Northern Illinois University
Department of Accountancy
Undergraduate Independent Study in Accountancy - Contract

Course [circle one]: (ACCY 499) or ACCY 472

Semester and Year of Completion: Spring 2013

Title of Study: Single Audits: The Administrative Burden In Need of Reform

CONTACT INFORMATION

Student Name: Brandy Howard
NIU Email Address: 21574937@students.niu.edu
Phone Number: (630) 336-0345
Street Address: 220 E. Hillcrest Dr. Apartment 4109
City, State, Zip: De Kalb, IL, 60115

Faculty Advisor: Tim West
NIU Email Address: thwest@niu.edu
Phone Number: (815) 753-6252

SIGNATURES

Brandy Howard
Student Signature
10/4/2012
Date

Proposal Approved:

Tim West
Faculty Advisor Signature
10-5-12
Date

Department Chair Signature
Belcher
10/8/12
Date

WRAP-UP

Grade Earned [circle one]: A B C D F

S. M. Wegner 5/2/2013
An undergraduate independent study in accountancy is for a student who would like to engage in the comprehensive study of topics that are not part of our regular course offerings (or are covered only briefly in our courses). The study must be supervised by a full-time faculty member. It is expected that a student will spend approximately 120 hours generating a substantive work product to be defined by the advising professor [e.g., the work product could be a 25 to 50 page paper]. The hours and work product guidelines are set to equate this experience to a 3 semester hour class - 42 hours of class time and about 2 hours of study outside of class for each hour in class. For 1 or 2 credit independent studies, the hours and work product guidelines should be prorated appropriately.

GUIDELINES:

1. The student must identify a full-time faculty member with whom to work. The faculty member must have expertise in the student's area of interest. Since independent studies are outside the normal faculty work load, the decision to participate rests with the faculty member. The Undergraduate Advisor has a list of faculty members who are available for a particular semester.

2. The student must secure faculty and departmental approval of his/her proposal by the following deadlines:
   - Semester of Completion
   - Deadlines: Proposal Submitted
   - Deadline: Proposal Approved
   - Spring: October 7
   - Fall: March 7
   - Winter: November 1
   - Spring: April 1

3. As a general rule, independent studies in accountancy are not offered during the summer. However, if both the professor and student agree to complete the study during the summer, this rule may be waived.

4. If the student completes his/her Honors Capstone project via ACCY 499, this contract will substitute for the NIU Honors Program Capstone contract.

5. The proposal is a contract that delineates the expectations for the execution of the independent study. Proposals for all accountancy independent studies must include:
   a. the proposed title of the independent study;
   b. the basis for interest in this topic;
   c. a list of prior coursework and/or work experience(s) which provide a background for this study.
   d. a description of the work proposed, including but not limited to:
      1. the problem to be solved,
      2. a brief explanation of why the problem needs to be solved,
      3. a list of major works dealing with the topic that will be investigated;

Proposals for ACCY 499 must also include:
   4. the specific hypothesis or research objectives;
   5. the research design or methodology;

6. The student and the faculty member must jointly draft a calendar with established deadlines for the timely completion of the study [e.g., deadlines for review sessions, progress reports, draft reviews, submission of and grading of the final report]. If the study is completed in the student's last semester, the deadlines should be scheduled to ensure the study is completed prior to graduation. Both the student and the faculty are expected to meet the agreed-upon deadlines.

7. Faculty and departmental approval of the proposal is evidenced by signature upon this contract. Upon approval of the research proposal, the student will receive course registration instructions via his/her NIU email address. The signed contract is kept in the Department of Accountancy. For ACCY 499, the student must deliver a copy of the contract to the University Honors Program.

8. Independent study courses are graded on the standard NIU grading scale of A, B, C, D, or F. Student performance will be evaluated on the basis of the final work product. The faculty member must present the student with a copy of the grading rubric for the study prior to the commencement of the study. If the work product is or includes a research paper, the paper will be evaluated according to the attached rubric. If the faculty member uses this rubric for grading, the criteria weights must be communicated with the student.

9. Upon completion of the independent study, a copy of the final, graded work product and a completed grading rubric or rubrics will be attached to this contract and kept in the Department of Accountancy. This information may be used for assessment purposes.
**GRADING RUBRIC**

If the work product for the student's independent study is or includes a research paper, the paper will be evaluated according to the following rubric.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Distinguished</th>
<th>Proficient</th>
<th>Intermediate</th>
<th>Novice</th>
<th>Weight</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>The writer's central purpose or argument is readily apparent to the reader.</td>
<td>The writing has a clear purpose or argument, but may sometimes digress from it.</td>
<td>The central purpose or argument is not consistently clear throughout the paper.</td>
<td>The purpose or argument is generally unclear.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td>Logic</td>
<td>The ideas are arranged logically to support the purpose or argument. They flow smoothly from one to another and are clearly linked to each other. The reader can follow the line of reasoning.</td>
<td>The ideas are arranged logically to support the central purpose or argument. They are usually clearly linked to each other. For the most part, the reader can follow the line of reasoning.</td>
<td>In general, the writing is arranged logically, although occasionally ideas fail to make sense together. The reader is fairly clear about what writer intends.</td>
<td>The writing is not logically organized. Frequently, ideas fail to make sense together. The reader cannot identify a line of reasoning and loses interest.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td>Feel</td>
<td>The writing is compelling. It hooks the reader and sustains interest throughout.</td>
<td>The writing is generally engaging, but has some dry spots. In general, it is focused and keeps the reader's attention.</td>
<td>The writing is dull and unengaging. Though the paper has some interesting parts, the reader finds it difficult to maintain interest.</td>
<td>The writing has little personality. The reader quickly loses interest and stops reading.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td>Tone</td>
<td>The tone is consistently professional and appropriate for an academic research paper.</td>
<td>The tone is generally professional. For the most part, it is appropriate for an academic research paper.</td>
<td>The tone is not consistently professional or appropriate for an academic research paper.</td>
<td>The tone is unprofessional. It is not appropriate for an academic research paper.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td>Sentence Structure</td>
<td>Sentences are well-phrased and varied in length and structure. They flow smoothly from one to another.</td>
<td>Sentences are well-phrased and there is some variety in length and structure. The flow from sentence to sentence is generally smooth.</td>
<td>Some sentences are awkwardly constructed so that the reader is occasionally distracted.</td>
<td>Errors in sentence structure are frequent enough to be a major distraction to the reader.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td>Word Choice</td>
<td>Word choice is consistently precise and accurate.</td>
<td>Word choice is generally good. The writer often goes beyond the generic word to find one more precise and effective.</td>
<td>Word choice is merely adequate, and the range of words is limited. Some words are used inappropriately.</td>
<td>Many words are used inappropriately, confusing the reader.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td>Writing Mechanics</td>
<td>The writing is free or almost free of errors.</td>
<td>There are occasional errors, but they don't represent a major distraction or obscure meaning.</td>
<td>The writing has many errors, and the reader is distracted by them.</td>
<td>There are so many errors that meaning is obscured. The reader is confused and stops reading.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td>Criteria</td>
<td>Distinguished</td>
<td>Proficient</td>
<td>Intermediate</td>
<td>Novice</td>
<td>Weight</td>
<td>Score</td>
</tr>
<tr>
<td>------------------</td>
<td>---------------</td>
<td>------------</td>
<td>--------------</td>
<td>----------------------------------</td>
<td>--------</td>
<td>-------</td>
</tr>
<tr>
<td><strong>Length</strong></td>
<td>Paper is the number of pages specified in the assignment.</td>
<td>Professionally legitimate sources that support claims are generally present and attribution is, for the most part, clear and fairly represented.</td>
<td>Although attributions are occasionally given, many statements seem unsubstantiated. The reader is confused about the source of information and ideas.</td>
<td>Paper has more or fewer pages than specified in the assignment.</td>
<td>1/12</td>
<td>4</td>
</tr>
<tr>
<td><strong>References</strong></td>
<td>Compelling evidence from professionally legitimate sources is given to support claims. Attribution is clear and fairly represented.</td>
<td>Although most of the references are professionally legitimate, a few are questionable (e.g., trade books, internet sources, popular magazines, ...). The reader is uncertain of the reliability of some of the sources.</td>
<td>Most of the references are from sources that are not peer-reviewed and have uncertain reliability. The reader doubts the accuracy of much of the material presented.</td>
<td>References are seldom cited to support statements.</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>Quality of References</strong></td>
<td>References are primarily peer-reviewed professional journals or other approved sources (e.g., government documents, etc.). The reader is confident that the information and ideas can be trusted.</td>
<td>Information supports a central purpose or argument and displays evidence of a basic analysis of a significant topic. Reader gains some insights.</td>
<td>Information supports a central purpose or argument at times. Analysis is basic or general. Reader gains few insights.</td>
<td>There are virtually no sources that are professionally reliable. The reader seriously doubts the value of the material and stops reading.</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td><strong>MLA Style</strong></td>
<td>MLA format is used accurately and consistently in the paper and on the “Works Cited” page.</td>
<td>MLA format is used with minor errors.</td>
<td>There are frequent errors in MLA format.</td>
<td>Format of the document is not recognizable as MLA.</td>
<td>1/12</td>
<td>3</td>
</tr>
<tr>
<td><strong>Content</strong></td>
<td>Balanced presentation of relevant and legitimate information that clearly supports a central purpose or argument and shows a thoughtful, in-depth analysis of a significant topic. Reader gains important insights.</td>
<td>Information provides reasonable support for a central purpose or argument and displays evidence of a basic analysis of a significant topic. Reader gains some insights.</td>
<td>Information supports a central purpose or argument at times. Analysis is basic or general. Reader gains few insights.</td>
<td>Central purpose or argument is not clearly identified. Analysis is vague or not evident. Reader is confused or may be misinformed.</td>
<td>1/12</td>
<td>4</td>
</tr>
</tbody>
</table>

