

GAO

Report to the Chairman, Legislation and
National Security Subcommittee,
Committee on Government Operations
House of Representatives

March 1986

CPA AUDIT QUALITY

Many Governmental Audits Do Not Comply With Professional Standards





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

Comptroller General
of the United States

B-219869

March 19, 1986

The Honorable Jack Brooks
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your July 27, 1984, letter, this report describes the results of the second phase of our review of the quality of certified public accountant (CPA) audits of recipients of federal assistance. Our review showed that CPAs frequently did not satisfactorily comply with professional auditing standards. Specifically we found that:

- CPAs did not satisfactorily comply with standards on 34 percent of the governmental audits they performed, making the audit reports less useful in ensuring that federal funds are used for authorized purposes.
- More than half of the unsatisfactory audits had severe standards violations.
- CPAs' two predominant problems in performing governmental audits were insufficient audit work in (1) testing compliance with governmental laws and regulations and (2) evaluating internal accounting controls, including controls over federal expenditures.
- Smaller CPA firms had a greater problem than larger CPA firms in satisfactorily complying with standards.

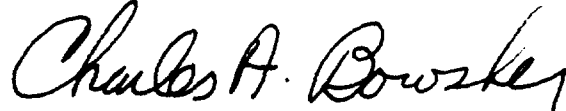
The report contains suggestions to the public accounting profession to improve its educational efforts with respect to governmental audits and to strengthen its enforcement efforts so that CPAs fully commit themselves to performing governmental audits in a quality manner. We also suggest that the profession work actively with inspectors general (IGs) to improve review systems and to facilitate IG actions against CPA firms performing poor quality audits.

At your request, and consistent with our policy, we are referring CPAs who performed audits with severe standards violations to the respective state boards of accountancy, as well as the American Institute of Certified Public Accountants and the cognizant IGs, for review and possible disciplinary action.

B-219869

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this report. At that time, we will send the report to the Director, Office of Management and Budget, and interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsher". The signature is written in black ink and is positioned above the typed name.

Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

The federal government administers in excess of \$100 billion a year in domestic assistance programs through state and local governments. Grantees or federal agencies contract directly with nonfederal auditors—mostly certified public accountants (CPAs)—to audit many of these funds. These audits are designed to assure program managers that they have reliable reports on (1) the financial activities, (2) compliance with the requirements of laws and regulations, and, in many cases, (3) the adequacy of internal controls over federal expenditures. Many of these audits will now be performed in accordance with the Single Audit Act of 1984, which should lead to improved financial management of state and local governments with respect to federal financial assistance programs.

At the request of Representative Jack Brooks, Chairman, House Committee on Government Operations, Legislation and National Security Subcommittee, GAO reviewed the quality of selected federal grant audits performed by CPAs.

In this review, GAO determined the quality of audits through an independent assessment of the extent to which CPAs complied with professional auditing standards on 120 randomly sampled audits of recipients of federal assistance.

Background

GAO defines audit quality as compliance with professional standards and contractual terms set out for the particular type of audit being conducted. To help ensure consistency in the scope and quality of audit work and the preparation of professional and meaningful reports, both the American Institute of Certified Public Accountants (AICPA) and GAO have issued standards that CPAs must follow—“generally accepted auditing standards” and “generally accepted government auditing standards,” respectively. These standards encompass the areas of fieldwork and reporting, as well as general standards which include due professional care. The primary distinction between the two sets of standards is in reporting requirements—not fieldwork requirements.

Evidence relates to the sufficiency and competency of evidential matter supporting the CPAs’ conclusions, opinions, and statements. It also includes the requirement that CPAs retain a written record of their work in the form of working papers. Due professional care requires professional performance of a quality appropriate for the audit assignment undertaken.

GAO divided its review of CPAs into two phases. GAO's report on the first phase, issued in December 1985 (GAO/AFMD-86-20), evaluated how well the inspector general (IG) offices reviewed and reported on the quality of CPA audit reports. The report recommended ways IGs could improve their audit quality review systems. This report also summarizes IGs' responses to GAO recommendations from the December 1985 report. (See chapter 4.)

Results in Brief

GAO found that CPAs did not satisfactorily comply with generally accepted government auditing standards on 34 percent of the governmental audits they performed, making the audits less useful in ensuring that federal funds are used for authorized purposes and, often, resulting in inappropriate reliance on the results of those audits by their users. GAO concluded that more than one-half of these audits had severe standards violations.

CPAs had two predominant problems in performing governmental audits: insufficient audit work or working paper evidence showing (1) testing of compliance with governmental laws and regulations, and (2) studies and evaluations of internal controls over federal expenditures.

Principal Findings

Standards Violated

In GAO's sample of 120 governmental audits, GAO determined that 38 audits did not satisfactorily comply with standards: 31 audits did not comply with fieldwork standards, 19 did not comply with reporting standards, and all 38 audits did not comply with the general standard of due professional care. (See chapter 2.) For example, in some instances there was little or no evidence that a CPA tested to see whether recipients were eligible for federal assistance, whether costs charged to federal programs were allowable under law or regulation, or whether requirements for matching assistance were met.

In other instances, there was little or no evidence supporting the CPA's report that the CPA studied and evaluated internal controls, or that the CPA appropriately tested financial transactions to support the opinion on the financial statements.

In several instances, the CPAs stated that they did not complete all the audit work they were required to perform. In other instances, the lack of evidence led GAO to question whether the required audit work was performed. GAO also found that smaller CPA firms had a greater problem than larger CPA firms in satisfactorily complying with standards.

The CPAs who performed 21 audits with severe standards violations are being referred to the cognizant state boards of accountancy, as well as the AICPA and the cognizant inspectors general, for review and possible disciplinary action. (See chapter 2.)

Problem Areas

GAO observed, through discussions with the CPAs and reviews of their work, that many CPAs did not understand the nature and importance of testing and reporting on compliance with laws and regulations, nor did they understand the importance of reporting on internal control and the relationship between reporting and the extent to which CPAs studied and evaluated internal control. (CPAs do not normally include a statement on internal control in their auditors' reports when performing a commercial or nongovernmental audit.) Such problems may exist because CPAs do not receive sufficient training or have sufficient experience in these areas and because governmental audits may not always be perceived as a risk as commercial audits.

Previous Studies

The results of GAO's review are similar to other studies of CPAs' governmental audit quality. The AICPA, in a recently issued study, found problems related to auditing standards on nearly half of 200 reports it received from federal IGS. As GAO reported in December 1985, IGS found that CPAs often have problems in performing governmental audits, mostly in the area of evidence showing testing of compliance with laws and regulations. (See chapter 2.)

GAO's earlier report contained eight recommendations to statutory inspectors general to correct problems in how they reviewed the quality of CPA reports. In responding to the recommendations, the inspectors general generally concurred with the intent of the recommendations. Inspectors general, however, did not agree on how to best implement a section of the Single Audit Act, which prohibits state and local governments from charging to federal programs the costs of audits not meeting the act's requirements. (See chapter 4.)

Recommendations

GAO recommends that the Director, Office of Management and Budget, establish more definitive criteria for prohibiting the cost of substandard audits to be charged to federally assisted programs.

GAO suggests that the public accounting profession improve its education efforts to ensure that CPAs performing governmental audits better understand the auditing procedures required. GAO also suggests that the profession strengthen its enforcement efforts in the area of governmental auditing to ensure that CPAs perform those audits in a quality manner. (See chapter 3.)

Agency Comments

In accordance with the requester's wishes, GAO did not request the Office of Management and Budget or the public accounting profession to comment on a draft of this report.

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Abbreviations

AICPA	American Institute of Certified Public Accountants
CPA	certified public accountant
DOL	Department of Labor
DOT	Department of Transportation
EPA	Environmental Protection Agency
GAGAS	generally accepted government auditing standards
GAO	General Accounting Office
USDA	Department of Agriculture
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IG	inspector general
OMB	Office of Management and Budget
ORS	Office of Revenue Sharing
PCIE	President's Council on Integrity and Efficiency
RIG	regional inspector general office

Introduction

The federal government administers in excess of \$100 billion per year in domestic assistance programs through state and local governments. The Congress, federal, state, and local officials, and private citizens have a common interest in ensuring accountability over the funds in those government programs. They want and need to know if federal funds are being used properly and if programs are conducted consistent with applicable laws and regulations.

Grantees or federal agencies contract directly with nonfederal auditors—mostly certified public accountants (CPAs)—to audit many of these funds. These audits are designed to assure program managers that they have reliable reports on (1) financial activities, (2) compliance with laws and regulations, and, in many cases, (3) the adequacy of internal controls over federal expenditures.

At the request of Representative Jack Brooks, Chairman, House Committee on Government Operations, Legislation and National Security Subcommittee, we reviewed the quality of CPA audits of federal grants to state and local governments and of single audits of entities receiving federal funds prior to the passage of the Single Audit Act of 1984. While we have raised the subject of audit quality in a number of reports over the past two decades,¹ for the most part, those reports focused on audit problems in individual agencies. This is our most extensive view of audit quality issues to date.

Because of the magnitude of the subcommittee's request, we established an Audit Quality Task Force and divided its review into two phases. In the first phase we evaluated both the quality of inspectors' general (IGs') audit quality review systems as well as the reporting on the results of the IGs' reviews of audits generally performed by CPAs. This report covers the second phase, in which we independently assessed the extent

¹Many Proprietary Schools Do Not Comply With the Department of Education's Pell Grant Program Requirements, GAO/HRD-84-17, August 20, 1984.

Quality Testing of Audits of Grantee's Records—How It Is Done by Selected Federal Agencies and What Improvements Are Needed, FGMSD-79-38, July 19, 1979.

Using Independent Public Accountants to Audit Public Housing Agencies—An Assessment, CED-76-133, August 25, 1976.

Need for More Effective Audit Activities, B-130515, July 14, 1973.

Farmers Home Administration Procedures and Policies Should Be Strengthened, B-170874, January 22, 1971. The Use of Independent Auditors Should Be

to which CPAs complied with professional auditing standards in their audits of recipients of federal assistance.

