



**Questions and Responses from the GAQC Conference Call:  
An Overview of the Results of the National Single Audit Sampling Project  
July 10, 2007**

**General Questions**

1. What audit periods did the reviewed audits in the sample cover?

The sample was drawn from the universe of single audits accepted by the [Federal Audit Clearinghouse](#) for a one-year period beginning April 1, 2003. Generally, the audits reviewed were from the 2002-2003 timeframe and in some cases earlier.

2. Were all of the audits selected performed by CPA firms or were some performed by other agencies?

Appendix C of the [Report on National Single Audit Sampling Project](#) identifies "types of auditors" for the audits selected in the sample. There were 3 categories: Certified Public Accountants (CPAs), government auditors, and dual signature CPAs/government auditors. CPAs conducted 87 of 96 audits in Stratum I and 106 of 112 audits in Stratum II.

3. Will there be another National Single Audit Sampling project to measure improvements in quality?

There is no plan at this time to conduct another study. It would be premature to speculate whether or not another study would occur.

4. Our firm recently had a quality control review (QCR) performed where the reviewer was with the Federal Bureau of Investigation (FBI) and had never reviewed a single audit before. He used a checklist and would occasionally telephone someone to get help with the review. Were the reviewers in the President's Council on Integrity and Efficiency (PCIE) study familiar with the single audit requirements?

There were no employees from the FBI (special agents or other) participating in this project so the QCR that is being referred to was not part of the PCIE study. The reviewers in the PCIE study were all familiar with single audit requirements and used a standard project instrument to perform the review.

The following U.S Departments participated: Agriculture (QCRs), Defense (QCRs), Education (Board, Project Mgmt., QCRs), Health & Human Services (Board, Project Mgmt., QCRs), Homeland Security (QCRs), Housing and Urban Development (Board, Project Mgmt., QCRs), Interior (QCRs), Justice (QCRs), Labor (Board, Project Mgmt., QCRs), Transportation (Board, Project Mgmt., QCRs).

Other participants included the Agency for International Development (QCRs), Environmental Protection Administration (Project Mgmt.), National Aeronautics & Space Administration (QCRs), National Science Foundation (Board, Project Mgmt., QCRs), the Office of Management and Budget (OMB) (Board, Project Mgmt.), and Small Business Administration (QCRs).

Project QCRs were also conducted by CPA firms employed by the project and were selected through the government contracting process. The CPA firms conducted slightly over 50% of the project QCRs. Their fieldwork was then thoroughly reviewed by PCIE federal project management staff.

5. Has the [Report on National Single Audit Sampling Project](#) been released to the public (e.g., was there or will there be a press release)?

There has been no press release issued with the [Report on National Single Audit Sampling Project](#). The report is accessible in its entirety by visiting: <http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>. Or you may link to the Report through the Federal Inspectors General homepage by visiting: <http://www.ignet.gov>.

For a concise description of the results of the project, please see the Executive Summary on pages 1-7 of the Report.

## Results

6. Based on the results of the two strata, does the data give insight to any audit quality differences between small and large firms?

The [Report on National Single Audit Sampling Project](#) does not identify the size of firms conducting the audits that were reviewed.

7. Sampling was discussed as a problem area within the [Report on National Single Audit Sampling Project](#). Could you expand upon the variety of sampling methods reviewed in the sample and suggestions to overcome the concern expressed in the report?

The [Report on National Single Audit Sampling Project](#) looked at the requirements in [OMB Circular A-133](#), *Audits of States, Local Governments, and Non-Profit Organizations*, the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits (GAS/A133 Guide)*, and applicable [AICPA generally accepted auditing standards](#) (GAAS) relating to sampling. There is no requirement relevant to single audits set forth in the Circular or GAAS that the auditor must test a specified number of transactions or use a specific sampling methodology. Auditors test transactions in order to render their opinions on compliance and to perform the required testing of internal controls. Since there were no criteria in terms of what would be an appropriate number of transactions to be tested, the report generally describes what the reviewers observed. Please see the "Other Matters" section of the [Report on National Single Audit Sampling Project](#) (pages 36-39) to read the section of the report pertaining to sampling which further discusses concerns noted and recommendations.

8. Can you provide some examples from the [Report on National Single Audit Sampling Project](#) of deficiencies that would have led to a "limited reliability" categorization versus an "unacceptable" categorization?

