

University of Montana

ScholarWorks at University of Montana

Graduate Student Theses, Dissertations, &
Professional Papers

Graduate School

1998

Amending the Single Audit Act| Expected impacts within the state of Alaska

Kristin K. Dzinich
The University of Montana

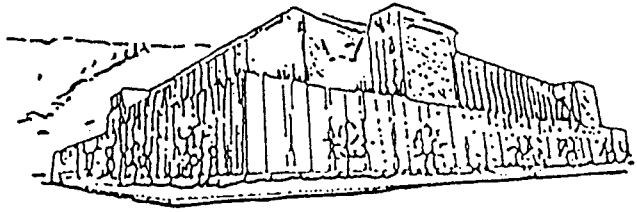
Follow this and additional works at: <https://scholarworks.umt.edu/etd>

Let us know how access to this document benefits you.

Recommended Citation

Dzinich, Kristin K., "Amending the Single Audit Act| Expected impacts within the state of Alaska" (1998).
Graduate Student Theses, Dissertations, & Professional Papers. 1508.
<https://scholarworks.umt.edu/etd/1508>

This Thesis is brought to you for free and open access by the Graduate School at ScholarWorks at University of Montana. It has been accepted for inclusion in Graduate Student Theses, Dissertations, & Professional Papers by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.



Maureen and Mike
MANSFIELD LIBRARY

The University of **MONTANA**

Permission is granted by the author to reproduce this material in its entirety, provided that this material is used for scholarly purposes and is properly cited in published works and reports.

*** Please check "Yes" or "No" and provide signature ***

Yes, I grant permission
No, I do not grant permission

Author's Signature K. O. J.

Date 2/2/98

Any copying for commercial purposes or financial gain may be undertaken only with the author's explicit consent.

**AMENDING THE SINGLE AUDIT ACT:
EXPECTED IMPACTS WITHIN THE STATE OF ALASKA**

by:

Kristin K. Dzinich, C.P.A.

B.B.A. University of Alaska Southeast, 1992

Presented in partial fulfillment of the requirements

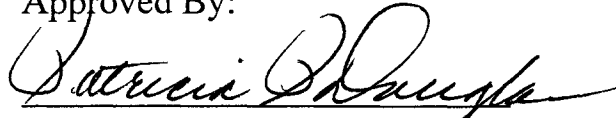
for the degree of

Master of Business Administration

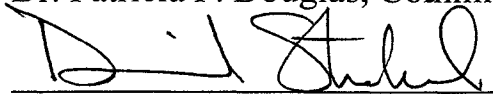
The University of Montana

1998

Approved By:



Dr. Patricia P. Douglas, Committee Chair



Dr. David Strobel, Dean, Graduate School

3-4-98

Date

UMI Number: EP34238

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent on the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI EP34238


Copyright 2012 by ProQuest LLC.

All rights reserved. This edition of the work is protected against unauthorized copying under Title 17, United States Code.



ProQuest LLC.
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106 - 1346

Amending the Single Audit Act:
Expected Impacts Within the State of Alaska (57 pp.)

Director: Patricia P. Douglas. 

Annually, the federal government distributes nearly \$200 billion to approximately 21,000 state and local government entities. The Single Audit Act(SAA) was enacted in 1984 to establish control over the expenditure of these funds. Recently, Congress amended the SAA. The purpose of this study is to examine how specific SAA amendments will impact the State of Alaska.

Specific research objectives include the following: (1) Identify material changes to the SAA and the basis for the amendments. (2) Measure how governmental financial managers perceive the SAA. (3) Determine how governmental auditors perceive SAA amendments. (4) Attempt to quantify cost savings generated by SAA amendments. (5) Determine whether amendments disproportionately impact specific types of recipients or geographic regions. (6) When practical, evaluate the impact of amendments on subrecipients.

Data analysis concluded that increasing the single audit threshold would decrease the number of recipients required to have a single audit by 31.5 percent yet the total amount of federal financial assistance covered by single audits would only decrease by 1.2 percent. Cities/towns and Indian tribes were the entities that benefited most. The majority of the recipients that benefited from an increase in audit threshold were located in the Southcentral and Southeast regions of Alaska. The increase in audit threshold would lead to a greater impact if the State of Alaska increased their state single audit threshold to \$300,000.

Research was successful in measuring Alaskan governmental financial managers' and auditors' perception of the SAA. Generally, both regard the SAA as an improvement over the prior grant specific type of audits. However, they believe the SAA process has several deficiencies that need to be addressed. Alaskan perceptions were similar to non-Alaskan governmental financial managers and auditors documented in national studies.

Increasing the single audit threshold would benefit subrecipients of federal financial assistance. The number of subrecipients required to have a single audit would decrease by 77 percent under the new audit threshold. Total federal assistance covered by the audits would decrease 16 percent.

Research was unable to quantify cost savings generated by SAA amendments because federal single audit fees are commingled with state single audit fees.

TABLE OF CONTENTS

Introduction	1
Purpose of Research.....	2
Methodology	3
Expected Results of Research	6
Literature Review.....	8
Results of Research.....	12
Public Policy Implications of Research.....	35
Limitations of Research.....	40
Appendixes	
A - Governmental Financial Manager Single Audit Questionnaire	43
B - Auditor Single Audit Questionnaire.....	49
C - Alaskan Community Listing.....	55
Bibliography.....	57

LIST OF TABLES

Survey Coverage by Type of Government	12
Survey Coverage by Region.....	12
How Influential was the Single Audit Act on Accounting and Administrative Practices Established After the Act Became Law.....	14
Assessment of the Federal Single Audit Process by Governmental Financial Managers.....	17
Potential Problems with the Single Audit Act.....	18
Auditors' Experience with the Single Audit Process.....	21
Problems with the Single Audit Act Experienced by Auditors.....	22
Auditors' Estimated Impact of Increase in Single Audit Threshold.....	24
Auditors' Estimated Impact of Using Risk Based Criteria for Determining Major Federal Programs.....	25
Summary of Data Used in Analysis.....	28
Universe of Alaskan Recipients Subject to the SAA During FFY 95.....	29
Recipients No Longer Required to Have a Single Audit.....	30
Recipients Impacted by Increased Threshold by Region by Type of Organization.....	31
Universe of 1995 Subrecipients by Amount Received.....	33, 38
Universe of Alaskan Recipients Subject to the SAA During FFY 95.....	36

INTRODUCTION

Annually, the federal government distributes nearly \$200 billion to approximately 21,000 state and local government entities (U.S. General Accounting Office, 1994). The Single Audit Act(SAA) was enacted in 1984 to establish control over the expenditure of these funds. The SAA has four main objectives:

- Improve management of federally assisted programs by state and local governments,
- Establish uniform audit requirements for these programs,
- Promote more effective and efficient use of audit resources, and
- Ensure that federal organizations rely on and use the audit work performed pursuant to the Act to the maximum extent practicable.

The SAA has been law for over 12 years. Numerous studies have evaluated whether the act has effectively met its objectives. Generally, studies agree that control over federal financial assistance has markedly improved. Despite the improvements, a number of issues were found to burden the single audit process and hinder the usefulness of its reports. In response to these findings, Congress amended the SAA in July, 1996.

SAA amendments have far reaching implications. Every state and local government and nonprofit entity that receives federal financial assistance must adapt to the new requirements. Additionally, the audit community must alter procedures to comply with the amendments.

PURPOSE OF RESEARCH

The purpose of this study is to examine how Single Audit Act(SAA) amendments will impact the State of Alaska. By limiting the scope to a single state, the universe of recipients is small enough to provide a detailed understanding of how amendments may affect recipients of federal financial assistance and the individuals who audit these entities.