In December 1985, we issued a report on the results of the first phase, CPA Audit Quality: Inspectors General Find Significant Problems, GAO/AFMD-86-20. That report focused on the role that IGS play in the audit quality review process and the results of their work. We described the extent to which the IGS have identified audit quality problems during their reviews of audits and discussed some of the common problems identified. We also described the systems the IGS have in place to review audit work and recommended ways they could improve the effectiveness of their audit quality review systems. Chapter 4 of this report summarizes some of our earlier report findings and describes the actions taken by IGS in response to the recommendations we made in that report.

What Is Audit Quality?

The term "audit quality" has many connotations. In the context of our work, we define "audit quality" as compliance with professional standards and contractual terms set out for the particular type of audit being conducted. To help ensure consistency in the scope and quality of audit work and in the preparation of professional and meaningful reports, both the American Institute of Certified Public Accountants (AICPA) and GAO have issued standards that auditors must follow in performing governmental audits.

Auditing standards are generally accepted measures of audit quality. Compliance with standards helps assure users of audit reports that the auditor has adequately performed the audit and that the audit report can be relied upon in determining that federal funds were used for authorized purposes. Violations of auditing standards cast doubt on the credibility of the audit and can significantly reduce the usefulness of the auditor's report in ensuring that federal funds are used for authorized purposes. Further, users can be misled if the audit reports they are relying on are not based on audits that comply with standards.

Professional Standards

Over the years, the AICPA has set auditing standards through various committees and, since October 1978, through the Auditing Standards Board. The board establishes generally accepted auditing standards through "Statements on Auditing Standards." These standards apply to audits performed to express opinions on an organization's financial statements. The AICPA also issues industry audit guides and other material which assist auditors in performing their work and which further

codify auditing standards in certain specific industries, such as banking or state and local government.

Auditing standards issued by GAO are published in the document Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision), commonly referred to as “generally accepted government auditing standards” or GAGAS. A summary of generally accepted government auditing standards is included in appendix I. Generally, auditors must follow GAGAS on audits of recipients of federal funds, such as contractors, nonprofit organizations, or other external organizations. GAGAS standards are broader in scope than those set by the AICPA and cover economy and efficiency and program results work, as well as financial statement audits. In the area of financial statement audits, these standards have one significant difference from the AICPA’s standards. GAGAS require, in addition to an opinion on financial statements, a statement on internal control and a statement on compliance with laws and regulations.

In regard to the issue of internal control and compliance work and the difference between so-called “commercial” audit standards and “government” audit standards, it should be noted that the primary distinction is in reporting requirements—not audit requirements. GAGAS and AICPA auditing standards require that important internal controls be evaluated either directly through internal control reviews or indirectly through extended substantive testing. Likewise, if significant funds are received under a contract, grant, or other similar arrangement which requires compliance with specific contractual or legal terms, then testing of compliance is required since noncompliance can result in a significant impact on the entity being audited.

In conducting the audit of an entity or a grantee, under GAGAS, the auditor must review compliance with laws and regulations and perform at least a preliminary review of the entity’s internal accounting controls. The auditor’s report must contain a statement on the entity’s compliance, including identifying material instances of noncompliance, and a statement on the internal accounting controls reviewed. Federal agencies rely on these two sections of the auditor’s report to ensure that the audited entity is managing its programs in compliance with federal laws and regulations. GAGAS, in general, and requirements pertaining to compliance and accounting and administrative controls, in particular, were emphasized in the Single Audit Act of 1984.

The Inspector General Act of 1978, as amended, requires that IGs take appropriate steps to ensure that any work performed by nonfederal auditors of federal programs, activities, and functions complies with these standards. As a result, requirements for following GAGAS when performing audits of federal funds have generally been included in audit contracts or engagement letters.

In addition to these applicable professional standards, audits are often subject to the provisions of program audit guides or other guidance provided to the CPA by the federal agencies or the entity under audit at the time a contract is signed. Audit guides typically set out a framework for conducting and reporting on an audit engagement and normally include detailed steps and suggested report language auditors should follow in the course of their work. The agency IG normally issues audit guides for specific programs.

Evaluating Compliance With Standards

Auditing standards are not absolute measures which must be rigidly applied in all instances. Rather, auditing standards are guiding principles to be applied with professional judgment in individual circumstances. They are the measures of quality of the procedures the auditor uses. In our review, we use the terminology satisfactory compliance with standards to mean a CPA's or CPA firm's general adherence to auditing standards for an audit as a whole. In making that determination, we considered the nature and requirements of each audit and the degree of compliance with each applicable standard. While compliance with all applicable standards is required, we took into account the nature and significance of each instance of noncompliance and the standard violated in making our determination as to whether an audit as a whole satisfactorily complied with standards.

Because of the nature of auditing standards, no absolute quantitative measurement criteria exist for evaluating an auditor's compliance with the standards. Reviewing an auditor's performance to evaluate how well the auditor complied with auditing standards depends heavily on professional judgment. Because of the role of professional judgment in evaluating compliance, several of our supervisory CPAs with extensive accounting and auditing experience evaluated the CPA audits in our review.

The Public Accounting Profession and Its Role in Ensuring Audit Quality

In the context of our work, the public accounting profession includes CPAs and the organizations that directly influence them. CPAs operate either as independent individual practitioners or firms of individual practitioners who hold themselves out to the public as qualified to perform auditing services. CPAs are licensed to practice by individual state boards of accountancy under the authority of state public accounting laws and are required to take a uniform examination administered by each state and graded by the AICPA.

Several organizations regulate or directly influence CPAs in the area of governmental auditing. The principal regulatory bodies for CPAs are the state boards of public accountancy. The primary responsibility of the boards is to administer state laws relating to CPAs' certification, licensing, professional conduct, and continuing professional education. Only the boards have the authority to affect a CPA's license to practice.

The AICPA is the national professional association of CPAs and the most important private group affecting governmental auditing. In 1985 there were 231,000 AICPA members with slightly more than one-half of those engaged in public practice.

Among its various activities, the AICPA promulgates generally accepted auditing standards and interpretive statements on those auditing standards, promulgates quality control standards which define the appropriate conduct for CPA firms' overall operations, and develops and maintains a code of professional ethics in cooperation with state boards of accountancy and state accounting societies. State boards and state societies also have codes of ethics, but generally they incorporate the significant elements of the AICPA code.

In 1977, the AICPA established the Division for CPA Firms, which CPA firms could voluntarily join. Each member firm is required to have its quality control system reviewed by independent peers at least once every 3 years. A principal feature of the peer review process is evaluating whether a firm is complying with policies and procedures that are designed to ensure quality audits. The peer review process, however, does not always encompass a CPA firm's governmental audits. Many firms do not voluntarily join the AICPA Division for CPA Firms and are thus not obliged to undergo a peer review. Further, governmental audits often are not included in the scope of a peer review because greater weight is given to publicly-held clients, large and complex clients, and initial audit engagements.

Lastly, CPAs in various states and jurisdictions have organized various voluntary professional associations generally referred to as state societies. Although not directly affiliated with the AICPA, the state societies work in conjunction with the AICPA on professional development issues and related activities.

Role in Ensuring Audit Quality

The public accounting profession plays a significant role in assisting the federal government and others to determine whether federal funds are used for intended purposes and whether entities receiving the funds are properly accounting for them. It is estimated that each year the federal government pays the public accounting profession \$100 million to \$200 million to audit and report on a significant portion of hundreds of different federal programs. These programs involve more than \$100 billion in domestic assistance flowing to the 50 states and over 80,000 local governments.

The role of the profession is critical to the success of the Single Audit Act of 1984. The act is a major reform in the intergovernmental audit process in that it requires an audit covering the entire operation of a governmental unit as opposed to the traditional grant-by-grant audit approach. The grant-by-grant approach has not only resulted in substantial gaps in audit coverage, but has also led to considerable duplication and overlapping of effort in auditing federally assisted programs. We believe the act, if successfully implemented, will result in more effective and efficient auditing and will lead to improved financial management of state and local governments with respect to federal financial assistance programs.

CPAs have an ethical as well as a legal responsibility to perform quality audits. Under the AICPA Code of Professional Ethics, CPAs are required, among other provisions, to observe the public accounting profession's auditing standards and to strive continually to improve its competence and the quality of their services. The code states, in part, that a member CPA should not undertake any audit which the CPA or the CPA's firm cannot reasonably expect to complete with professional competence. The code directs that if a member CPA cannot reasonably expect to complete an audit, the CPA should suggest, in fairness to the client and the public, the engagement of someone competent to perform the audit. Charges of ethics violations, including failure to comply with standards, are reviewed by the AICPA and may result in disciplinary action ranging from a reprimand to expulsion from the AICPA. Action taken by the AICPA

may in turn cause a state board to act, possibly suspending or revoking a CPA's license to practice.

CPAs also have a legal responsibility to perform quality audits. CPAs who do governmental audits typically enter into contracts to perform those audits in compliance with professional standards. Further, courts have enforced the concept that those who offer service to the public, especially professionals such as CPAs and doctors, must provide those services in a competent manner. Compliance with auditing standards is often the basis for ensuring that the auditor has performed a competent, or quality, audit.

IGs' Role in Measuring Audit Quality

The IGs have played an important role in reviewing audit reports for adherence to professional standards. Section 4(b)(3) of the Inspector General Act of 1978 states that inspectors general shall "take appropriate steps to assure that any work performed by non-federal auditors complies with the standards established by the Comptroller General..." The act only addresses the IGs' audit quality review function in general terms and does not specify the steps the inspectors general must take to accomplish this function.

Objective, Scope, and Methodology

Our objective was to determine the overall quality of audits performed by CPAs on federal assistance programs by determining the extent to which CPAs complied with professional standards in those audits.

The scope of our work on the second phase consisted of reviewing independent random samples of CPA audits received by seven IGs and the Department of Treasury's Office of Revenue Sharing (ORS) in six major regions of the United States. The seven IGs were:

- The Department of Agriculture (USDA),
- The Department of Education (Education),
- The Department of Health and Human Services (HHS),
- The Department of Housing and Urban Development (HUD),
- The Department of Labor (DOL),
- The Department of Transportation (DOT), and
- The Environmental Protection Agency (EPA).

