMMITTEE OF THE HOUSE GOVERNMENT OPERATIONS COMMITTEE IN MARCH 82. THE BASIC QUESTION ASKED AT THE HEARINGS WAS ONE THAT HAD BEEN BOUNCING AROUND FOR ABOUT A YEAR OR TWO. THIS WAS -- WHETHER SINGLE AUDIT LEGISLATION WAS NEEDED. AT THESE HEARINGS THE COMPTROLLER GENERAL TESTIFIED. HE STATED THAT

--THE SINGLE AUDIT WAS SUPERIOR TO THE GRANT-BY-GRANT APPROACH BUT, BECAUSE OF THE MANY IMPLEMENTATION PROBLEMS TO BE OVERCOME HE RECOMMENDED NOT ESTABLISHING LEGISLATION FOR THE SINGLE AUDIT AT THAT TIME.

--HE ALSO STATED THAT THE MOST IMPORTANT ISSUE NEEDING RESOLUTION WAS AGREEMENT ON A COMMON DEFINITION OF WHAT CONSTITUTED A SINGLE AUDIT.

SUBSEQUENT TO THE HEARINGS, THE COMPTROLLER GENERAL ESTABLISHED A SINGLE AUDIT POLICY COMMITTEE WITH REPRESENTATION FROM THE IG'S, STATE AND LOCAL AUDITORS, AICPA, MFOA, GAO, AND OMB.

## FIRST PHASE OF OUR WORK

ALONG ABOUT THIS SAME TIME THE CG DIRECTED US TO STUDY THE SINGLE AUDIT PROGRESS. THE FIRST PHASE OF OUR WORK WAS RELATIVELY LIMITED. WE USED STAFF FROM OUR DETROIT, CHICAGO, AND CINCINNATI OFFICES AND OBTAINED INFORMATION PRIMARILY FROM FED, REGION V. THIS WAS DONE BECAUSE WE COULD BENEFIT FROM THE GOOD COOPERATION AND HIGH DEGREE OF INTEREST WE HAD IN THE MIDWESTERN FORUM. WE HAD DISCUSSED SINGLE AUDITS AT SEVERAL OF OUR MEETINGS (AS MOST FORUMS HAD) AND MOST MEMBERS EXPRESSED A STRONG DESIRE TO HELP US IN OUR REVIEW. BOY, DID THEY WANT TO HELP.

AT FIRST IT WAS REALLY KIND OF DIFFICULT TO FIGURE OUT WHAT WE NEEDED TO DO. OUR TASK WAS TO FIND HOW WELL THE SINGLE AUDIT CONCEPT WAS WORKING. BASED ON WHAT WE HAD HEARD, THE POSSIBILITIES RANGED FROM TOTAL SUCCESS TO TOTAL DISASTER, WITH NO HARD DATA TO PROVE ANYTHING. WE DIRECTED OUR STUDY TOWARD

--IDENTIFYING AND ANALYZING SOME OF THE DIFFERENCES  
IN UNDERSTANDING OF SINGLE AUDITS:

--DETERMINING HOW THE ROLE OF COGNIZANT AGENCY  
WAS BEING CARRIED OUT; AND

--LOOKING INTO REQUIREMENTS FOR STATE AND LOCAL AUDITS.  
WE COMPLETED THIS PHASE IN AUGUST 1982.

OUR INITIAL RESULTS (BASED ON OUR SIX STATE AREA) LED US TO  
THE FOLLOWING CONCLUSIONS:

--THERE WAS IN FACT A LACK OF A COMMON UNDERSTANDING  
OF WHAT WAS TO BE ACCOMPLISHED BY A SINGLE AUDIT;

--THE DEVELOPMENT OF NEEDED POLICIES AND PROCEDURES  
WAS STILL GOING ON;

--MANY COGNIZANT AGENCIES WERE STILL GROPING  
FOR AN UNDERSTANDING OF THEIR ROLE;

--THERE WAS AN IMPACT FROM THE FACT THERE  
WERE DIFFERENT FEDERAL AUDIT REQUIREMENTS  
DEPENDING ON THE SOURCE OF FUNDING; AND

--THERE WAS A CONSIDERABLE AMOUNT OF STATE  
AND LOCAL AUDITING BEING DONE, BUT IT  
VARIED FROM STATE TO STATE AND VERY LITTLE  
WAS UTILIZED TO MEET SINGLE AUDIT REQUIREMENTS.

AND FINALLY, ALL OF THIS LED UP TO THE FACT THAT THERE HAD BEEN VERY SLOW PROGRESS AND ONLY A FEW SINGLE AUDITS HAD BEEN UNDERTAKEN AND COMPLETED.

