

**STATEMENT OF
DEIDRE A. LEE
ACTING DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION,
AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM**

May 13, 1999

Mr. Chairman and members of the Subcommittee, I am pleased to be here today to discuss the Single Audit Act Amendments of 1996. First, I would like to thank this Subcommittee for its continued efforts to improve financial management throughout the Federal Government. Indeed, the Single Audit Act Amendments of 1996 is only one of several laws this Subcommittee has used to promote financial accountability in Government. The key financial management legislation of recent years -- the Chief Financial Officers Act of 1990 (CFOs Act) and the Government Management and Reform Act of 1994 (GMRA), which together require the Federal Government to prepare and have audited agency and Government-wide financial statements -- received important support from this Subcommittee.

The interrelationship of these legislative initiatives becomes more apparent as the Government gains experience in preparing audited financial statements. To make the CFOs Act and GMRA financial statement process work, the Government needs to rely on the single audit process to provide assurance over the more than \$300 billion in Federal funds expended annually by States, local governments, and non-profit organizations.

BACKGROUND

In short, the single audit process became widely accepted with the Single Audit Act of 1984. Under this act, State and local governments were generally required to have one audit performed that encompassed the financial activities of the entire entity, including all of the Federal programs administered by the entity -- rather than performing individual audits on a grant-by-grant basis. Under the single audit process, grantees are responsible for having audits performed -- usually by a certified public accounting (CPA) firm or State auditor -- and then must share the results of the audit with the Federal Government. Federal grant-making agencies are responsible for using the results of these audits in their grants-monitoring processes.

In the early 1990s, studies conducted by the National State Auditors Association (NSAA), the Inspectors General (IG) Council (called the President's Council on Integrity and Efficiency, or the PCIE), and the General Accounting Office (GAO) concluded that the Single Audit Act of 1984 had promoted accountability in Federal grant programs and improved financial management practices at States and local governments. The studies

found, however, that though the 1984 Act was working, there were areas that needed to be strengthened. The specific recommendations in these studies served as the foundation for the Single Audit Act Amendments of 1996 (1996 Amendments or Act).

1996 AMENDMENTS

The 1996 Amendments received bipartisan support and were endorsed by the GAO, NSAA, and OMB. On July 5, 1996, the President signed the amendments into law. The key provisions of the 1996 Amendments:

1. extend coverage to audits of non-profit organizations that administer Federal programs;
2. raise the amount of Federal funds an entity can administer before they are required to perform a single audit from \$25,000 to \$300,000;
3. authorize a risk-based approach to selecting programs for testing;
4. accelerate the audit report due date from 13 months after an entity's year end to 9 months; and
5. increase administrative flexibility in implementing the Act by authorizing OMB, in certain circumstances, to use pilot projects and increase the \$300,000 audit threshold.

OMB ACTIONS TO IMPLEMENT THE 1996 AMENDMENTS

The 1996 Amendments charge the Director of OMB with overall responsibility for implementing the Act. To fulfil this responsibility, OMB has completed several major initiatives -- ranging from issuing Government-wide single audit policies in OMB Circular A-133 to developing implementation tools for grantees and auditors. The following paragraphs detail OMB's implementation of the 1996 Amendments. These accomplishments would not have been possible without the sustained support of single audit stakeholders -- particularly, the GAO, Federal grant-making agencies, NSAA, and the American Institute of Certified Public Accountants (AICPA).

Circular A-133: On June 30, 1997, OMB published a revised Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," which establishes uniform single audit requirements for States, local governments, and non-profit organizations that administer Federal programs. As a result, Circular A-128, issued in 1985, which established separate audit requirements for States and local governments, was rescinded that same day. Because the single audit studies noted Federal agency inability to implement OMB guidance in a timely manner, OMB coordinated Federal agency efforts to incorporate Circular A-133 in agency regulations within two months of its issuance.

Compliance Supplement: In June 1997, OMB published the Circular A-133 Compliance Supplement. This document identifies key compliance requirements the Federal Government expects auditors to address in performing single audits. The last previous update of the compliance supplement was in 1991. In the single audit studies, State auditors and independent public accountants said that their single audit work was

hampered by the lack of updated compliance supplement information. In 1996, OMB led an interagency team to update the compliance supplement so that it would be available as auditors conducted the first cycle of single audits performed under the 1996 Amendments. In addition, OMB established a process for using interagency teams to issue annual updates to the compliance supplement. As a result, the first annual update of the June 1997 compliance supplement was published in May 1998. I am pleased to announce that the second annual compliance supplement update was recently finalized. It will be available soon on OMB's home page and in hard copy. This April 1999 compliance supplement provides specific guidance for auditing approximately 120 Federal programs, which account for over 90 percent of Federal funds expended annually by States, local governments, and non-profit organizations.