These agencies were chosen for our study because they administered programs accounting for 95 percent of all domestic federal assistance in fiscal year 1984.

We determined, through discussions with regional IG and ORS officials and examinations of report logs, the number of audit reports received by the seven agencies' IGs and the Audit Division of ORS for fiscal year 1984. We excluded audits in which the IGs reviewed the CPAs' working papers. Because CPAs corrected their working papers when IGs found problems, those audits would not represent the audit work performed at the time the CPA issued his or her report.

We estimate the universe to be approximately 6,400 audits.² This universe constitutes only a portion of all audits performed on federal funds. Approximately 25,000 additional audits came to our attention that were reviewed at the state level or by federal program officials, but were not reviewed by IGs or ORS. These audits were not in the scope of our review. The majority of these audits are of HUD housing projects which HUD program offices review.

Using statistical sampling techniques, we drew independent samples of audits in each of the six major regions. The selection was stratified to ensure that large and small firms were about equally represented in the sample and that about 75 percent of the sample were grant audits and 25 percent were single, or entity-wide, audits. The total number of audits we evaluated in those samples was 120.³

In our reviews of the audits, we examined the audit reports and the supporting working papers, and discussed our findings with the CPA firm personnel responsible for the audit. We used a standardized data collection instrument to record our findings. Because standards require CPAs to retain the working papers for an audit, we performed our work mainly at CPA firm offices.

We also reviewed the quality of audits on a separate, independent random sample of 30 small CPA firms, those with 10 or fewer auditors, who performed governmental audits of grants from three federal agencies—Education, HHS, and HUD—in the southeastern United States. This limited sample was not sufficient to estimate CPA audit quality for the United States or to estimate audit quality for the universe of governmental audits performed by small CPA firms.

A list of the CPA audits that we reviewed is included in appendix II.

²This estimate is subject to a sampling error of 300 audits at the 95 percent confidence level.

³Each sample audit was weighted inversely to its probability of selection.

Chapters 1 through 3 of this report address the results of our work in the second phase of our study on audit quality. Chapter 4 of this report updates our work in phase one of our study by summarizing the conclusions in our December 1985 report, discussing the IGs' responses to the report's eight recommendations, and briefly describing some of the IGs' recent initiatives in response to our report. Chapter 4 also includes a recommendation to the Director, Office of Management and Budget.

We conducted our work between February 1985 and February 1986 in accordance with generally accepted government auditing standards. except, as requested by the subcommittee, we did not obtain comments on this report.

Noncompliance With Standards

We found that CPAs did not satisfactorily comply with standards on 34 percent of the governmental audits they performed. We believe more than one-half of these audits had severe standards violations. We also found that smaller CPA firms had a greater problem than larger CPA firms in satisfactorily complying with standards and that there was no significant difference in quality between grant audits and single audits.

CPAs had two predominant problems in performing governmental audits. One was insufficient audit work or working paper evidence showing testing of compliance with laws and regulations. The other was insufficient audit work or working paper evidence showing studies and evaluations of internal control.

Overall Results

We reviewed the working papers and reports on a sample of 120 financial and compliance audits performed by CPAs that eight federal agencies received during fiscal year 1984. We designed our review to determine the quality of the audits through an assessment of the extent to which those audits satisfactorily complied with generally accepted government auditing standards. Based on our review, we found that 34 percent of the audits in our sample did not satisfactorily comply with standards. On that basis, we estimate that 2,208 of the 6,420 audits received by the eight agencies in fiscal year 1984 did not satisfactorily comply with standards.⁴

We also found that, based on our review, 20 percent of the audits in our sample—more than one-half of the unsatisfactory audits—had severe standards violations. On that basis, we estimate that 1,317 of the 6,420 audits had severe standards violations.⁵

In general, we consider standards violations to be severe when the CPA either fails to perform a majority of required audit work in a major segment of the audit, or the evidence to support that audit work is virtually nonexistent. Severe violations not only raise questions about qualitative aspects of the CPA's audit work, but also significantly reduce the reliability and usefulness of the audit as a whole. For those audits with

⁴Estimated with 95 percent confidence that rate of occurrence of unsatisfactory audits, taken as a percentage of all audits in our universe, was 34.4 percent with a sampling error of 5.2 percent.

⁵Estimated with 95 percent confidence that rate of occurrence of audits with severe standards violations, taken as a percentage of all audits in our universe, was 20.5 percent with a sampling error of 4.4 percent.

severe standards violations, we are referring the CPAs to the respective state boards of accountancy for review and possible disciplinary action.

Smaller CPA Firms Had a Greater Problem

We also attempted to determine whether there was a significant difference between larger CPA firms—those having 50 or more members of the AICPA—and smaller CPA firms in satisfactorily complying with standards on governmental audits. To accomplish this, we stratified our sample of 120 audits to include approximately one-half large firms and one-half smaller firms. We found that of the 55 audits performed by larger firms in our sample, 8 did not satisfactorily comply with standards. Of the 65 audits performed by smaller firms in our sample, 30 did not satisfactorily comply with standards.

Among the 65 smaller firms, 31 were by firms which had more than 10 auditors (“medium” firms) and 34 were by firms which had 10 or fewer auditors (“small” firms). As shown in the following table, there was a significant difference in the incidence of unsatisfactory audits among the three groups.

Table 2.1: Unsatisfactory Audits by Size of CPA Firm

	Large firms	Medium firms	Small firms	Total ^a
Unsatisfactory audits	8	8	22	38
Audits in the sample	55	31	34	120

^aWeighted averages are used to estimate the number and percentage of unsatisfactory audits shown on page 20. The numbers in the table are not weighted and, thus, differ slightly from statistically derived numbers and percentages.

The results of this analysis show that firms in all three groups performed audits that did not satisfactorily comply with standards. The results of the analysis also show that smaller CPA firms had a greater likelihood than larger CPA firms of performing audits that did not satisfactorily comply with standards. The results of a separate sample of 30 small CPA firm audits we reviewed were consistent with the above analysis of small firms.

Insufficient Evidence of Compliance Testing

We found that a predominant problem for CPAs was insufficient audit work or working paper evidence showing testing of compliance with laws and regulations. In governmental auditing, compliance with laws and regulations is significant because government organizations, programs, activities, and functions are usually created by law and have

more specific rules and regulations than do private organizations. Standards require that CPAs review and document compliance with laws and regulations and report on whether the audited entity complied with laws and regulations and, if not, whether material instances of noncompliance and instances or indications of fraud, abuse, or illegal acts were found during or in connection with the audit.

While our review was not designed to determine the cause of poor quality work, we observed, through discussions with the CPAs and reviews of their work, that many CPAs did not understand the nature and importance of testing and reporting on compliance with laws and regulations. Governmental auditing has a different emphasis than commercial auditing with respect to the more specific rules and regulations. In both commercial and governmental auditing, the CPA is concerned with the effect of any noncompliance on the fair presentation of the financial statements, particularly with respect to liabilities that may result from noncompliance. In governmental audits, however, more in-depth transaction testing may be required, both by GAGAS as well as through contractual terms which often require the use of federal agency audit guides or other procedures. For example, when transactions selected for testing include grant transactions, the auditors should determine whether costs were charged to the proper grant and allocated equitably among grants and other benefiting activities. We believe that many CPAs may not have understood the nature and importance of the compliance area because of insufficient training and experience in that area and because governmental audits may not always be perceived to be as high a risk as commercial audits.

**Insufficient Evidence of
Internal Control Evaluation**

We found that another predominant problem for CPAs was insufficient audit work or working paper evidence showing the CPAs' studies and evaluations of internal accounting control.

Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. In auditing commercial entities or in auditing governmental entities, the CPA is normally required to study and evaluate internal control. The study and evaluation, however, need not be comprehensive. The CPA can make only a preliminary review of internal controls. Standards provide that a CPA can rely on a study and evaluation of

existing internal control to determine the extent of auditing procedures and tests.

In auditing commercial entities, CPAs do not usually include a statement on internal control in the auditor's report. In governmental auditing, however, GAGAS require the CPA to include a statement on internal control in the auditor's report. GAGAS also require the CPA to report whether he or she performed a study and evaluation of internal control, and if only a preliminary review was made, the reasons why. The CPA is further required to report any material weaknesses identified.

Based on our discussions with the CPAs and reviews of their work, we observed that many CPAs did not understand the importance of reporting on internal control and the relationship between reporting and the extent to which CPAs studied and evaluated internal control.

Described below are the specific problems CPAs had on governmental audits that did not satisfactorily comply with standards. The description of problems is organized by fieldwork standards, reporting standards, and general standards, and includes examples of the problems found on the 38 audits in our sample of 120 audits that did not satisfactorily comply with standards.

Fieldwork Standards

CPAs are required to follow several standards of fieldwork in performing governmental audits. The standards generally apply to planning and performing the audit, and to the sufficiency and competence of evidence supporting the CPAs' conclusions, opinions, and statements. We found that CPAs often violated the fieldwork standard of evidence, and that compliance with laws and regulations and studies and evaluations of internal control were the areas in which the evidence standards were most often violated.

Evidence

Generally accepted government auditing standards require CPAs to obtain sufficient, competent, evidential matter to support their conclusions and opinions. The nature, timing, and extent of the procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the CPA, based on specific circumstances. However, the procedures adopted should be adequate to achieve the audit objectives which the CPA develops, and the evidential matter obtained should be sufficient for the CPA to form conclusions and render opinions. The pertinence of the evidence, its objectivity, its timeliness, and the

existence of other evidential matter corroborating the conclusions to which it leads, all bear on its competence.

A written record of CPAs' evidence must be retained in the form of working papers. As a general rule, working papers should contain the results and scope of CPAs' examinations and be clear and understandable so that they do not require detailed, supplementary, oral explanations. While the quantity, type, and content of working papers vary with the circumstances, as a minimum they normally should include evidence showing that:

- Appropriate work has been adequately planned and supervised.
- Testing of compliance with laws and regulations has been performed and exceptions have been identified and resolved.
- Internal accounting controls have been studied and evaluated.
- Accounting transactions, balances and financial items, and any related evidential matters have been examined.