WE FOUND THERE WAS, WITH RESPECT TO OUR FIRST CONCLUSION, A DIFFERENCE IN HOW PEOPLE VIEWED THE PURPOSE OF SINGLE AUDITS AND THIS DIFFERENCE LED TO A VARIETY OF INTERPRETATIONS OF OF WHAT AUDIT WORK SHOULD BE DONE. THE DIFFERENCE CENTERED AROUND WHETHER THE EMPHASIS OF AUDIT WAS TO BE PREVENTION OR DETECTION. SOME AUDITS WERE ALMOST SOLELY ORIENTED TOWARD QUESTIONED COSTS AND OTHERS WERE SOLELY CONCERNED WITH THE ACCURACY OF THE FINANCIAL STATEMENTS.

#### FINANCIAL STATEMENTS

WE CONCLUDED THERE WERE SEVERAL CAUSES FOR THESE DIFFERENCES (1) A LACK OF A COMMONLY ACCEPTED DEFINITION, (2) THE DIFFERENCE IN BACKGROUND AND EXPERIENCE OF THE PARTIES INVOLVED, AND (3) THE PRESENCE OF OTHER FEDERAL STATUTORY AUDIT REQUIREMENTS.

ANOTHER MAJOR PROBLEM WAS THE PIECEMEAL DEVELOPMENT OF NEEDED POLICIES AND PROCEDURES. FOR EXAMPLE, ALTHOUGH ATTACHMENT P WAS ISSUED IN OCTOBER 1979, IT WAS NOT UNTIL AUGUST 1980, 10 MONTHS LATER, THAT THE FIRST COMPLIANCE SUPPLEMENT WAS ISSUED. EVEN THEN, THE SUPPLEMENT WAS VERY BRIEF AND IN GENERAL TERMS, THE REVISED COMPLIANCE SUPPLEMENT WHICH IS CURRENTLY IN USE WAS NOT ISSUED UNTIL DECEMBER 1982, OR OVER THREE YEARS AFTER ATTACHMENT P WAS ISSUED.

THE SAME SCENARIO WAS TRUE WITH RESPECT TO THE COGNIZANT AGENCIES. THE ASSIGNMENT OF VARIOUS COGNIZANCIES AT THE STATE LEVEL WAS NOT MADE UNTIL OCTOBER 1980 (12 MONTHS AFTER ATTACHMENT P). A YEAR LATER THE COGNIZANT AGENCY GUIDELINES WERE ISSUED, AND FINALLY FOUR MORE MONTHS PASSED AND IT WAS NOT UNTIL MARCH 1982 THAT COGNIZANT AGENCY RESPONSIBILITY WAS ASSIGNED FOR THE 300 LARGEST CITIES AND COUNTIES. AT THIS SAME TIME, CRITERIA WAS ISSUED FOR ASSIGNING COGNIZANCE TO OTHER GENERAL PURPOSE GOVERNMENTS AND THE SPECIAL PURPOSE GOVERNMENTS. THE FACT THAT MULTIPLE COGNIZANCIES WERE ASSIGNED WAS ALSO VERY IMPORTANT.

THE AUDIT GUIDELINES ARE ANOTHER FACTOR. IN 1978, PRIOR TO THE ISSUANCE OF ATTACHMENT P, GAO ISSUED AUDIT GUIDELINES DESIGNED TO CONSOLIDATED THE VARIOUS GRANT AUDIT GUIDES. THESE GUIDELINES WERE REVISED IN APRIL 1980 TO MEET ATTACHMENT P REQUIREMENTS. SUBSEQUENTLY IT WAS DECIDED THAT FURTHER REVISION WAS NEEDED, A COMMITTEE WAS ESTABLISHED TO COME UP WITH THE REVISED GUIDELINES. THE COMMITTEE WAS CHAIRED BY A REPRESENTATIVE OF THE AICPA WITH MEMBERSHIP CONTAINING REPRESENTATIVES FROM GAO, OMB, THE IG'S, STATE AND LOCAL AUDITORS. THESE GUIDELINES ARE STILL PENDING. THE HANG UP ACCORDING TO THE CHAIRMAN IS THAT THERE ARE STILL CONSIDERABLE DIFFERENCES WITHIN THE FEDERAL GOVERNMENTAL AS TO WHETHER WE WANT QUESTIONED COSTS OR REVIEWS OF INTERNAL CONTROL SYSTEMS.

AND FINALLY (SUBSEQUENT TO OUR INITIAL WORK) THE COUP DE GRACE, THE REVISED ATTACHMENT P WAS SENT OUT FOR COMMENT JUST LAST MONTH (AUGUST 83), THAT IS PROBABLY ENOUGH ON THE POLICIES AND PROCEDURES.

THE ROLE OF THE COGNIZANT AGENCY, THERE WERE SOME VERY OBVIOUS REASONS FOR THE VARYING INTERPRETATIONS THAT WE FOUND. MOST NOTABLY OF COURSE WAS THE PIECEMEAL ISSUANCE OF GUIDANCE, ALSO, WE FOUND

THAT ALTHOUGH THE REGIONAL IG'S WERE THE KEY PLAYERS, THEY RECEIVED VERY LITTLE GUIDANCE FROM TOPSIDE. INFO THAT WAS RECEIVED WAS NOT CONSISTENT FROM AGENCY TO AGENCY.