**Total Score** 3.75/4.00

Rubric adapted from various sources including:
http://lambuthlibrary.tripod.com/20thcentury/id34.html
http://www.louisianavoices.org/Unit3/edu_unit3_rubric_research.html

93.75% A
Single Audits – The Administrative Burden In Need Of Reform

I have always taken a great interest in non-profit organizations. Most of my free time has been spent working with one organization or another to help others who need it, including the Villa Park VFW Post 2801, The American Cancer Society, and multiple animal shelters. I began my college career in accounting planning to work with non-profit organizations in an accountancy role. During my four years at Northern Illinois University, that interest has shifted to a focus in auditing. That interest has since been narrowed to governmental organizations through my recent internship with the Federal Deposit Insurance Corporation this past summer. While I was working in a technician role, and not necessarily accounting or auditing role, I still had the opportunity to gain exposure to and learn more about other governmental organizations.

While discussing possible research topics, Dr. West mentioned single audits, which are performed on organizations which spend $500,000 or more of Federal financial assistance to ensure compliance with state and federal laws. Following some brief overview research on this topic, I found that looking deeper into single audits falls in line with my interests in auditing, governmental, and non-profit organizations.

As of this date I have not yet taken ACCY 480 (Governmental and Not-For-Profit Accounting), but I will be enrolling in this class next semester while I am completing the independent study in accounting. I have taken ACCY 360 (Assurance Services), which will provide me with an auditing background to use in my research and completion of the finished research paper. Outside of classes, I have completed a summer internship with the Federal Deposit Insurance Corporation which allowed me the opportunity to work in and experience a government organization. During the course of my internship I had the chance to attend many seminars on a variety of topics, including non-profit organizations. In addition, as mentioned previously, I have spent a large amount of time volunteering for a variety of non-profit organizations so I will have personal references to draw upon should I need them.

While discussing the topic of single audits with Dr. West and Dr. Waymire, and through additional first-level research, it has become evident that single audits are laden with internal control concerns. Additionally, single-audits are a significant administrative burden set on the organizations which are subject to single audit review which can distract from the organizations’ mission as time and energy are spent on the audit process. The U.S Office of Management and Budget is currently considering increasing the threshold for single audits from $500,000 up to one million dollars of Federal funding received.

The work I am proposing would analyze in depth the possible effect of such a revision of the single audit regulations would have on the observation and operation of government and non-profit organizations that receive governmental funding. With a brief glance at the possible effect, it is estimated that around 10,000 organizations would no longer be required to participate in the process of a single audit. I will first describe the purpose of a single audit, the process, and other related information. This will then lead into the burden it places on different forms of organizations.

Specifically I will be researching the effect on the mission types Government-Wide/General Purpose Government, Hospital (Dependent, Independent and Non-profit agencies), Institution for Higher
Education (Dependent, Independent and Non-profit agencies), Social Services Organization (Non-profit agencies only), and Other (Dependent, Independent and Non-profit agencies).

After finding more information on organizations in each of these mission type categories, I will locate more information to determine whether increasing the threshold would be a more viable option, or if another solution would be more feasible. The specific problem I propose to look into is that single audits are an overly cumbersome process for these organizations, but these recipients of Federal financial aid still need to be monitored to ensure that funds are being used properly. As Federal funds are provided by the taxpayers and other revenue by citizens, these organizations must be observed to ensure that these precious dollars are not wasted. Such waste of funds would take away funding from more worthy causes or programs. It would also decrease consumer confidence in the merit of these groups' ability to use the contributed funding for the appropriate causes. At the same time, such a complicated process is holding back these organizations from performing their functions to full capacity. My hypothesis is that the threshold should not be raised, but instead that the single audit requirements and regulations need to be reformed for organizations which receive a lower amount of Federal funding.

This study will be completed through internet data searches, library resources, and possibly interviews with non-profit or government organization staff for additional clarification or data. The majority of the data will be gathered from internet and library sources. This description and analysis of the single audit regulation and process will be composed of a mix of qualitative and quantitative data. Qualitative data will primarily be used to develop the description and some of the analysis. Quantitative data will be used for the comparison of the effects of the single audit process and also in the consideration of revisions to the single audit requirement for these organizations. Primary and secondary sources of information will be used in a similar fashion to the quantitative and qualitative data allocations. Primary sources will be used for the most part in the description of single audits. Meanwhile, secondary data will be used in the composition of an alternative solution to the burden which single audits impose on governmental and non-profit organizations. Internet sources will serve as the primary research tool to look into the description of the Single Audit Act of 1984 and the regulations declared within. Library resources will be used to look further into cases of certain organizations if any should arise during the course of the research for this study. The completed process will yield a twenty-five to fifty page research paper on this topic.

The first phase of the project will consist of gathering further data and cases for analysis and assembly of the rough draft of the paper. These sources will be located through internet research as well as library resources, and a complete list of resources to draw upon during the study will be compiled by February 28, 2013. The research paper will be written in installments between this date and November 5th, 2013 when the final copy of the rough draft is due to the University Honors office. This information gathering and initial writing stage will be comprised of weekly meetings with Dr. West and additional consultation with Dr. Waymire for more support in the governmental area of accountancy. The period between November 5th and May 2nd will serve as a revision period for the rough draft of the paper. Additional meeting with Dr. West and Dr. Waymire will be scheduled as needed during this revision period to ensure timely completion of goals and academic support. The final edit of the research paper will be submitted on or before May 2nd, 2012 to ensure the finished product is submitted before my graduation date. Additional meetings between myself, Dr. West, or Dr. Waymire will be scheduled as needed should more time and consideration of the research and data be needed than was originally anticipated.
Multiple sources will be gathered during the course of this project completion. As of this date, these sources will be used in the preliminary gathering of information to determine the final direction of the study:


(2005). Retrieved from Chief Financial Officers Council website:


(2011). Retrieved from Chief Financial Officers Council website:

http://harvester.census.gov/sac/dissem/Type of Entity Search Instructions.pdf

(n.d.). Retrieved from

Accountability is necessary in every business or organizational venture. In nonprofit organizations, being held accountable is even more critical due to the nature of the organization’s source of funding. Unlike a for-profit business which derives its revenues from customers via exchange transactions, non-profit entities receive their support from a variety of sources, including federal grants and individual and corporate donors. Federal agencies and donors may require information from the nonprofit organizations to evaluate whether the resources they provide are being spent appropriately.