Of the 38 audits that did not satisfactorily comply with standards, 31 did not comply with standards on evidence, including 30 audits in the area of compliance with laws and regulations, 16 audits in the area of internal control, and 10 audits in the area of financial operations.⁶ For example, in some instances there was little or no evidence that a CPA tested to see whether recipients were eligible for federal assistance, whether costs charged to federal programs were allowable under law or regulation, or whether requirements for matching assistance were met. In other instances, there was little or no evidence supporting the CPA's report that the CPA studied and evaluated internal controls or that the CPA appropriately tested financial transactions to support the opinion on the financial statements.

Without sufficient evidence there is no assurance that a CPA performed the necessary audit work to support the conclusions, opinions, and statements included in the CPA's report. In fact, for several audits in our samples, the CPAs informed us that they did not complete all the audit work that they were required to perform. For other audits, the lack of evidence often led us to question whether the required audit work was performed. We believe the lack of testing and the lack of evidence are critical problems in governmental audits performed by CPAs and that, as discussed in chapter 3, the public accounting profession needs to take steps to ensure that CPAs fully perform governmental audits and provide

⁶The sum of these audits exceeds 31 because most audits had problems in more than one area.

sufficient, competent evidence of audit work supporting the conclusions, opinions, and statements included in their reports.

Reporting Standards

CPAs are required to follow several reporting standards in performing governmental audits. In general, the standards require reporting on compliance with laws and regulations, the presentation of financial statements, and CPAs' studies and evaluations of internal controls. Of the 38 audits that did not satisfactorily comply with standards, 19 did not comply with reporting standards, including 7 involving the standard on compliance reporting and 13 involving the standard on internal control reporting.⁷

Statement on Compliance With Laws and Regulations

Generally accepted government auditing standards require CPAs to include in their reports a statement of positive assurance on those items of compliance with laws and regulations they tested, a statement of negative assurance on those items they did not test, and a description of material instances of noncompliance and instances or indications of fraud, abuse, or illegal acts they found during or in connection with their audit.⁸

Positive assurance consists of a statement by a CPA that the tested items were in compliance with applicable laws and regulations. Negative assurance is a statement that nothing came to the CPA's attention, as a result of specified procedures, that would cause the CPA to believe the untested items were not in compliance with applicable laws and regulations.

Of the 38 audits that did not satisfactorily comply with standards, 7 did not comply with the reporting standard on compliance with laws and regulations. In 1 of those audits, the CPA did not include a statement on compliance in the auditor's report. In the other 6 audits, the CPA included a statement on compliance in the auditor's report, but the statement did not include positive assurance on those compliance provisions the CPA tested. Without the statement on compliance with laws and regulations, the CPA does not attest to having performed the required work in that area, even though such a report was specifically required by GAGAS or by the audit contract. As a result, the reader, or individual or group,

⁷The sum of these audits exceeds 19 because one audit had problems in both areas.

⁸For audits done pursuant to the Single Audit Act of 1984, auditors must report all instances of noncompliance.

relying on the audit does not have sufficient information to determine whether federal funds are used for intended purposes.

Statement on Internal Controls

Generally accepted government auditing standards require CPAs to report on their study and evaluation of internal controls. A study and evaluation of internal controls establishes a basis for determining the extent of auditing procedures to be used and is an important step in forming an opinion on the financial statements. The report should identify the entity's significant accounting controls, the controls evaluated, the controls not evaluated and the reasons therefor, and any material control weaknesses identified.⁹

Of the 38 audits that did not satisfactorily comply with standards, 13 did not comply with reporting standards on internal controls. In 2 of the audits, the CPA did not include any statement on internal control. In 9 of the audits, the CPA reported to have performed a study and evaluation of internal control when, in fact, only a preliminary review of internal controls was made. For those 9 audits, the CPAs should have stated that a comprehensive study and evaluation was not made and the reasons therefor. In 2 of the audits, the CPA did not report material weaknesses found in internal control.

General Standards

CPAs are required to follow several general standards in performing governmental audits. The general standards are personal in nature and are concerned with the independence and qualifications of the CPA and the quality of overall audit work as distinct from those standards which relate directly to the performance of fieldwork and reporting. These personal, or general, standards apply alike to the areas of fieldwork and reporting. We found that CPAs often violated the general standard of due professional care.

Due Professional Care

Generally accepted government auditing standards require a CPA to use due professional care in the performance of an audit and preparation of the audit report. This standard requires professional performance of a quality appropriate for the audit assignment undertaken, as well as good judgment in preparing audit reports.

⁹For audits done pursuant to the Single Audit Act of 1984, auditors must also report whether there are internal control systems to provide reasonable assurance that federal financial assistance programs are being managed in compliance with applicable laws and regulations.

Because of their importance, we believe violations of fieldwork or reporting standards constitute violations of due professional care. On that basis, we believe that CPAs violated the due professional care standard on the 38 audits which, because of fieldwork or reporting problems, did not satisfactorily comply with standards.

Examples of Unsatisfactory Audits

Described below are illustrations of audits we found to not satisfactorily comply with standards. The examples include problems related to fieldwork, reporting, and general standards.

- In New York, a CPA audited a vocational training institute that received funds from four U.S. Department of Education programs. The audit was for the 2 years ending June 30, 1982, and covered \$540,000 in federal funds. The CPA reported that he performed his audit in accordance with generally accepted government auditing standards and that he reviewed compliance with federal regulations for the four programs. The CPA, however, had little or no evidence in the working papers showing his tests of compliance. The working papers also had little or no evidence supporting the CPA's report on the financial statements and on internal controls. In discussions with us, the CPA said that he performed the work but would not comment on whether his evidence showing the work performed complied with generally accepted government auditing standards.
- In Texas, a CPA firm audited a regional planning commission that received funds from several federal agencies. The audit was for the year ending September 30, 1983, and covered \$130,000 in federal funds from ACTION, the Economic Development Administration, the Environmental Protection Agency, and the Urban Mass Transportation Administration. The CPA firm reported that it performed its audit in accordance with generally accepted government auditing standards and that it reviewed compliance with federal regulations. The CPA firm, however, had virtually no evidence in the working papers showing review and testing of compliance with the laws and regulations for any of the four federal agencies. In discussions with us, the CPA firm said that it did not review or test compliance with laws and regulations for the four agencies.
- Also in Texas, a CPA firm audited a university that received Head Start funds from the U.S. Department of Education. The audit was for the year ending May 31, 1983, and covered \$740,000 in Head Start funds. The CPA firm reported that it performed its audit in accordance with generally accepted government auditing standards and that it reviewed compliance with the regulations contained in the Head Start audit guide. The CPA firm, however, had little evidence in the working papers

showing that it reviewed compliance with the regulations contained in the audit guide. The CPA firm reported that it studied and evaluated internal controls but had little evidence in its working papers showing its study and evaluation of internal controls. The CPA also made no reference to generally accepted accounting principles in his opinion on the financial statements, as required under generally accepted government auditing standards. The CPA firm did not comment on our findings.

- In Colorado, a CPA firm audited a city's federal revenue sharing funds of \$1 million for the year ending December 31, 1983. The CPA firm reported that it performed its audit and that it reviewed compliance with the Revenue Sharing Act and regulations issued by the Office of Revenue Sharing, U.S. Department of the Treasury. The CPA firm reported that, based on its review, it found no instances of noncompliance. The CPA firm, however, performed virtually no review of compliance for the year ending December 31, 1983. In discussions with us, the CPA firm partner responsible for the audit said he performed tests of compliance in 1977, but had not performed tests since then because there had been no changes in the city's accounting system or key officials.
- Also in Colorado, a CPA firm audited a city's federal revenue sharing funds of \$180,000 for the year ending December 31, 1983. The CPA firm reported that it performed its audit in accordance with generally accepted government auditing standards and that the city complied with the terms and provisions of laws and regulations. The CPA firm, however, had no evidence in its working papers of testing of compliance with specific laws and regulations. In discussions with us, the CPA firm said it was aware of the specific laws and regulations relating to revenue sharing and claimed to have tested for compliance with some regulations. The CPA firm acknowledged, however, that its working papers did not contain evidence showing compliance work and thus did not comply with generally accepted government auditing standards.
- In Utah, a CPA firm audited a state health agency that received funds from the U.S. Department of Health and Human Services. The audit was for the year ending June 30, 1983, and covered \$270,000 in federal funds. The CPA firm reported that it completed its audit in accordance with generally accepted government auditing standards and that the agency complied with laws and regulations. The CPA firm, however, had evidence in the working papers showing compliance work for only 1 of 18 regulatory provisions. In discussions with us, the CPA firm said that it reviewed compliance with only one regulatory provision.
- In California, a CPA firm audited an airport district that received funds from the Federal Aviation Administration. The audit was for the year ending May 4, 1984, and covered \$330,000 in federal funds. The CPA firm reported that it performed its audit in accordance with generally

accepted government auditing standards and that the airport district complied with all regulations pertaining to federal funds. The CPA firm, however, had no evidence in the working papers of testing compliance with regulations. There was virtually no evidence of planning or supervision on the audit and little evidence of financial testing. Further, the CPA firm failed to report whether it studied and evaluated internal control. The working papers, in fact, consisted primarily of grant specifications and copies of financial records. The only evidence of audit work were two pages of an audit program and the CPA's notations on one working paper. In discussions with us, the CPA firm did not dispute our findings.

Other Studies

Two other studies of CPAs' governmental audit quality found problems similar to those we found when reviewing CPAs' working papers and reports.

Inspectors General Reviews

Regional inspectors general perform both desk reviews and quality control reviews of audits performed by nonfederal auditors, most of whom are CPAs. A desk review is a review of an audit report for conformity with professional standards—usually reporting standards—and for identification of items needing clarification. A quality control review includes a review of the auditor's working papers to ensure that the audit conforms with all applicable professional standards.

