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Report to Bert Lance, Director, Office of Management and Budget; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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Federal Management Circular 73-2 requires that when two or more Federal agencies assist the same organization, they should consider establishing cross-service arrangements under which one Federal agency audits for the other. Such arrangements can conserve manpower, promote efficiency, and minimize the impact of audits on the operations of the auditee. However, the Federal agencies are not using cross-service arrangements to the maximum extent possible. This results in duplicate audit effort, a waste of time and money, and the interruption of program personnel work. Findings/Conclusions: Barriers which inhibit cross-service auditing include: lack of Federal-wide funding information on grantees; limited Federal audit staffs; lack of reimbursement procedures; the large number of Federal programs; and the lack of a standard audit guide which covers multiple programs and funding sources. Recommendations: The Office of Management and Budget should assess the feasibility and practicability of establishing a system to identify grantees which receive funds from several Federal agencies or under several federally assisted programs. Once these grantees are identified, OMB can work with the Federal grantor agencies to alleviate the other barriers to cross-service auditing. OMB should revise its administrative requirements for Federal grants to require that periodic audits encompass all Federal fundings received by a particular grantee and that copies of audit reports and related correspondence be furnished by the audit organization to each funding source. (Author/SC)

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*UNITED STATES
GENERAL ACCOUNTING OFFICE*

Need For More Effective Cross-Service Auditing Arrangements

Office of Management and Budget

Federal Management Circular 73-2 requires that, when two or more Federal agencies assist the same organization, they should consider establishing cross-service arrangements under which one Federal agency audits for the other. Such arrangements can conserve manpower, promote efficiency, and minimize the impact of audits on the operations of the auditee.

The Federal agencies are not using cross-service arrangements to the maximum extent possible. This can result in duplicate audit effort, a waste of time and money, and the interruption of program personnel work.

Critical to further implementation of the circular is the establishment of a system for identifying grantees that can be audited under cross-service arrangements. GAO recommends that the Office of Management and Budget assess the feasibility and practicability of establishing a system to identify grantees that receive funds from more than one Federal agency or under more than one federally assisted program.



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-176544

The Honorable Bert Lance
Director, Office of Management
and Budget

Dear Mr. Lance:

This report discusses the extent to which selected Federal agencies have implemented Federal Management Circular 73-2 as it relates to cross-service auditing.

This report contains recommendations to you which are set forth on page 18. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the House Committee on Government Operations and the Senate Committee on Governmental Affairs, the Chairmen of the House and Senate Committees on Appropriations, and the Chief of your Financial Management Branch.

We are looking forward to receiving your comments concerning the matters discussed in this report.

Sincerely yours,

A handwritten signature in black ink that reads "D. L. Scantlebury".

D. L. Scantlebury
Director

D I G E S T

When two or more Federal agencies provide assistance to the same organization, Federal Management Circular 73-2 requires that they consider establishing cross-service arrangements under which one Federal agency audits for the other. Such arrangements can conserve staff resources, promote efficiency, and minimize the impact of audits on the operations of the auditee.

Federal agencies have worked out many cross-service auditing arrangements over the last few years. They are also cooperating with the intergovernmental audit forums to test the single audit approach for grantees receiving funds from several Federal agencies. However, much work lies ahead to fully implement Circular 73-2 as it relates to cross-servicing because Federal agencies are not using these arrangements to the maximum extent possible. This can result in duplicate audit effort with its accompanying waste of time and money, and the interruption of the work of program personnel.

GAO did not determine if audit duplication had actually occurred or, if so, whether it could have been avoided. However, many of the steps performed during a grant audit pertain to the grantee's accounting system and the internal controls built into that system rather than to the individual grants. This is the area in which the various audits are duplicative.

GAO identified several barriers which inhibit additional cross-service auditing including (1) lack of Federal-wide funding information on grantees, (2) limited Federal audit staffs, (3) lack of reimbursement procedures, (4) the large number of Federal programs, and (5) the lack of a standard audit guide which would cover multiple programs and funding sources.

There are several ongoing efforts aimed at overcoming the barriers to further cross-service auditing. These efforts include a Joint Financial Management Improvement Program project which is directed toward studying the problem of reimbursing State and local auditors for auditing federally assisted programs and the development of a common financial audit guide for federally assisted programs. However, the Office of Management and Budget needs to work with the agencies to help identify and overcome barriers to effective cross-servicing as contemplated by Circular 73-2. Critical to effective implementation of the circular is the establishment of a system for identifying grantees that can be audited under cross-service agreements. Such a system is needed to identify grantees that receive funds from more than one Federal agency or under more than one federally assisted program. To date, the Federal agencies have not established such a system.

