

NORTHERN ILLINOIS UNIVERSITY

A Seven Year Reaction to the Single Audit Act of 1984

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Single Audit Act of 1984 OMB Circular A-128

Governmental Auditing General Accounting Office

Generally Accepted Governmental Auditing Standards

ABSTRACT (100-200 WORDS): The Single Audit Act of 1984 attempted to provide a sense of uniformity amongst governmental audits. It provided strict regulations and procedures the auditor must follow when conducting the audit. Having only one audit provides efficient use of resources, rather than having many audits instituted by each relevant federal agency. The auditors must follow generally accepted governmental auditing standards when performing the audit. Controls and compliance with proper regulations have to be examined to ensure they are being utilized effectively. Reactions from all of the relevant parties has been positive and supportive, so the Single Audit Act should be around for a long time guiding the auditors in their audits of governmental units.

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## Single Audit Act of 1984

Within the accounting profession, many differences arise <sup>between</sup> among audits, specifically ~~the~~ <sup>audits of</sup> the private industries versus governmental units. Audits of governments need extra attention because of their use of taxpayers' money. In the ensuing paper, I highlight many of the unique aspects and strict requirements of governmental audits. My main focus will surround the Single Audit Act of 1984 and its involvement with the auditing process of government entities.

Before this law was enacted, the past history of governmental auditing was noticeably unorganized and inefficient. Multiple agencies and different governmental units would conduct audits on the same entity during the same period of time, and these audits occasionally took well over a year to complete. Another concern was the lack of consistency being illustrated from one fiscal year to the next. Separate auditing bodies followed different accounting policies which reduced the relevancy and comparability of the statements from one period to the next. Also, unqualified personnel were completing these audits for various agencies; therefore, questions and doubts arose about the accuracy of the bottom line financial numbers. *reference?*

Besides the financial statements, governments have other specialized points that need significant attention. Since extensive financial assistance is coming from many federal programs, steadfast regulations and rules need to be followed

to satisfy the federal agencies that their money is being properly handled. Also, more stringent controls need to be implemented to prevent the misuse of taxpayers' money. During recessionary times, like the early 1980's, where everyone was more concerned about economic issues, interest was heightened over accurate financial data. This increased caution by the American public forced Congress to take action, specifically the Single Audit Act of 1984.

The Single Audit Act of 1984 states "Each State and local government which receives a total amount of Federal financial assistance equal to or in excess of \$100,000 in any fiscal year of such government shall have an audit made for such fiscal year...."<sup>1</sup> If the government receives between \$25,000 and \$100,000, they have a choice between an audit under the Single Audit Act or must comply with the federal statutes' and regulations' requirements of the federal programs sponsoring the governments.<sup>2</sup> The Act may exclude some public colleges and hospitals and other nonprofit organizations, but these institutions are covered under other laws and legislation which closely match the Single Audit Act.

*A-128 excludes  
Ham, A-133  
picks them  
up.*

In order to avoid complications and resistance in the implementation process, within the Single Audit Act itself, Congress listed the four prominent purposes of the Act. They are as follows:

1. to improve the financial management of State and

local governments with respect to Federal financial assistance programs.

2. to establish uniform requirements for audits of Federal financial assistance provided to State and local governments.

3. to promote the efficient and effective use of audit resources.

4. to ensure that federal departments and agencies to the maximum extent practicable, rely upon and use the audit work done pursuant to the Single Audit Act.<sup>3</sup>

As one can notice, the overall goal was to improve the governments and their spending habits, not hinder them with burdensome regulations that are unfavorably welcomed. OMB Circular A-128 was released in 1985 by the Office of Management and Budget to help clarify the Act to the governments and describe the requirements and responsibilities that need to be performed in more detail. Depending on the specific state, either a governmental or public accountant can conduct the audit as long as they are independent and qualified.

When conducting the audit of a governmental entity covered under the Single Audit Act, the auditor follows the generally accepted governmental auditing standards (GAGAS), rather than the generally accepted auditing standards (GAAS) used for private companies. The General Accounting Office issues the GAGAS which <sup>incorporates</sup> includes all of the GAAS, but adds many more requirements. The

*you should have  
a reference to this  
in your bibliography*

GAGAS are more descriptive and need many more written reports. ✓  
Separate reports need to be presented for: compliance with applicable laws and regulations, internal accounting controls, and a supplementary schedule of federal financial assistance. ✓  
Some of the additional requirements are increased planning, more working papers, and more extensive testing of internal controls along with the aforementioned written reports.