In December 1985 we reported that regional inspectors general (RIGs) found problems on 45 percent of the audits that received a quality control review. While the audits RIGs selected for review were largely based on judgment as to which auditing firms were more likely to have problems, we believe the results of the RIGs' quality control reviews are consistent with our finding that serious problems occur in a substantial number of governmental audits.

The RIGs believed that problems were so serious in 22 percent of the audits—more than one out of every five audits they reviewed—that they did not accept the audits, as submitted, until the auditor (1) performed more audit work, (2) clarified work performed, or (3) provided more support for the audit work performed. A few of the audits, in fact, were never accepted. Audits that were not initially accepted by the RIGs most often involved failings related to the fieldwork standard requiring the auditors to obtain and document sufficient, competent, evidential matter to support their conclusions, opinions, and statements. At least

two-thirds of the initially unaccepted audits with evidence problems involved problems in the compliance area; either the evidence was lacking or, more significantly, no or inadequate testing of compliance was done.

RIGS also found problems on 25 percent of the audit reports they desk reviewed. The reporting problems identified by RIGS concerned the way the reports were prepared and ranged from leaving off the date of the report¹⁰ to omitting a required statement on compliance with laws and regulations. Generally, the RIGS were successful in having auditors correct their reports. Because RIGS typically review all reports they receive, the problems RIGS found are indicative of the overall quality of CPAS' reporting on governmental audits.

Chapter 4 of this report updates our December 1985 report by describing the IGs' responses to our recommendations on how they could improve audit quality.

AICPA Review

The AICPA has also identified problems in audits of federal funds by CPAS. In a study begun in late 1979 with a final report issued in 1984, the AICPA's Ethics Division found problems related to professional standards on nearly half of 200 reports submitted to it by federal IGs. These reports were selected by the RIGS based largely on their preliminary review and, therefore, were part of a judgmental rather than a statistically valid random sample. The results, however, were similar to what the RIGS' reviews and our reviews have disclosed.

Referrals for Poor Quality Audits

As described in chapter 1, we took into account the nature and significance of each instance of noncompliance and the standard violated in making our determination whether an audit as a whole satisfactorily complied with standards. In some instances we found that a CPA severely violated a standard or several standards that were significant to the audit as a whole—for example, where a CPA neglected to complete much of the work he or she contracted to perform.

We considered whether the nature and significance of the violations were so severe that, in our professional judgment, we should refer the

¹⁰Omitting the date from the audit report is significant because the auditor is required to disclose events that occur between the date of the financial statements and the date of the report that have a material effect on the financial statements.

CPAS performing those audits to a regulatory or professional body for its review and possible disciplinary action. Review by those bodies of CPAS' audit work and reporting, and corrective or disciplinary action if warranted, would increase the public accounting profession's awareness of the consequences of performing poor quality audits and should ultimately improve the quality of governmental audits performed by CPAS.

Of the 38 audits we found to not satisfactorily comply with standards, we judged 21 to be severe. At the request of the Chairman, House Committee on Government Operations, Legislation and National Security Subcommittee, and consistent with our policy, we are referring the CPAS performing those audits to the respective state boards of accountancy for their review and possible disciplinary action. We are also referring the CPAS performing those audits to the cognizant federal inspectors general for their review and possible recourse or other action, and to the AICPA for its review and possible disciplinary action.

For the 17 audits we found to not satisfactorily comply with standards, but which were not severe enough to warrant referral to a regulatory body, we will refer the CPAS performing those audits to the AICPA and the cognizant IGS for review and consideration of possible disciplinary action. The referrals should assist the AICPA and IGS in reviewing the work of CPAS performing poor quality governmental audits and in determining what action those bodies should take with respect to these audits. Further, the referrals should aid the AICPA in examining the types of problems commonly found on governmental audits performed by CPAS and the steps needed to effectively resolve those problems.

Conclusions and Suggestions for the Public Accounting Profession

Each year the federal government provides more than \$100 billion in federal assistance to state and local governments. Public officials, legislators, and private citizens want and need to know whether those funds are used for intended purposes and entities receiving the funds are properly accounting for them. To gain that knowledge, and to carry out the responsibility for overseeing the use of federal funds, the federal government relies to a large extent on CPAs to audit and report on those funds.

Many of these CPA audits, however, do not satisfactorily comply with standards. As a result, the federal government cannot fully rely on those audits to determine whether federal funds are used for intended purposes and whether entities receiving the funds are properly accounting for them. The problem of unreliability is significant for two other reasons. First, CPAs consistently have major problems in auditing and reporting on compliance with laws and regulations—an area of substantial interest to the entity being audited, the public, and the federal government. Second, CPAs will have an important role under the Single Audit Act. As the act is fully implemented, CPAs will be performing many single audits to ensure that federal funds are properly accounted for and that programs are administered in accordance with laws and regulations. CPAs must improve their governmental audits to ensure that the act is successfully implemented.

The Public Accounting Profession Needs to Better Ensure Quality Audits

The public accounting profession professes a commitment to excellence and recognition of the public interest in the quality of CPA audits. We believe such commitment and recognition require dedication to ensure that CPAs have sufficient expertise to perform governmental audits and that the profession has effective enforcement mechanisms to identify and reprimand CPAs who do not perform these audits in a quality manner.

While we observed that the profession has some education and enforcement mechanisms in place, we did not fully evaluate the effectiveness of the mechanisms. We also did not fully evaluate the profession's effectiveness in ensuring that education mechanisms are used by CPAs performing governmental audits or how well the profession's enforcement mechanisms are applied in the area of governmental audits. The results of our review, however, are robust enough to conclude that the profession's efforts to educate CPAs in performing governmental audits have

not fully succeeded, nor have the profession's efforts to enforce governmental auditing requirements and to reprimand those CPAs who do not successfully carry out those requirements.

We believe that the profession needs to improve the quality of governmental audits. CPAs must have the expertise to successfully perform governmental audits, and the profession must have strong enforcement mechanisms to effectively reprimand CPAs who do not successfully perform those audits. Without improvement in the areas of education and enforcement, the federal government and the public will not have sufficient confidence that governmental audits performed by CPAs will comply with standards and can be relied upon in determining whether entities are properly accounting for federal funds and using them for intended purposes.

The Profession Should Improve Its Education Efforts

We believe that the public accounting profession—CPAs, the AICPA, state accounting societies, and state boards of accountancy—should improve its education efforts to ensure that CPAs performing governmental audits better understand the auditing procedures required—particularly the importance of reviewing compliance with laws and regulations and studying and evaluating internal controls. The profession should develop and implement active steps to better educate CPAs regarding governmental audit requirements and the importance of testing compliance with laws and regulations and studying and evaluating internal controls. The profession should take the responsibility to ensure that education efforts are not only developed but are also used by CPAs performing governmental audits. We believe the profession could generate public confidence in any new education efforts if it periodically evaluated their effectiveness in improving governmental audit quality and if the profession publicly reported on the results of its evaluations.

The profession may need to consider a number or series of educational steps in order to ensure that it will successfully improve its expertise in the area of governmental auditing. Alternative steps may be necessary to ensure that education initiatives will effectively reach both larger and smaller CPA firms, as well as CPA firms which do not voluntarily submit their governmental audit work to peer or other review. Peer reviews, considered by the profession as part of its program of self-regulation, can be effective in educating CPAs by evaluating CPAs' ability to perform governmental audits in a quality manner.

Although not an exhaustive list, we believe the profession should consider, among other initiatives, the effectiveness of:

- broadening requirements for continuing professional education to include a specified level of governmental accounting and auditing for CPAs performing governmental audits,
- requiring governmental audits to be included in peer reviews,
- placing greater emphasis on governmental accounting and auditing in the uniform CPA examination,
- including governmental audits in CPA firms' internal reviews of their audit quality, and
- seeking an expansion of college curricula to include greater attention to the nature and performance of governmental accounting and audit

The Profession Should Strengthen Its Enforcement Efforts

We also believe that the public accounting profession should strengthen its enforcement efforts in the area of governmental auditing to ensure that CPAs commit themselves to performing those audits in a quality manner. We believe that the profession should establish and maintain positive enforcement programs to randomly or periodically review CPAs performing governmental audits. The programs should identify CPAs performing poor quality audits and should apply sanctions that appropriately discipline CPAs performing such audits. The programs should have as an integral feature the referral of CPAs performing poor quality governmental audits to respective state boards of accountancy, IGs and program managers, and the AICPA.

Additionally, we believe the profession should work actively with IGs to improve the systems IGs have for reviewing the work of CPA firms and to facilitate the processes for collecting, compiling, analyzing, and using data on the results of IG reviews of individual audits to identify and correct trends or patterns of quality problems. Further, state boards of accountancy and the AICPA should work actively with the IGs in taking action against CPAs on poor quality audits, including poor quality audits that IGs deem serious enough to refer to those bodies. We believe state boards of accountancy and the AICPA should act promptly and decisively to address professional standards violations referred to them.

Inspectors' General Responses to Our Prior Recommendations

In our December 1985 report on audit quality, we focused on the problems seven IGS identified during their reviews of audits performed mostly by CPAS. The report also addressed the adequacy of the systems the IGS employ for monitoring audit quality. As the Single Audit Act is fully implemented, we believe agencies will be under even more pressure to identify and correct audit quality problems and to take steps to ensure that the same problems do not routinely occur.

Our prior report disclosed that the headquarters IGS had provided their regions with some written guidance on performing their audit quality review function. However, the 46 regional IG offices we visited were, for the most part, developing and implementing their audit quality review systems locally. We concluded that the regional IGS could be more effective in identifying and combating poor audits if they

- provided accurate written guidance to grantees and CPAS to ensure compliance with GAGAS;
- improved desk and quality control review programs, specifically in the scope and format of the checklist guidance regional IGS use to identify problems in quality;
- took more frequent actions against CPAS to increase the reliability of audit reports;
- compiled and analyzed the results of audit quality reviews at the regional level to identify and prevent recurring quality problems; and
- required regional offices to report on problem audits to headquarters so that it could advise the Congress on its efforts to monitor audit quality.