RECOMMENDATIONS

GAO recommends that the Office of Management and Budget assess the feasibility and practicality of establishing a system to identify grantees which receive funds from several Federal agencies or under several federally assisted programs. Once these grantees are identified, the Office of Management and Budget can work with the Federal grantor agencies to alleviate the other barriers to cross-service auditing.

GAO also recommends that the Office of Management and Budget revise its administrative requirements for Federal grants to require that periodic audits encompass all Federal fundings received by a particular grantee and that copies of audit reports and related correspondence be furnished by the audit organization to each funding source.

AGENCY COMMENTS

The Directors of Audits of the Departments of Labor and Health, Education, and Welfare; the Environmental Protection Agency; the Community

Services Administration; and the Inspector General of the Department of Housing and Urban Development generally agree with the conclusions and recommendations of this report.

An official of the Office of Management and Budget stated that it hesitates to make any study of systems to identify grantees receiving funds from several Federal agencies pending the outcome of an ongoing Audit Improvement Project of the Joint Financial Management Improvement Program and several draft GAO reports dealing with audit. The Audit Improvement Project will review possible duplication and overlap, possible lack of audit coverage, and coordination of audits.

We do not believe that the outcome of the Audit Improvement Project or the GAO reports will alter the need to identify the universe of multifunded grantees where cross-servicing would be feasible and advantageous. Establishing such a system is the first step to effective cross-service auditing.

The need for such a system was reinforced by the Director of Audits of one Federal agency who wrote in response to this report:

"Unless we are willing to reconcile ourselves to a case-by-case canvassing of grantees and contractors (and subgrantees of various levels), and forced reliance on the data so obtained, we must aim for a centralized Federal system to provide this information. We feel that this conclusion is unavoidable, and that such an effort, despite the many difficulties involved, would be well worth its cost."

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ABBREVIATIONS

C.P.A.	certified public accountant
CSA	Community Services Administration
DCAA	Defense Contract Audit Agency
DOL	Department of Labor

DOT **Department of Transportation**
EPA **Environmental Protection Agency**
FMC **Federal management circular**
GSA **General Services Administration**
HEW **Department of Health, Education, and Welfare**
HUD **Department of Housing and Urban Development**
OEO **Office of Economic Opportunity**
OMB **Office of Management and Budget**
EDA **Economic Development Administration**
NYC **Neighbor Youth Corps**

CHAPTER 1

INTRODUCTION

The Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each agency to establish and maintain systems of accounting and internal control designed to provide effective control over and accountability for all funds, property, and other assets for which the agency is responsible. An integral part of such a system is internal auditing, which uniquely supplements routine management controls through its independent approach and review methods. Internal auditing includes the so-called "external" auditing of Federal assistance to State and local governments whether performed by Federal auditors or carried out by State and local auditors or independent public accountants under the direction of Federal auditors.

Federal assistance to State and local governments expanded dramatically during the 1960s. The 1974 Catalog of Federal Domestic Assistance lists 975 assistance programs administered by 52 Federal agencies. Most of these programs are available to the 50 States and nearly 80,000 units of local government. Federal assistance to State and local governments increased from \$6.7 billion in fiscal year 1959 to an estimated \$51.7 billion in fiscal year 1975. As a percentage of total domestic Federal outlays this assistance increased from 15.9 percent in fiscal year 1959 to an estimated 24.7 percent in fiscal year 1975. During fiscal year 1975, Federal assistance supported an estimated 22 percent of State and local expenditures.

This growth in Federal assistance programs necessitated Federal agency internal audit organizations to devote more of their resources to external auditing. Legislation establishing a grant program often contains a requirement that the program be audited at certain specified intervals, such as every 2 years. The internal audit offices of several grantor agencies report that they spend as much as 60 to 80 percent of their time either monitoring and reviewing the audits of State and local auditors and independent public accountants or performing such external audits themselves.

AUDIT STANDARDS

In addition, our "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," issued in 1972, increased the internal auditor's work by broadening the scope of his effort beyond the financial audit to include

compliance auditing and auditing for economy, efficiency, and achievement of program results. The Standards define such auditing as follows:

1. Financial and compliance--determines whether (1) financial operations are properly conducted, (2) the financial reports of an audited entity are presented fairly, and (3) the entity has complied with applicable laws and regulations.
2. Economy and efficiency--determines whether the entity is managing or utilizing its resources, such as personnel, property, and space in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structures.
3. Program results--determine whether (1) the desired results or benefits are being achieved, (2) the objectives established by the legislature or other authorizing body are being met, and (3) the agency has considered alternatives which might yield desired results at a lower cost.

