



SUBJECT

SINGLE AUDIT**1. INTRODUCTION**

Background and History - The Federal Government spends approximately \$100 billion annually in the form of financial assistance to state and local governments. This Federal financial assistance is used by its recipients for transportation, welfare, education, health, job training and other programs. These recipients include State Governments, including the District of Columbia, Puerto Rico, the Virgin Islands and approximately 300 Indian tribes; and, local governments which include cities, towns, counties, school districts, housing and airport authorities, etc. (Note: Indian tribes are defined as "states" for purposes of Single Audit.). In addition, the Federal Government spends an additional \$50 billion annually in the form of financial assistance to tax-exempt, not-for-profit organizations.


It is estimated that there are approximately 83,000 state and local governments and over 900,000 not-for-profit organizations. Of these, approximately 17,000 governments and 75,000 not-for-profit organizations will receive at least \$100,000 of federal financial assistance and be subject to Single Audit. By contrast, there are an estimated 11,000 private sector organizations that are subject to audit under the Security and Exchange Acts.

The Department of Administration, General Accounting Office, is the single point of contact within the State for coordination of the Single Audit with the lead cognizant Federal agency, the Department of Health and Human Services.

Individual Grant-by-Grant Audits - Prior to 1978, there was no single audit concept. Each Federal Cognizant or Grantor Agency was responsible for auditing each individual award, program or grant. Each Grantor Agency had its own audit guidelines and reporting requirements. The audit scope was limited to testing of the recipient's compliance with the terms of a specific award, program or grant agreement. There were over 200 separate program audit guides issued by the various Federal Grantor Agencies which frequently provided confusing and conflicting guidance. In some cases, multiple guidelines existed within a single Federal agency.

This approach led to problems in auditing Federal Financial Assistance. For example, no single Federal agency was responsible for all Federal financial assistance awarded to a single recipient. Duplicate reviews and testing of internal controls and transactions occurred with different audit groups simultaneously reviewing a single recipient organization. There were gaps in audit coverage. In addition, duplication and overlap, and cost ineffectiveness generally occurred.

In 1978, the Federal General Accounting Office reviewed this situation and made a number of recommendations. These recommendations, along with recommendations made by the Joint Financial Management Improvement Program in 1979, led the Office of Management and Budget to issue Attachment P to the previously issued OMB Circular A-102 in October 1979.

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Attachment P - A Single Audit Concept - Attachment P was the Federal Government's first attempt to eliminate the problems of individual grant-by-grant audits. Specifically, it established audit policies applicable to Federal financial assistance programs to state and local governments, and Indian tribes receiving Federal financial assistance. The scope of Attachment P covered only federal funds. Nonfederal funds were not covered. In addition, it also did not extend to the recipient's underlying general purpose financial statements. For these reasons, Attachment P did not receive extensive implementation; and was superseded in April 1985.

2. THE SINGLE AUDIT ACT OF 1984 (PL 98-502)

As a result of the lack of extensive implementation of Attachment P, the Congress passed the Single Audit Act of 1984.

Objectives of the Single Audit Act - There are four objectives stated in the Act. All of these objectives are relative to Federal financial assistance.


- a. Improved financial management by state and local governments;
- b. Uniform audit requirements;
- c. Efficient and effective audit resource use; and,
- d. Ensure reliance upon and use of audit work performed in keeping with the Single Audit Act.

The "Single Audit" (versus grant-by-grant audit) is a term used in reference to:

- a. Audits of the general purpose financial statements of the recipient receiving Federal financial assistance, and its schedule of Federal financial assistance.
- b. Tests of compliance with statutory and regulatory requirements of that recipient as a part of a financial statement audit and Federal financial assistance programs.
- c. Study and evaluation of the internal accounting control environment of the recipient as a part of an audit and the internal accounting and administrative controls over major Federal financial assistance programs.

Scope of the Single Audit Act - Under the Single Audit Act, all Federal assistance programs administered by the recipient are included in the scope of the audit. "Assistance" has a broad definition which covers:

- a. Noncash assistance, such as USDA-donated commodities;
- b. Loan and guarantee programs where no cash assistance was actually received; and,

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- c. In-kind contributions, such as surplus land donated for park use.