ALL DURING THIS TIME THE REGIONAL IG'S WERE FORCED TO MAKE AD HOC, REAL TIME DECISIONS WITH RESPECT TO THE SINGLE AUDITS BEING CARRIED OUT OR PLANNED. EACH DECISION WAS ACCEPTED BY THE AUDIT COMMUNITY AS POLICY.

ONE FURTHER COMPLICATION IN THE PICTURE WAS THE DIFFERENCE IN FEDERAL AUDIT REQUIREMENTS.

THIS CHART SUMMARIZES THE TWO KEY DIFFERENCES IN THE REGULATIONS OR LAWS GOVERNING FEDERAL AUDIT REQUIREMENTS. THE FIRST DIFFERENCE IS IN THE CYCLE FOR THE AUDIT

--ATTACHMENT P SUGGESTS AN ANNUAL AUDIT BUT REQUIRES AN AUDIT AT LEAST EVERY 2 YEARS.

--REVENUE SHARING LEGISLATION REQUIRES AN AUDIT NOT LESS THAN ONCE EVERY 3 YEARS, BUT ONLY 1 YEAR IS AUDITED.

--THE NINE NEW BLOCK GRANTS HAVE TWO DIFFERENT TIMEFRAMES--FOUR OF THE BLOCK GRANTS REQUIRE

ANNUAL AUDITS WHILE THE OTHER FIVE BLOCK GRANTS  
REQUIRE BIENNIAL AUDITS.

THIS DIFFERENCE IN TIMEFRAMES HAS CAUSED SOME DIFFICULTY BUT  
THE MAJOR PROBLEM WAS THE VARYING REGULATORY AND LEGISLATIVE  
REQUIREMENTS AND THEIR EFFECT ON THE SCOPE OF THE AUDIT. AS SHOWN  
ON THE CHART, THE GAO STANDARDS ARE CONCERNED WITH COMPLIANCE WITH  
LAWS AND REGULATIONS THAT HAVE A MATERIAL EFFECT ON THE FINANCIAL  
STATEMENTS. THE REQUIREMENTS OF "ATTACHMENT P" AND THE NEW BLOCK  
GRANTS ARE QUITE DIFFERENT AND USUALLY RESULT IN INCREASING THE  
SCOPE OF WORK. THE UNIVERSE TO BE TESTED BECOMES FEDERAL GRANTS  
RATHER THAN THE OVERALL FINANCIAL STATEMENTS. ALSO, THE EMPHASIS  
IS DIFFERENT--COMPLIANCE WITH REQUIREMENTS OF FEDERAL GRANTS VS  
OPINIONS ON FINANCIAL STATEMENTS AND INTERNAL CONTROLS.

WHILE ALL OF THIS WAS GOING ALONG ITS MERRY WAY, OF COURSE  
THE STATE AND LOCAL AUDITORS WERE BUSY CARRYING OUT THEIR OWN AUDIT  
REQUIREMENTS. NATURALLY THESE VARIED FROM STATE TO STATE AND UNIT  
TO UNIT AND WERE BASICALLY UNTAPPED FOR SINGLE AUDIT. JUST A SAMPLING  
OF WHAT WE FOUND IN FOUR STATES WILL SHOW SOME OF THE PICTURE.

--IN THE STATE OF MICHIGAN, THE STATE AUDITOR  
PERFORMS AN ANNUAL FINANCIAL AUDIT, PLUS INDIVIDUAL  
COMPLIANCE AUDITS OF ALL STATE DEPARTMENTS.

THE STATE TREASURY DEPARTMENT PRESCRIBES  
ACCOUNTING AND AUDITING REQUIREMENTS FOR LOCAL  
GOVERNMENTS AND MONITORS THE AUDITS PERFORMED BY  
CPA'S OF THESE LOCAL GOVERNMENTS. ALL LOCAL  
GOVERNMENTS WITH A POPULATION OF OVER 2500 ARE  
REQUIRED TO HAVE ANNUAL AUDITS. SMALLER UNITS  
NEED BIENNIAL AUDITS.

--THE STATE OF MINNESOTA HAS A LEGISLATIVE AUDITOR  
AND A STATE AUDITOR. THE LEGISLATIVE AUDITOR IS  
RESPONSIBLE FOR AUDITS AT THE STATE LEVEL AND  
THE STATE AUDITOR IS RESPONSIBLE FOR THE  
COUNTIES AND 3 MAJOR CITIES. LOCAL GOVERNMENTS  
WITH POPULATION OVER 2000 ARE REQUIRED TO HAVE  
ANNUAL AUDITS AND THE REPORTS GO TO THE STATE AUDITOR.

