



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

Accounting and Information  
Management Division

B-257703

June 27, 1994

The Honorable Robert C. Byrd  
Chairman  
The Honorable Mark O. Hatfield  
Ranking Minority Member  
Committee on Appropriations  
United States Senate

The Honorable Sidney Yates  
Chairman  
The Honorable Ralph Regula  
Ranking Minority Member  
Subcommittee on Interior  
and Related Agencies  
Committee on Appropriations  
House of Representatives

The purpose of this letter is to request changes in H.R. 4602, the Department of the Interior and related agencies appropriation bill for fiscal year 1995. These changes would permit, rather than require, us to audit the financial transactions of the U.S. Trust Territories and Pacific Island governments. The Single Audit Act and its implementing guidelines<sup>1</sup> already require that independent auditors perform these audits with Interior Department Office of Inspector General (OIG) review. Our proposed changes would eliminate a duplication of audit effort.

#### BACKGROUND

The Single Audit Act requires annual audits of state, local, and territorial governments receiving \$100,000 or more in federal assistance in a year. The audits are to be made by an independent auditor in accordance with generally

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<sup>1</sup>Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," prescribes requirements for audits of state, local, and territorial governments.

accepted government auditing standards. The auditor's responsibilities in conducting a single audit are to determine and report on whether

- the entity's financial statements are presented in accordance with generally accepted accounting principles,
- the entity's internal control systems provide reasonable assurance that federal funds are being managed in accordance with applicable laws and regulations, and
- the entity complied with laws and regulations that may have a material effect on its financial statements or on its major federal assistance programs as defined by the act.

#### AUDIT PROCESS

The territorial and island governments hire certified public accounting firms to perform the annual single audits and require that the audit reports be submitted to the Interior OIG for cognizant federal agency review. Interior's OIG told us that their responsibilities include (1) ensuring that required audits are performed in a timely manner and that the audit reports are submitted for OIG review, (2) monitoring government actions on audit recommendations to ensure corrective actions are completed, and (3) summarizing its review of the audit reports in a letter to the audited entities. To conduct its desk reviews of the territorial and island government audits, the OIG uses the "Uniform Desk Review Guide for A-128 Single Audits," which was prepared by the President's Council on Integrity and Efficiency.

If the OIG is unable to obtain the required audits, the Interior Department's Office of Territorial and International Affairs, which oversees the federal assistance grants that fund the audits, may impose the following sanctions:

- withholding a percentage of assistance payments until the audit is completed,
- withholding or disallowing overhead costs, or
- suspending the federal assistance payments.

The OIG includes information on its reviews of the single audits in its semi-annual reports to the Secretary of the Interior and the Congress under the Inspector General Act of 1978.

The enclosure contains a status of the single audits performed from 1990 through 1993 for the U.S. Trust Territories and Pacific Island governments and the date the OIG completed its review and issued its report.

CONCLUSION

The Department of the Interior and related agencies appropriation bill for fiscal year 1995, which would require that we audit the financial transactions of the U.S. Trust Territories and Pacific Island governments, duplicates, in effect, the requirement under the Single Audit Act, and its implementing guidelines, that independent auditors perform these audits with Interior Department OIG review. To avoid a duplication of effort, the appropriation bill could be amended to permit, rather than require, us to perform these audits, at our discretion.

RECOMMENDATION

To avoid a duplication of audits of the financial transactions of the U.S. Trust Territories and Pacific Island governments, we recommend that your Committees amend the Department of the Interior and related agencies appropriation bill as follows:

"TERRITORIAL AND INTERNATIONAL AFFAIRS

ADMINISTRATION OF TERRITORIES

...Provided, That all financial transactions of the territorial and local governments herein provided for, including such transactions of all agencies or instrumentalities established or utilized by such governments, [shall] may be audited by the General Accounting Office, at its discretion, in accordance with chapter 35 of title 31, United States Code....

"TRUST TERRITORY OF THE PACIFIC ISLANDS

...Provided, That all financial transactions of the Trust Territory, including such transactions of all agencies or instrumentalities established or utilized by such Trust Territory, [shall] may be audited by the General Accounting Office, at its discretion, in accordance with chapter 35 of title 31, United States Code."

We are sending copies of this letter to OMB, cognizant oversight committees, and other interested parties. If you have any questions concerning the results of our review, please call me at (202) 512-3406.

Sincerely yours,



George H. Stalcup  
Associate Director  
Financial Integrity Issues

Enclosure

**STATUS OF SINGLE AUDITS PERFORMED FROM 1990-1993  
FOR U.S. TRUST TERRITORIES AND PACIFIC ISLAND GOVERNMENTS**

Territorial Government	Independent Auditor	Year Audited	Submitted to OIG	OIG Review Completed
Government of Guam	Deloitte & Touche	1990 1991 <sup>a</sup> 1992 <sup>a</sup> 1993	12/06/93	04/12/94
Republic of Palau	Deloitte & Touche	1990 1991 1992 1993 <sup>a</sup>	06/01/93 01/13/94 02/25/94	09/30/93 04/06/94 06/27/94
Government of the Republic of the Marshall Islands	Deloitte & Touche	1990 1991 1992 1993 <sup>a</sup>	05/29/91 10/19/92 11/08/93	07/31/91 12/09/92 02/11/94
American Samoa	Deloitte & Touche	1990 1991 1992 <sup>a</sup> 1993	04/08/91 02/23/93	01/31/92 04/15/93
Commonwealth of the Northern Mariana Islands	Deloitte & Touche	1990 1991 1992 1993	09/16/93 10/29/93 03/23/94 03/23/94	10/21/93 01/04/94 06/13/94 06/20/94
Federated States of Micronesia	Deloitte & Touche	1990 1991 1992 1993 <sup>a</sup>	01/07/92 01/13/93 12/27/93	02/12/92 04/08/93 02/17/94

<sup>a</sup>Audit is underway.

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