This monitoring, however, may interfere with a nonprofit organization’s ability to fulfill its mission. Currently any government or non-profit organization which expends more than $500,000 of Federal grant awards must complete a process called a single audit. This form of audit is more extensive than a regular audit, and therefore requires additional training and specialization on the part of the auditor, and increased costs for the auditee. Essentially, while this process is necessary to monitor the operations of organizations receiving Federal money, the process itself may be overly burdensome of the organizations that must complete it. The Office of Management and Budget (OMB) is currently discussing increasing the threshold for single audits to $750,000. While this increase in threshold will ease the burden on smaller organizations, this may leave entities spending less than the threshold less accountable for their
use of grant awards. Entities expending less than the single audit threshold must still maintain their records and make them available upon request in the event of an investigation, but this does not provide the same credibility that completing the single audit process does.

The single audit itself requires a delicate balance. On one hand, it ensures accountability with taxpayer dollars. On the other hand, its extensive requirements may have negative consequences particularly for smaller nonprofit organizations which may have little ability to absorb the costs without negative consequences for the services they provide. As a result, smaller organizations have typically been exempted from this expensive audit. However, it may result in less monitoring of large sums of federal grant funding. In this study, I seek to find a solution to remedy this predicament. I begin by first discussing the history of the single audit, the single audit process and the effect this process has on non-profit entities. I then analyze trends in single audit results from 2001 to 2011, and I draw upon these trends in identifying concerns with the current structure of the single audit and in making recommendations for changes to the single audit.

Single Audit History

Designed in the mid-1960s, the single audit concept was developed over a period of twenty years (Brown and Burnaby 47). During this period, Federal assistance only consisted of $11 billion, but was projected to increase rapidly and was cause for accountability concern. Elmer B. Staats, the Comptroller General of the United States at the time, completed a study in 1979 which researched the results of 73 Federal grant recipients' audits. During this study the GAO (Government Accountability Office) discovered that 80% of the federal funds granted to those 73 entities had not been audited (Staats ii). The GAO also found that 17 of the 73 entities
in the study had not been properly audited, if at all. The deficiencies found through this study led to the emergence of the single audit approach.

The single audit concept was originally meant to condense the numerous audit requirements (i.e. financial statement audits, audits for each individual grant) into one single process. In the 1960s, each granting agency had its own requirements for recipient reporting (Brown and Barnaby 48). The 1970s were a turbulent time for entities receiving federal funding as fraud and waste were extremely prevalent. This concern for the occurrence of fraud was large enough to prompt Congress to implement the Inspector General for Health and Human services. This office, along with selected representatives from the Director of the Office of Personnel Management, found that grant-by-grant audits were rife with inconsistencies as well as conflicting guidelines and requirements, Federal agencies auditing other Federal agencies, and a variety of reimbursement methods for auditors. This jumbled mess of an audit system prompted the OMB to issue A-102P. This document required a single biennial audit on an organization-wide level for each grantee (Brown and Burnaby 48).

The Joint Financial Management Improvement Program (JFMIP), the GAO, and the OMB took sizeable steps to implement the single audit including publishing a Compliance Supplement and assigning an agency to every state and large local governments to oversee each phase of the single audit until completion (Brown and Burnaby 49). Regardless of these progressions the single audit concept was not readily followed or accepted due to the lack of legislation behind it. A-102P itself was only an administrative directive, and therefore held little power to influence the affected parties into participating. This then led to the President’s Council on Integrity and Efficiency (PCIE) to evaluate A-102P and determine the extent to which the directive had been implemented, the usefulness of the reports, and also provided
recommendations for improvements to the proposed regulation. The revisions produced by this study never came to fruition due to Congress introducing a bill titled, “The Single Audit Act of 1984” at the same time.

Development of the Single Audit Act

The Single Audit Act of 1984 actually originated as the Uniform Single Financial Audit Act of 1983 and amended the United States Code to include Requirements for Single Financial Audits (whitehouse.gov Summary 1). Interestingly, the original bill intended to include non-profits in the single audit requirement but non-profits are not mentioned past the August 3, 1983 amendment reported to the Senate.

The first edition of the bill, introduced on June 21 in 1983, stated that any organization receiving at least $25,000 would be required to conduct a single audit biennially with an independent auditor. The President was authorized to prescribe the policies for implementation as well as the ability to delegate this responsibility to the Director of the OMB or other appropriate parties. The OMB and other associated parties were required to consult with the Comptroller General of the United States to carry out these responsibilities. The Director was tasked with crafting a plan for ensuring single audits would be conducted within three years of the enactment of the Law (whitehouse.gov Summary 1). The content of a single audit was defined, including bestowing the responsibility to confirm that a single audit had been conducted on any sub-recipient of Federal funding. Federal assistance was permitted to cover the cost of conducting the single audit and if an organization failed to comply the Director could arrange for an audit. Finally, it was established that the single audit would take the place of any other federally required financial audit (whitehouse.gov Summary 1).
The bill was amended a little over a month later on August 3, 1983. The new revision included a statement that the total amounts of all government assistance (including federal, state, and local) would be included in the single audit compliance testing. The materiality level would be determined according to the independent auditor’s judgment unless an individual grant, program, or project exceeded $500,000 or three percent of the total federal expenditures of the entity. In such a case, the tests would be applied by the auditor in accordance with the Act. This revision to the bill also included the requirement that the Comptroller General would review the single audit thresholds every five years to determine whether they should be increased or not (whitehouse.gov Summary 2).

Later on in November of 1983 the bill was amended again and passed in the Senate. This revision of the bill is the first to remove any mention of non-profit entities being included in the single audit requirements. The only amendment to this version of the bill stated that if an individual grant, program, or project exceeded $30,000,000, or did not exceed $30,000,000 but did exceed $500,000 or made up more than 3% of the entity’s Federal expenditures, the materiality tests would be performed according to the guidelines of the Act (whitehouse.gov Summary 3).

May 15th of 1984 brought about another revision to the Act which included three new requirements. The threshold for requiring a single audit was increased to $100,000. It was declared that all stipulations of the Act would apply to any eligible State or local government as of June 30, 1984. This amendment also stated that the Director of the OMB would submit an annual report to Congress on the implementation of the single audit process each year. This revision of the Uniform Single Financial Audit Act of 1983 also changed the name of the bill to the Single Audit Act of 1984.
There was one last revision to the Single Audit Act of 1984 on October 4, 1984. This addition to the bill included single financial audit requirements for any entity which received $25,000 - $100,000 of government assistance in order to carry out their missions. The bill was finally passed in its entirety as of October 19, 1984 after all of these revisions had been completed (whitehouse.gov Summary 4).

OMB Circular A-133

For the first few years after the implementation of the single audit only State and local government agencies were required to follow the established regulations. Circular A-133 was released by the OMB in 1990 which finally placed non-profit organizations under single audit jurisdiction. This Circular succeeded Circular A-128 which only provided guidance on audits of State and local governments. The Single Audit Act was amended in 1996, and subsequently the Circular A-133 was revised to include Indian tribal governments. Revisions came again in 2003 and 2007 to increase the audit threshold to $500,000 and also to include updated internal control information. The 2007 revision also simplified reporting package requirements.