Specific research objectives include the following:

1. Identify material changes to the SAA and the basis for the amendments.
2. Measure how governmental financial managers perceive the SAA. Specifically, which aspects of the single audit process are effective, which are burdensome, and what could be done to improve the process.
3. Determine how governmental auditors perceive SAA amendments. This evaluation will attempt to identify, in part, how amendments will impact the length of an audit, the cost of an audit, and the usefulness of an audit.
4. Attempt to quantify cost savings generated by SAA amendments.
5. Determine whether amendments disproportionately impact specific types of recipients or geographic regions.
6. When practical, evaluate the impact of amendments on subrecipients.

METHODOLOGY

Objective No. 1

The final version of SAA amendments and the Senate Governmental Affairs Committee report on significant changes to the SAA was examined to identify material amendments. To further understand SAA amendments, opinions of representatives of organizations believed to be stakeholders in the single audit process were obtained. Examples of such stakeholders include the American Institute of Certified Public Accountants; Government Finance Officers Association; National State Auditors Association; Alaska's Division of Legislative Audit; General Accounting Office; Association of Government Accountants; President's Council on Integrity and Efficiency's Standards Subcommittee; and the U.S. Office of Management and Budget.

Objectives Nos. 2, 3, and 4

Questionnaires were used to gather perceptions of the single audit process and the expected impacts of proposed amendments. Two questionnaires were used; one for governmental financial managers and one for governmental auditors.

The questionnaires sent to governmental financial managers solicited responses to specific issues including the effectiveness of the single audit in meeting its original objectives, applicability of perceived problems to respondents' respective entities, and possible improvements. Respondents were also be asked to gauge the impact of proposed

amendments. Specific questions addressed expected impacts on subrecipients and subrecipient monitoring. The questionnaires encouraged respondents to provide narrative comments and any additional information they believed helpful.

The questionnaires sent to governmental auditors included the same general questions regarding the effectiveness of the single audit process. Questions concerning the impact of proposed amendments were specific to the audit process. For example, respondents were asked how amendments are expected to impact the length of a single audit engagement, the cost of the audit, and its usefulness. Questions regarding how many single audits the respondent performs annually and what percentage of its revenues are generated through the single audit process were also included.

Originally, the questionnaire was designed to provide detail of audit fees. During pretesting, these questions were deleted due to the realization that audit firms often perform both federal and state single audits at the same time. Audit fees for both engagements are commingled.

Objective No. 5

To ascertain the impact of increasing the audit threshold on specific types of recipients or geographic regions, federal financial assistance data for federal fiscal year 1995 was obtained. The data was available from the federal financial assistance awards database maintained by the U.S. Bureau of Census. The data was not independently verified.

Objective No. 6

The expenditure data provide a conservative universe of entities within the State of Alaska who are subject to the SAA. This universe does not include those entities that receive federal financial assistance indirectly through state or local governmental or nonprofit entities (subrecipients). To assess the impact of amendments on subrecipients, data listing the federal financial assistance passed through the State of Alaska's to subrecipients during state fiscal year 1995 was obtained and evaluated.

EXPECTED RESULTS OF RESEARCH

Recipients and auditors within Alaska are expected to report the same deficiencies in the single audit process as those already documented on a national basis through previous studies. Previous studies (U.S. General Accounting Office, 1994; President's Council on Integrity & Efficiency Standards Subcommittee, 1993) have identified the following problems with the Act:

- ***Thresholds unchanged:*** Under the SAA, entities and programs are subject to an audit if they have received over a prescribed amount of federal financial assistance. Studies found the dollar thresholds were too low. Unnecessary audits were being required from entities receiving relatively small amounts of federal money.
- ***Guidance Not Updated Regularly:*** The Office of Management and Budget has not updated the guidance for auditors conducting single audits on a regular basis.
- ***Most Important Findings Not Highlighted:*** Single audits obscure the most important findings because they do not require summaries of auditors' conclusions.
- ***Issuing Time Frame Too Long:*** Audits must be issued within 13 months of the end of the period under review. This time frame hinders the usefulness of reports.
- ***Reports include inconsequential findings:*** Audits must include a listing of all questioned costs regardless of their amount. Thus, meaningful findings are less evident because of the inclusion of inconsequential findings.

Both auditors and financial managers are expected to support amendments. However, any amendments that increase auditors liability will be resisted.

The increase in thresholds is expected to disproportionately impact recipients within Alaska. State and local governmental entities and public universities receive large amounts of federal assistance, generally more than \$300,000 annually. Nonprofits and

native organizations receive smaller portions of funds and, thus, may benefit more by increased thresholds.

Subrecipients are expected to be significantly impacted by an increase to the audit threshold. By definition, subrecipients receive funds that are passed through a direct recipient of federal monies such as a state or local governmental entity. Hence, subrecipients are more likely to receive less than \$300,000 annually than direct recipients of federal assistance. This reduces the burden on direct recipients who are responsible for monitoring subrecipients and following up on audit findings.

LITERATURE REVIEW

The purpose of this study is to examine how Single Audit Act(SAA) amendments impact the State of Alaska. The two most significant amendments are the increase in audit threshold and the inclusion of a risk based approach to selecting federal programs for audit. The literature review revealed only one study that directly related to the purpose of this study. Numerous studies were found that address the SAA in more general terms. The following paragraphs summarize the literature pertinent to this study.

One study directly addressed the SAA amendments. Its purpose was to evaluate the relationship between the single audit threshold and the number of entities receiving a specified level of federal financial assistance. The research was conducted by the United States General Accounting Office (GAO) and published in the June 1994 report *Single Audit - Refinements Can Improve Usefulness*. Because revenue data were not available, the study examined the impact of increasing the single audit threshold using federal financial assistance expenditure data obtained from a sample of 210 single audit reports¹. The study concluded that under the original audit threshold of \$100,000, 99 percent of direct federal financial assistance was covered by single audits. The threshold was intended to only provide 95 percent coverage. By increasing the threshold to \$300,000 the percent of coverage would decrease to 95.3 percent.

¹ The single audit threshold is based on the amount of federal financial assistance received. Because revenue data was not available, the GAO made the assumption that the amount of federal financial assistance expended equaled the amount received.

In more general research, the SAA has been the focus of numerous studies since it became law over twelve years ago. Analytical interest typically addresses one of three main topics: effectiveness of the act in achieving its objectives, its impact on the financial management of state and local governments, and its deficiencies and/or ways to improve the audit process. Studies have also examined audit findings of specific governmental units (Jakubowski, 1995; Jakubowski, 1994) and the relationship of substandard single audits and audit tenure and fixed fee contracts (Copley and Doucet, 1993). The following paragraphs summarize the most relevant research findings in the general areas of study.

A survey was the primary tool used in several studies to gauge the effectiveness of the SAA in meeting its objectives. Surveys were also used to assess the SAA's impact on state and local government financial management. Robert L. Brannan conducted a survey of auditors and accountants² to gauge the auditors' conception of the SAA and the auditor's role in achieving better control of federal disbursements. The study concluded "the act tries to align federal power, interest, and prescription with the expertise, ideas, and perceptions of a professional group and with the administrative practices and perspectives of state and local officials. There exists clear discrepancies between what auditors and federal authorities expect from audits. Further, auditors do not see themselves as agents of control to the degree implied by the SAA. Regardless,

² The auditors and accountants were members of the Intergovernmental Auditing Forum.

compliance is improving. The SAA objectives will be achieved. This issue is now one of degree rather than principle.”