With respect to the planning phase, the Act requires that some transactions from every federal program be tested for compliance. It is also important to distinguish component units of an entity from separate bodies of government. Objectives of the audit need to be identified which will help determine the scope and enable the auditor to prepare successfully.

*major -  
minor  
program  
distinct*

Considerations included in selecting objectives are initial observances of controls, discussions with the relevant government officials, and quick inspections of all the government disclosures. The working papers are fully accessible by federal agencies to examine, and they must contain all pertinent information, so they are able to be fully understood without reference to other reports.

An understanding of the accounting internal controls need to be obtained like always, but administrative controls also have to be evaluated to abide by the Act. In addition, the internal controls have to be studied and evaluated, not merely understood. A report has to be issued whether or not the auditor relied upon

the accounting internal controls when auditing the financial statements. Also, a report needs to be presented for the accounting and administrative controls over the federal financial assistance programs. These internal controls have to be tested to be certain they are working according to the established guidelines.

The administrative controls that were examined during the understanding of the internal controls are useful when conducting the audit and preparing the reports on compliance. Knowledge of all agency regulations needs to be available, along with all other pertinent legislation regarding a government's activities. One compliance report deals exclusively with the financial statements and any material effects resulting from noncompliance with rules and regulations. Another report, specifically required by the Single Audit Act, applies to every federal assistance program connected with the audited government. This report should list all noncompliance items and their subsequent total amounts, regardless of their materiality to the financial statements. The report consists of two major sections - a statement of positive assurance and a statement of negative assurance. A statement of positive assurance indicates that all tested items were found to be in compliance while a statement of negative assurance indicates that nothing came to the auditor's attention that the untested items were not in compliance.<sup>4</sup>

The report on the opinion of the financial statements



follows any financial audit of any entity. The main purpose is to reasonably determine whether or not the information in the statements is reliable according to generally accepted accounting principles or the applicable standards the government is utilizing. They are evaluated for consistency and usefulness. Testing controls and compliance are two of the principal methods used in completing the audit. The three primary user groups - citizens, investors and creditors, and governmental oversight officials - analyze these statements and put their faith in the audited documents.

Regarding all of the stated requirements that have been mentioned, each of the objectives of the Single Audit Act can be examined further to illustrate the results. Management is more aware of how they are conducting their affairs and are spending funds in an increased responsible manner. Being more conscious of how they spend the money given to them will force them to implement financial decisions only after thoughtful consideration and to develop stronger internal control systems. Conformity of all governments receiving aid to similar situations creates a sense of comparability amongst various governmental entities. The auditors have certain provisions they follow, so after a few repetitions, they are able to perform an audit competently in a limited amount of time. Finally, the reports are dependable and the federal agencies gain further assurance that their money is being properly accounted for and expended.

## Reactions

Since the Single Audit Act took effect in 1985, many articles have been written responding to its practical implementation. In the remainder of this paper, I will be discussing reactions from the auditors and accountants, the audited governments, the federal agencies, and the users of the financial information who rely upon the audited statements and the audit reports. There have also been surveys conducted by the General Accounting Office to determine the Single Audit Act's effectiveness and the public feedback.

After administering one of its surveys in 1986, the GAO made some troubling conclusions. From their sample they highlighted the five main problems associated with the execution of the Single Audit Act:

1. Less than satisfactory compliance with standards in 34 percent of the governmental audits examined.
2. Severe standards violations in more than half of the unsatisfactory audits.
3. Little or no testing of compliance with laws and regulations.
4. Inadequate or no evidence of a study and evaluation of internal controls over federal expenditures.
5. Insufficient documentation of the work performed or the conclusions reached.<sup>5</sup>

Many of these weaknesses can be <sup>attributed</sup> contributed to the fact that this study was taken primarily on reports that were completed for the first time according to the many standards of the Single Audit Act. As time passes, the reports will eventually become more reliable as the auditor receives more experience; however, the auditors have to obtain proper knowledge of the correct methods to use when performing the audit and writing the reports.