The 2003 revision of A-133 states that the single audit guidelines apply only to U.S. based entities, even if a foreign entity expends Federal awards directly or as a subrecipient ("OMB Circular A-133" 3). As with previous versions of the Circular, it is stated that the Circular policy would be reviewed after three years from the effective issuance date. Within the General heading under the Audits of States, Local Governments, and Non-Profit Organizations regulations the purpose of the Circular was to create standards which would enable consistency and uniformity in the federal audits of non-federal entities receiving grants (OMB Circular A-133" 5).
The text of the Circular includes a list of definitions used throughout the publication under Section A.105. Within these definitions is the term "cluster of programs," which suggests that groupings of closely related programs will share common compliance requirements ("OMB Circular A-133" 5). Such clusters include research and development, student financial aid, and other clusters defined in the compliance supplement within Appendix B ("OMB Circular A-133" 5).

Section B of the 2003 revision of Circular A-133 outlines the basic audit requirements for non-Federal entities receiving Federal funding. Any non-federal entity expending $300,000 ($500,000 for fiscal years after December 31, 2003) or more in a year are required to have a single or program specific audit performed annually unless otherwise specified for any particular entity ("OMB Circular A-133" 11) A program specific audit is allowed when an organization expends Federal awards under exclusively one program (Except for research and development). This procedure is only permitted if the agreements for the grant(s) received do not require the completion of a financial statement audit ("OMB Circular A-133" 11).

It is also determined in Section B that any non-Federal entity expending less than $300,000 ($500,000 as of December 31, 2003) will be exempt from having to perform a single or program specific audit. Despite the exemption from these regulations, the entity must still prepare records and make them available for review. An audit of these records may still be performed by appropriate officials or the GAO.

Within Section B. 230(a) of Circular A-133 it is stated that, "Unless prohibited by law, the costs of audits made in accordance with the provisions of this part are allowable charges to Federal awards ("OMB Circular A-133" 17)." Charging single audit costs to Federal awards is disallowed in the case of an entity which has not performed required audit procedures or has
performed an audit which was not carried out in accordance with the guidelines outlined in A-133. Audit costs are also disallowable if the entity receives less than the threshold amount for a required single audit.

*Increases in Thresholds*

The OMB is tasked with reviewing the threshold for single audit requirements every five years. When the Single Audit Act of 1984 was originally passed, the threshold dictated that any State or local government expending $100,000 or more each year in Federal assistance would be subjected to a single audit. When the Act was revised once again in 1996, that threshold was increased to $300,000 of total Federal expenditures per year. After December 31, 2003 that threshold was increased again to $500,000.

Currently an OMB Super Circular (*Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards*) published in 2013 is proposing to increase this threshold to $750,000 per year. This means that any non-Federal entity expending less than $750,000 of Federal funding per year will not be subjected to a single audit. These organizations will, however, still need to keep records prepared in the event of a prescribed audit by an appropriate official or the GAO.

*Components of a Single Audit*

A single audit includes a variety of responsibilities both on the part of the auditor and of the auditee. An A-133 audit consists of a financial statement audit, internal controls testing, and compliance testing.

*Auditee Responsibilities*

An auditee is required to comply with guidelines set forth in the Single Audit Act. Such responsibilities include identifying any and all Federal awards received and expended as well as
which programs these grants were received ("OMB Circular A-133" 21). The identification of these awards must include the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, the name of the Federal agency providing the funding, and the name of any pass-through entities ("OMB Circular A-133" 21).

Auditees are expected to maintain internal control procedures over Federal programs to guarantee that awards are being maintained in compliance with the Act. Any organization which receives Federal funding must also be in compliance with any regulations of the grants being provided. Non-Federal agencies must prepare financial statements as well as a schedule of expenditures. Auditees are expected to ensure that required audits are performed properly and completed on or before the assigned due date. Should an extension be granted, the auditee must notify the Federal Audit Clearinghouse (FAC) and all pass-through entities. Finally, an auditee is required to follow up with and take corrective action should audit findings be brought up ("OMB Circular A-133" 21).

**Auditor Responsibilities**

Auditors also have responsibilities to their auditees in the single audit process. Auditors are expected to plan the audit process according to Generally Accepted Government Auditing Standards (GAGAS) and to test whether the auditee’s financial statements are fairly presented. The certified professional performing the audit is responsible for determining whether an organization’s financial statements are presented according to these standards, and also whether or not the statements for these Federal expenditures are fairly represented. ("Understanding Single Audits" 5)

The selected auditor must gain an understanding of the non-Federal entity’s internal control system for evaluation of the organization’s major programs. General compliance with
regards to appropriate laws and regulations must be evaluated, and any previous year audit findings are expected to be followed up on each year. ("Understanding Single Audits" 5)

Financial Statement Audit

Every single audit includes an audit of the entity’s financial statements. The statements are originally prepared by the auditee. These statements reflect, 1. Financial position, 2. Results of operations or changes in net assets, and 3. Where appropriate, cash flows for the fiscal year audited ("OMB Circular A-133" 22). These financial statements must represent the same organization and fiscal year, but may include different departments with separate audits and financial statements.

Auditees must also prepare a schedule of Federal expenditures and awards for the covered fiscal year. The auditee may choose to simplify the schedule by including any information requested by the Federal award agencies. This schedule must provide a list of each individual Federal program by agency. Any Federal programs included in previously mentioned clusters must list the individual programs within the cluster ("Circular A-133" 23). Subrecipient entities must identify the pass-through entity by name and identifying number. Auditees are expected to disclose total Federal awards expended per program as well as the identifying number. The CFDA number is preferable, if available. Notes on the accounting policies utilized to create the schedule must be included. Pass-through entities must reasonably note the total amount of grants provided to sub-recipients. Finally, any non-cash Federal awards, insurance, loans, or loan guarantees outstanding at year end must be included in a note to the submission of the schedule.
Internal Control Testing

Internal control monitoring and testing are also an integral part of every single audit. These controls help to assure that an organization is in compliance with regulations through monitoring internal transactions. Circular A-133 provides a definition of working controls:

A process, affected by an entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations (“OMB Circular A-133” 7).

Particularly in regards to compliance, internal controls should effectively ensure that all transactions are being properly recorded. This provides assurance that an entity’s financial statements can be relied upon, assets are accountable, and that the organization is within stated regulations.

Auditees are required to include a report on internal control in their single audit package for review. The report itself details the scope of the internal controls testing as well as the results of those examinations (“OMB Circular A-133” 21). Both an A-133 report on internal control for major reports and a GAGAS report on internal controls must be included to complete the submission package.

Compliance Testing

Compliance testing is an essential task for any audit, but single audits must pay particular attention to compliance with laws and regulations due to the use of Federal grants to fund the non-Federal entities being examined. As with the internal control component requirement, the auditee must include an A-133 Report on Compliance as well as a GAS Report on Compliance. Any noncompliance which could materially affect the organization’s financial statements must be reported on these forms as well.
In addition to the compliance reports, the auditee must include the auditor’s opinion (or disclaimer of opinion). The audit opinion states whether or not the organization’s financial statements are fairly presented under GAAP ("OMB Circular A-133" 36). An opinion statement for the schedule of expenditures for Federal funding is also required to be included in the reporting package.