Cross-service auditing arrangements, under which one Federal agency conducts audits for another, can be used to help internal audit organizations meet this increased responsibility. The requirement for entering into cross-service arrangements is contained in the September 27, 1973, Federal Management Circular (FMC) 73-2, Audit of Federal Operations and Programs by Executive Branch Agencies. The circular provides that when two or more Federal agencies are responsible for programs in the same organization, they give full consideration to establishing cross-service arrangements.

SCOPE OF REVIEW

We made our review at the regional audit offices of the Departments of Health, Education, and Welfare (HEW); Labor (DOL); Transportation (DOT); Housing and Urban Development (HUD); the Environmental Protection Agency (EPA); the Community Services Administration (CSA) located in Federal Regions I (Boston) and VI (Dallas); and the Boston audit office of the Federal Highway Administration (FHWA). We also visited or contacted organizations which received funds from several Federal agencies or under several federally assisted programs to determine the extent of Federal audits performed.

Our review was made to determine the extent to which the selected Federal agencies have implemented FMC 73-2 as it relates to cross-service auditing arrangements. We did not review the adequacy or the scope of the audits performed, the monitoring of the audits, or the corrective action taken as a result of the audits.

CHAPTER 2

NEED FOR MORE CROSS-SERVICE AUDITING

Seven Federal departments or agencies--HEW, Treasury, Agriculture, Transportation, HUD, EPA, and Labor--are responsible for administering over 90 percent of the estimated Federal assistance provided to State and local governments in fiscal year 1975. In many instances two or more of these departments or agencies provide assistance to the same State and local units of government.

Each of the departments and agencies is responsible for providing adequate audit coverage of their programs. Federal policy requires that, when two or more Federal agencies provide assistance to the same organization, they consider establishing cross-service arrangements. However, the Federal agencies are not using cross-service arrangements to the maximum extent possible. This can result in duplicate audit efforts, a waste of time and money, and the interruption of the work of program personnel.

We did not determine if audit duplication had actually occurred or, if so, whether it could have been avoided. However, many of the steps performed during an audit of a grant pertain to the grantee's accounting system and the internal controls built into that system rather than to the individual grants. This is the area in which the various audits are duplicative.

We identified several barriers which inhibit additional cross-service auditing including (1) lack of Federal-wide funding information on grantees, (2) limited Federal audit staffs, (3) lack of reimbursement procedures, (4) the large number of Federal programs, and (5) the lack of a standard audit guide which would cover multiple programs and funding sources. These barriers are discussed in chapter 5.

FEDERAL MANAGEMENT CIRCULAR 73-2

After the Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, disclosed a series of widespread deficiencies in auditing federally assisted programs, the Bureau of the Budget, now the Office of Management and Budget (OMB), issued Circular A-73 in 1965 to encourage intergovernmental audit coordination and to set forth Federal policies to be followed in auditing Federal grants to State and local governments. The circular provided, in

part, that each grantor agency fully consider establishing cross-service arrangements when such arrangements are in the best interests of the Federal Government and the grantee. Responsibility for administering the circular was reassigned from OMB to General Services Administration (GSA) by a May 9, 1973, Executive order.

On September 27, 1973, GSA issued Federal Management Circular 73-2, Audit of Federal Operations and Programs by Executive Branch Agencies, which superseded OMB's Circular A-73. This circular sets forth policies to be followed in auditing Federal operations and programs. Its primary objectives are to promote improved audit practices, achieve more efficient use of staff, improve coordination of audit efforts, and emphasize the need for early audits of new and substantially changed programs. The following guidance is provided concerning cross-service arrangements.

"To conserve manpower, promote efficiency, and minimize the impact of audits on the operations of the organizations subject to audit, each Federal agency will give full consideration to establishing cross-servicing arrangements under which one Federal agency will conduct audits for another--whenever such arrangements are in the best interest of the Federal Government and the organization being audited. This is particularly applicable in the Federal grant-in-aid and contract programs where two or more Federal agencies are frequently responsible for programs in the same organization or in offices located within the same geographical area. Under such circumstances, it will be the primary responsibility of the Federal agency with the predominant financial interest to take the initiative in collaborating with the other appropriate Federal agencies to determine the feasibility of one of the agencies' conducting audits for the others, and to work out mutually agreeable arrangements for carrying out the required audits on the most efficient basis."

Responsibility for administering FMC 73-2 was reassigned to OMB by an Executive order dated December 31, 1975.