Gerald Miller and Relmond VanDaniker come to similar conclusions in their study “Impact of the Single Audit Act on The Financial Management of State and Local Governments” published in the *Government Accountants Journal*, Spring 1995. Survey respondents believed that the SAA had improved the financial management of state and local governments. However, respondents felt that the third SAA objective “promote more effective and efficient use of audit resources” has only been moderately to mostly achieved. Audit duplication and overlap caused by the limited usefulness of single audit reports and the length of time before publication hamper effective and efficient use of resources.

Although researchers agreed that financial management of state and local entities has significantly improved, not all improvements are attributable to the SAA. Other factors such as the establishment of the Governmental Accounting Standards Board and governments’ desire to improve their bond ratings helped improve financial management. A study conducted by the GAO (1994) identified the following financial management improvements as being influenced by the SAA:

- ***Audit coverage Improved:*** The act required annual audits. Thus, entities that were previously unaudited or audited infrequently were required to obtain annual audits.
- ***GAAP Reporting Enhanced:*** The SAA prompted entities to report financial results in accordance with generally accepted accounting principals.

- ***Increased Tracking of Federal Funds:*** Single audits must include a schedule of all federal expenditures categorized by federal program. To comply with this requirement, many entities improved their records on federal funds.
- ***Internal Control Weaknesses Addressed:*** Single audits focus on internal controls over federal programs. This focus prompted entities to improve control weaknesses.
- ***Subrecipient Monitoring Improved:*** The SAA required entities monitor the subrecipients of their federal funds which increased the oversight of pass-through money³.

While studies concluded that the SAA was working, its shortcomings were also highlighted. Beginning with a GAO report *Singe Audit Act: Single Audit Quality has Improved but Some Implementation Problems Remain*, July 1989, studies began to focus on the Act's deficiencies and how the process could be improved. The GAO and the President's Council on Integrity and Efficiency undertook extensive studies to determine how to improve the SAA.

The results of the studies highlight five main shortcomings:

- ***Thresholds unchanged:*** Under the SAA, entities and programs are subject to an audit if they have received over a prescribed amount of federal financial assistance. Studies concluded that it was unnecessary for entities receiving relatively small amounts of federal money to obtain a single audit. Additionally, certain programs that are highly susceptible to fraud are not being audited because they fall under the thresholds.
- ***Guidance Not Updated Regularly:*** The Office of Management and Budget has not updated the guidance for auditors conducting single audits on a regular basis.
- ***Most Important Findings Not Highlighted:*** Single audits obscure the most important findings because they do not include a summary of auditors' conclusions.
- ***Issuing Time Frame Too Long:*** Audits must be issued within 13 months of the end of the period under review. This time frame hinders the usefulness of reports.
- ***Reports include inconsequential findings:*** Audits must include a listing of all questioned costs regardless of their amount. Thus, meaningful findings are not always evident because of the inclusion of inconsequential findings.

³ Pass-through money refers to federal financial received by an entity which the entity awards to a different entity.

RESULTS OF RESEARCH

SURVEY OF GOVERNMENTAL FINANCIAL MANAGERS

The Sampling Population: A

comprehensive listing of all Alaska unified home rule municipalities, boroughs, cities, and townships was obtained from the State of Alaska,

Survey Coverage By Region	
Northern	8
Northwestern	9
Central	5
Western	27
Southcentral	13
Southeastern	13
Total	75

Department of Community and Regional Affairs (DC&RA). DC&RA also provided a database listing the financial manager and address of each community in Alaska. From the universe of 149 governmental entities, a sample of 75 communities was judgementally selected.

Survey Coverage By Type of Government	
Unified Municipality	2
Home Rule City	7
Home Rule Borough	3
Second Class City	40
Second Class Borough	6
First Class City	16
Unorganized	1
Total	75

The sample was selected to provide coverage by region and type of government - see tables at right.

The Survey Instrument: The survey (see Appendix A) was pretested by individuals familiar with governmental financial management. Each community was mailed a survey along with a cover letter, community listing, and a self-addressed postage paid

envelope. To encourage responses, the surveys were personally addressed to a government's financial manager when possible. If the financial manager could not be determined, the survey was addressed to a community's Mayor. To further encourage response, a reminder notice was sent out approximately one month after the survey to those that had not responded. Each survey was coded with a unique number to facilitate the determination of who to send reminder notices.

The Response Rate: The response rate was limited by an error in sample selection. The sample was selected based on the assumption that most communities in Alaska received federal financial assistance. This assumption proved incorrect when 14 of the 24 respondents indicated that their organization never had a Federal single audit. Therefore, although the response rate was 32% only 10, or 13.3%, were applicable to the purpose of the survey. Further, due to incomplete answers, only 8 of the 10 were used to tabulate results. Therefore, the useable survey responses equaled 8 of 75 or 10.6%.

Survey Results: The SAA act was not as influential in establishing or improving accounting and administrative practices in Alaska as it was on a national basis. A national research study by Gerald J. Miller and Relmond P. VanDaniker published in *The Government Accountants Journal*, Spring 1995 documented the impact of the SAA on the financial management of state and local governments. The Alaska survey was designed to provide a comparison to the national findings.

HOW INFLUENTIAL WAS THE SINGLE AUDIT ACT ON ACCOUNTING AND ADMINISTRATIVE PRACTICES ESTABLISHED AFTER THE ACT BECAME LAW (5 = Very, 1 = Not at all)		
Accounting and Administrative Practice	# of Respondents	Alaska Mean Score
Mission or function statements	1	2.00
Written accounting policies	4	2.75
System for cash management	1	2.00
System for identifying unallowable costs	4	3.50
System for tracking Catalog of Federal Domestic Assistance (CFDA) number	4	3.25
System for monitoring recipients of funding	2	3.50
Cost-allocation plan	1	2.00
Automated systems/new technologies	2	1.50
Improved payroll time & recording	1	1.00
Preparation of a Schedule of Federal Financial Assistance	5	4.60
Preparation of a comprehensive multi-year financial plan	1	1.00
Preparation of periodic reports on status of debt structure	1	1.00
Annual financial statement audit or single audit	1	5.00
Internal audit function	1	1.00
Written system of internal control	1	4.00
Upgrading a previously existing system of internal control	2	3.50
Written corrective action plans for audit findings requiring corrective action	5	4.00
Separation of duties	1	3.00
Formal follow-up system for open audit findings	4	2.50

Both the national and the Alaska surveys asked a two part question regarding the degree the SAA was influential in establishing specific practices. The first part asked whether a specified practice had been established before the act, after the act, or never

established. For those practices established after the SAA, both surveys asked respondents how influential the act was in establishing practice. The surveys specified that a practice is considered influenced by the act if it was initiated 1) to comply with the act, 2) in direct response to a finding in a single audit report, or 3) as a result of information contained in a single audit report.

When comparing the results of the Alaska survey to the national survey, Alaska governments established fewer accounting and administrative practices after the SAA was passed. The national study identified over 28 practices that were commonly established after the SAA. Alaska respondents indicated only 19 practices were established after the SAA⁴.

For those practices established after the SAA, the Alaskan degrees of influence (mean score) were similar to the national study. This indicates the act influenced the establishment of specific practices in Alaska to the same degree as it influenced other states.

As indicated by the mean score of 5.00, the act heavily influenced entities to obtain a financial statement or single audit. It also strongly encouraged entities to prepare a schedule of federal financial assistance (mean score of 4.60), which is required by a

⁴ The table on the previous page lists all the practices that respondents indicated were established after the act. As indicated by the second column, some practices were established by only one respondent.

single audit. Other practices strongly influenced were the establishment of a written system of internal control and a written corrective action plan for audit findings requiring corrective action (both with mean scores of 4.00).