Prior Recommendations and Responses

In the report, we made eight recommendations to the statutory IGS to ensure that their audit quality review systems would adequately identify, disseminate, and correct problems identified in the quality review process. The seven IGS subsequently responded to the recommendations and generally concurred with their intent. However, a few of the IGS had reservations, and some had questions or suggestions regarding how to best implement some of our recommendations.

The following is a summary of written responses from the IGS at the Departments of Agriculture (USDA), Education (Education), Health and Human Services (HHS), Housing and Urban Development (HUD), Labor (DOL), Transportation (DOT), and the Environmental Protection Agency (EPA).

Recommendation 1: Prepare and update program audit guides for nonfederal auditors to use in the conduct of their audits. Due to the passage of the Single Audit Act, all audit guides should be reviewed to determine how they can best assist the auditor in performing grant audits that build upon the single audit.

IG Response: While three IGs agreed with our recommendation (USDA, Education, and EPA), in cases where program recipients will not be covered by the Single Audit Act, two IGs stated that updating their audit guides would be unnecessary because their programs would be covered by the Single Audit Act. These two IGs (HHS and HUD) plan to prepare up-to-date compliance supplements for all audit guides currently in use, or rely on the recently revised Federal Cognizant Agency Audit Organization Guidelines and/or the AICPA's audit guide entitled Audits of State and Local Governmental Units. These two IGs also noted that detailed audits of a particular program that build upon the single audit would probably require tailor-made audit procedures to fit the engagement rather than the audit guides used during the period of our review. Finally, the IG at DOT did not believe this recommendation was applicable to his agency since the IG has not issued program audit guides. The DOL IG did not respond to this recommendation.

[GAO note: We agree that programs covered by the Single Audit Act should not rely on detailed audit guides in addition to the compliance supplements being prepared and/or updated by the inspectors general. As a matter of fact, the Single Audit Act was intended to eliminate duplication in auditing various programs. Further, we understand that audits building on the single audit very well may require tailor-made audit procedures. Our recommendation is intended for those programs that will continue to be subject to individual audits, such as HUD's large family housing programs.]

Recommendation 2: Develop and require regional IG offices to use standardized checklists that are annotated to GAGAS.

IG Response: All seven IGs agreed with this recommendation and stated that they were either in the process of developing standardized checklists annotated to GAGAS or had already done so.

Recommendation 3: Require all regional IG offices to conduct quality control reviews on an established percentage of the audit reports they receive.

IG Response: Three of the IGs agreed with the recommendation (Education, HUD, and EPA) and stated that they will require their regional offices to conduct an established percentage of quality control reviews. The percentage varied among the three IGs, but ranged between 5 and 10 percent of all reports received. The USDA IG also agreed with our recommendation in regard to its single audits and stated that the regions needed flexibility in reviewing their other audits due to resource constraints. The IGs for DOT and HHS disagreed with our recommendation and stated that although quality control reviews are performed when the IG deems it to be necessary, an arbitrary percentage would be a poor use of limited resources. The DOL IG did not respond to this recommendation.

[GAO note: After considering the DOT and HHS IGs' responses, we believe that they have not made a convincing case that our recommendation should not be followed. Without a set percentage of quality control reviews, the IGs will not have data on the trends and patterns of quality problems that they need to ensure do not recur.]

Recommendation 4: Clarify, and where necessary, revise policies on taking actions against CPAs on unacceptable audits, even when a CPA ultimately provides an acceptable report.

IG Response: All of the IGs generally agreed with our recommendation and stated that their policies are, or have been, revised and/or reiterated to their regional offices. These policies at Education, HUD, and EPA include provisions that permit actions to be imposed on CPAs regardless of whether inadequacies identified by the IGs have been corrected. Some of the other IGs have policies which were written to conform with the Federal Cognizant Agency Audit Organization Guidelines, which only provides for referrals after the independent auditor is given "... adequate opportunity to take corrective action or provide adequate justification for apparent deficiencies." For example, the DOT IG noted that the Single Audit Act is relatively new and implementation is an evolving process. Therefore, the IG stated that his policies require referrals to be made only when a CPA (1) refuses to correct substandard work, (2) takes an inordinate amount of time to correct substandard work, or (3) repeatedly performs substandard work. One of the IGs also noted that he believed the President's Council on Integrity and Efficiency (PCIE) should take a leadership role in developing uniform referral procedures.

Recommendation 5: Work with the AICPA and appropriate state boards of accountancy to expedite referrals to these bodies.

IG Response: Six of the seven IGs agreed with this recommendation (USDA, Education, HHS, HUD, DOT, and EPA) and a few have already contacted the AICPA. However, some IGs felt that this recommendation could best be implemented through the PCIE. Many of the IGs noted that the PCIE and the AICPA should work together to streamline the documentation requirements for referrals and to agree on a plan to provide IGs with feedback on the status of IG referrals. The DOL IG did not address this recommendation in his response.

Recommendation 6: Require regional IG offices to collect, compile, analyze, and use data on the results of their quality control reviews of individual audits to identify and correct trends or patterns of quality problems.

IG Response: All of the IGs agreed with our recommendation and some described their current efforts to implement a system to track audit quality. The Education and HHS IGs noted that they are in the process of developing or implementing a computerized system. Two other IGs (DOT and EPA) expressed interest in developing an interagency system of sharing the results of IGs' quality reviews. The USDA IG responded that he would also be willing to share information on audit quality problems, but due to privacy issues, does not believe this could extend to information on specific audit firms.

Recommendation 7: Require regional IG offices to report quality review results to headquarters using consistent formats and terminology so that nationwide trends and patterns of quality problems can be identified.

IG Response: All of the IGs responding to this recommendation generally agreed, and some stated that their newly-designed systems will provide headquarters with the information it needs. The DOL IG did not respond to this recommendation.

Recommendation 8: Report problems identified and efforts to improve audit quality to agency heads and to the Congress in their semiannual reports.

IG Response: Four of the seven IGs agreed with this recommendation (Education, HHS, HUD, and EPA), although with different degrees of support. For example, the EPA IG stated that, in his opinion, although efforts to improve audit quality should, in principle, be reported to agency heads and to the Congress in the semiannual report, this topic should not be a requirement for each report. Instead, the EPA IG plans to review

its efforts to improve audit quality during each reporting cycle to determine if the activities were significant enough to warrant inclusion in the report. The HHS IG, on the other hand, noted that statistical data obtained from its new computerized system will routinely be included in its semiannual report to the Congress. The Education IG responded that he would be pleased to report summary information in this manner, and the HUD IG indicated that his office plans to report the results of its efforts to improve audit quality beginning with the semiannual report for the 6-month period ending March 31, 1986. The DOT and USDA IGs both disagreed with our recommendation, noting, respectively, that this requirement should not be mandatory and that the semiannual reports are not the proper vehicle for this reporting. These IGs did not elaborate on the reasons for their disagreement. The DOL IG did not respond to this recommendation.

IG Comments on Audit Fee Issue

In November 1985, we testified before the Legislation and National Security Subcommittee of the House Committee on Government Operations on the first phase of our review of audit quality. During the hearing the chairman expressed the view that CPAs should not receive payment for substandard audits. Attention was called to a provision of the Single Audit Act establishing 31 U.S.C. 7505 (b) (1), which requires criteria prohibiting state and local governments from charging the cost of an audit not meeting the requirements of the act to any program of federal financial assistance. The act provides that the criteria be included in the policies, procedures, and guidelines the Director of OMB is required to prescribe under 31 U.S.C. 7505 (a) in consultation with the Comptroller General and appropriate federal, state, and local government officials. The issued policies, procedures, and guidelines are set forth in OMB Circular A-128 ("Audits of State and Local Governments") and refer to the disallowance provisions of the act citing sanctions available to the federal agencies, including withholding a percentage of assistance payments, withholding or disallowing overhead costs, and suspending the federal assistance agreement. The circular does not provide any implementation guidelines on the process for determining whether an audit meets the act's requirements or how and under what conditions the sanctions should be imposed.

In October 1985 the PCIE issued Federal Cognizant Agency Audit Organization Guidelines (the orange book) which sets forth the policies for reviewing audits conducted under the Single Audit Act. The guidelines recognize the cost prohibition provisions in the act and generally state, among other things, that the agency shall notify other agencies dealing

with the grantee of the substandard audit and recommend that the grantee impose available penalties and sanctions. However, the guidelines do not specify a specific process for ensuring that the cost of a substandard audit is not charged against federal programs. In light of the discussion at the hearing, we asked the seven IGs for their views on how to best implement 31 U.S.C. 7505. Six IGs responded. Three IGs—Education, HUD, and DOL—said that the entities contracting for the audit should provide that CPAs not be paid for substandard audits. Two IGs—USDA and HHS—said that the PCIE was the appropriate body to oversee such provisions. The DOT IG believed the cognizant federal agency's accounting and contracting function should be responsible for the provisions.

We believe the diverse views of the inspectors general in this area confirm the need for OMB, in consultation with the PCIE and others, to establish a uniform and consistent process for ensuring that federal programs are not charged for the costs of audits that do not meet the requirements of the act. Such a process should include a system for the review and resolution of proposed sanctions and penalties. Revising OMB Circular A-128 would be an appropriate vehicle for issuing the criteria.

Recommendation

We recommend that the Director, Office of Management and Budget, establish, consistent with the Single Audit Act, more definitive criteria for prohibiting the cost of substandard audits to be charged to federally assisted programs.

Summary of Generally Accepted Government Auditing Standards

Scope of Audit Work

The expanded scope of auditing a government organization, a program, an activity, or a function should include:

1. **Financial and compliance**—determines (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.
2. **Economy and efficiency**—determines (a) whether the entity is managing and utilizing its resources (such as personnel, property, space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.
3. **Program results**—determines (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.

In determining the scope for a particular audit, responsible audit and entity officials should consider the needs of the potential users of audit findings.

General Standards

1. **Qualifications**: The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
2. **Independence**: In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance.
3. **Due professional care**: Due professional care is to be used in conducting the audit and in preparing related reports.
4. **Scope impairments**: When factors external to the audit organization and the auditor restrict the audit or interfere with the auditor's ability to form objective opinions and conclusions, the auditor should attempt to remove the limitation or, failing that, report the limitation.