**Reporting Package**

An auditor's report for a single audit contains multiple categories of results to provide an overall summary of the organization’s status. This summary of results is referred to as a schedule of findings and questioned costs in the single audit reporting package. The finding summary must include the type of report (Opinion) issued on the organization’s financial statements, a disclosure of reportable conditions in respect to internal control and the presence of any material weaknesses, and material noncompliance disclosures ("OMB Circular A-133" 36). Reportable conditions for internal control, related material weaknesses, and the type of report issued must also be included separately for any and all major programs. The reporting package is expected to also include the disclosure of any reportable audit findings, a list of the organization’s major programs, the distinguishing dollar threshold between a Type A or B program, and finally a statement of whether the audited entity is considered low risk ("Circular A-133" 37). All of these components make up the results of a single audit for a non-Federal entity expending $500,000 a year or more in Federal assistance.

**Findings**

If prior year audit findings exist, the organization must include an additional schedule summarizing these previous findings. The summary should update the current status of the prior findings or questioned costs. After findings have been corrected they are only required to be
listed and include a note that corrective action has been assumed, and planned or partial corrective action must be disclosed for any remaining findings. In the event of a corrective action varies significantly from a previously reported action, that difference must be explained. If two years have passed since the issuance of an audit finding, the auditor no longer follows up on the finding, and no management decision exists for that finding, the auditee may explain why it believes the finding is no longer valid ("OMB Circular A-133" 24).

When an auditor discloses current year findings for the audited entity, that organization must also include a Corrective Action Plan in the package. The name of each person responsible for a corrective action, the planned action, and anticipated completion date for the action taken are to be disclosed in the summary. Should the auditee disagree with an audit finding, and explanation and specific reasoning for the disagreement must be included as well ("OMB Circular A-133" 24).

Effects on Non-Profits

Single audits can affect non-profit entities differently than they will affect State and local entities for a variety of reasons. An A-133 audit is much more expensive than a typical financial statement audit, organizations can lose their Federal awards if compliance is continually an issue, and inexperienced or new non-profits tend to suffer from the increased audit coverage and scrutiny they face from the very start of the process. Due to these and other factors, the single audit can be a very painful experience for smaller non-profit organizations.

Cost

The cost of an A-133 audit is raised due to the more extensive nature of the audit process. A single audit includes a typical audit that any entity would participate in, but also includes a more involved internal control evaluation than a regular audit as well as additional processes to
review the use of the Federal assistance provided and the level of compliance the non-profit entity adhered to (Keating et al. 1). These additional requirements outside of a normal financial statement audit result in additional training and specialization on the part of the auditor. As the cost of necessary training increases for the auditor and their associated firm, the cost of a required single audit increases correspondingly.

Even if the non-profit entity is able to use some of their Federal assistance to cover the cost of the single audit, that funding is now not able to be used for the purpose of advancing the entity’s mission. This is a burdensome use of funds when the non-profit organization originally received the funds to cover expenses on a limited and highly volatile income source. While the A-133 audit is an important requirement to ensure that non-profits are held accountable for their use of Federal funding, the costs of this necessary procedure should not inhibit an organization from furthering progress in their designated cause.

Loss of Funding

In some cases, non-profit organizations may completely lose their Federal funding in the event of non-compliance and in turn could be forced to cease operations due to the loss of that funding. Keating cites two such cases including Tuskegee University and McKenzie College (2). Tuskegee University’s service capabilities and financial health were severely weakened as a result of this loss. McKenzie College was forced to close its doors after 107 years of operations after losing funding and accreditation (Keating et al. 2).

The level of observed compliance or non-compliance of a non-profit organization may drive such entities to make certain strategic decisions to be in or appear to be in compliance with A-133 audit requirements (Keating et al. 2). The likelihood of adverse findings for a non-profit organization depends on a multitude of factors from the size of the organization itself, to the
entity's experience with audits, to the size and experience of the CPA firm that the entity chooses or can afford to use for fulfilling the audit requirement.

*Inexperience Punished*

While it is entirely appropriate that non-compliant organizations should have their Federal assistance revoked as that is the purpose of accountability practices, smaller or less experienced entities may be at a disadvantage in proving or maintaining compliance. Smaller organizations generally have a smaller pool of available resources for covering expenses, and this includes the cost of participating in a required audit. Single audits alone are expensive, but that cost will also vary depending on the size and experience of the CPA firm providing the audit services. Thus, a smaller organization may not be able to afford an audit from a larger and more experienced audit firm. This puts the non-profit entity at a disadvantage because the likelihood of adverse findings is greater when the CPA firm has a limited background in completing the single audit process or serving a non-profit organization.

For the purposes of a single audit, a non-profit organization is classified as being low-risk or not low-risk based on prior audit outcomes and other variables. An entity that is not classified as low risk will be subjected to a more extensive, and thus more expensive, audit. Keating points out that a less experienced organization is at a disadvantage in these regards as well:

Certain nonprofits can gain low-risk auditee status by having single audits in the past two years in which the financial statements were unqualified with no reported material weaknesses in internal controls or legal compliance problems. Hence, a nonprofit that is inexperienced with government grants will not receive low-risk status and will be subject to a more stringent set of audit procedures (Keating et al. 12).

Additionally, non-profit organizations which are unable to gain low-risk status are inherently more likely to be found non-compliant due to this negative label and because of the
more extensive audit. As the extent of the single audit increases, so does the probability of that non-profit entity being found non-compliant by the auditor.

The results of Keating's study also show that single audit entities considered to be low-risk were less likely to receive negative results in other capacities of the audit results. Low-risk auditees were less likely to receive qualified audit opinions, going concern language, reportable conditions, and material noncompliance findings (Keating et al. 13).

Overall, it is clear that smaller non-profit entities, or younger and less experienced organizations, are at a significant disadvantage in comparison to larger organizations in regards to receiving positive results in a single audit. With the higher risk of noncompliance findings for a smaller organization, these entities are at a greater probability of having their Federal funding revoked in a time when it is most critical for that funding to enable a younger entity to establish itself and its credibility.

This brings to question whether or not smaller entities should be held to different standards than larger and more established non-profit organizations. A possible solution may be the raising of the single audit threshold to $750,000 in Federal expenditures per year, but this solution may leave the smaller entities less accountable for their funding uses. The younger and less sizable non-profit organizations still need to be monitored to ensure the Federal assistance is being expended appropriately. At the same time, entities which have participated in a single audit in recent years are seen as more credible and deserving in the eyes of donors, a vital factor in the establishment of a new non-profit organization.

Trends

The Federal Audit Clearinghouse (FAC) houses all single audit reports for entities audited between 1997 and 2012. All of this information is available for download and usage by
the public. For the purposes of this study, information was only collected for non-profit entities within the higher education, hospital, and social services domains. This study covers audit results between 2001 and 2011 and analyzes trends in these groupings throughout these years for a variety of audit results, including: Mean total federal expenditures, median total federal expenditures, low-risk status, going concern finding, reportable conditions/significant deficiencies, material weakness findings, questionable costs, and material noncompliance findings. The effects of the size of CPA firm performing the audit on going concern, reportable conditions/significant deficiencies, low risk status, and questionable costs are also analyzed. All charts may be referenced in the appendixes.

Higher Education

As depicted in the higher education mean total federal expenditures graph, the mean total Federal expenditures have been steadily rising since 2001, with the exception of 2005. In that year, one organization spent over $158,000,000,000,000. The median total federal expenditures also show a similar result, without the outlier, of increasing expenditures each year.

It can be observed from the low risk trends chart that in general, there is a larger difference between the number of low-risk entities compared to the non-low-risk entities as the total Federal expenditures grows larger. Interestingly, the number of smaller entities reporting decreases each year, while in general entities expending $10,000,000 or more increase in number each year.

The going concern status, reportable conditions, material weakness, questionable costs, and material noncompliance charts show no significant trends, aside from a similar increase in entities expending $10,000,000 or more each year increasing while the number of entities with smaller expenditures remains steady or decrease as the years progress.
The CPA firm chart for low risk status shows that compared to the other observed variables (Going concern, reportable conditions, and questionable costs), there is a smaller gap between low risk status and non low risk status if an entity was audited by a non-Big Four firm. The other graphs for higher education comparing CPA firm size in relation to audit results do not yield any note-worthy trends.