Progress has been made in the use of cross-service arrangements. For example, in response to our April 1974 report "Increased Intergovernmental Cooperation Needed for More Effective, Less Costly Auditing of Governmental Programs," B-176544, which dealt mostly with the lack of coordinated Federal or State audits, GSA stated in part

"* * * we believe the report should give more recognition to some of the cross-servicing arrangements that have been worked out in conjunction with the Federal agencies over the last few years. For example, the Integrated Grant Administration (IGA) Program which is currently underway provides for one agency to be responsible for the audit of the IGA grantee. For over 2,000 educational institutions, a cognizant Federal agency was designated to conduct the audit for all agencies at a single institution. For State and local governments, similar arrangements were made for the audit of indirect costs under grant programs. As of now, individual agencies are cognizant for all States and about 450 State agencies and for about 1,000 of the larger counties, municipalities and townships. About 37,000 smaller units of local government were instructed to make arrangements for audit with the Federal agency with which they do the most business. All school districts, over 21,000, were assigned to the Department of Health, Education, and Welfare. Cognizance assignments were made also for over 6,700 special districts."

AUDIT FORUMS AND THE SINGLE AUDIT APPROACH

The intergovernmental audit forums at the national and regional levels have also been actively promoting coordinated audits. The forums, which are composed of Federal, State, and local government auditors, serve as a means of bringing together persons who can work out solutions to audit problems advanced by any governmental unit. The objectives of the forums include encouraging coordination of audits and promoting the kind of understanding and communication that will result in cooperative audit work and mutual reliance on audits performed by others. The forums have no decisionmaking authority to bind the Federal agencies or State and local governments represented; however, all members support a policy of cooperation and coordination.

Several audit forums are organizing cooperative audits of grantees which receive funds from more than one Federal or State agency. For example, the Southwest Intergovernmental Audit Forum, which is composed of Federal, State, and local audit organizations located in Arkansas, Louisiana, New Mexico, Oklahoma, and Texas, is organizing a cooperative audit of a metropolitan planning organization after a Federal Highway Administration survey disclosed that some of these organizations are funded by as many as 10 different departments. The survey also showed that most metropolitan

planning organizations are not only audited annually by certified public accountants (CPAs) but are also audited by Federal and State funding agencies. One such organization had 10 different Federal and State audits in less than a 12-month period. In addition, the Mid-America Intergovernmental Audit Forum is attempting to test the single audit approach in a cooperative audit of the Mid-America Regional Council, which is funded by several Federal agencies.

NEED FOR MORE CROSS-SERVICE AUDITING

In spite of the progress that has been made, we believe much work lies ahead to fully implement the intent of Circular 73-2 as it relates to cross-service arrangements. In the Boston and Dallas regions we identified several organizations which received funds from multiple Federal agencies and which were audited by the different Federal agencies involved. In addition, a recent case study showed that one multiple-funded grantee received at least 67 audits during a 7-year period. Details are as follows.

Texas

In Federal Region VI we reviewed the audits performed at 16 organizations that are located in Texas and received grants from more than one Federal agency or under more than one federally assisted program and found the following.

The Texas Department of Community Affairs, as of December 1975, administered 33 Federal grants valued at over \$71 million. These funds were provided directly by seven Federal agencies and indirectly by two other Federal agencies through two State agencies. Between April 1975 and March 1976 the following audits of Federal programs were performed.

<u>Program</u>	<u>Administering agency</u>	<u>Auditor</u>	<u>Grant period</u>	
			<u>From</u>	<u>To</u>
Various employment programs	DOL	certified public accounting firm	6/1/73	12/31/75
Head Start	HEW	certified public accounting firm.	4/1/74	3/31/75
Special technical assistance and emergency food and medical service	CSA	certified public accounting firm	9/1/74	8/31/75
Model cities State assistance team	HUD	HUD	6/23/70	12/31/74
Community development training program	HUD	HUD	7/1/73	6/30/74
Personnel administration	Civil Service Commission	certified public accounting firm	10/1/74	9/30/76

In addition to these audits performed by or for Federal agencies, the Texas State Auditor also examined the financial statements of the various funds and account groups of the Department. His last audit covered the 2-year period ending August 31, 1974. Finally, a certified public accounting firm engaged by the Governor's Committee on Aging examined the Department's interagency contracts for the period from September 1, 1974, through June 30, 1975. Thus in approximately 1 year, the Department was subjected to 8 different audits, 5 of which were conducted by certified public accounting firms, 2 by Federal auditors, and 1 by the Texas State Auditor. Most of these were financial and compliance audits.

Our review at the 15 other organizations showed that they were funded by from 1 to 7 Federal agencies and 1 to 8 State agencies. An average of 3 Federal and 3 State agencies provides funds to each organization. A total of 7 Federal agencies, 6 State agencies, and 15 certified public accounting firms audited these 15 organizations.