From their investigation mentioned in the preceding paragraph, the GAO attempted to develop certain guidelines that will aid in the process of completing a successful single audit. They combined their suggestions into the following five broad areas (the five E's): Education of auditors, Engagement of auditors, Evaluation of audit quality, Enforcement of standards, and Exchange of information.<sup>6</sup> They stressed the qualifications of the auditor through continuous training of the procedures to be followed. Also, more emphasis was placed on the agencies establishing the rules to advise the auditor of how to adhere to the numerous regulations. The GAO, in addition, placed further responsibility upon the audited entity to work with the auditor in achieving the audit. This increased communication amongst the three parties will benefit everyone.

As a result of the many regulations and responsibilities facing the current governmental auditor, another prominent dilemma needs to be addressed for the modern-day accountant. Initiating lawsuits versus accountants, especially auditors, has

become an increasingly used method for third parties who suffer economic losses. "More lawsuits have been filed against accountants over the last 15 years than in the entire history of the profession in this country."<sup>7</sup> The extensive education and training of all the aspects of the Single Audit Act itself has to be the first and most important step. The auditor has to be aware of all the responsibilities required when conducting the audit. An additional step should consist of constant evaluations within the auditing profession itself, so a successful audit will be completed for every governmental entity.

From the perspective of the federal agencies who are financially assisting these governments, a different perspective arises. They have expressed concerns about the usefulness of the single audits, particularly generalized reporting, disagreements due to fiscal years, a lack of audit findings, and inadequate compliance coverage.<sup>8</sup> Because of the agencies' extreme interest in how their funds are being expended, naturally they will be the most critical of how the audits are performed. They want specific and complete disclosures of where their money was spent and if any regulations were broken along the way. Even with these concerns mentioned, the agencies support extensively the concept of the Single Audit Act, and they are willing to work with the auditors to improve the implementation process.

Besides the federal agencies, other users exist who rely upon the findings of the auditors. Potential investors or

creditors depend heavily upon the numbers contained in the financial statements. With the Single Audit Act being around for the past seven years, users are becoming more familiar with the auditing process. As the not-for-profit segment of our society continues to grow, more responsibility will be placed upon all levels of government for proper regulation. Encompassing an auditor's findings into a lone report enables users to make decisions more efficiently. They do not have to worry about an abundance of reports in many different places.

The government entity itself has gone through a transitional period of adjustment to the numerous requirements and auditing procedures. Governments enjoy the idea of being audited a single time in one year instead of being audited by every federal agency from whom they are receiving funds. Now, that they have had to endure the full audit many times, governments have been able to prepare more successfully. The governmental units know how the audit will be conducted, so they are able to manage their affairs with more of an audit trail and tighter controls. They read through the issued reports to discover their main weaknesses and deficiencies. With this feedback readily available, government are able to improve their operations. In the long run, governments will look at the Single Audit Act as a helpful and educational tool for their business affairs.

After taking a look at all the perspectives from the many affected parties, certain observations come to mind. Auditors

*they don't yet - K. Reding  
+ I did a study in  
Illinois, and  
the auditors*

now are given all of the necessary requirements and guidelines they need to complete a governmental audit according to the Single Audit Act of 1984. They can have confidence in their methods and procedures and will be able to conduct the audit in a consistent manner from one fiscal period to the next. The governments now know what to expect when the auditors visit them every year, so they can plan appropriately to achieve an efficient and effective audit. The federal agencies receive more timely and relevant information concerning how the governments are expending the agencies' funds and handling their operations. Finally, users can put more reliance upon the numbers contained in the financial statements since the figures are being audited. With this analysis of the reactions and effects of the Single Audit Act of 1984, it clearly shows how this law has improved the process of governmental audits for all affected and interested parties.

Docq -

You have captured a good part of the act & reaction to it -

Some other features relate to

- how the AICPA reacted to the GAO Study
- AICPA SAS 63 + 68
- Intergovernmental Audit Forums which helped smooth the process
- Shifting positions by Fed. Agencies in terms of their following the SAA

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*Is this a  
bibliography?  
or endnote?*

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