Overall, data for the higher education category only provide evidence that smaller non-profit organizations tend to be classified as non-low risk more often than larger non-profits are. The smaller non-profit organizations are determined to be riskier due to their perceived lack of experience from their smaller size. These smaller organizations are seen as less likely to be able to meet their costs with less of a presence in the non-profit market. Auditors in turn exercise more caution when observing these smaller entities.

Hospitals

Mean total federal expenditures in the hospital segment of non-profit entities have risen between 2001 and 2011, but have been relatively stagnant for the past few years. The median Federal expenditure in this industry has risen since 2001, but has been slowly declining for the past couple of years.

The low risk chart for hospitals shows that closer to 2001 entities expending less than two million dollars of Federal awards followed the familiar trend of being more likely to be classified as non-low-risk than larger entities. Around 2003, however, the chart shows that the number of low-risk and non-low risk entities in this smaller income bracket was much more equal, and over the past few years the trend has been reversing.

Going concern status for hospitals, similar to the higher education chart, does not show any significant trends. It is noticeable, though, that the number of entities reporting in each
income bracket has been increasing each year aside from the $5,000,000 to $50,000,000 which has been remaining relatively stable. Reportable conditions, material weakness, questionable costs, and material noncompliance also show no significant trends.

Graphs derived from the CPA firm size data in relation to hospitals show two interesting trends. First of all, for organizations audited by a non-Big Four firm the number of reportable conditions found has been decreasing from 2009 to 2011. The low risk status CPA firm data shows that hospitals audited by a non-Big Four firm were more likely to be categorized as non-low risk than hospitals audited by one of the Big Four.

Aside from the CPA firm data, the non-profit hospital data does not provide any solid evidence of significant trends in any area aside from the low-risk status trend fluctuating and reversing.

**Social Services**

From the social services mean total federal expenditures graph, it is clear that the average federal expenditures have risen each year from 2001 to 2011. Similarly, the mean total federal expenditures have also risen every year during the 2001 to 2011 observed period.

The low risk graph for social services shows that between 2001 and 2011, generally entities which had a single audit performed were more likely to be classified as low risk than not across all expenditure brackets. It can be observed, however, that over the years the gap between low risk and non-low risk status has been shrinking for organizations expending less than $2,000,000 of federal funding during the year.

Similar to the hospital CPA firm size data, these graphs depict two notable trends. As with the hospital CPA firm data, the reportable conditions graph shows that the number of reportable conditions or significant deficiencies found for entities audited by a smaller firm have
been decreasing from 2009 to 2011. Meanwhile, the CPA firm graph for low-cost status shows that since 2009 social organizations observed by non-Big Four firms have gradually become more likely to be classified as low-risk than not.

The remaining social services graphs do not depict any significant trends at the time of this report. While no note-worthy results are found in going concern, reportable conditions, material weaknesses, material non-compliance, and questionable costs graphs, one observation can be determined. The amount of expenditures of these social service organizations has had minimal effect on the observed variables overall from 2001 to 2011.

Single Audit Ineffectiveness

While no process or procedure will ever be perfect, the single audit system is far from operating satisfactorily. Among a wide array of effectiveness issues, A-133 audits currently suffer from a lack of follow-up on the status of single auditees, an inability to measure the amount of Federal awards actually spent, as well as a plethora of quality concerns which have not improved significantly over the years.

Lack of Follow-Up

The GAO notes that OMB Circular A-133 requires agencies to validate that all reported problems an auditee may have had are resolved. Appropriate and timely corrective actions are required by Federal award recipients found to have deficiencies in any area of the single audit (Thompson 3). Participants of the GAO study were told that site visits, phone calls, and review of future audit report results are commonly used for these follow-up purposes. Despite these procedures to check in with an auditee, there was a lack of documentation recording any results of these procedures or of any follow-up actions on the part of the agencies (Thompson 3). There were no evaluations or conclusions on the status of the audit findings.
Without any documentation requirements for these follow-up results and evaluations, there is little incentive for a non-profit entity with prior year audit findings to take corrective actions until the next single audit is to be performed. The lack of documentation also leads to a deficiency of improvement measurements. The agencies responsible for monitoring the non-profit organizations which previously had audit findings have no basis for comparison of improvement aside from the initial deficiency findings which in turn can lead to an inflation of the improvement results once an evaluation is actually performed.

Also without appropriate documentation of corrective actions taken and their effectiveness, there is no way to measure the effort put toward improvement on the part of the non-profit entity receiving Federal assistance. Faltering non-profit organizations need to be held accountable for any legitimate audit findings and the actions those organizations take to remedy those findings for the benefit of both the entity itself and the non-profit's supporters. An accountable non-profit will see increased support and donations due to their increased credibility in relation to other non-profits. At the same time donors of funds to these organizations deserve to know that their contributions are being expended appropriately and that the organization is responsible for its own actions.

*Lack of Measures*

At the time of the GAO report on June 26th, 2002 the Federal Government did not have a system for determining the extent of organizations which met the single audit threshold requirement ($300,000 a year at the time of the report). The government also was aware of the amount of awards granted in a given year to these non-profit organizations, but did not have a method to track how much of the awards were actually expended by these entities (Thompson 5).
This deficiency in records essentially makes the single audit requirement an exercise of the honor system, as there is no way to observe if all required single audits have occurred.

This lack of information should be very alarming, and as such should be remedied. Without any record of how much each auditee has expended of their granted Federal awards, there is no system for determining whether the entity is accountable for their revenues or not. There isn’t a method for measuring improvement in an auditee with prior year audit findings. Most importantly, there is no evidence to back a claim that a non-profit entity is misusing Federal grants or awards when there is no measure of how much the entity under scrutiny is actually spending.

An added twist to this lack of records and accountability is the fact that Federal award recipients are responsible for ensuring any sub-recipients of the allotted funds participate in the required single audit procedure. If there are no records of how much recipients are expending, there is no way to observe how much funding the sub-recipients are receiving from the entities originally awarded the Federal funding.

Finally, this missing information will skew or misrepresent results in regards to evaluate the effectiveness of the single audit system and requirements. There is no basis for measuring progress or identifying weaknesses in the A-133 audit system. We are not able to measure the effectiveness and efficiency of the program.

Quality Concerns

The quality of single audits has been a concern even since the inception of the Act in 1984. Periodically throughout the years there have been reports evaluating the effectiveness of the single audit process, and quality control has always been an important topic in these reviews.
One particular review completed in June of 2007 by the President’s Council on Integrity and Efficiency (PCIE), the Report on National Single Audit Sampling Project, conducted a study on the quality of 208 audits. These audit samples were divided into two strata. Stratum I consisted of the largest audits ($50 million total Federal expenditures or more) and Stratum II was comprised of audits between $500,000 and $50 million in total Federal expenditures (Combs 9). These samples were then evaluated with statistical sampling methods in order to estimate the overall single audit quality results, as testing each and every auditee would be far too extensive. This study found a sizeable difference in the quality results of the two strata.

The quality measurements were labeled as Acceptable, Limited Reliability, and Unacceptable. Unacceptable quality results were further divided into Material Reporting Errors or Substandard. Of the Stratum I audits, a point estimated 24% were unacceptable while an estimated 35.7% of the Stratum II audits were found to be unacceptable. 9.4% of the Stratum I audits were placed into the Material Reporting errors category, and 14.6% were found to be Substandard. Meanwhile, all 35.7% of the unacceptable quality audits in Stratum II were labeled as unacceptable. These results show that while both the larger and the smaller audits had quality concerns, the smaller entities in Stratum II were more often found to have quality control deficiencies.