Government-wide Single Audit Database: Another key recommendation identified by the single audit studies was to make better use of single audit results. In September 1996, OMB led an interagency task force, working with the Federal Audit Clearinghouse, to establish a government-wide database for single audit results. In August 1997, OMB finalized a standard "data collection form," used to collect information about grantees, the Federal programs they administer, and the related single audit results. This information is then entered into the Clearinghouse's database. By 1998, the database was fully operational and publicly accessible on the Internet.

As with any new system, the Clearinghouse experienced initial implementation problems. However, working with OMB and an interagency users group, the Federal Audit Clearinghouse has addressed, or is in the process of addressing, their most significant challenges. The Federal Audit Clearinghouse is also developing a "web-based data collection form" that should be available for use by Fall 1999. The web-based form provides built-in, on-line edit functions and user-friendly, interactive capabilities, which should significantly improve the data collection process.

Professional Outreach: Since passage of the 1996 Amendments, OMB has been providing training in single audit requirements and helping develop single audit implementation tools. OMB staff have given extensive training to grantees and single audit professionals at AICPA national conferences, State CPA societies, and national and regional Intergovernmental Audit Fora. OMB has also provided single audit training to Federal agencies - both to program officials and the IG community.

On March 17, 1998, the AICPA published Statement of Position 98-3, "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards," which provides detailed guidance and tools for auditors conducting single audits. OMB worked closely with the AICPA and State audit community in developing this guidance. In addition, OMB assisted the PCIE in updating the quality control review guides used by Federal agencies to ensure that the single audit work performed by independent auditors adheres to professional standards. These guides are expected to be finalized in July, 1999.

FUTURE INITIATIVES

Although significant accomplishments have been made, additional work is required to successfully implement the 1996 Amendments. I would like to discuss several areas that require continued work.

Compliance Supplement Updates: Single audit stakeholders continue to emphasize the need for annual updates to the compliance supplement. Experience shows that this is a resource-intensive exercise. The continued commitment of OMB, Federal agencies, and GAO is necessary to ensure that the compliance supplement is updated on an annual basis.

Federal Audit Clearinghouse: OMB will continue working with the Federal Audit Clearinghouse to streamline the report and data submission process. The continued involvement of Federal agencies is needed to assure that the Government's informational needs are met by the Clearinghouse. OMB will work closely with single audit stakeholders to assess the completeness and accuracy of the Clearinghouse's single audit database.

GAO's Legislative Monitoring: Under the 1996 Amendments, GAO is responsible for monitoring proposed legislation for provisions inconsistent with the Act. Legislatively-mandated audit requirements inconsistent with 1996 Amendments would erode the single audit concept and reduce the effectiveness of the Act. OMB will continue to support GAO's work in this area.

Quality Assurance: The second year of single audit reports prepared under the 1996 Amendments are being submitted to the Federal Government, yet little has been done to assess the quality of single audit work performed by independent auditors. This is an important component of the Federal Government's effort to improve single audits. Without evidence demonstrating that single audits are being conducted by independent auditors in accordance with professional standards and the 1996 Amendments, Federal agencies could be placing inappropriate reliance on the single audit process. To prepare audited financial statements under the CFOs Act and GMRA, the Government needs to be able to rely on the single audit process to provide audit coverage of the more than \$300 billion in Federal funds expended annually by States, local governments, and non-profit organizations. The single audit process is the only practicable way to provide audit coverage for these funds. The PCIE recently began developing new government-wide quality assurance policies and procedures. OMB will work closely with the PCIE and single audit stakeholders to ensure single audit quality.

Pilot Projects: The 1996 Amendments permit OMB to authorize pilot projects to test alternative methods of achieving the objectives of the Act, after consulting with Congress. The Subcommittee should be commended for its insight in providing administrative flexibility in the Act through this provision. After recent consultation with Congress, OMB approved this week the first pilot project under the 1996 Amendments. This pilot authorizes the State of Washington to audit as one entity the State education system and approximately 200 local education agencies throughout the State. Currently, separate single audits are conducted for these 200 entities. This pilot is expected to result

in audit efficiencies and greater opportunities to identify systemic problems in the State's administration of Federal programs. OMB and the U.S. Department of Education will monitor this pilot project and consider the impact of its results on future single audit initiatives. OMB will also continue working with single audit stakeholders to consider future pilot projects.

CONCLUSION

OMB believes that significant progress has been made towards achieving the underlying objectives of the Act: improving accountability over Federal programs; establishing uniform single audit requirements; promoting efficient and effective use of audit resources; reducing burden on grantees; and maximizing reliance on single audits by Federal agencies. However, the sustained support and commitment of single audit stakeholders is required to ensure that future implementation initiatives are completed.

Thank you again Mr. Chairman and members of the Subcommittee for your continued interest in improving the single audit process and Federal financial management as a whole. This concludes my remarks. I would be pleased to answer any questions.

The above was downloaded from this website:

<https://georgewbush-whitehouse.archives.gov/omb/legislative/testimony/test051399ddm.html>