The Single Audit Act does not include:

- a. Economy and efficiency audits or program results audits;
- b. Program evaluations; and,
- c. Detailed grant-by-grant audits.


OMB Circulars - The Act required that the OMB issue new regulations to implement the Act. The OMB issued Circular A-128 on April 12, 1985; and, Circular A-133 on March 8, 1990. Generally speaking Circular A-128 covers only state and local governments and Circular A-133 covers not-for-profit organizations. However, because of the extension to non-governments of A-128 Single Audits by either contract or policy, certain non-governments could be covered by A-128. It is the independent auditor's responsibility to ascertain if a non-government is covered by either A-128 or A-133.

There are several important differences in the application of the two Circulars. Two of the most important are in defining what a "major" program is and excluded activities (not subject to single audit requirements). All single audits of the State of Arizona performed by the Office of the Auditor General are covered by Circular A-128.

Cognizant Agencies - Cognizant agencies are designated by the OMB to perform, in part, the oversight and monitoring responsibilities. These responsibilities include:

- a. Ensuring timely Single Audits;
- b. Ensuring that Single Audit reports and Corrective Action Plans are transmitted to appropriate Federal- officials;
- c. Coordinating additional audits done by or under contract with Federal agencies, ensuring that these build on the Single Audit;
- d. Providing technical assistance to grantors, grantees, government auditors and public accountants;
- e. Performing quality assurance reviews of Single Audits; and,
- f. Monitoring the recipient government's Corrective Action Plans where material internal control weaknesses, material noncompliance and/or material questioned costs are reported in the Single Audit.

The cognizant agency for the State of Arizona is the Department of Health and Human Services (HHS).

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3. AUDIT REQUIREMENTS

Annual Thresholds

- a. Single Audit is required in any fiscal year when Federal assistance of \$100,000 or more is received;
- b. Single Audit may be elected when Federal assistance of \$25,000 or more but less than \$100,000 is received. However, if not elected, individual grant audit requirements apply; and,
- c. No audit is required of any type, when Federal assistance of less than \$25,000 is received. However, recipient must maintain records on grant activity required of such grants.

Audit Scope - Encompasses the entire financial operations of the government recipient to determine and report that:


- a. Financial statements of the recipient present fairly its financial position and results of operations in accordance with GAAP. (Note: Although the Act and Circular A-128/A-133 do not prescribe GAAP reporting, the auditor is required to state the fact that the financial statements were not prepared in accordance with GAAP, e.g. cash basis.);
- b. The recipient has internal control systems to provide reasonable assurance that it is managing its overall affairs and Federal financial assistance programs in compliance with applicable laws and regulations; and,
- c. The recipient has complied with laws and regulations that may have a material effect on its financial statements, and (a) each major Federal financial assistance program, (b) all non-major Federal financial assistance programs, and (c) general compliance matters.

Audit Frequency - Single Audits are to be conducted annually, unless the state or local government has a legal requirement or policy for less than annual audits. The State of Arizona has an annual audit requirement.

4. AUDIT REPORTS

Recipient Government

- a. A report on an audit of the general purpose or basic financial statements of the entity as a whole;
- b. A report on the internal control structure based solely on a study and evaluation made as a part of the audit of the general purpose or basic financial statements; and,

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- c. A report on compliance with the laws and regulations that may have a material effect on the general purpose or basic financial statements.

Federal Financial Assistance Programs

- a. A report on the Supplemental Schedule of Federal Financial Assistance, showing total receipts, expenditures, and other details for each Federal assistance program;
- b. A report on internal controls (accounting and administrative) used in administering Federal financial assistance programs;
- c. A report on compliance with laws and regulations relating to major Federal financial assistance programs, identifying all finding of noncompliance and questioned costs;
- d. A report on general compliance matters relating to Federal financial assistance programs;
- e. A report on compliance with laws and regulations relating to non-major Federal financial assistance programs;
- f. If necessary, a report on fraud, abuse, or an illegal act, or indications of such acts, when discovered (a written report is required) ; and,
- g. A schedule of findings and questioned costs, if applicable, to accompany the foregoing.