Whether an audit was deemed acceptable, of limited reliability or unacceptable, and in which category, was a judgment that was made based on the severity of the deficiencies.

Limited Reliability: Such audits involve deficiencies with applicable auditing criteria that require corrective action to afford unquestioned reliance upon the entire audit. The following represents situations that were deemed to be of limited reliability.

- Audit documentation did not contain adequate evidence of the auditor's understanding of the five elements of internal control and testing of internal controls for many or all applicable compliance requirements; however, documentation did contain evidence that most required compliance testing was performed.
- Audit documentation did not contain evidence of internal control testing and/or compliance testing for more than a few compliance requirements, or did not explain why they were not applicable for the auditee.
- See pages 12 & 13 of the [Report on National Single Audit Sampling Project](#) for more discussion on the limited reliability category.

Unacceptable: There are two sub-categories of unacceptable audits which are "Substandard" and "Material Reporting Errors."

A) Substandard Audits were those audits found with deficiencies so serious that the auditor's opinion on at least one major program could not be relied upon. Examples of situations leading to substandard audits are as follows:

- Audit documentation did not contain evidence of internal control testing and compliance testing for all or most compliance requirements for one or more major programs;
- Unreported audit findings; and
- At least one major program was incorrectly identified as a major program in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs (along with other significant deficiencies noted).

B) Audit With Material Reporting Errors were audits where other serious deficiencies were not noted, but a material reporting error was noted and the report must be reissued for the report to be relied upon. Examples of situations leading to material reporting errors are as follows:

- At least one major program was incorrectly identified as a major program in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs; or
- The required opinion on the Schedule of Expenditures of Federal Awards was omitted.

See pages 13 and 14 of the [Report on National Single Audit Sampling Project](#) for more discussion on the unacceptable category.

9. Please describe the PCIE federal project management team expectation of the study results compared with the actual results of the study.

The deficiency that was most surprising was the misreporting of audit coverage of major programs (i.e., one or more of the major programs selected for review in the QCR were incorrectly identified by the auditor as having been audited as a major program). Given the long history of federal agencies performing QCRs, this finding was not previously

identified very often. Further, the number of incidents where this problem was identified in the audits reviewed was surprising (especially in Stratum 1).

10. Were the number of compliance deficiencies separated between those programs specifically identified in the *OMB Compliance Supplement* (the [Compliance Supplement](#)) and programs that were covered by the generic section of the [Compliance Supplement](#)?

In a number of audits reviewed, the audit documentation did not include evidence that the auditor tested major program compliance requirements or explain why certain generally applicable requirements identified in the *Compliance Supplement* were not applicable to the audit. Some of these audits were situations where the auditor was applying Part 7 of the *Compliance Supplement* to identify applicable compliance requirements for a program that was not in the *Compliance Supplement*. For these programs, the QCR determined whether the audit documentation included evidence that the Part 7 procedures were properly applied to identify compliance requirements that should be tested. Those audits that did not identify which compliance requirements to test were included in the error rates reported for this deficiency but were not separately identified in terms of whether the related program was included in the *Compliance Supplement*.

11. Is there any additional information available for further analysis by the AICPA or state professional societies such as the number of firms included in the testing; geographic location of the firms included in the sample; location of the firms with deficiencies; the type of peer review the audit firm had (e.g., state program, AICPA program, other program); membership in the Governmental Audit Quality Center (GAQC) or state professional society; whether the same partner in a firm was responsible for more than one audit included in the sample, if any; whether the same partner in a firm was responsible for more than one audit with deficiencies, if any; how the firms were procured by the audited entity (to what extent were qualifications considered vs. price); etc?

While some of the information posed in the question may be known to the federal reviewers, the PCIE federal project management team is not publicly releasing that information. With regard to GAQC membership, the Center did not exist at the time that the reviewed audits were performed.

12. You indicated that an auditor's response was considered in forming a conclusion about the noted QCR deficiencies for the [Report on National Single Audit Sampling Project](#). Were the audit firms advised of the final resolution of the deficiencies noted after giving consideration to the audit firm's response? What was the form of that communication?

The PCIE did not tender a communication to the firms on their final conclusion after evaluating the firm's response. See also the response to the next question.

13. Was there a reason why individual firms were not notified of specific deficiencies noted? Why not let the individual firms know of your conclusions?

There was no specific reason other than it was a matter of administrative capability of completing the project. Please note that the process was as follows:

- Each auditor was sent a letter of results that informed them of the results of the QCR.

