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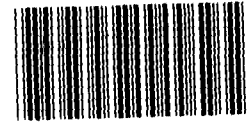
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
CHARLES A. BOWSER, COMPTROLLER GENERAL
UNITED STATES GENERAL ACCOUNTING OFFICE
BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
AND HUMAN RESOURCES
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

THE SINGLE AUDIT
CONCEPT



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Mr. Chairman:

We welcome this opportunity to appear today at your request to discuss a number of issues raised by the Subcommittee dealing with the single audit concept.

I would like to say at the outset that I view the concept of a single audit on an entity basis to be superior to the more common practice of auditing on a grant by grant basis. This concept as it is currently administered by the Office of Management and Budget (OMB) is still in the early development stages and poses a number of problems that need to be resolved. However, if we can address these problems and get the concept accepted and implemented by the entire audit community, it will go a long way toward closing the gap in grant audit coverage that we have been complaining about over the years. This improvement will be brought about by an approach that emphasizes a review of the internal controls of the entity being audited rather than a detailed

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audit of each grant. Achieving adequate coverage through detailed grant by grant audits would be very difficult and extremely costly. The advantage of the single audit approach is that it provides an improved audit base for performing additional selective audits to satisfy specific Federal, State, and local user needs such as those concerning detailed compliance issues, and economy and efficiency or program results.

Although the single audit concept is a highly desirable goal for all governmental entities, it is not yet a way of life in the governmental audit community. It is still evolving and we lack sufficient practical experience to assure ourselves that all of the real world problems have yet surfaced. It is important that we move forward in an orderly fashion to assure ourselves that the concept will satisfy the most important needs of users at all levels of government in a cost effective manner. A number of issues have already surfaced and it is apparent that others will be identified as we gain more experience. We in the General Accounting Office (GAO) plan to undertake a study in April to develop a meaningful data base to obtain information regarding the total number of single audits performed in comparison with prior audit coverage, their cost, who is doing the audits, the nature of the entity, and the problems being encountered.

In February 1982, the OMB reported that total State and local government expenditures for 1980 were \$355.0 billion of which \$91.5 billion represented Federal grant-in-aid outlays. The need for accountability over such large expenditures is critical and both the Congress and the executive departments rely heavily on audit oversight to ensure that funds are spent as intended and to prevent fraud, waste, and abuse. This reliance on audit as a major accountability mechanism will become increasingly more important as greater responsibility and authority is pushed down to the State and local level, and as traditional forms of Federal agency oversight--application review, monitoring and detailed reporting--are deemphasized. This trend is most apparent, of course, in the proposals for "New Federalism" and the move toward block grants.

Our 50 States and around 300 of our largest cities and counties receive, control and disburse large amounts of public funds including Federal assistance. For example, OMB reports that those larger 300 cities and counties obtain about 66 percent of Federal assistance. For purpose of improving public accountability and the internal control systems of those entities, top priority should be given to their obtaining a yearly audit. New Federalism proposals make such an objective even more important to achieve.

The OMB and the GAO have cooperated in providing early leadership in the development and implementation phases of the single audit. For example, OMB issued Circular A-102 "Attachment P - Audit Requirements" in October 1979. In February 1980 the Comptroller General and Director, OMB jointly signed the issuance of the first standardized audit guide which could be used for an organization-wide audit. In August 1980 the Comptroller General and Director, OMB also issued a compliance supplement to be used in conjunction with the guide. It summarized for audit purposes information on 60 programs that made up over 90 percent of Federal aid to State and local governments.

I would also like to mention some of our continuing efforts in supporting the single audit concept and monitoring its progress.

- We carry on a continuing dialogue with OMB, State and local audit officials, the American Institute of Certified Public Accountants (AICPA), and the Municipal Finance Officers Association (MFOA) on the need for audit guidance.
- We chair the National Intergovernmental Audit Forum and work with the ten regional forums in providing guidance on audit standards and other issues relative to single audit.
- We participate on the Single Audit Steering Committee under the sponsorship of the Joint Financial Management Improvement Program.

- We sponsored with the AICPA a conference in November 1980 to address substandard work performed by independent public accountants. We are now participating with the AICPA on helping to resolve the issues involved.
- We are working with the AICPA to develop a new single audit guide that can be endorsed by GAO, OMB, the AICPA, and State and local auditors.
- We are working with OMB on updating their compliance supplement used in conjunction with the single audit guide.