At the Alabama Coushatta Reservation we found that a certified public accounting firm was engaged to audit the grants provided by the Economic Development Administration and HEW, while HUD auditors examined its housing program grant and the Texas State Auditor performed an annual financial audit. At the Galveston County Community Action Council, DOL audited its Neighborhood Youth Corps Program, the Department of Agriculture audited its Summer Feeding Program, and two certified public accounting firms reviewed aspects of HEW's Headstart Program. At the Pan American University three certified public accounting firms audited the various HEW and DOL programs while the State auditor performed an annual financial audit and the Texas Department of Public Works audited the university's community services program.

The following table summarizes the audits performed at 12 of the other organizations.

<u>Grantee</u>	<u>Annual audit performed by</u>	<u>Audits of Federal programs performed By For</u>		<u>Audits performed by State agencies</u>	<u>Total audits</u>
South Plains Community Action Assoc., Inc.	certified public accounting firm	certified public accounting firms	CSA	Department of Public Welfare Department of Community Affairs Commission on Alcoholism	5
Economic Opportunity Development Corp. of Hidalgo County	certified public accounting firm	DOL EDA	DOL EDA	Department of Public Works	4
Economic Opportunity Development Corp. of San Antonio & Bexar	certified public accounting firm	DOL	DOL	Department of Public Works	3
Big Bend Community Action Committee	certified public accounting firm	-	HEW	-	1
Texas Panhandle Community Action Corp.	certified public accounting firm	-	-	-	1
Dallas County Mental Health & Mental Retardation Center	certified public accounting firm	HEW	HEW	-	2
Tom Green County Community Action Council	certified public accounting firm	-	HEW CSA	-	1
Texas Commission for Indian Affairs	State Auditor	certified public accounting firm	Labor	-	2
Coastal Bend Man-power Consortium	certified public accounting firm	-	-	-	1
West Texas Council of Government	certified public accounting firm	-	-	State Committee on Aging	2
City of Dallas	certified public accounting firm	HUD EPA HEW certified public accounting firm	HUD EPA HEW DOL	Governors Office on Traffic Safety	6
Community Action Council of South Texas	certified public accounting firm	Agriculture	Agriculture	-	2

Massachusetts

In Massachusetts the situation was similar to that in Texas. That is, in cases where more than one Federal agency provides funds to a grantee, the grantee is audited by more than one Federal agency or a certified public accounting firm hired by that agency. In total, we identified 30 organizations that received funds and were audited by more than one Federal agency during fiscal year 1975. (See app. I.)

Three Federal agencies--HEW, CSA, and DOL--have been providing funds to Action, Inc., of Gloucester. The grants of each of these agencies were audited by different certified public accounting firms as follows.

<u>Agency</u>	<u>Program</u>	<u>Period covered by audit</u>
HEW	Head Start	9/01/72 to 8/31/73
	Head Start	9/01/73 to 8/31/74
CSA		9/01/72 to 8/31/73
		9/01/73 to 8/31/74
Labor	JOBS	8/02/71 to 2/02/73
	JOBS	7/14/72 to 11/14/74
	NYC	5/01/72 to 6/30/73
	NYC	7/02/73 to 7/02/74
	NYC	7/11/73 to 9/1/73
	NYC	7/15/73 to 6/30/74

We were unable to determine with certainty when the audits were actually performed; however, it appears that the audits of both HEW grants were completed in September and October 1974, that the audit of the second CSA grant was completed in May 1975, and that the audit of all of DOL's grants occurred in fiscal year 1975. The important element, however, is that all three agencies provided funds to the grantee during essentially the same time period; yet each used a different certified public accounting firm to audit its grants. At the Community Action Committee of Cape Cod & Islands, Inc., Hyannis, Massachusetts, both the CSA and HEW grants covering the period January 1, 1973, to December 31, 1974, were audited by a different certified public accounting firm.

These two preceding examples are unusual because we found in most cases when HEW and CSA provided funds to the grantee, one certified public accounting firm audited the grants of both. For example, appendix I shows that CSA and HEW used the same firm to audit their grants at 11 of the Massachusetts grantees included in our review. The two examples, however, point out that additional cross-servicing may be possible.

Family Health Foundation

In July 1976 we issued a report (B-164031(5)) entitled "Administration of Federal Assistant Programs--a Case Study Showing Need for Additional Improvements" which dealt in part with the need for more effective audit coverage of Federal grants. This case study concerned the Family Health Foundation which obtained Federal funds over a 7-year period to provide family planning and other health services. As a result of several public allegations that the Foundation improperly managed Federal funds, HEW--the primary Federal funding agency--audited its fundings. In addition, a Federal grand jury indicted some Foundation officials, and a Federal court placed the Foundation in receivership.