The PCIE found that there were some common deficiencies of audits considered to be Substandard. Generally, the audits in this study labeled as Substandard had typical issues including:

- 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 incorrectly identified as a major program in the Summary of Auditor’s Results Section of the Schedule of Findings and Questioned Costs (plus other significant deficiencies) (Combs 14).

These extensive and significant differences in single audit quality are further evidence that a new, simpler system needs to be put in place for reviewing the quality of these vital but cumbersome expenses.

Proposed Changes to Single Audits

There have been numerous suggestions for improvement throughout the existence of the single audit. From researchers, to the PCIE, GAO correspondents, and the OMB itself, various opportunities to improve the process have been suggested and should be implemented to enhance the effectiveness and efficiency of the A-133 audit.

Researchers

During their research and compilation of their 2003 study, Keating found that smaller organizations have difficulty covering the costs of a quality single audit. The authors of this research study suggested that it would be beneficial to provide Federal assistance specifically for ensuring single audit compliance and A-133 audit costs (Keating et al. 16). This additional assistance would aid smaller or younger non-profit organizations in establishing themselves as reputable entities and gain the confidence of donors. Non-profit entities subjected to single audits would also be able to focus more on their established mission with these reduced costs.

With the ability to afford a higher quality audit smaller non-profit organizations would eventually be more likely to be classified as a low-risk entity and receive more positive audit opinions and results. As the entity continues to gain unqualified audit opinions in consecutive years they will no longer be considered a higher risk to audit firms due to establishing a
reputation for positive audit results. Donors will also take the building credibility of the non-profit entities into account when deciding how much disposable income to give to which charity.

The non-profit organizations that meet the qualifying threshold for single audit requirements would be able to place more focus on their designated mission if there were additional Federal assistance to cover the costs of obtaining the required audit. The entity would not have to be concerned with covering this cost on their own and in turn would be able to put more of their financial resources toward mission expenses instead of compliance. While compliance is an integral part of ensuring that non-profit entities can be held accountable for their responsibilities and are reliable, the purpose of these entities is still to service the cause they were established to support. A complicated and burdensome process such as the current single audit process detracts from these important missions.

PCIE

The PCIE has also put forth suggestions for improving the single audit process. In June of 2007 the PCIE conducted a study and produced a report on the quality of single audits and how to remedy the deficiencies in audit performance. In the overall conclusions and recommendations section of the report, the PCIE suggests that minimum requirements should be established for, “Completing comprehensive training on performing single audits as a prerequisite for conducting single audits and require single audit update training for continued performance of single audits (Combs 30).”

This requirement for training as well as periodic updates and refreshers to that training, if established, would reduce the amount of quality issues currently plaguing the single audit process. Auditors would be held to certain standards before they would be allowed to conduct a single audit of a non-profit entity. This action would greatly assist smaller or younger non-profit
entities which may be receiving negative audit results from a more affordable younger or more inexperienced auditor. Audit firms will inherently assign more experienced auditors to larger and more established clients due to the greater income such an audit will bring. These training standards will prevent the smaller, disadvantaged non-profits from receiving a lesser quality audit experience.

The periodic update training is also essential to seeing noticeable improvements in the quality of single audits. As single audit requirements and effectiveness are reviewed often, there are generally new standards and procedures for auditors to learn and comprehend before they go on their next assignment. If nothing else, this refreshing training will ensure that auditors qualified to perform single audits are aware of any changes and are able to review their knowledge of the process and its associated requirements.

\textit{GAO}

The GAO conducted additional analysis of quality control issues after the 2007 PCIE report was issued. In this analysis the GAO identified opportunities for improvement of the single audit process including creating a simpler process for smaller entities, identifying best practices, and also monitoring the single audit process more thoroughly. (Carper et al. 4, 5)

\textbf{Simplifying the Process}

Given the significant disadvantages smaller non-profit entities are observed to have compared to larger organizations in regards to single audit results performance, amending the process and simplifying the requirements for these smaller entities appears to be a logical solution. Smaller nonprofits have been shown to perform more poorly on audits in regards to findings, questionable costs, reportable conditions, and other factors. Simplifying the single audit
process for these less sizable entities would reduce the pressure they face in meeting compliance requirements.

Smaller entities receiving Federal assistance must still be monitored to ensure accountability, but the current standards and requirements are unfair to these organizations due to the “one size fits all” approach to monitoring compliance. The costs of a single audit are a much greater to smaller entities, proportionately, than they are to the larger organizations. As previously stated, the smaller organizations perform more poorly compared to larger entities due to being unable to afford the quality and extent of an A-133 audit that the larger organizations can. Organizations with less financial resources should not be forced to meet the same requirements that larger organizations are.

**Best Practices**

Identifying best practices and providing guidance on how to achieve a higher quality audit would allow entities meeting the single audit threshold to learn how to better comply with single audit regulations. Defining best practices would assist non-profit entities who may be less experienced in having a single audit conducted. This resolution would also enable organizations looking to improve their audit results to identify areas where their organization may be lacking or weak. The entities could then use this self-assessed feedback to guide their improvement strategy.

**Single Audit Monitoring**

In this report the GAO also made the suggestion that the OMB should establish one single organization to monitor the effectiveness of the single audit system. Specifically, the GAO advised:
Designate an entity or group to (1) evaluate and comprehensively monitor the single audit process government-wide, (2) assess the efficiency and effectiveness of how agencies carry out their single audit responsibilities, and (3) identify additional guidance and resources needed to carry out single audit requirements (Carper et al. 5).

Having one centralized group to monitor the single audit process could greatly benefit the persistent quality control concerns. Instead of researchers composing studies of how the system is lacking every few years, this organization could compile all of the concerning data into one system and evaluate necessary improvements from there.

The GAO goes on to suggest that this single organization could be responsible for evaluating the best method to simplify the single audit process for smaller entities as previously suggested. The newly established organization could also be used to coordinate the efforts of OMB workgroups, AICPA taskforces, and the National Association of State Boards of Accountancy projects to monitor the current progress of addressing the PCIE’s 2007 report recommendations (Carper et al. 5). The establishment of such an organization, given these duties, would more effectively monitor and evaluate the needed reform of the single audit process.

**OMB**

The OMB recently released the OMB Super Circular in 2013. This extensive document outlines proposed changes to be made to the single audit process. Accounting firm KPMG took the initiative to summarize this 240 page document for the benefit of its clients and other affiliates. Among the proposed changes are suggestions such as increasing the audit threshold, increasing Type A audit thresholds, classification of cluster programs, and criteria for selecting
high risk Type A and Type B programs. The OMB also recommends reducing coverage requirements, outlines the goals of these changes, desires to streamline compliance, and mandates that agencies should have a solid follow-up requirement.

**Threshold Increase**

Currently the OMB is discussing increasing the single audit minimum threshold to $750,000 of Federal funds used per year. This action would remove approximately 6,300 entities from having to fulfill single audit requirements each year (McGuirt et al. 14). Despite seeming to be a large decrease in coverage, this increase in the threshold would only decrease the audited funds by about $3.9 million. Comparatively, this is a less than 1% decrease in audit coverage (McGuirt et al. 14)

The increase in the threshold is the double edged sword of the single audit process. The entities below this new threshold would be relieved of their single audit responsibilities and would instead be able to focus their attention and funding on their mission. These organizations would be able to work unimpeded by complex and involved audit procedures. However, these organizations would also see a correlated decrease in donations due to their reduced credibility. Without an annual audit, donors would have no assurance that the funding is being used properly or have any evidence that a given non-profit organization is reliable. $750,000 or less is a small expense in comparison to the greatest award amounts, but this amount is still comprised of citizen tax dollars and government contributions and thus should be accountable for by the receiving organizations.
Program Types

The OMB is also proposing to raise the threshold for categorizing programs as Type A or Type B. These separations are determined by how much a program spends compared to the total Federal expenditures an entity uses. Currently, the OMB is only discussing raising the Type A threshold from $300,000 to $500,000 for entities with $1 million to $100 million in total Federal awards expended. A program will be categorized as Type A if total Federal expenditures of $500,000 or 3% of total awards expended (McGuirt et al. 19).