The evolutionary development of single audit policy and its implementation is particularly complex because it requires the cooperation and participation of many organizations both private and public. It is absolutely essential that we avoid unrealistic expectations on the part of Congress and other key policy makers at all levels of government as to what the single audit will or will not do. For example, I suspect that some managers are going to look for the single audit to provide a detailed testing of compliance items for each grant in each entity. The single audit will not do this nor is it intended to do this. It will, however, provide assurances that internal controls are in place to protect the integrity of all grant funds received by that entity and over time should result in strengthening the internal control process over all grants.

I would hope that as part of these hearings you are able to bring some of the expectations of all the participants in the single audit process into focus and clear up differences that may exist so that we can move forward in an orderly fashion to implement this most important concept.

I will now respond to your request that we comment on specific questions.

Is the Single Audit Process Both
Conceptually Sound and Adminis-
tratively Feasible?

GAO's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" provides that when one government receives funds from several others and each has a continuing need for a basic financial and compliance audit, such audits should be made on an organization-wide or entity basis whenever feasible rather than on a grant by grant basis. This audit is defined in general as one that 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. However, the standards also provide that in planning for this audit consideration be given to requirements of all levels of government. For example, Attachment P adds to the standards in defining Federal user needs. Similar definitions of user needs would also be required of

State and local governments. Major organizations in the audit community such as the OMB, the State Auditor Coordinating Committee, the AICPA, the Association of Government Accountants (AGA), and the MFOA have also endorsed this concept.

The audit community is still in the early phases of implementation of the single audit concept and the overall framework and guidance is currently being tested. Although progress is being achieved, the successful implementation of the concept will require cooperation and participation of the entire audit and user communities. It is essential that the audit community have leadership in establishing policy and guidance and commitment in resolving problems that impact on implementation of that policy.

Will Implementation of the Single
Audit Result in Cost Savings to the
Federal Government and to the Other
Governmental Units Involved?

As I implied earlier, we are still in the learning process and relatively few single audits have been performed to date. Those that have been done have not been sufficiently analyzed to establish a clear indication of cost savings to be realized or other benefits to be achieved. It is obvious though that the old approach, in which audit resources were being expended for narrowly scoped individual grant audits, led to a highly disorganized effort with many gaps in coverage and inefficiencies.

To the extent that the single audit is performed at the entity level and addresses controls on a systems basis for all grants, we are convinced it will be a more cost effective approach than the grant by grant approach under which some grants were never audited at all.

To What Extent Has Attachment P
of Circular A-102 Been Success-
fully Implemented?

Since Attachment P was issued on October 1979, OMB has focused on defining the Federal user needs to be addressed by the single audit. Nevertheless, much remains to be done before it becomes fully operational as the generally accepted way of performing an audit.

Some of the more crucial issues yet to be resolved relate to the following questions.

1. How will we get a mutual understanding of the expectations to be derived from the single audit by all Federal, State, and local users?
2. What is the role of the cognizant Federal agency in working with the auditor and auditee in agreeing on the scope of the audit?
3. What is the role of the cognizant agency in testing the quality review process and how will it be performed?

4. Since the single audit approach focuses on the overall financial integrity and internal system control improvements, what alternative mechanisms are needed, if any, to assure possible congressional expectations concerning compliance with the more detailed requirements of the individual grant programs?
5. Is it feasible to mandate that all entities and subrecipients be subject to the single audit? For example, there are some 300 cities and counties that receive about 66 percent of Federal assistance. Is it more feasible to target initial efforts to the 50 States and 300 cities and counties?
6. What is the Federal share, if any, of costs associated with the single audit?

In summary, I think it is fair to say in retrospect that the Federal Government gave birth to the single audit concept rather hastily without ensuring that the proper framework was in place to guarantee its success.

Is Legislation Mandating the
Single Audit Necessary or
Advantageous at This Time?

We believe that legislation may be premature at this time. There are a number of substantial policy mechanisms and guidance in place or in process that need additional testing. For example, the thrust of the single audit legislation is on an entity basis. However, there may be a congressional

expectation for detailed compliance information on a grant-by-grant basis that would not necessarily be provided by the single audit. We need to find a way to reconcile congressional needs underlying the two approaches before I would be comfortable in recommending that you enact legislation.

There has been a lack of understanding to this point on the part of the audit as well as the user community. There is a real need for leadership to come to grips with the issues which have been holding up effective implementation. I plan to create an audit policy advisory committee which includes representatives from both the public and private sector audit and user communities such as OMB, the Inspectors General, State Auditor Coordinating Committee, AICPA, and the MFOA, and users from all levels of government. This committee, working together, can provide the focus needed to address problems as they arise and advise me on how to make the single audit concept an effective tool for oversight.

This concludes my prepared statement and I will be happy to respond to any questions you may have.