We included excerpts from this report because, we believe, they illustrate to the extreme the need for an effective coordinated audit of all Federal funds received by a grantee and because the Office of Management and Budget (OMB) did not agree with the recommendation that administrative regulations for Federal grants be revised to require that periodic audits encompass all Federal funding received by a grantee. OMB disagreed with this recommendation on the basis that considerable progress has been made in making single agencies aware of the necessity to audit all grants to educational institutions and to negotiate and audit overhead costs for all States and many local governments. OMB added that this is being done to make them comply with existing Government-wide policy that the Federal agency with the predominant financial interest take the initiative to determine the feasibility of having one agency do the auditing for the others. OMB believes a continued effort is needed to determine, in a practical way, the single agency best equipped to audit a given situation or a given area.

From its inception until it was placed in receivership in May 1974, the Foundation obtained at least \$53.6 million in Federal funds under 10 assistance programs administered by 9 Federal agencies. It obtained about \$17 million directly through grants and contracts with Federal agencies and about \$36.6 million indirectly from Federal agencies through grants and contracts with 12 public and private intermediary organizations.

According to HEW's audit report, the Foundation did not have an effective system of accounting and internal controls over the use of Federal funds. Many factors, including fiscal monitoring and auditing, which were neither effective nor prompt, enabled the Foundation to circumvent limitations on the use of Federal funds and to improperly obtain Federal funds.

We pointed out in our case study that the provisions of Circular 73-2 relating to cross-service auditing were not followed and as a result:

- Generally only piecemeal assessments were made of the Foundation's management of Federal funds from various sources.
- Funds provided under a single grant were audited more than once.
- Several audit organizations simultaneously audited Foundation activities.

At least 67 audits of various Foundation grants were made by Federal, State, and local government audit organizations and independent public accounting firms since the Foundation was established. Sixty-four of the audits dealt with Federal grants and three with non-Federal grants. Most of the audits dealt with a single grant and covered just one grant period. Forty-six of the 58 single-grant audits by independent public accounting firms were of Office of Economic Opportunity (OEO) grants.

Only 13 of the 67 audits resulted in reports which disclosed questions about or deficiencies in the Foundation's fiscal management. The more significant deficiencies and questioned costs were disclosed in the six audit reports issued beginning in 1973--after allegations of the Foundation's mismanagement of Federal funds had surfaced. Of these six, the two most important dealt with multiple grants--one was the report issued by the HEW Audit Agency and the other was the second of two multiple-grant audit reports issued by an independent public accounting firm.

As a result of our study, we recommended in part to OMB that the proposed uniform administrative requirements for Federal grants, contracts, and other agreements be revised to require that periodic audits encompass all Federal funding and that copies of audit reports and related correspondence be furnished by the audit organization to each funding source.

OMB concurred with the objective of our recommendation but stated that it did not believe it necessary to include the requirement in the uniform administrative requirements.

OMB stated

"* * * Federal Management Circular 73-2 already promulgates a Government-wide policy that a Federal agency with

the predominant financial interest in an organization funded by multiple Federal agencies should take the initiative to determine the feasibility of one agency auditing for the others. Towards this end, we have been working on a continuing basis with the major grantmaking agencies. For example, single agency cognizance has been worked out for the audit for all grants to over 2,100 educational institutions as well as for the negotiation of their overhead rates. Single agency cognizance has been established for the negotiation and audit of overhead costs in all States, State agencies, and the 1,000 largest cities, counties, and towns.

"Since the policy of single agency audit cognizance has already been established, we do not believe it is necessary to include the requirement in the uniform administrative requirements. What is needed is the continuation of agency efforts to determine, in a practical way, the single agency that is best equipped to perform an audit in a given situation or in a given geographical area. Towards this objective we will continue to work with the agencies."

Reporting on cross-service arrangements

FMC 73-2 required each Federal agency to submit a report by December 31, 1973, on the action taken to implement the circular. The report was to include new cross-service arrangements made. Additional reports were to be submitted at 6-month intervals until the circular was fully implemented. We obtained the following information on HEW, EPA, Labor, and CSA reporting.

HEW

HEW reported in January 1974 that no new cross-service arrangements were made since FMC 73-2 was issued but that HEW had agreements with the Defense Contract Audit Agency (DCAA) for auditing HEW funds at not-for-profit organizations and served as the cognizant audit agency for most of the institutions of higher education. The report also stated that during fiscal year 1973, HEW performed work for 27 Federal agencies, involving 81.5 staff-years of effort for which it was reimbursed \$1.6 million. During this period four Federal agencies performed 29 staff-years of effort for HEW for which it paid \$589,504. HEW did not submit any additional reports.

EPA

EPA has not submitted any reports on its implementation of FMC 73-2; however, it did inform OMB in February 1972 of its implementation of Circular A-73. The report stated that it has established, on a reimbursable basis, a formal agreement with DCAA for audit services in its areas of cognizance and a less formal agreement with HEW and the Department of the Interior for audit assistance.