The next survey section was designed to measure managers' perception of the single audit process, specifically, which aspects are effective and which are burdensome. Respondents were asked to indicate the extent to which they agreed or disagreed with a series of statements. The results are presented on the following page.

All but one statement received a mean score of 3.50 or greater. This indicates that governmental financial managers in Alaska perceive the single audit process as an improvement. They agree⁵ that single audits are more effective, efficient, and useful than the prior grant specific audits. Over time, the quality of single audits has improved. Further, auditors performing single audits are regarded as more prepared than previous grant specific auditors. Financial managers agree that, prior to the amendments, the thresholds for requiring a single audit were too low. They also agree that the cost of single audits is outweighed by the benefits received.

⁵ Agreement is indicated by mean scores greater than 2.5. Strong agreement is indicated by a mean score of between 4.0 and 5.0. Therefore, agreement is not strong for most of the statements.

ASSESSMENT OF THE FEDERAL SINGLE AUDIT PROCESS BY GOVERNMENTAL FINANCIAL MANAGERS (5 = Agree Strongly, 1 = Disagree Strongly)	
Survey Statement	Mean Score
Single audits are more effective than prior grant specific audits	3.625
Single audits are more efficient than prior grant specific audits	3.875
The quality of single audits has improved over time	3.875
Auditors performing single audits are more prepared than previous auditors	4.125
Single audits can be more useful than prior audits	3.625
The single audit process has resulted in more effective management of our federal funds	3.375
Single audit reports (the opinions and other assurances) are useful	3.500
Prior to recent amendments, thresholds for requiring single audits were too low	3.875
The benefits received as a direct result of the single audit process have exceeded the costs incurred	3.500

The final section of the survey measures whether Alaskan governmental financial managers experience the same problems with the single audit process as documented on a national basis⁶. The survey listed potential problems and asked the respondent to indicate the extent to which each one has been a problem for their organization. The results are listed below.

⁶ In recent years, several national studies identified needed improvements to the Single Audit Act. These studies identified difficulties experienced on a national basis. Most of the problems included in the survey were identified in the GAO June, 1994 report "Single Audit, Refinements Can Improve Usefulness," and the President's Council on Integrity & Efficiency Standards Subcommittee's, September 1993, "Study on Improving the Single Audit Process."

POTENTIAL PROBLEMS WITH THE SINGLE AUDIT ACT (5 = Very Serious Problem, 1 = No Problem at all)	
Potential Problem	Mean Score
Audits too costly	3.125
Requires audits too frequently	2.250
Results in little or no improvement in financial management/financial reporting	3.000
Requires too many separate reports	2.375
Requires too many copies be sent out	2.625
Requires reports include inconsequential findings	2.750
Poorly trained auditors	1.750
Fails to detect fraud	1.875
Poor audit quality	1.875
Cumbersome audit finding resolution process	2.875
Inconsistent guidance by federal agencies	2.875
Outdated guidance by federal agencies	3.000
Difficulty identifying federal financial assistance passed through other governmental units to our organization	3.375
Difficulty monitoring compliance by subrecipients	2.625
Adequacy of single audit training opportunities	3.125

The mean scores indicate that Alaskan governmental financial managers perceive three main problem areas: audits too costly, difficulty identifying federal financial assistance passed through other governmental units to their organization, and adequacy of single audit training opportunities. Managers ranked all others potential problems at 3.000 or less indicating that the difficulties posed no significant problem to their organizations.

Comparing the above results to the problems documented on a national basis shows that Alaskan governmental financial managers experience difficulties to a lesser degree. Hence, Alaskan governmental financial managers appear more satisfied with the single audit process than their non-Alaskan counterparts.

SURVEY OF GOVERNMENTAL AUDITORS

The Sampling Population: A universe of auditors performing federal single audits in Alaska was obtained from the State of Alaska, Office of the Governor, Office of the Ombudsman (OMB). OMB maintains a database of auditors that performed federal single audits for subrecipients of federal financial assistance passed through the State of Alaska. The auditors' names and addresses were extracted from the database. The listing did not identify by auditor when the last audit report was received by the State. Therefore, there was no way to determine the reliability of the addresses. The entire universe of auditors were selected for testing.

The Survey Instrument: The survey (see Appendix B) was pretested by individuals familiar with governmental auditing. One main problem was identified through pretesting. Questions related to audit fees were determined to be unusable due to the way audit firms bill and track audit revenue. Federal single audit revenue is not tracked separately from state single audit revenue.

Fifty-five surveys were mailed in total. Each survey included a self-addressed postage paid envelope. To encourage response, a reminder notice was sent out approximately one month after the survey to those who had not responded. Each survey was coded with a unique number in order to determine to whom to send reminder notices.

The Response Rate: Of the 55 surveys mailed, four were returned undeliverable. Another auditor declined to participate stating company policy prohibited employees from participating. Subtracting the undeliverable questionnaires and the unwilling participant from the original universe of 55 resulted in a new universe of 50. Total response rate for the survey was 36 percent (18 out of 50).

Survey Results: The first section of the survey measured auditors' experience with the single audit process. Respondents were asked to indicate the extent to which they agreed or disagreed with a series of statements. The table on the following page summarizes the results.

Mean scores greater than 3.00 indicate agreement with the statement. Auditors agreed that single audits were more effective, efficient, and useful than prior grant specific audits. They also agreed that the thresholds for requiring single audits were

too low. Auditors agreed more strongly that they were better prepared to perform single audits and that the quality of the audits they performed had improved over time.

In contrast, auditors did not believe that single audit reports were useful to their clients. Further, they believed their clients' benefits did not exceed the audit related costs.

The second section of the survey asked whether auditors experienced problems with the single audit process. A series of potential problems were listed and respondents were asked to

AUDITORS' EXPERIENCE WITH THE SINGLE AUDIT PROCESS (5 = Agree Strongly, 1 = Disagree Strongly)	
Survey Statement	Mean Score
Single audits are more effective than prior grant specific audits	3.50
Single audits are more efficient than prior grant specific audits	3.78
The quality of single audits performed by our organization has improved over time	4.00
Our auditors are better prepared to perform single audits than previously	4.06
Single audits are more useful than prior audits	3.39
Thresholds for requiring single audits are too low	3.61
Single audit reports (the opinions and other required assurances) are useful to our clients	2.28
The benefits received by our clients as a direct result of the single audit process have exceeded the costs incurred	2.56

indicate the extent to which it has been a problem for their organization, if at all. The table on the following page summarizes the responses.

As noted in the table, auditors experienced no very serious problems with the single audit process⁷.

However, four significant problems⁸ were noted.

Audits requiring too many separate reports was ranked as the most serious problem.

Other significant problems include inconsistent and outdated guidance by federal agencies and reports require inconsequential findings.

Other problems were experienced by Alaskan auditors as demonstrated by the mean scores greater than zero. However, other than

PROBLEMS WITH THE SINGLE AUDIT ACT EXPERIENCED BY AUDITORS (5 = Very Serious Problem, 1 = No Problem at all)	
Potential Problem	Mean Score
Requires excess audit coverage	2.72
Too costly	2.83
Too frequent	2.06
Results in little or no improvement in financial management/financial reporting	2.72
Requires too many separate reports	3.72
Allows too much time (13 months) for submitting audits	2.11
Reports require inconsequential findings	3.39
Fails to detect fraud	2.45
Audit work too broad to achieve objectives	2.45
Cumbersome audit finding resolution process	2.63
Difficulty understanding audit requirements	2.95
Inconsistent guidance by federal agencies	3.28
Outdated guidance by federal agencies	3.28
Distinguishing between major and non-major federal programs	1.89
Identifying federal financial assistance passed through other governmental units to our client	2.89
Defining single audit reporting entities	2.0
Working relationship with cognizant (oversight) agency	2.22
Adequacy of single audit training opportunities	2.33

⁷ Serious problems would be ranked at 4.0 to 5.0.