**Examination and
Evaluation (Fieldwork) and
Reporting Standards for
Financial and Compliance
Audits**

AICPA Statements on Auditing Standards for fieldwork and reporting are adopted and incorporated in this statement for government financial and compliance audits. Future statements should be adopted and incorporated, unless GAO excludes them by formal announcement.

Additional standards and requirements for government financial and compliance audits:

Standards on examination and evaluation:

1. Planning shall include consideration of the requirements of all levels of government.
2. A review is to be made of compliance with applicable laws and regulations.
3. A written record of the auditors' work shall be retained in the form of working papers.
4. Auditors shall be alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts, and if such evidence exists, extend audit steps and procedures to identify the effect on the entity's financial statements.

Standards on reporting:

1. Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.
2. A statement in the auditors' report that the examination was made in accordance with generally accepted government auditing standards for financial and compliance audits will be acceptable language to indicate that the audit was made in accordance with these standards. (The AICPA requires that public accountants state that the examination was made in accordance with generally accepted auditing standards. They should state that their examination was performed with the additional standards for governmental audits.)

3. Either the auditors' report on the entity's financial statements or a separate report shall contain a statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. It shall also include material instances of noncompliance and instances or indications of fraud, abuse, or illegal acts found during or in connection with the audit.

4. The auditors shall report on their study and evaluation of internal accounting controls made as part of the financial and compliance audit. They shall identify as a minimum: (a) the entity's significant internal accounting controls, (b) the controls identified that were evaluated, (c) the controls identified that were not evaluated (the auditor may satisfy this requirement by identifying any significant classes of transactions and related assets not included in the study and evaluation), and (d) the material weaknesses identified as a result of the evaluation.

5. Either the auditors' report on the entity's financial statements or a separate report shall contain any other material deficiency findings identified during the audit not covered in (3) above.

6. If certain information is prohibited from general disclosure, the report shall state the nature of the information omitted and the requirement that makes the omission necessary.

CPA Firms Reviewed by GAO

CPA firm	CPA firm's location	Auditee	Period ending
Alexander Grant and Company Certified Public Accountants	Denver, CO	City of Glendale	12/31/83
Alexander Grant and Company Certified Public Accountants	Denver, CO	City of Aurora	12/31/83
Alexander Grant and Company Certified Public Accountants	Kalamazoo, MI	Meridian Charter Township	12/31/83
AM Pullen & Company, Certified Public Accountants	Richmond, VA	Capital Region Airport Commission	06/30/83
Arthur Andersen & Co	Oklahoma City, OK	City of Norman	06/30/83
Arthur Andersen & Co	Dallas, TX	Dallas County Consortium	06/30/83
Arthur Young & Company	Fayetteville, AR	City of Springdale	12/31/83
Arthur Young & Company	Albuquerque, NM	Albuquerque Technical-Vocational Institute	06/30/83
Arthur Young & Company	Denver, CO	Regis College	06/30/83
Arthur Young & Company	Los Angeles, CA	Southern California Association of Governments	06/30/83
Atkinson, Wolpert & Brubaker Certified Public Accountants	Lancaster, PA	Lancaster Airport Authority	12/31/83
Baird, Kurtz & Dobson Certified Public Accountants	Pine Bluff, AR	North Arkansas Human Services System, Inc.	12/31/83
Bixler, Carlton, Pittenger & Co., Inc. Certified Public Accountants	El Paso, TX	City of El Paso	08/31/83
Bourgeois, Bennett, Thokey & Hickey	New Orleans, LA	Regional Planning Commission	06/30/83
Edmund D. Bowman & Co. Certified Public Accountants Registered Municipal Accountants	Collingswood, NJ	Township of Lawrence	12/31/83
Brout & Company Certified Public Accountants	Fiorham Park, NJ	City of Peekskill	02/29/84
Burgart, Glarner & Co. P.C. Certified Public Accountants	New Kensington, PA	Borough of Leechburg	09/30/83
Carland & Carland Incorporated Certified Public Accountants	Hendersonville, NC	Brevard College Corporation	06/30/83
Carpenter & Parker Certified Public Accountants	Hattiesburg, MS	Pearl River Junior College	06/30/83
Chadwick, Zick & Co., P.C. Certified Public Accountants	Lewiston, MI	Kalkaska County	12/31/83
Chandler, Hadley, Maxie & Smrcka, P.C. Certified Public Accountants	Glasgow, MT	Fort Peck	01/31/84
Charles R. James Certified Public Accountant	Dalton, GA	City of Dalton	07/31/84
Chasteen, Johnston & West Certified Public Accountants	Florence, SC	Francis Marion College	06/30/83
Christopher, Durham & Pepper Accountants & Auditors	Athens, AL	Southern Rural Health Care Consortium, Inc.	06/30/83

**Appendix II
CPA Firms Reviewed by GAO**

CPA firm	CPA firm's location	Auditee	Period ending
Clark, Wong, Fouikes & Barbieri Certified Public Accountants	Oakland, CA	Metropolitan Transportation Commission	06/30/83
Clifford M. Wood Certified Public Accountant	Bay Minette, AL	James H. Faulkner State Junior College	06/30/83
Conly & Lehotan Certified Public Accountants	Brown City, MI	Genesee-Lapeer-Shiawassee, Region V, Planning and Development Commission	06/30/81
Coopers & Lybrand Certified Public Accountants	Albany, NY	City of Poughkeepsie	12/31/82
Coopers & Lybrand Certified Public Accountants	Albany, NY	Capital District Regional Planning Commission	12/31/82
Coopers & Lybrand Certified Public Accountants	Syracuse, NY	Central New York Regional Transportation Authority	03/31/83
Coopers & Lybrand Certified Public Accountants	Baltimore, MD	Howard County	06/30/83
Coopers & Lybrand Certified Public Accountants	Newport News, VA	Southeastern Tidewater Area Manpower Authority, Inc.	09/30/81
Coopers & Lybrand Certified Public Accountants	Richmond, VA	City of Richmond	06/30/83
Coopers & Lybrand Certified Public Accountants	Los Angeles, CA	Compton Community College District	06/30/81
Daniel G. Matthews & Associates, Inc. Certified Public Accountants	Smithfield, NC	Johnston County Housing Assistance Payments Program	06/30/83
Deloitte, Haskins + Sells	Hackensack, NJ	Airco Technical Institute- New Orleans	06/30/83
Deloitte, Haskins + Sells	Hackensack, NJ	Airco Technical Institute- Houston	06/30/83
Deloitte, Haskins + Sells	Denver, CO	Rockmont College	06/30/83
Deloitte, Haskins + Sells	Saint Paul, MN	Ramsey County	06/30/83
Deloitte, Haskins + Sells	Dayton, OH	City of Xenia	12/31/83
Deloitte, Haskins + Sells	Buffalo, NY	Niagara Frontier Transportation Authority	03/31/84
Dennis S. Risor Certified Public Accountant	Carrollton, KY	Carroll County Board of Education	07/31/83
Denton, Netherton + Co., P.C. Certified Public Accountants	Englewood, CO	Costilla County Housing Authority	09/30/83
Dobbins, Deguire & Tucker, P.C. Certified Public Accountants	Missoula, MT	Missoula Urban Transportation District	06/30/83
Dominick J. Steffen Certified Public Accountant	Pittston, PA	Moosic Borough	12/31/83
Donald A. Dicke Certified Public Accountant	Mansfield, OH	Richland County Transit Board	06/30/83
Dupuis & Ryden A Professional Corporation of Certified Public Accountants	Flint, MI	Charter Township of Mt. Morris	12/31/82
Earnhart & Associates, Inc. Certified Public Accountants	Sterling, CO	City of Sterling	12/31/83
Eide Helmeke & Co. Certified Public Accountants	Bismarck, ND	Bismarck Junior College	06/30/83

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CPA firm	CPA firm's location	Auditee	Period ending
Eide Helmeke & Co. Certified Public Accountants	Bismarck, ND	North Dakota State University, Bottineau Branch	06/30/83
Ernst & Whinney	Houston, TX	Houston-Galveston Area Council	12/31/82
Ernst & Whinney	Salt Lake City, UT	Utah Health Systems Agency	06/30/83
Ernst & Whinney	Trenton, NJ	Delaware River Basin Commission	06/30/83
Ernst & Whinney	Newport Beach, CA	Orange County PSRO	06/30/83
Fay, Conmy and Company Certified Public Accountants	Chicago, IL	City of River Rouge	08/19/83
Fox & Company Certified Public Accountants	Minneapolis, MN	Minnesota Department of Economic Security	09/30/82
Fox & Company Certified Public Accountants	Washington, DC	Bioqual, Inc.	05/31/83
Gainey & Denning A Professional Association Certified Public Accountants	Clinton, NC	Haliwa-Saponi Indian Tribe	07/31/83
Gary J. Poltash Certified Public Accountant	Los Angeles, CA	Hollywood Community Service Project, Inc.	06/30/83
Gibson & Conger Certified Public Accountants	Forsyth, GA	City of Barnesville Housing Authority	12/31/83
Green and Fling Associates, Auditors	Maryville, TN	Town of Oliver Springs	06/30/83
Gunnarson, Broomfield & Richards Accountancy Corporation Certified Public Accountants	San Diego, CA	National City Community Development Commission	04/30/84
Hamilton, Gilbert and Perry, P.C. Certified Public Accountants	Knoxville, TN	Progress For People Human Resource Agency	05/31/83
Hearn, Criswell & Robison Certified Public Accountants	Lubbock, TX	Texas Tech University	05/31/83
Henry & Horne, Certified Public Accountants	Chandler, AZ	Glendale Community College	06/30/83
Hodges, Johnson, Wallis and Allen Certified Public Accountants	Americus, GA	Taylor County	09/06/83
Hudson, Elkins & Medley Certified Public Accountants	Harrison, AR	Boone County Airport Commission	03/31/84
Huntley & Keyes Certified Public Accountants	Lenoir, NC	West Caldwell Health Council, Inc.	02/29/84
J. Kevin Smith Certified Public Accountant	Denver, CO	City of Moody Housing Authority	09/30/83
J. L. Tatum & Company Certified Public Accountants	Atlanta, GA	Noxubee County Health Care, Inc.	01/31/84
Jackson and Thompson, P.C. Certified Public Accountants	Savannah, GA	Savannah Housing Authority	03/31/84
James McKee III, Certified Public Accountant	Malone, NY	Franklin County Economic Opportunity Council, Inc.	08/31/83
Joe Warren Jones Certified Public Accountant	Gallatin, TN	City of Portland	06/30/84
John J. Michie Certified Public Accountant	Nashville, TN	Nashville College of Medical and Dental Assistants	06/30/83