--THE STATE OF OHIO HAS A STATE AUDITOR WHO IS RESPONSIBLE FOR PERFORMING DEPARTMENTAL AUDITS AT THE STATE LEVEL AND, WITH A FEW EXCEPTIONS, ALL AUDITS AT THE LOCAL GOVERNMENT LEVEL INCLUDING MOST OF THE SCHOOL DISTRICTS.

--THE STATE OF WISCONSIN HAS A LEGISLATIVE AUDITOR WHO PERFORMS INDIVIDUAL DEPARTMENT AUDITS. THE STATE DOES NOT PRESCRIBE NOR REQUIRE AUDITS OF LOCAL GOVERNMENTS.

--THE DIFFERENCE IN AUDITS AND AUDIT CAPACITY ARE QUITE OBVIOUS. WE BELIEVE IT IS IMPORTANT FOR THE FEDS TO KNOW WHAT THESE AUDIT REQUIREMENTS ARE AND HOW BEST TO INTEGRATE THEM INTO THE SINGLE AUDIT SYSTEM.

ALL OF THE ITEMS THAT I JUST COVERED HAD AN IMPACT ON THE AMOUNT OF PROGRESS THAT WAS BEING MADE, WHICH WAS VERY LITTLE IN TERMS OF AUDITS BEING DONE OR PLANNED.

TO FIND OUT EXACT NUMBERS, WE LOOKED AT AUDITS COMPLETED AND IN PROCESS IN OUR 6 STATES FOR THE 6 IG'S OF THE AGENCIES PROVIDING THE MAJORITY OF THE FED. MONEY. WE FOUND THAT BY THE SUMMER OF 1982 FOR THESE 6 IG'S

--AT THE STATE LEVEL, ONLY 1 AUDIT WAS COMPLETED AND 2 WERE IN PROCESS OUT OF A UNIVERSE 77 ASSIGNED STATE ORGANIZATIONS.

--AT THE ASSIGNED LOCAL GOVERNMENT LEVEL ONLY 3 AUDITS WERE COMPLETED AND 3 WERE IN PROCESS OUT OF A UNIVERSE OF 35.

--AT THE UNASSIGNED LOCAL GOVERNMENT LEVEL, WHICH INCLUDES THOUSANDS OF UNITS, ONLY A HANDFUL OF SINGLE AUDITS WERE DONE.

OUR FIRST PHASE ENDED IN AUGUST 1982. WE MADE A PRESENTATION TO THE SINGLE AUDIT POLICY COMMITTEE AND BRIEFED THE COMPTROLLER GENERAL.

PHASE II

BASED ON OUR INITIAL RESULTS WE DECIDED TO DO MORE DETAILED  
WORK IN THREE AREAS:

--WE PLANNED TO DETERMINE THE STATUS OF SINGLE AUDIT  
WORK NATIONWIDE AND THE RELATED COST OF MEETING SINGLE  
AUDIT REQUIREMENTS

--TO EVALUATE THE COGNIZANT AGENCY SYSTEM (AT THIS  
TIME WE WERE FAIRLY CERTAIN THE HOUSE COMMITTEE  
WOULD BE ASKING GAO TO LOOK FOR ALTERNATIVES TO  
THE COGNIZANCY SYSTEM). THIS SUPPLEMENTED OUR OWN  
QUESTIONS ABOUT WHO WAS IN CHARGE OF THE UNIVERSE  
OF ENTITIES REQUIRED TO HAVE SINGLE AUDITS.

--AND FINALLY WE WANTED TO ANALYZE THE TYPE AND  
AMOUNT OF COMPLIANCE WORK ACTUALLY DONE ON SOME  
SINGLE AUDITS.

SUBSEQUENT TO OUR PRESENTATION IN AUGUST 1982 AND ABOUT THE  
TIME WE WERE CRANKING UP FOR PHASE II, THE PRESIDENT'S COUNCIL ON  
INTEGRITY AND EFFICIENCY (PCIE) SET UP ITS SINGLE AUDIT EVALUATION

COMMITTEE. THIS COMMITTEE WAS CO-CHAIRLED BY THE IG'S FOR EDUCATION AND TRANSPORTATION. ED STEPNIK WAS DESIGNATED AS THE COMMITTEE DIRECTOR.

THE COMMITTEE PLANNED TO ESTABLISH A NATIONWIDE DATA BASE THROUGH USE OF A QUESTIONNAIRE DESIGNED TO IDENTIFY (1) HOW MANY SINGLE AUDITS WERE COMPLETED, IN PROCESS, AND PLANNED; (2) THE COSTS ASSOCIATED WITH SINGLE AUDITS (BEFORE AND AFTER COSTS TO THE ENTITY; AND (3) THE EXTEND OF ACTIVITY OF THE REGIONAL IG'S TO ENCOURAGE SINGLE AUDITS.