⁸ Significant problems were ranked at 3.0 to 4.0.

those already discussed, none appeared to be significant.

The final section of the survey asked auditors to estimate the impacts of two specific amendments to the SAA: increased thresholds for audit coverage and changing the criteria for determining major federal programs. Generally, the audit and accounting industry regard these two amendments as the most significant SAA changes.

To measure the impact of the amendments, auditors were asked to respond to a series of questions. The first four questions address the increase in threshold and the last three questions address the change to risk-based criteria for determining major federal programs.

As demonstrated by the table on the next page, most auditors believe that the increase in audit threshold will cause the number of audits performed by their firm to decrease. The decrease is expected to be moderate.

The next question was inserted as a result of pre-testing. Several individuals indicated that the impact of increasing the threshold was limited by the State of Alaska's state single audit requirement. Currently the State requires a state single audit from any recipients who receives \$150,000 or more of state financial assistance. Many auditors perform both state and federal single audits for an organization. The audit fees and audit work are commingled because a portion of the work, such as a

review of internal controls, is applicable to both. This question measures the extent an identical change to the STATE single audit requirements would impact the number of single audits performed.

Auditors' Estimated Impact of Increase in Single Audit Threshold			
Question	# of Respondents that Marked "Not Change"	# of Respondents that Marked "Decrease"	Decrease Mean Score 1 = Significantly 3= Only Slightly
To what extent will the change in the audit threshold impact the number of federal single audits performed by your firm? Number of audits will:	5	13	1.54
To what extent would an identical change in the STATE single audit threshold impact the number of single audits performed by your firm? Number of audits will:	7	11	2.09
To what extent will increasing the federal audit threshold affect the amount of single-audit revenue your firm generates? Audit Revenue will:	5	13	2.15
To what extent would an identical increase in the STATE single audit threshold affect the amount of single-audit revenue your firm generates? Audit Revenue will:	7	11	2.05

Approximately 60% (11 out of 18) of the respondents believe that an increase in the State of Alaska's state single audit threshold to \$300,000 would lead to a further decrease in the audits performed. Again, the decrease is expected to be moderate. Thirteen, or 72 percent, of the auditors believe that the increased threshold will decrease the audit revenue their firms generate. This decrease is expected to be moderate. Eleven, or 61 percent, of respondents believe that if the State of Alaska

increases its State single audit threshold, their firms' audit revenue will moderately decline.

Auditors' Estimated Impact of Using Risk Based Criteria for Determining Major Federal Programs			
Question	# of Respondents that Marked "Not Change"	# of Respondents that Marked "Increase"	Increase Mean Score 1 = Significantly 3 = Only Slightly
To what extent will the use of risk-based criteria affect your firm's audit fees? Audit fees will:	4	14	2.79
To what extent, if any, will risk-based criteria affect auditors' liability for the failure to uncover fraud, waste, or abuse? Auditors' liability will:	4	14	1.59
To what extent will risk-based criteria affect your firm's ability to estimate the amount of audit work required when bidding on prospective audits? Difficulty in estimating audit work will:	2	16	1.95

Most of the respondents (14 of 18) indicated that the use of risk-based criteria will lead to increased audit fees. However, the increase is expected to be only slight. The same number of respondents felt that risk-based criteria would increase their liability for failure to uncover fraud, waste, or abuse. The increase in liability was expected to be from moderate to significant. Almost all of the respondents believe the change to risk-based criteria will make it more difficult for them to estimate audit work. This difficulty in estimating audit work complicates the bidding process.

DATA ANALYSIS - FEDERAL FINANCIAL ASSISTANCE

The Data: To help determine how significantly the increase to the federal single audit threshold would impact Alaska recipients, federal financial assistance received by Alaskan entities during federal fiscal year (FFY) 95 was analyzed. The data were obtained from the U.S. Department of Commerce, Bureau of Census. The data were pulled from the Federal Assistance Award Data System (FAADS), encoded by a Bureau of Census employee, and then emailed by quarter. Once received, the data were decoded and downloaded into Microsoft Excel for analysis. The raw data were over 7,000 lines, 34 columns and included approximately \$2.5 billion in financial assistance transactions. The Bureau of Census also provided a *Users' Guide* to help disseminate the information.

Per extensive review of the data, a serious problem with the recipient name identifier was apparent. All departments and major agencies of the Federal Government's Executive Branch with grant making authority report quarterly to the FAADS. The FAADS is designed to compile financial assistance award transactions information quarterly.

Grantees are not assigned a unique number to be used by all departments/agencies. Instead, each department/agency enters grantee information using the recipients name, address, etc. A recipient's name may be entered a number of ways. In some

instances, the name was shortened. We also noted numerous typos. This prevented us from reporting financial data based on recipient name.

Extensive editing was performed to correct the problem. All recipient names were re-entered using a standard format. Errors in data entry were corrected.

A problem was also noted with the "Type of Recipient" identifier. Per review, many recipients were found to be coded incorrectly. Further, some recipients were coded as more than one type of entity by the various departments/agencies. Again, these errors were manually corrected.

Review also identified that the data included transactions related to previous FFYs. The amounts represented adjustments to already reported data. To ensure only FFY 95 data was included, any non FFY 95 transaction was deleted.

To evaluate the impact by region, each recipient included in the analysis was manually assigned the appropriate region identifier.

The Analysis: The analysis was performed in Excel using a series of pivot tables. First, the data were evaluated by recipient to identify how much federal financial assistance each Alaskan entity received. Then the total universe of recipients was

reduced by any recipient that received a negative amount, received public assistance⁹, or had an indeterminate name such as “unknown recipient.” Total dollar value eliminated was \$1.4 billion. Any recipients not subject to the SAA were also deleted.

SUMMARY OF DATA USED IN ANALYSIS

	# of Recipients	Amount
Original Data	785	\$2,562,591,698
Less public assistance, negative receipts, and unknown recipients	<17>	<\$1,434,938,551>
Less recipients not subject to single audit requirements (individuals, private higher education, profit organizations, small business, and an all other designation)	<402>	<\$55,692,406>
Total universe of Alaskan recipients subject to the SAA (state, city or township, borough, independent school district, state higher education, Indian tribe, and other non-profit)	366	\$1,071,960,741

Results of Research: The universe of Alaskan recipients subject to the SAA was evaluated to determine the impact of increasing the audit threshold from greater than or equal to \$100,000 to greater than or equal to \$300,000. The total number of recipients no longer subject to the SAA due to the increase in threshold was calculated.

⁹ Recipients of public assistance are not subject to the SAA.