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CPA firm	CPA firm's location	Auditee	Period ending
Johnston, King, Moore & Truelove Certified Public Accountants	Vernon, TX	Vernon Regional Junior College	06/30/83
Jose Rodriguez Olmo Contador Publico Autorizado (Licencia 488)	Santurce, PR	Camuy Municipality	06/30/83
Kafoury, Armstrong, Bernard & Bergstrom Certified Public Accountants	Reno, NV	Tahoe Regional Planning Agency	06/30/83
Kirk and Fortner Certified Public Accountants	Kingsport, TN	Clinch-Powell Educational Cooperative	06/30/83
Larry A. Penix Certified Public Accountant, A.C.	Charleston, WV	Wirt County	06/30/83
Linton and Company Certified Public Accountants	Pikeville, KY	City of Pikeville	06/30/83
Lundy, Minnich & Linville Certified Public Accountants	Pensacola, FL	City of Milton	08/21/84
Main Hurdman Certified Public Accountants	Roseland, NJ	County of Ocean Employment and Training Administration	09/30/83
Main Hurdman Certified Public Accountants	Harrisburg, PA	Northampton County Area Community College	06/30/83
Main Hurdman Certified Public Accountants	Pittsburg, PA	Southern Alleghenies Planning and Development Commission	09/30/80
Main Hurdman Certified Public Accountants	Clarksburg, WV	City of Philippi	06/30/83
Main Hurdman Certified Public Accountants	Fresno, CA	Council of Fresno County Governments	06/30/83
Maner, Costerisan & Ellis, P.C. Certified Public Accountants	Lansing, MI	Delta County Airport	08/10/83
Mason L. Spruill, CPA, P.A.	Elizabeth City, NC	Economic Improvement Council, Inc.	05/31/83
Mason, Nickels & Warner Certified Public Accountants	Lubbock, TX	City of Lubbock	09/30/83
Matthews, Carter and Boyce	Arlington, VA	Mount Vernon College	06/30/83
McGladrey, Hendrickson & Co. Certified Public Accountants	Cheyenne, WY	City of Cheyenne	09/30/83
McMahan, Armstrong & Olsen Inc. Certified Public Accountants	Vail, CO	Town of Vail	12/31/83
Michael D. Hastings Accountancy Corporation	Santa Maria, CA	Santa Maria Public Airport District	05/04/84
Mills, Walvoord & Company Certified Public Accountants	Beaumont, TX	South East Texas Regional Planning Commission	09/30/83
Mitchell/Titus & Co. Certified Public Accountants	New York, NY	Queensbridge Day Care Center, Inc.	07/31/83
Mitchell/Titus & Co. Certified Public Accountants	New York, NY	Better Education Starts Today - Head Start Center	06/30/83
Mitchell/Titus & Co. Certified Public Accountants	Washington, DC	District of Columbia Government	09/30/82

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CPA firm	CPA firm's location	Auditee	Period ending
Moeller, Mayberry & Osborne Certified Public Accountants	Colorado Springs, CO	City of Woodland Park	12/31/83
Murray, Jonson White & Associates, LTD	Arlington, VA	Northern Virginia Foundation For Medical Care	03/31/83
Naim N. Kassicien Registered Public Accountant	Albuquerque, NM	New Mexico Livestock Board	06/30/82
Orestes C. Carmicle, CPA	Cleveland, MS	Town of Metcalfe	07/31/83
Pannell Kerr Forster Certified Public Accountants	Hartford, CT	Waukesha-Ozaukee-Washington Job Training Consortium	06/30/83
Pannell Kerr Forster Certified Public Accountants	San Francisco, CA	City of Tracy	12/31/83
Peat, Marwick, Mitchell & Co Certified Public Accountants	Rochester, NY	City of Rochester	09/30/83
Peat, Marwick, Mitchell & Co Certified Public Accountants	Los Angeles, CA	City of San Luis Obispo	06/30/83
Peat, Marwick, Mitchell & Co. Certified Public Accountants	Salt Lake City, UT	Wasatch Front Regional Council	06/30/83
Peat, Marwick, Mitchell & Co. Certified Public Accountants	Toledo, OH	Bowling Green State University	06/30/83
Peat, Marwick, Mitchell & Co Certified Public Accountants	Rochester, NY	Genesee Community College	06/30/83
Peat, Marwick, Mitchell & Co. Certified Public Accountants	Baltimore, MD	City of Annapolis	06/30/83
Peat, Marwick, Mitchell & Co. Certified Public Accountants	San Francisco, CA	California State University	06/30/83
Peat, Marwick, Mitchell & Co. Certified Public Accountants	Los Angeles, CA	City of Santa Monica	06/30/83
Peat, Marwick, Mitchell & Co. Certified Public Accountants	San Jose, CA	Santa Clara County Transit District	06/30/83
Phillips, Harris & Co. Certified Public Accountants	Columbus, OH	Dayton Christian Center	09/30/83
Plante & Moran Certified Public Accountants	Southfield, MI	Oakland-Macomb PSRO	09/30/83
Prall & Company, Inc. Certified Public Accountants	Indianapolis, IN	Indiana Heartland Coordinating Commission	06/30/83
Price, Howell & Company, P.A. Certified Public Accountants	Goldsboro, NC	City of Goldsboro Housing Authority	06/30/83
Price Waterhouse	Rochester, NY	Rochester-Genesee Regional Transportation Authority	03/31/84
Proto & Loskey Certified Public Accountants	Olean, NY	City of Olean Department of Public Works	06/15/84
Quezada Navarro & Co. Certified Public Accountants	San Jose, CA	City and County of San Francisco	09/30/82
Robert C. Rice Certified Public Accountant	Raleigh, NC	Rutledge College of Greensboro, Inc.	06/30/83
Rodger R. Trigg Certified Public Accountant	Columbus, GA	Meadows College of Business	06/30/83
Rodrigue, Anderson & Sommerville	Fortuna, CA	City of Fortuna	08/19/83

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CPA firm	CPA firm's location	Auditee	Period ending
Rodriguez, Roach & Assoc., P.C., Certified Public Accountants	Denver, CO	A Child's Touch	03/31/83
Rodriguez, Roach & Assoc., P.C., Certified Public Accountants	Denver, CO	Grand Kids Day Care Center	05/31/83
Rosenberg, Freundlich, Levine, Kopp & Truglio A Professional Association Certified Public Accountants	Bridgewater, NJ	City of Trenton	02/16/82
Russ & Russ Certified Public Accountants	Glendale, CA	Glendale Community College District	06/30/83
Samuel M. Fisher and Company Certified Public Accountants	Philadelphia, PA	Cumberland County Utilities Authority	09/25/82
Samuel M. Fisher and Company Certified Public Accountants	Philadelphia, PA	East Norriton Plymouth Joint Sewer Authority	02/23/82
Samuel M. Fisher and Company Certified Public Accountants	Philadelphia, PA	Derry Township Municipal Authority	04/07/82
Seidman & Seidman Certified Public Accountants	Tulsa, OK	Indian Nations Council of Governments	06/30/84
Sidney Sherrin Certified Public Accountant	Hicksville, NY	Ultissima Beauty Institute	06/30/82
Simonsen, Mader, Blundell & Co. Certified Public Accountants	Laramie, WY	Laramie Child Development Corporation	10/31/83
Singley, Halbert & Harvey, LTD., Certified Public Accountants	Columbia, MS	City of Columbia	11/30/83
Sovie & Bowie, C.P.A., P.C. Certified Public Accountants	Watertown, NY	Ogdensburg Bridge & Port Authority	03/31/83
Stephen G. Ramirez Certified Public Accountant	San Diego, CA	Southern Indian Health Council, Inc.	09/30/83
Steven Yu & Co. Certified Public Accountants	San Francisco, CA	Alameda County Training and Employment Board	09/30/81
Stone, McGee & Co., Certified Public Accountants	Silver City, NM	Region V Regional Housing Authority	06/30/84
Tarble and Motley Certified Public Accountants	Paris, IL	Village of Beecher City	04/30/83
Thoni, Valiquette, Hinton & Warren Certified Public Accountants	Nashville, TN	Trevecca Nazarene College	06/30/83
Touche Ross & Co.	Washington, DC	Montgomery County	06/30/82
Van Schooneveld and Co., Inc.	Englewood, CO	City of Littleton	12/31/83
Walter J. Tasker Certified Public Accountant	Richfield, UT	Sevier Valley Area Vocational Center	06/30/83
Wear, Howell & Strickland Certified Public Accountants	Decatur, AL	Morgan-Lawrence Community Action Committee	09/30/83
Webb & Webb Certified Public Accountants	San Angelo, TX	Tom Green County Community Action Council	01/31/84

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CPA firm	CPA firm's location	Auditee	Period ending
Welenken Himmelfarb & Co. Certified Public Accountants	Louisville, KY	State of Michigan's Bureau Of Employment and Training	09/30/81
Whited & Seigneur Certified Public Accountants	Chillicothe, OH	Ross County Ambulatory Clinic	03/31/83
M. M. Winkler & Associates Certified Public Accountants	Tupelo, MS	City of Tupelo Housing Authority	12/31/83
Wipfli, Ullrich & Company Certified Public Accountants	Wausau, WI	Trans American School of Broadcasting	06/30/83
Wyatt & Associates Professional Corporation Certified Public Accountants	Tell City, IN	Tell City Housing Authority	06/30/83
Zesha Auerbach Certified Public Accountant	Brooklyn, NY	Village of New Square	08/31/83

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