SINCE THIS WAS GOING TO BE DONE IN BASICALLY THE SAME TIME FRAME AS OUR WORK, WE WERE ABLE TO WORK OUT AN AGREEMENT TO USE THEIR RESULTS IN LIEU OF OURS. WE MET SEVERAL TIMES WITH THE COMMITTEE DIRECTOR TO PROVIDE HIM SOME INSIGHT ON OUR PRIOR WORK AND TO ASSIST IN THE DEVELOPMENT OF HIS PLANS.

THE PCIE DID NOT FINISH BY THE TIME WE FINISHED PHASE II IN MAY OF THIS YEAR. THE PCIE INTERIM REPORT WAS JUST ISSUED ON AUGUST 17, 1983. THE RESULT TENDED TO SUPPORT OUR INITIAL IMPRESSION CONCERNING THE AMOUNT OF SINGLE AUDIT ACTIVITY.

DATA ON UNASSIGNED ENTITIES WAS INCOMPLETE. THE COMMITTEE ONLY OBTAINED INFORMATION ON ABOUT 9,000 ENTITIES NATIONWIDE OUT OF A UNIVERSE OF ABOUT 38,000 UNITS OF GENERAL PURPOSE LOCAL GOVERNMENTS.

THE MAJOR CONCLUSIONS IN THE PCIE REPORT WERE:

--37% ASSIGNED ENTITIES (COMPLETED/IN PROCESS/PLANNED)  
AS OF 1/83

--WIDE VARIATIONS IN ATTACHMENT P ACTIVITY

--11,767 GRANT AUDITS (SOME UNDER A-110 OTHERS NOT)

--3 OF 12 MAJOR FEDERAL DEPARTMENTS - NOT IMPLEMENTED  
IN DEPT. POLICY, REGS, GRANTS.

BACK TO OUR WORK IN PHASE II AS WE ANTICIPATED, THE HOUSE GOVERNMENT OPERATIONS COMMITTEE DID ASK GAO TO EVALUATE VARIOUS ITEMS RELATED TO COGNIZANCY.

--THE COMPARATIVE ADVANTAGES OF ASSIGNING EITHER  
ONE FEDERAL AGENCY OR A LEAD FEDERAL AGENCY AS THE  
COGNIZANT AGENCY FOR A STATE OR THE LOCAL GOVERNMENTS  
WITHIN A STATE, AND

--THE FEASIBILITY AND DESIREABILITY OF ESTABLISHING  
A NEW AGENCY FOR SINGLE AUDIT.

TO ADDRESS THESE TWO ISSUES, WE LOOKED INTO WHAT WOULD HAVE TO BE DONE ON A STATEWIDE BASIS IN FOUR STATES. WE TRIED TO DETERMINE WHICH ENTITIES NEEDED AUDITS, WHO WOULD DO THE AUDIT, HOW WOULD PRIORITIES

BE ESTABLISHED, AND HOW THE WHOLE PROCESS WOULD  
BE CONTROLLED?

ONE OF THE KEY FACTORS OBVIOUSLY WAS DETERMINING WHO GETS  
FEDERAL MONEY AND HOW MUCH TO IDENTIFY THE POTENTIAL FOR SINGLE  
AUDITS. IT IS NO SECRET THAT WHERE FEDERAL FUNDS ULTIMATELY GO  
IS NOT EASY TO DETERMINE.

WE HAD VARYING DEGREES OF SUCCESS IN THE FOUR STATES WE COVERED.  
WE FOUND THAT THE DIRECT FUNDING WAS USUALLY FAIRLY EASY TO IDENTIFY.  
HOWEVER, THE PASS THROUGH FUNDS WERE SOMETHING ELSE.

WE HAD THE MOST SUCCESS IN TRACING FUNDS IN WISCONSIN. THE  
FLOW OF MONEY IN WISCONSIN IS PARTICULARLY IMPORTANT SINCE, AS I  
INDICATED EARLIER, THE LEGISLATIVE AUDITOR AUDITS ONLY THE STATE  
DEPTS AND THE LOCAL GOVERNMENTS ARE ON THEIR OWN WITH NO SPECIFIC  
AUDIT REQUIREMENTS.

WE FOUND THAT, IN FY 1981 A TOTAL OF 1.7 BILLION DOLLARS WENT  
TO WISCONSIN.

--1.4 BILLION TO THE STATE

--THE STATE HAS 41 DEPARTMENTS, 23 OF WHICH  
RECEIVE FEDERAL FUNDS

--6 OF THE DEPARTMENTS RECEIVE 97 PERCENT OF

FED. MONEY (THE REST RANGE FROM A FEW

THOUSAND DOLLARS TO 8.2 MILLION)

--THE LEGISLATIVE AUDITOR PERFORMS AN ANNUAL AUDIT

OF REVENUE AND EXPENDITURE FOR EACH DEPARTMENT.