**UNIVERSE OF ALASKAN RECIPIENTS SUBJECT TO THE SAA DURING
FFY 95**

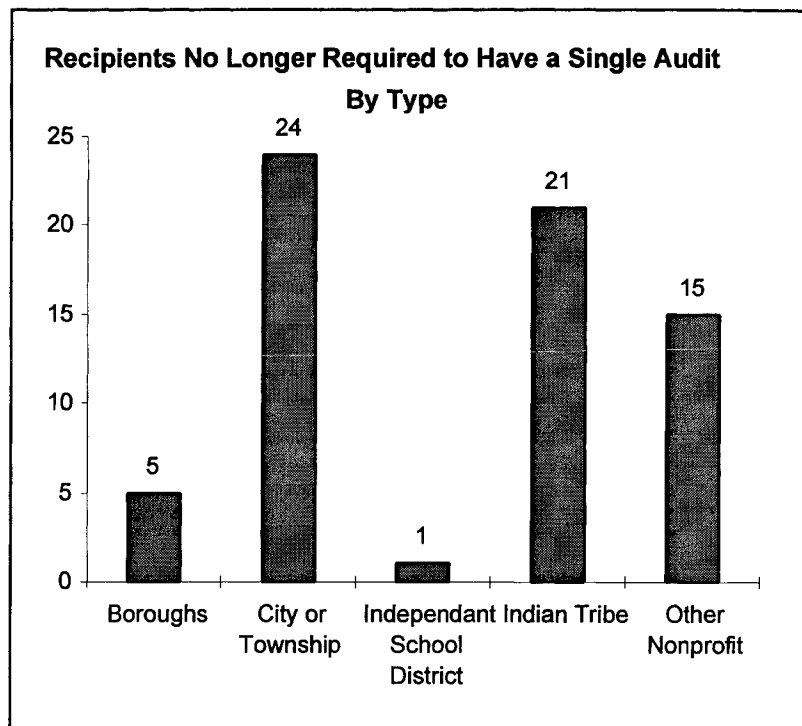
	<u># of Recipients</u>	<u>Total Received</u>
Received \$300,000 or more	143	\$1,054,773,650
Received \$100,000 or more but less than \$300,000	66	12,054,029
Received \$100,000 or more	209	\$1,066,827,679
Received less than \$100,000	159	5,133,062
Total Financial Assistance received	<u>366</u>	<u>\$1,071,960,741</u>

As noted above, before increasing the threshold, a total of 209 recipients received \$100,000 or more. Hence 209 recipients would have been required to have a federal single audit¹⁰. Total coverage of federal financial assistance under the \$100,000 threshold was 99.5 percent $[(\$1,066,827,679)/(\$1,071,960,741)]$.

By increasing the threshold to greater than or equal to \$300,000, a total of 143 recipients would be required to have a federal single audit. Total coverage under the new threshold would be 98.3 percent $[(\$1,054,773,650)/(\$1,071,960,741)]$. A total of 66 recipients receiving \$12,054,029 would no longer be required to obtain an audit.

¹⁰ The assumption that every recipient operates under the federal fiscal year was necessary in order to perform this analysis. In reality, the SAA does not require recipients to report on a fiscal period basis.

The subset of recipients no longer required to have a single audit under the new threshold was evaluated to determine which regions and types of governments were impacted. The chart



at the right demonstrates which types of organizations were impacted by the change.

Cities experienced the biggest impact. Indian tribes and other nonprofit organizations also benefited from the change. Boroughs and Independent School Districts were impacted only slightly.

The chart on the following page evaluates the impact by region by type of organization. The region most impacted was the Southcentral region. A total of 23 recipients were located in this region. Because over half of the State's population lives in Anchorage, it is logical that Southcentral region experienced the biggest impact. The next biggest impact was in the Southeast region which had 15 recipients.

Again, because Southeast has a relatively large population base, this is an expected outcome.

Recipients Impacted By Increased Threshold by Region By Type of Organization						
	Borough	City or Township	Independent School District	Indian Tribe	Other Nonprofit	Total
Central Region	2	2	1	2	0	7
Northern Region	0	5	0	3	1	9
Northwestern Region	1	1	0	3	0	5
Southcentral Region	1	9	0	3	11	24
Southeastern Region	1	5	0	6	3	15
Western Region	0	2	0	4	0	6

The above table also demonstrates that the organizations impacted are generally spread evenly throughout Alaska except for other nonprofits. Most other nonprofits that benefit from the increased threshold are located in the Southcentral Region.

Regionally, Indian organizations benefit equally.

DATA ANALYSIS - FEDERAL FINANCIAL ASSISTANCE PASSED THROUGH THE STATE OF ALASKA DURING STATE FISCAL YEAR (SFY) 1995

The final research objective was to evaluate the impact of increasing the audit threshold on monitoring responsibilities of an organization that passes through a portion of federal financial assistance to other organizations. The State of Alaska receives more federal financial assistance than any other governmental unit located in

Alaska. It passed through over \$144 million during state fiscal year 1995. The impacts experienced by the State of Alaska should reflect the impacts statewide.

Under the original SAA, the State of Alaska required all organizations that received \$25,000 or more in federal pass through financial assistance to have an audit¹¹. SAA amendments increase the threshold to \$300,000.

The Data: Data that included all federal financial assistance passed through the State of Alaska during SFY 1995 (July 1, 1994 through June 30, 1995) were provided by OMB. It listed the recipients name, the recipient's unique vendor code, and the amount received. OMB is responsible for compiling the information and monitoring subrecipients for compliance with the SAA.

The data were analyzed with Microsoft Excel using pivot tables and data filters. First, total receipts by subrecipient were determined. Then the universe of subrecipients was filtered to identify the number impacted by the increase in threshold. During SFY 1995, the state passed through a total of \$144,318,767 in federal financial assistance to 639 subrecipients.

¹¹ The SAA allows organizations that received between \$25,000 and \$100,000 to provide a program specific audit or a single audit. In most cases, organizations choose to have a single audit. Any organization that receives \$100,000 or more must have a single audit.

The Research Results: The table below breaks down the universe of subrecipients by the amount of federal financial assistance received.

UNIVERSE OF 1995 SUBRECIPIENTS BY AMOUNT RECEIVED

	<u># of Subrecipients</u>	<u>Amount Received</u>
Subrecipients receiving greater than or equal to \$25,000 but less than \$300,000	247	\$23,095,400
Subrecipients receiving greater than \$300,000	74	118,659,615
Total subrecipients receiving greater than or equal \$25,000	321	\$141,755,014
Subrecipients receiving less than \$25,000	318	2,563,753
Total Subrecipients and amount received during 1995	<u>639</u>	<u>\$144,318,767</u>

As noted above, under the original threshold requirement of \$25,000, a total of 321 subrecipients were required to submit a federal single audit. Under the increase in threshold to \$300,000 only 74 of the 321 would have been required to have an audit. This represents a total decrease 77 percent in the number of audits required to be submitted and monitored by the State of Alaska.

Coverage under the \$25,000 threshold was 98.2 percent $[(\$141,755,014)/(\$144,318,767)]$.

Therefore, 98.2 percent of the federal financial assistance passed through the State of Alaska to other organizations was subject to an audit. Under the new threshold of

\$300,000 only 82.2 percent $[(\$118,659,615)/(\$144,318,767)]$ of the funds are covered by an audit. This represents a decrease in coverage of 16 percent.

PUBLIC POLICY IMPLICATIONS OF RESEARCH

Generally, Alaska Governmental Financial Managers and Auditors Support Amendments to the Single Audit Act (SAA)

Survey responses indicate that Alaska auditors and governmental financial managers are satisfied with the single audit process and support recent amendments. The positive perception should facilitate quick and comprehensive implementation of the new requirements.

Alaskan auditors also believe the new risk-based approach to selecting federal programs for audit will moderately increase auditors' liability for the failure to uncover fraud, waste, or abuse. This response echoes concerns expressed by professional audit/accounting organizations during development of the SAA amendments. Incorporating risk-based criteria increases the need for professional judgment. In the event auditors fail to detect fraud, the increase in professional judgment may increase their liability.

The fear of increased liability may lead to a reluctance by auditors to fully implement the new criteria. OMB can help to reduce the reluctance by providing clear and timely guidance regarding the inherent risks of specific federal programs. Guidance will make the determination of risk more objective which should limit auditors' liability exposure.

