

**Statement of the New York State Society of
Certified Public Accountants**

**Submitted for the Record of October 25, 2007 Hearing Entitled “Single
Audits: Are They Helping to Safeguard Federal Funds”,
By the Subcommittee on Federal Financial Management, Government
Information, Federal Services, and International Security of the United
States Senate Committee on Homeland Security
and Governmental Operations**

Statement of the New York State Society of Certified Public Accountants (NYSSCPA) submitted for the record of October 25, 2007 hearing, entitled “Single Audits: Are They Helping to Safeguard Federal Funds”, by the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security of the United States Senate Committee on Homeland Security and Governmental Operations

Chairman Carper, Ranking Member Coburn, and distinguished Members of the Subcommittee. Thank you for the opportunity to submit a written statement on the question of whether Single Audits are helping to safeguard federal funds. In an effort to address the many concerns raised in the “Report on National Single Audit Sampling Project” (the Report) by the President’s Council on Integrity and Efficiency and the Executive Committee on Integrity and Efficiency, NYSSCPA President David Lifson created a task force: the “Committee on Governmental Audit Quality” (the Committee) to study the Report and develop recommendations. Committee members were chosen from four of the Society’s most active and technically relevant committees—Government Accounting and Auditing, Public Schools, Not for Profit Organizations, and Health Care—and are some of the most knowledgeable people in the state regarding governmental and not-for-profit accounting and auditing.

Findings and Recommendations

To improve Single Audit standards, the Committee endorses the strategy outlined in the Report, which calls for the following three-pronged approach to improve Single Audit quality:

- 1. Revise and improve Single Audit criteria, standards and guidance to address deficiencies identified by the Report;**
- 2. Establish minimum requirements for completing comprehensive training on performing Single Audits as a prerequisite for conducting Single Audits and require Single Audit update training for continued performance of Single Audits; and**
- 3. Review and enhance processes to address unacceptable audits and not meeting established training and continuing education requirements.**

The Committee notes the following, pertaining to the first recommendation:

Revise and improve Single Audit criteria, standards and guidance to address deficiencies identified by the Report.

- Office of Management and Budget (OMB) Circular A-133 sets out the requirements for Single Audits. The related Compliance Supplement and the AICPA's Audit Guide "Government Auditing Standards and Circular A-133 Audits" provide specific circumstances in which a Single Audit is required and the suggested audit procedures to be followed in a comprehensive manner. However, there is no single depository for all of this information and guidance. The lack of a sole source for this needed knowledge contributes to the struggle of audit organizations as well as auditees to identify the programs, which should be audited, and the extent to which the programs should be tested. Federal agencies providing funds for governments and not-for-profit organizations (directly or indirectly) need to work together with OMB and the AICPA to produce a single source to benefit the auditee agencies and their auditors.
- Federal funders and pass-through agencies must improve the information provided to recipients and subrecipients. OMB In cooperation with the federal funders must make a stronger effort to identify all programs and their requirements in the Compliance Supplement. The pass-through agencies at the state or local government level must comply with the requirement to identify which portion of the funds are being federally provided and which portion is coming from the state and local government's own resources.

The Committee recommends that a comprehensive database be established to provide the information needed for management to effectively administer direct federal awards and pass-through federal awards, and for auditors to be able to perform an effective and efficient audit.

Further, the Report concluded, in part, that the results indicate that Single Audits reporting large dollars of federal awards are more likely to be of acceptable quality than other Single Audits.

The Committee believes certain organizations may only occasionally expend federal awards in excess of the threshold for which a Single Audit is required in accordance with OMB Circular A-133. It further recommends that OMB Circular A-133 be amended to require a Single Audit only after the dollar threshold is reached for a consecutive period of two years. The funding agencies providing the funding in the initial year have the ability to request that a program audit be performed, thereby achieving the required assurance that its funds are being expended in accordance with the grant or contract terms.

The Committee notes the following, pertaining to the second recommendation:

Establish minimum requirements for completing comprehensive training on performing Single Audits as a prerequisite for conducting Single Audits and require Single Audit update training for continued performance of Single Audits.

- Government Auditing Standards issued by the Comptroller General of the United States (the “Yellow Book”) together with the AICPA currently provide the standards for continuing professional education requirements for independent auditors who conduct the Single Audits of governments and not-for-profit organizations in accordance with OMB Circular A-133. The Yellow Book standards for continuing professional education require a minimum number of credits in subjects that are related to the government or not-for-profit environments or in subjects that relate to the industries in which recipient auditees conduct operations. (Generally, tax related courses are not counted towards that minimum). NYSSCPA is further expanding its complement of courses in the area of A-133 audits to address this recommendation.
- The requirements, with which to comply, are difficult to understand and for many smaller audit firms, expensive, requiring either the hiring of an outside instructor or attendance at seminars and conferences sponsored by professional associations. Self-study programs available from a variety of sources can be expensive as well.

- An audit firm requested by its clients to conduct Single Audits must exhibit the training and professional capacity to perform such audits.

The Committee believes that there is one significant element missing from the Report's recommendations. The Committee recommends that responsible members of recipient management of the agency also undergo mandatory education in the Single Audit process and the OMB Circulars that spell out the recipient's administrative requirements, including but not limited to procurement of audit services and the components of the costs/expenditures that can be charged against the grant or contract. As auditors we find that client management is often a bystander rather than a significant "partner" to the Single Audit process.

In accordance with the newly effective Statements on Auditing Standards (SAS), independent auditors will be required to report as a deficiency to those charged with oversight of clients, the inability of financial management to prepare the Schedule of Expenditures of Federal Awards and the inability to comply with the requirements of the OMB Circulars.

These new SAS's provide auditors with the ability to educate Boards of Directors and Trustees. These deficiencies will likely be findings that will be included in the A-133 audit reports because they deal with the matters covered by the audits. Management will be required to respond to the deficiencies noted and to provide an action plan to correct them. Having mandatory continuing education for auditee management as well as that already required for the independent auditor will create an atmosphere in which more effective and efficient Single Audits will be conducted.

The Committee recommends that OMB and/or Government Accountability Office (GAO) publish minimum continuing education requirements for appropriate levels of government and not-for-profit recipient management.

The Committee notes the following, pertaining to the third recommendation:

Review and enhance processes to address unacceptable audits and not meeting established training and continuing professional education requirements.

- The current environment provides for remedies and/or potential “punishment” for the auditor when an Inspector General finds deficiencies. These include re-audits or expanded audits as well as referral of the matter to the auditor’s licensing or professional association.
- In a situation that arises from errors or fraud at the recipient level, there could be loss of funds or penalties for those responsible for the errors or fraud.

The Committee recommends that OMB/GAO establish remedies for responsible members of management who do not fulfill mandatory continuing education requirements in a manner similar to that provided for independent auditors.

Thank for your consideration of our recommendations.