CSA

OEO, the predecessor agency of CSA, reported in December 1973 that during the last 6-month period it had not entered into any new cross-service arrangement; however, it did renew interagency audit agreements with DCAA and HEW to provide audit coverage of its contracts and grants to educational institutions and certain nonprofit grantees on a reimbursable basis. Neither OEO nor CSA filed any other reports.

DOL

DOL reported in December 1973 that the Departments of Defense, Agriculture, and the Interior provide support in auditing Job Corps contractors and that negotiations were proceeding with HEW to engage in a joint special audit of a State automatic data processing installation that serviced both DOL and HEW, as well as other Federal and State activities. Labor submitted progress reports in July 1974, January 1975, and July 1975.

CHAPTER 3

BARRIERS PREVENTING FURTHER

CROSS-SERVICE AUDITING

There are several barriers which Federal agencies cite as inhibiting them from entering into more cross-service auditing arrangements. These barriers include (1) lack of Government-wide information on grantees, (2) limited Federal audit staffs, (3) lack of reimbursement procedures, (4) the large number of Federal programs, and (5) the lack of a standard audit guide.

LACK OF GOVERNMENT-WIDE FUNDING INFORMATION BY GRANTEE

Effective cross-service auditing requires advanced planning; however, meaningful advanced planning cannot be carried out unless agency audit groups have the data with which to identify opportunities for future cross-servicing. But necessary data, such as identification of grantees that receive funds from more than one Federal agency, grant amounts, grant periods, and desired audit dates, is generally not available either at the State or Federal level.

Officials of the Office of Federal-State Resources in Massachusetts told us that a list of grantees receiving funds from more than one Federal agency is not available. Although State departments and agencies were required to file a fiscal year 1975 "Federal Funds Report," many had not filed it or the information was incomplete. The Office of Federal-State Resources has been delegated the responsibility for developing a system to report all Federal funds coming into Massachusetts.

Audit officials from five of the six Federal agencies contacted reported that they did not know whether their grantees receive funds from any other Federal agency. Furthermore, they do not have any method for obtaining this information other than by contacting each grantee individually. At two agencies, audit officials were unable to provide us with a list of their grantees.

In Texas we were unable to locate either at the State level or at the regional offices of the Federal agencies a list of grantees that were funded by more than one Federal agency.

LIMITED AUDIT STAFFS

Audit officials of most of the Federal agencies contacted reported that they do not have sufficient staff to perform additional audit work for other Federal agencies. However, effective cross-service auditing should conserve audit manpower, promote audit efficiency, and consequently reduce overall audit requirements and costs.

LACK OF REIMBURSEMENT PROCEDURES

Several audit officials expressed a concern over how the Federal agency which performed a single coordinated audit of a grantee would be reimbursed by the other Federal agencies which fund the grantee. Others expressed a concern over who would pay for such audits if they are performed by non-Federal auditors, such as State or local auditors or certified public accounting firms.

The problem of one Federal agency reimbursing another for audit work performed by either Federal auditors or certified public accounting firms seems easily surmountable. For example, the Federal agencies could share the cost of the grantee audit in proportion to the funds they provide the grantee or in some other reasonable manner. The problem of reimbursing State and local auditors is more complex and is currently being considered by the Joint Financial Management Improvement Program.

NUMBER OF PROGRAMS

One Federal audit official expressed a concern about the large number of Federal programs that auditors would have to become familiar with if they performed a single coordinated audit of all Federal grant funds provided to a grantee. This may be a valid concern since the 1974 Catalog of Federal Domestic Assistance lists 975 assistance programs, most of which are available to State and local governments. Most grantees, however, receive funds under several Federal programs. Thus, the auditor only has to learn about those programs which fund the grantee.

STANDARD AUDIT GUIDE

Audit officials from two agencies felt that there is a need for a standard audit guide which could be used for auditing Federal grantees. This is a valid concern since presently at least 48 audit guides exist which Federal agencies have prepared for application to audits of federally assisted programs. We have, in cooperation with the intergovernmental

audit forum, developed and published in exposure draft form, "Audit Guidelines for Audits of Financial Operations of Federally Assisted Programs," to standardize procedures for financial audits of State and local records for federally assisted programs.

The consensus of agency audit officials is that the barriers to more cross-service auditing are not insurmountable. In fact, some barriers, such as reimbursement and audit guides, appear to be easily surmountable. However, before any of the barriers can be assessed, the universe of Federal grantees which can be subjected to cross-service auditing arrangements must be established.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Federal agencies have worked out many cross-service auditing arrangements over the last few years. In addition, the Federal agencies, in cooperation with the intergovernmental audit forums, are testing the single audit approach for grantees receiving funds from several Federal agencies. However, much work lies ahead to fully implement Circular 73-2 as it relates to cross-servicing.