Increased Threshold Results in More Federal Financial Assistance Available for Disbursement

The analysis of FFY 95 Federal financial assistance received by Alaska governmental organizations indicated that increasing the threshold from \$100,000 to \$300,000 would significantly decrease the number of recipients subject to the single audit requirement (see table below). Of the 366 recipients, 209 would be required to have an audit under the \$100,000 threshold. This number decreases by 66 recipients (or 18 percent) when the amendment increases the threshold to \$300,000.

UNIVERSE OF ALASKAN RECIPIENTS SUBJECT TO THE SAA DURING FFY 95		
	# of Recipients	Total Received
Received \$300,000 or more	143	\$1,054,773,650
Received \$100,000 or more but less than \$300,000	66	12,054,029
Received \$100,000 or more	209	\$1,066,827,679
Received less than \$100,000	159	5,133,062
Total Financial Assistance received	366	\$1,071,960,741

Those recipients no longer subject to the audit requirement realize a savings in the amount of the audit fee they would have been required to pay under the old threshold requirement. Theoretically, the savings make more Federal financial assistance

available for program objectives¹². Consequently, less money is spent administering a program and more money is spent accomplishing a program's main purpose.

Increased Threshold Still Provides Adequate Coverage of Federal Financial Assistance

When the original single audit thresholds were established, the Federal Government intended to have 95 percent coverage of federal financial assistance. In other words, by auditing 95 percent of federal financial assistance awarded to state and local governments, the Federal Government believed it would have adequate assurance that the monies were being used and accounted for properly. In practice, coverage nationally has been approximately 99 percentⁱ.

The table on the preceding page shows Alaskan coverage during FFY 95 under the old SAA threshold requirement was 99.5 percent. Hence, almost all Federal financial assistance was audited. Coverage under the increased threshold declines by only 1.1 percent for total coverage of 98.4 percent. This indicates the threshold could have been increased even more while still providing at least 95 percent coverage.

Regardless, given the original intention of the audit threshold, the new \$300,000 level is more commensurate than its \$100,000 predecessor.

¹² The savings could not be estimated due to the difficulty of obtaining reliable audit fee data.

Increased Threshold Decreases Subrecipient Monitoring Responsibilities and Increases Federal Financial Assistance Available for Disbursement

As demonstrated by the table below, the number of subrecipient Federal single audits required under the old \$25,000 threshold during State fiscal year 1995 was 321. This number decreases to 74 (or 77 percent) when the threshold is increased to \$300,000. Each subrecipient audit is monitored by the state. Any significant findings must be followed up by State employees. This decrease should decrease the State's monitoring burden and free up staff resources.

UNIVERSE OF 1995 SUBRECIPIENTS BY AMOUNT RECEIVED		
	# of Subrecipients	Amount Received
Subrecipients receiving greater than or equal to \$25,000 but less than \$300,000	247	\$23,095,400
Subrecipients receiving greater than \$300,000	74	118,659,615
Total subrecipients receiving greater than or equal \$25,000	321	\$141,755,014
Subrecipients receiving less than \$25,000	318	2,563,753
Total Subrecipients and amount received during 1995	639	\$144,318,767

Regardless of the single audit threshold, a direct recipient of federal financial assistance is required to adequately monitor subrecipients. Under the old threshold, monitoring was accomplished by the single audit requirement given that 98.2 percent

of the \$144,318,767 passed through was audited. Under the increased threshold, audit coverage is only 82.2 percent $[(\$118,659,615)/(\$144,318,767)]$. Therefore, in order to comply with Federal subrecipient monitoring requirements, the State of Alaska must implement additional procedures to ensure subrecipients are expending federal financial assistance appropriately.

The subrecipients no longer subject to the audit requirement realize a savings. If the State of Alaska does not require additional reporting to compensate for the loss of assurance provided by the single audit, the savings realized by the subrecipients is equal to the audit fee they would have been required to pay under the old threshold requirement. If the State does require subrecipients provide additional assurance, the savings realized will be the difference between the audit fee and the cost of the new reporting requirements. Theoretically, the savings realized should be available to help accomplish program objectives.

LIMITATIONS OF RESEARCH

Objective No. 1

Identify material changes to the Single Audit Act (SAA) and the basis for the amendments.

One of the biggest changes to the SAA was an amendment to extend the act's jurisdiction to not-for-profit organizations, including colleges and universities. Because the purpose of this study was to examine the impact of SAA amendments on Alaskan governmental entities, this amendment was not considered. Only amendments directly affecting state and local governments were considered and discussed.

Objective No. 2

Measure how governmental financial managers perceive the SAA. Specifically, which aspects of the single audit process are effective, which are burdensome, and what could be done to improve the process.

Alaskan communities routinely receive federal assistance through both Federal and State programs. Given that communities rely on Federal and State assistance, it was estimated that approximately 80 percent of communities were required to have a single audit. The sample selection was based on this assumption.

Survey responses indicate a much smaller percentage of Alaskan communities have a single audit. Of the 75 surveys, 24 responses were received. Only 10 of the 24 had a single audit within the past five fiscal years. If the responses are representative of the universe, only 40 percent of the communities were required to have an audit.

The low response rate raises questions about the validity of the research findings.

The table on page 14 demonstrates the problems with a small response rate. In several instances, mean scores were presented using only one or two responses.

In order to limit expense, the survey was sent to a representative sample of governmental entities. The sample was not random. Instead, the sample was judgmentally selected by stratifying the universe by region and type of government. Native governmental entities were not included in the sample. Therefore, their perceptions of the SAA are not represented in the survey responses.

Objective No. 3

Determine how governmental auditors perceive SAA amendments. This evaluation will attempt to identify, in part, how amendments will impact the length of an audit, the cost of an audit, and the usefulness of an audit.

During pretesting, it was discovered that audit fees for Federal single audits are typically commingled with audit fees for State single audits. Auditors often prepare both types of audits for an entity. Some of the work performed is applicable to both types. Therefore, audit firms do not segregate the different types of revenue. Hence, audit fee information relating solely to Federal single audits could not be determined.

Objective No. 4Attempt to quantify cost savings generated by SAA amendments.

Because the survey instrument did not include audit fee questions, the cost savings generated by the SAA amendments could not be quantified. See limitation discussed under Objective No. 3 above.

Objective No. 5 and No. 6Determine whether amendments disproportionately impact specific types of recipients or geographic regions. When practical, evaluate the impact of amendments on subrecipients.

This analysis included all recipients that fell within the definition of state and local governments that received Federal financial assistance during FFY 95. No attempt was made to determine whether recipients were so closely related that they reported as one entity. Further, the SAA allows entities to report under their own fiscal year. In order to allow for an evaluation, this analysis assumes that all entities follow a Federal fiscal year.

QUESTIONNAIRE NO.

Single Audit **Questionnaire**

For over ten years, the federal government has required single audits. This requirement applied to all state and local governments and certain native organizations receiving over \$100,000 of federal funds during a given year. For the first time since the Single Audit Act was passed, Congress has significantly amended the law.

We are interested in learning whether the federal single audit process has impacted the accounting and administrative practices of your organization/local government. We would also appreciate your feedback regarding the single audit's benefits and shortcomings as experienced by your organization/local government.

A. General Information

- A1. Has your organization ever had a federal single audit? Yes No
(If you answered No, please stop here and return the questionnaire using the enclosed postage paid envelope. We would appreciate receiving your questionnaire regardless of any experience with single audits. Thank you for your help!)
- A2. On average, how many federal single audits did your organization have during the period beginning January 1, 1990 through December 31, 1995?