In regards to Type A and B program classifications, the OMB is also discussing how to treat loan programs. Clusters of programs under consideration are treated as a single program when deciding Type A programs (McGuirt et al. 20). Such a cluster of programs is only considered to be a loan program if those programs individually make up more than 50% of the total expenditures of the cluster.

An additional process included in a single audit involves selecting all high risk Type A programs based on an accompanying risk assessment. These selected programs should not have been audited as a major program within the two most recent audit periods. Previously, these programs were to be selected if a significant deficiency in internal control, material weakness, or a material non-compliance finding were discovered. Proposed changes by the OMB would maintain the material weakness in internal control clause, but change the other criteria to having other than an unqualified opinion and possessing known or likely questions costs exceeding 5% of the program’s total expenditures (McGuirt et al. 21).

Type B programs currently have two options for their assessment, including performing risk assessments on all Type B programs and selecting half to be identified as high risk, or until
as many high risk Type B programs have been selected as there are low risk Type A programs (McGuirt et al. 23). The OMB proposes that a similar process should be followed but only until high risk Type B programs are identified up to 25% of the amount of low risk Type A programs (McGuirt et al. 23).

During the single audit process, a minimum coverage percentage must be met by selecting the proportionate amount of programs to meet these requirements. At the moment those minimum requirements are 50% and 25% for not low risk and low risk programs, respectively. A proposal is being put forth by the OMB to lower these percentages to 40% and 20%, accordingly. (McGuirt et al. 25).

Through these suggested major program changes, the OMB is convinced that a more targeted audit coverage of programs with weak internal controls will be gained. These changes would also provide burden relief for materially complying entities with no internal control weaknesses or questionable costs. Finally, the OMB believes these changes will provide an enticing incentive for audited entities to correct any present deficiencies (McGuirt et al. 26).

The overall goal of these changes is to streamline the single audit compliance requirements as a whole. These suggestions would enable non-profit organizations to incorporate allowable costs/cost principles, period of availability of Federal funds, and matching requirements into activities allowed or unallowed (McGuirt et al. 27). Agencies would also be provided the ability to request that Davis-Bacon Act compliance, equipment, level of effort, earmarking, procurement, suspension, debarment, program income, and real property compliance requirements to be combined with special tests and provisions instead (McGuirt et al. 27). Such a modified single audit could greatly reduce the costs and extent of single audits.
Follow-Up

As previously stated, there are currently no stringent requirements for agencies to follow up on auditees with prior year findings. In the OMB Super Circular, the organization suggests that such requirements should be implemented. The OMB recommends that in the future agencies should be required to create metrics and targets in order to evaluate the effectiveness of corrective actions taken by the auditee. Management decisions would have to be documented and submitted to the FAC for conversion to searchable format (McGuirt et al. 31). These additions the single audit requirements would provide more incentive for entities with audit findings to implement and monitor corrective actions due to being observed more closely in the future.

Conclusions

The single audit process has always been followed by an overarching concern for quality, and for good reason given the audit quality being observed in the past. The concept and process itself had evolved over the years since its first conception. The original procedures and regulations were not well received or implemented. After some regulation changes, Federal assisted entities began to participate more actively. The single audit has seen definite improvement over the course of its existence.

The current system of "one size fits all" does not take into consideration the different challenges that smaller entities face as opposed to larger and more established organizations. Non-profit organizations expending less Federal funds may not be required to have a single audit or if they do, they face a biased disadvantage by being an inherently riskier client. Smaller entities may not have the resources to pay for a quality audit. This may result in a greater chance of findings (or conversely, a lower rate of findings), and less confidence from donors in regards
to the firm's credibility as they are not accountable for their funds. Smaller non-profits also have a higher probability of being found noncompliant or having findings because of this riskier nature.

Inexperienced non-profit organizations are at a severe disadvantage in the current single audit process. It is important that these smaller entities are still held accountable for properly spending of their Federal awards and are able to gain credibility though having an unqualified opinion. However, smaller organizations should not be held to the exact same standards as a larger group. Therefore the current single audit process needs to be reformed to assist the less experienced Federal award recipients. Given the information presented in this study, there are numerous improvements that should be made to aid the single audit in accomplishing its purpose smoothly.

1. There should be Federal funding available to cover the costs of single audits. This will aid new non-profits struggling to survive financially by allowing them to focus their resources on program operations instead of finding an affordable, effective audit. Instead of charging audit costs to a grant received, the organization would be able to put the full amount of their grant funds toward their mission expenses rather than on compliance requirements.

2. Auditors who wish to qualify for performing single audits should be required to complete comprehensive training before being allowed to conduct an A-133 audit. This training should be required to be updated and refreshed periodically to ensure that single auditors are aware of any new requirements as the single audit regulation continues to develop.

3. An overall simplification of the single audit process would be helpful to all parties involved. This simplification would consist of creating different, more realistic audit
requirements for entities spending less Federal money. The quality of audits would surely go up if auditors fully understood what they should be doing and what their duties are. Auditees would have a better understanding of the single audit and would be able to aid in making the process go along much faster.

4. A single governing body should be created for the sole purpose of monitoring the effectiveness of the single audit and determining areas for improvement. Currently a variety of different groups have been evaluating the progress of the single audit, which has led to well intentioned but uncoordinated efforts. This single organization would be able to combine the findings of these groups and make decisions from that point.

5. Assuming the simplified audit process is created and Federal assistance becomes available for covering single audit costs, the single audit threshold should not be raised from $500,000 to $750,000. The threshold should instead be reverted to the original $100,000 or $300,000 depending on the impact this would have on entities being required to meet the simplified requirements of a smaller single audit. This would enable smaller organizations to have an annual audit and establish credibility and reliability in the eyes of donors.

6. The OMB should create documentation requirements in regards to follow-up with auditees with prior year findings. Agencies are currently not effectively monitoring the results of corrective actions being taken, if at all, by entities with negative audit results. These new regulations would provide greater incentive for non-profit organizations to ensure compliance with single audit requirements due to being more closely monitored between audits.
Overall, the single audit process has seen some improvement in recent years. Less of the negative results found in previous years are being observed in audit results since 2001 in regards to smaller spending entities being at a disadvantage compared to larger organizations. Despite these positive changes, there remains a plethora of opportunities to improve and reform the single audit process. A-133 audits could be much more efficient and effective, and until these or other changes are implemented the process will remain a burden on non-profit entities falling within the threshold.
Mean Total Federal Expenditures - Higher Education

Year

Expenditure Amount

Mean Total Fed Expenditures
Going Concern Status - Higher Education

Year - Yes/No

- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011

Number of Entities

- <2,000,000
- 2,000,000-5,000,000
- 5,000,000-10,000,000
- 10,000,000-50,000,000
- >50,000,000
Mean Total Federal Expenditures - Hospitals

Year

Expenditure Amount

- Mean Total Fed Expenditures
Low Risk - Hospitals

Year - Yes/No

2009

2010

2011

Number of Entities

Big Four

Other Firm
Mean Total Fed Expenditures - Social Services

Year

Expenditure Amount

Material Weaknesses - Social Services

- 0
- 2,000,000
- 5,000,000
- 10,000,000
- >50,000,000

Year - Yes/No


Number of Entities

- <2,000,000
- 2,000,000-5,000,000
- 5,000,000-10,000,000
- 10,000,000-50,000,000
- >50,000,000
Material Non-Compliance - Social Services