There are several ongoing efforts aimed at overcoming the barriers to further cross-service auditing. These efforts include the Joint Financial Management Improvement Program project which is directed toward studying the problem of reimbursing State and local auditors for auditing federally assisted programs and developing a common financial audit guide for federally assisted programs.

OMB needs to work with the agencies to help identify and overcome barriers to effective cross-servicing as contemplated by Circular 73-2. Critical to effective implementation of the circular is the establishment of a system for identifying grantees which can be audited under cross-service agreements. Such a system is needed to identify grantees which receive funds from more than one Federal agency or under more than one federally assisted program. To date, the Federal agencies have not established such a system.

RECOMMENDATIONS

We recommend that OMB assess the feasibility and practicability of establishing a system to identify grantees which receive funds from several Federal agencies or under several federally assisted programs. Once these grantees are identified, OMB can work with the Federal grantor agencies to alleviate the other barriers to cross-service auditing.

We also recommend, as we did in the case study, that OMB revise its administrative requirements for Federal grants to require that periodic audits encompass all Federal funding and that copies of audit reports and related correspondence be furnished by the audit organization to each funding source.

CHAPTER 5

AGENCY COMMENTS

The Directors of Audits of HEW, DOL, EPA, and CSA and the Inspector General of HUD generally agree with the findings, conclusions, and recommendations of this report. All agree that to achieve more effective cross-service auditing, the universe of multifunded grantees where cross-servicing would be feasible and advantageous should be identified, as well as the sources and total amounts of such Federal funding.

OMB replied that the report confirms the results of recent discussions with the agencies dealing with the type of cognizance system which might be applied to nonprofit grantees. OMB also pointed out that the Audit Improvement Project of the Joint Financial Management Improvement Program and our reports dealing with audit will hopefully point the way toward resolving the problems associated with auditing federally assisted programs. Thus, OMB concluded that it hesitates to make any extensive study of systems to identify grantees that receive funds from several Federal agencies.

We do not believe that the outcome of the Audit Improvement Project or our reports will alter the need to identify the universe of multifunded grantees where cross-servicing would be feasible and advantageous. The establishment of such a system is the first step to effective cross-service auditing.

The need for such a system was reinforced by the Director of Audits of one Federal agency who wrote in response to this report:

"Unless we are willing to reconcile ourselves to a case-by-case canvassing of grantees and contractors (and sub-grantees of various levels), and forced reliance on the data so obtained, we must aim for a centralized Federal system to provide this information. We feel that this conclusion is unavoidable, and that such an effort, despite the many difficulties involved, would be well worth its cost."

MASSACHUSETTS ORGANIZATIONS RECEIVING MORE
THAN ONE FEDERAL AUDIT DURING FISCAL YEAR 1975

<u>Grantee</u>	Audit performed by certified public accounting firm for				
	<u>HEW/CSA</u>	<u>HEW</u>	<u>CSA</u>	<u>LABOR</u>	<u>HUD</u>
Springfield Action Commission, Inc.	X			X	
Community Teamwork, Inc., Lowell	X			X	
Montachusett Opportunity Council, Leominster			X	X	
South Middlesex Opportunity Council, Framingham			X	X	
Eastern Middlesex Opportunity Council, Somerville	X			X	
Action for Boston Community Develop- ment, Inc., Boston	X			X	
Lynn Economic Opportunity, Inc.			X	X	
Cambridge Economic Opportunity Committee, Cambridge	X			X	
Franklin Community Action Corp., Greenfield	X			X	
Berkshire Community Action Council, Inc., Pittsfield	X			X	
Hampshire Community Action Commission, Inc., Northampton	X			X	
Greater Lawrence Community Action Council, Inc., Lawrence	X			X	
On Board, Inc., New Bedford			X	X	
Community Action Programs Inter City, Inc., Chelsea	X			X	
ABCD Delegate Agencies, Boston Community and Regional Opportunity Program, Inc., Chicopee			X	X	
Haverhill Community Action Commission, Inc., Haverhill			X	X	
Worcester Community Action Council, Inc., Worcester			X	X	
Technical Development Corporation, Concord			X	X	
Self-help, Inc., Brockton	X			X	
Gilbert R. Green & Co., Inc., Natick		X		X	
Contract Research Corp., Belmont		X		X	
Triumph, Inc., Taurton		X		X	
City of Fall River				X	X
City of Lowell				X	X
City of Cambridge				X	X
City of Boston				X	X
City of Somerville				X	X
City Of Springfield				X	X
City of New Bedford				X	X

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