HE ALSO PERFORMS AUDITS RELATING TO COMPLIANCE,

ECONOMY AND EFFICIENCY, AND PROGRAM RESULTS ON

A 4 TO 5 YEAR CYCLE. THE FEW SINGLE AUDITS THAT

WERE DONE WERE CARRIED OUT ON A DEPARTMENTAL BASIS,

HOWEVER, THESE WERE JUST THE SMALL DEPT'S

--THERE ARE 2,789 LOCAL GOVERNMENTS (GENERAL AND

SPECIAL PURPOSE) IN WISCONSIN.

--THESE GOVERNMENTS RECEIVE ABOUT 493 MILLION DOLLARS

IN FEDERAL FUNDS (244 MILLION DIRECT AND 249 MILLION

IN PASS THROUGH.

--ALL LOCAL GENERAL PURPOSE GOVERNMENTS ARE REQUIRED

TO SUBMIT ANNUAL FINANCIAL REPORTS TO THE STATE -- THE

KICKER IS THEY DO NOT HAVE TO BE AUDITED.

--FOR 1981 ONLY 582 OF THE 1921 GENERAL PURPOSE GOVERNMENTS SUBMITTED AUDITED ANNUAL REPORTS, THAT LEFT A POPULATION OF ALMOST 1400 GOVERNMENTS THAT DID NOT HAVE AN AUDIT BUT MAY HAVE BEEN SUBJECT TO SINGLE AUDIT REQUIREMENTS.

--WISCONSIN HAS 435 SPECIAL DISTRICTS AND 433 SCHOOL DISTRICTS. ALL OF THESE UNITS ALSO COULD HAVE BEEN SUBJECT TO SINGLE AUDIT) REQUIREMENTS.

--FOR THE SCHOOL DISTRICTS, THE STATE REQUIRES AUDITS THAT COME CLOSE TO MEETING SINGLE AUDIT REQUIREMENTS. EACH SCHOOL DISTRICT MUST HAVE ANNUAL GAAS AUDITS AND GAAP FINANCIAL STATEMENTS. IN ADDITION THE AUDITORS ARE REQUIRED TO REVIEW FEDERAL REQUIREMENTS AND PROVIDE AN OPINION ON WHETHER THE DISTRICT IS COMPLYING WITH THESE REQUIREMENTS.

--ALL OF THIS DATA, PLUS THAT FROM THE OTHER 3 STATES AND DISCUSSIONS BY VARIOUS PEOPLE WITH

SINGLE AUDIT RESPONSIBILITY, LED US TO CONCLUDE THAT WITH THRESHOLD POINT TO REDUCE NUMBER OF AUDITS, A WORKABLE SYSTEM COULD BE DEVELOPED IF ONE UNIT HAD TOTAL RESPONSIBILITY FOR A GIVEN STATE AND ITS LOCAL GOVERNMENTS. HOWEVER, AS IT STANDS NOW, NO ONE REALLY KNOWS HOW MANY SINGLE AUDITS ARE REQUIRED OR (2) HOW MUCH AUDIT WORK IS BEING DONE THAT COULD BE USED TO MEET SINGLE AUDIT REQUIREMENTS. FURTHER NO ONE ENTITY ON THE FEDERAL SIDE HAS RESPONSIBILITY FOR DETERMINING THIS INFORMATION.

AS I POINTED OUT BEFORE, WE ALSO WANTED TO TAKE A DETAILED LOOK AT SOME COMPLETED SINGLE AUDITS. WE PICKED 6 FOR OUR EVALUATION. AS YOU MIGHT EXPECT, WE FOUND A WIDE VARIANCE IN THE SCOPE OF THE AUDITS. WHAT YOU MAY OR MAY NOT EXPECT IS THAT READERS OF THE INDIVIDUAL ACCOUNTANT'S REPORTS ON COMPLIANCE WOULD NOT BE ABLE TO ASCERTAIN THERE WAS A DIFFERENCE.

LET ME GIVE YOU A QUICK EXAMPLE FROM TWO AUDITS WHERE THE COMPLIANCE REPORTS READ JUST ABOUT THE SAME.

--AUDIT #1: THE AUDITOR LIMITED HIS TEST OF FEDERAL GRANTS TO GRANTS THAT EXCEEDED 5 PERCENT OF THE TOTAL FEDERAL GRANTS RECEIVED OF \$80 MILLION. THIS RESULTED IN A REVIEW OF TRANSACTIONS RELATED TO 4 GRANTS OUT OF 100 GRANTS RECEIVED BY THE ENTITY. THE AUDITOR DID NOT REVIEW THE RELATED INTERNAL CONTROLS BECAUSE HE BELIEVED IT WAS MORE COST EFFECTIVE TO DO SUBSTANTIVE TESTING OF THE COMPLIANCE FEATURES OF THE 4 GRANTS.