- If there were deficiencies noted, a schedule of deficiencies was provided to the auditor.
- The auditor was asked to submit their comments about the schedule of deficiencies back to the reviewers.
- The project management staff made a concerted effort to go back to auditors that did not submit responses or comments in order to get them to respond. Further, the PCIE federal project management team encouraged auditors to send any and all documentation they had that would refute the deficiency if they felt it was incorrect.
- PCIE then rendered a final judgment.

Further, the [Report on National Single Audit Sampling Project](#) does not link the deficiencies noted to a specific auditor.

14. What is happening to the firms that were found to have unacceptable audits? What about those whose audits were found to be of limited reliability?

Each audit is assigned a cognizant or oversight agency in accordance with [OMB Circular A-133](#). For the audits that are substandard, the PCIE federal project management team will be considering whether to make referrals to the [AICPA](#) and/or state boards of accountancy. However, the final decision to refer will ultimately be made by the individual cognizant or oversight agency that is involved. PCIE federal project management staff is talking with those agencies and may assist some of the smaller agencies in making those referrals. The limited reliability audits may possibly be referred, but the most likely referrals will come from the substandard audits.

### **CPE Recommendation**

15. Did any of the reviews take a look at the continuing professional education (CPE) obtained by the engagement teams? Given the recommendation of additional CPE requirements, was there a correlation between the CPE obtained and the quality of the audits performed?

The study did not include a review of individual CPE records. The CPE recommendation in the report stems from the collective opinions and insights and experiences of the federal project management staff.

16. The Government Accountability Office ([GAO](#)) has issued revised CPE requirements in recent years. Is the report recommending additional CPE requirements beyond the GAO requirement, or is it recommending that the [Government Auditing Standards](#) (also referred to as the Yellow Book) requirement be revised and incorporated into [OMB Circular A-133](#)?
17. The Yellow Book generally requires an auditor “to complete, every 2 years, at least 24 hours of CPE that directly relates to governmental auditing, the government environment, or the specific or unique environment in which the audited entity operates.” The 16-24 hour requirement that the [Report on National Single Audit Sampling Project](#) is suggesting would satisfy the definition of the 24 hour requirement of the Yellow Book and would apply to the extent of CPE taken. Whether there are additional requirements would depend on the individual staff development due to the unique circumstances of the projects at hand. The report does recognize that a number of details will need to be considered before the CPE requirement can be established. These include: (1) the staff levels to which the requirements apply and curriculum

content appropriate for different staff levels; (2) whether audit organizations may establish their own internal CPE programs to fulfill the requirement, and (3) whether past experience and/or training can fulfill the requirement (i.e., "grandfathering"). As a result of consideration of such details, the report also recognizes that it may be necessary to issue detailed implementation guidance in conjunction with establishing the CPE requirements.

18. Is the [Report on National Single Audit Sampling Project](#) recommending that the prerequisite 16-24 hour of training apply to all staff involved on an engagement, or only those involved in planning, supervision, and review?

As noted in the previous question, the report recognizes that there are a number of details that will need to be considered before implementing this recommendation. This would be one of the details to be considered.

### **Role of Federal Agencies and Grantees in Improving Quality**

19. What role do you envision that states, local governments and not-for-profit organizations (NPOs) will play in improving single audit quality?

Whether grantees are conducting their procurements in a manner to find the auditors that are best able to conduct single audits is a valid concern. As a result of the study, it is possible that there will be more discussion between state auditors that have concerns about audit quality and local governments about factors that ought to be considered when procuring audits.

20. Has any consideration been given to streamlining or simplifying the rules coming from each of the federal agencies to alleviate the volumes of guidance and regulations applicable to federal awards?

The basic requirements for single audits are government-wide requirements that are set forth in [OMB Circular A-133](#) (primary source), and the [GAS/A133 Guide](#). In addition, the [AICPA professional auditing standards](#) and [Government Auditing Standards](#) apply as well. The only agency-specific requirements applicable to single audits are those that are reflected in the [Compliance Supplement](#). If there is a specific concern with an agency requirement, the primary source should be the National Single Audit Coordinator for that federal agency. [Appendix 3](#) to the [Compliance Supplement](#) has a complete directory of the National Single Audit Coordinators in the federal agencies. Contact the relevant individual first to discuss the concern that you have. If you find that the concern is not being addressed to your satisfaction, contact [Gil Tran](#) at OMB.