--AUDIT #2: THE AUDITOR SELECTED 10 GRANTS THAT CONSTITUTED 93 PERCENT OF TOTAL FEDERAL FUNDS RECEIVED BY THE ENTITY. HE TESTED ALL GRANTS OVER \$100,000 AND SOME SELECTED SMALLER GRANTS. THE AUDITOR ALSO REVIEWED THE ADMINISTRATIVE CONTROLS RELATING TO FEDERAL GRANTS.

--BOTH CONSIDERED ACCEPTABLE SINGLE AUDITS.

THE PRELIMINARY CONCLUSIONS FROM THIS PHASE OF OUR WORK WERE PRESENTED TO THE COMPTROLLER GENERAL IN MAY OF THIS YEAR. THESE WERE:

--THERE WAS A NEED TO DEVELOP A DEFINITION FOR SINGLE AUDIT THAT WOULD BE COMMONLY UNDERSTOOD AND ACCEPTED.

--THERE WAS A NEED FOR A THRESHOLD OR FUNDING LEVEL FOR REQUIRING AUDITS OF LOCAL GOVERNMENTS.

--THERE WAS A NEED FOR A MORE WORKABLE COGNIZANCY PLAN AND STRUCTURE.

AT ABOUT THIS SAME TIME GAO SET UP A TASK FORCE TO HELP IN DRAFTING THE LANGUAGE FOR WHAT WAS TO BECOME S-1510. BECAUSE OF OUR INVOLVEMENT. THE EIC FOR OUR JOB FROM DETROIT AND MYSELF WERE VOLUNTEERED FOR THE TASK FORCE ALONG WITH SEVERAL OTHER INCLUDING BOB CROWL AND OF COURSE BILL BROADUS WHO WAS THE CHAIRMAN OF OUR GROUP.

AFTER SOME FAIRLY INTENSE EFFORTS OVER A 5-6 WEEK PERIOD WE WERE ABLE TO GET BACK TO PHASE III OF OUR WORK. NOW, HANG IN THERE, PHASE III IS THE LAST ONE I AM GOING TO COVER TODAY.

TO CONFIRM OUR FINDINGS IN THE MIDWESTERN STATES, WE EXPANDED OUR STUDY TO SIX ADDITIONAL, GEOGRAPHICALLY DISPERSED STATES. THESE STATES WERE:

--CALIFORNIA

--FLORIDA

--KENTUCKY

--COLORADO

--IOWA

--NORTH DAKOTA

IN THIS PHASE WE CONCENTRATED ON,

--COMING UP WITH A WORKABLE/ACCEPTABLE DEFINITION.

--OBTAINING INFORMATION WHICH WOULD HELP IDENTIFY THE APPROPRIATE AUDIT THRESHOLD FOR REQUIRING AUDITS OF LOCAL GOVERNMENTS.

--FINISHING OUR EVALUATION OF THE ROLE AND ACTIVITIES OF COGNIZANT AGENCIES.

WE ARE JUST NOW WINDING UP PHASE III AND ARE DRAFTING A REPORT TO HOUSE GOVT. OPERATIONS COMMITTEE. THE DRAFT WAS DUE OUT TO OUR WASHINGTON STAFF AT 4:30 PM YESTERDAY. IT WILL PROBABLY GET OUT MONDAY WHEN I GET BACK FOR A FINAL LOOK.

OBVIOUSLY THE CONCLUSIONS SO FAR ARE THOSE OF THE DETROIT REGION, AND NOT GAO; BUT HERE THEY ARE ANYWAY.

FIRST, WE CAME UP WITH A DEFINITION FOR THE SINGLE AUDIT. WE SEE THE SINGLE AUDIT AS BEING SOMEWHERE BETWEEN THE GRANT-BY-GRANT AUDITS AND THE FINANCIAL AUDITS.

--OBVIOUSLY GRANT-BY-GRANT AUDITS ARE TOO COSTLY AND NO LONGER PRACTICAL TO DO. WE HAVE REACHED THE SAME CONCLUSION WITH RESPECT TO THE REVISED ATTACHMENT P NOW OUT FOR COMMENT.

--THE FINANCIAL AUDITS DO NOT MEET THE NEEDS OF THE FEDERAL GOVERNMENT, IN THAT THEY ARE ONLY CONCERNED WITH NON-COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS THAT COULD HAVE A MATERIAL EFFECT ON THE FINANCIAL POSITION OF THE ENTITY. (FASB NO. 5)

--OUR STUDY HAS LED US TO THE FOLLOWING DEFINITION  
SHOWN ON THIS CHART. REALLY NOT TOO EARTH SHAKING  
SINCE THIS IS BASICALLY WHAT WE WANTED IN S-1510,  
"THE PURPOSE OF THE SINGLE AUDIT OF A GOVERNMENT  
ENTITY IS TO DETERMINE (1) WHETHER THE FINANCIAL  
STATEMENTS OF THE AUDITED ENTITY PRESENT FAIRLY  
THE FINANCIAL POSITION AND THE RESULTS OF FINANCIAL  
OPERATIONS IN ACCORDANCE WITH GENERALLY ACCEPTED  
ACCOUNTING PRINCIPLES AND (2) WHETHER THE ENTITY  
HAS ADEQUATE INTERNAL ACCOUNTING AND ADMINISTRATIVE  
CONTROL SYSTEMS TO PROVIDE REASONABLE ASSURANCE  
IT IS MANAGING GRANT PROGRAMS IN COMPLIANCE WITH  
LAWS AND REGULATIONS."

--WE BELIEVE THAT THE REVIEWS THAT MEET THIS  
DEFINITION WILL SERVE AS AN EARLY WARNING SYSTEM TO:  
--FEDERAL PROGRAM MANAGERS,  
--INSPECTORS GENERAL,  
--ENTITY.

--SERIOUS SYSTEM WEAKNESSES CAN TRIGGER A MORE  
DETAILED COMPLIANCE AUDIT OR, AT A MINIMUM, A  
CALL BY FEDERAL OFFICIALS TO CORRECT THE WEAKNESSES.  
ALL ARE ALLOWED BY S-1510 -- SINGLE AUDIT IS THE  
BASIC BUILDING BLOCK.

--THE MINIMUM REQUIRED WORK WOULD INCLUDE:

IDENTIFYING THE ENTITY'S INTERNAL  
CONTROL SYSTEMS AND HOW THEY ARE DESIGNED;  
TESTING SAMPLE TRANSACTIONS TO SEE IF  
SYSTEMS ARE WORKING AS INTENDED;  
IDENTIFYING SIGNIFICANT INTERNAL CONTROL  
WEAKNESSES; AND

--EXPRESSING AN OPINION ON THE ADEQUACY OF  
THE SYSTEMS AND MAKING RECOMMENDATIONS FOR  
ANY NEEDED CHANGES.

THE INFORMATION WE GATHERED ON THRESHOLDS FOR AUDITS OF  
GOVERNMENTS WAS QUITE INTERESTING.

--BOTH NATIONWIDE CENSUS BUREAU DATA AND AVAILABLE DATA IN THE 10 STATES WHERE WE DID WORK, INDICATES THAT WITHIN A STATE A RELATIVELY FEW LOCAL GOVERNMENTS RECEIVE THE MAJORITY OF THE DIRECT FEDERAL FUNDS.

--DATA IS NOT READILY AVAILABLE ON THE AMOUNT OF FEDERAL PASS THROUGH FUNDS RECEIVED BY LOCAL GOVERNMENTS.

--WE FOUND THAT IN 4 STATES OF THE 10 STATES IN OUR SAMPLE DATA WAS SOMEWHAT READILY AVAILABLE ON PASS THROUGH FUNDS - WINCONSIN, FLORIDA, CALIF., MINN.

--BASED ON JUST DIRECT FUNDING, WE CONCLUDED THE CURRENTLY PROPOSED \$25,000 THRESHOLD IN SENATE BILLS 1510 IS TOO LOW.

--A MINIMUM THRESHOLD SHOULD BE AT LEAST \$100,000 - AND COULD BE AS HIGH AS \$1 MILLION AND STILL BE EFFECTIVE.

I HAVE FOUR VIEWGRAPHS TO SHOW THRESHOLD DATA

THE FINAL ITEM IS OUR CONCLUSION ON THE

D. ROLE AND ACTIVITIES OF FEDERAL COGNIZANT AGENCIES:

CONCLUSIONS.

--THE ASSIGNMENT OF MULTIPLE COGNIZANT AGENCIES

HAS RESULTED IN FRAGMENTED IMPLEMENTATION.

--THE ASSIGNMENT OF MULTIPLE COGNIZANT AGENCIES COUPLED

WITH THE LACK OF AGREEMENT OF THE DEFINITION OF THE

SINGLE AUDIT HAS RESULTED IN COGNIZANT AGENCIES

PROVIDING INCONSISTENT ADVICE AS TO THE PURPOSE AND

SCOPE OF THE AUDIT.

--WE BELIEVE A SINGLE COGNIZANT AGENCY SHOULD BE

ASSIGNED AT THE STATE LEVEL OF GOVERNMENT.

--MY PERSONAL VIEW IS THE SAME COGNIZANT AGENCY SHOULD

BE ASSIGNED TO ALL GENERAL PURPOSE GOVERNMENTS

WITHIN A STATE.

--SPECIAL PURPOSE GOVERNMENTS SHOULD BE ASSIGNED

A COGNIZANT AGENCY BASED ON THE FUNCTION OF THE

SPECIAL PURPOSE GOVERNMENT, AS OMB HAS ALREADY DONE.

FINALLY, THIS CONCLUDES MY PORTION OF THE AGENDA. AS I UNDER-  
STAND IT, AFTER BILL FINISHES WE ARE OPEN TO ANY QUESTIONS YOU MAY  
HAVE.

THANK YOU VERY MUCH FOR YOUR ATTENTION.