- A3. Did your organization have a federal single audit for a reporting period ending in 1995? Yes No
- A5. How many federal programs were covered during your last single audit? _____
- A6. What was the amount of federal expenditures reported in your last single audit? _____
- A7. Please indicate in which region of Alaska your government is located. Refer to the enclosed community and borough listing to determine your regional classification.
- | | |
|---------------------------------------|---------------------------------------|
| <input type="checkbox"/> Northwestern | <input type="checkbox"/> Central |
| <input type="checkbox"/> Southeastern | <input type="checkbox"/> Southcentral |
| <input type="checkbox"/> Northern | <input type="checkbox"/> Western |
| <input type="checkbox"/> Eastern | |

B. Accounting and Administrative Practices

We are interested in whether the accounting and administrative practices in your organization have changed since the Single Audit Act was passed in 1984. For each of the practices listed below, please indicate two things:

- (A) Whether the practice was established before the act (prior to January 1, 1985); after the act (1985 or later); or has not been established.
- (B) If established after the act -- how influential the act was in establishing the practice. A practice is considered to be influenced by the act if it was initiated 1) to comply with the act, 2) in direct response to a finding in a single audit report, or 3) as a result of information contained in a single audit report.

	(A) When established?			(B) After the act -- How influential was the Act?				
	<u>Before</u>	<u>After</u>	<u>Not</u>	<u>Not at all</u>				<u>Very</u>
<u>Financial Management of an Organization:</u>								
B1. Mission or function statements	1	2	3	1	2	3	4	5
B2. Written accounting policies	1	2	3	1	2	3	4	5
B3. Accounting and financial reporting procedures	1	2	3	1	2	3	4	5
<u>Accounting System:</u>								
B4. Uniform chart of accounts	1	2	3	1	2	3	4	5
B5. System for cash management	1	2	3	1	2	3	4	5
B6. System for identifying unallowable costs	1	2	3	1	2	3	4	5
B7. GAAP-based accounting system	1	2	3	1	2	3	4	5
B8. System for tracking Catalog of Federal Domestic Assistance(CFDA) number	1	2	3	1	2	3	4	5
B9. System for monitoring funding	1	2	3	1	2	3	4	5
B10. Cost-allocation plan	1	2	3	1	2	3	4	5
B11. Automated systems/new technologies	1	2	3	1	2	3	4	5
B12. Improved payroll time & recording	1	2	3	1	2	3	4	5
<u>Financial Reporting:</u>								
B13. Preparation of GAAP-based financial statements	1	2	3	1	2	3	4	5
	1	2	3	1	2	3	4	5

Accounting and Administrative Practices *Continued*

	(A) When established?			(B) After the act -- How influential was the Act?					
	<u>Before</u>	<u>After</u>	<u>Not</u>	<u>Not at all</u>					<u>Very</u>
<u>Financial Reporting:</u>									
B15. Preparation of a Comprehensive Annual Financial Report	1	2	3	1	2	3	4	5	
B16. Preparation of a Schedule of Federal Financial Assistance	1	2	3	1	2	3	4	5	
<u>Budgeting and Plans for Meeting Cash Flow Requirements:</u>									
B17. Preparation of annual operating budget	1	2	3	1	2	3	4	5	
B18. Preparation of a comprehensive multi-year financial plan	1	2	3	1	2	3	4	5	
B19. Preparation of periodic reports on status of debt structure	1	2	3	1	2	3	4	5	
B20. Cash forecasting system	1	2	3	1	2	3	4	5	
<u>Auditing/Internal Control:</u>									
B21. Annual financial statement audit or single audit	1	2	3	1	2	3	4	5	
B22. Internal audit function	1	2	3	1	2	3	4	5	
B23. Audit committee	1	2	3	1	2	3	4	5	
B24. Written system of internal control	1	2	3	1	2	3	4	5	
B25. Upgrading a previously existing system of internal control	1	2	3	1	2	3	4	5	
B26. Written corrective action plans for audit findings requiring corrective action	1	2	3	1	2	3	4	5	
B27. Separation of duties	1	2	3	1	2	3	4	5	
B28. Formal follow-up system for open audit findings	1	2	3	1	2	3	4	5	

C. Your Assessment of the Federal Single Audit Process

We are interested in your assessment of the federal single audit process based on your own experience and knowledge. Please indicate the degree to which you agree or disagree with the following statements. *(Circle the number that best reflects your opinion.)*

	<u>Agree Strongly</u>	<u>Agree Somewhat</u>	<u>Neither Agree or Disagree</u>	<u>Disagree Somewhat</u>	<u>Disagr Strong</u>
C1. Single audits are more effective than prior grant specific audits	5	4	3	2	1
C2. Single audits are more efficient than prior grant specific audits	5	4	3	2	1
C3. The quality of single audits has improved over time	5	4	3	2	1
C4. Auditors performing single audits are more prepared than previous auditors	5	4	3	2	1
C5. Single audits can be more useful than prior audits	5	4	3	2	1
C6. The single audit process has resulted in more effective management of our federal funds	5	4	3	2	1
C7. Single audit reports (the opinions and other assurances) are useful	5	4	3	2	1
C8. Prior to recent amendments, thresholds for requiring single audits were too low	5	4	3	2	1
C9. The benefits received as a direct result of the single audit process have exceeded the costs incurred	5	4	3	2	1

D. Any Problems with the Single Audit Act?

The federal single audit process has been in place over ten years. As with any law, some may experience problems, while others may have none. What has your organization experienced? For each of the possible concerns listed, please indicate the extent to which it has been a problem for your organization. (*Circle the number that best reflects your opinion.*)

	No Problem <u>at all</u>				Very Serious <u>Problem</u>
D1. Audits too costly	1	2	3	4	5
D2. Requires audits too frequently	1	2	3	4	5
D3. Results in little or no improvement in financial management/financial reporting	1	2	3	4	5
D4. Requires too many separate reports	1	2	3	4	5
D5. Requires too many copies be sent out	1	2	3	4	5
D6. Requires reports include inconsequential findings	1	2	3	4	5
D7. Poorly trained auditors	1	2	3	4	5
D8. Fails to detect fraud	1	2	3	4	5
D9. Poor audit quality	1	2	3	4	5
D10. Cumbersome audit finding resolution process	1	2	3	4	5
D11. Inconsistent guidance by federal agencies	1	2	3	4	5
D12. Outdated guidance by federal agencies	1	2	3	4	5
D13. Difficulty identifying federal financial assistance passed through other governmental units to our organization	1	2	3	4	5
D14. Difficulty monitoring compliance by subrecipients	1	2	3	4	5

APPENDIX B

Single Audit

QUESTIONNAIRE NO.

Questionnaire

For over ten years, the federal government has required single audits. This requirement applied to all state and local governments and certain native organizations receiving over a specified level of federal funds during a given year. For the first time since the Single Audit Act was passed in 1984, Congress has significantly amended the law.

We are interested in learning whether the single audit act has met its objectives from your perspective as an auditor practicing in Alaska. This questionnaire addresses: (1) whether the single audit process has impacted the financial management of your single audit clients; (2) what types of single audit deficiencies/problems your organization may have encountered; and (3) how specific amendments to the single audit process may impact your single audit clients base, audit fees, and the audit process.

A. General Information

A1. During the last five years (1992 through 1996), did your firm perform any single audits?
 Yes No *(If you answered No, please STOP here and return the questionnaire using the enclosed postage paid envelope. We would appreciate receiving your questionnaire regardless of your experience with single audits. Thank you for your help!)*

A2. On average, how many single audits does your firm perform annually? _____

A3. Approximately what percentage of the firm's annual revenue is generated through single audits? _____

A4. How many staff members does your firm employ? _____

A5. Approximately, what percentage of your clients are located in each region of Alaska? Please refer to the enclosed community and borough listing to determine the appropriate regional classification.

- | | |
|---------------------------------------|---------------------------------------|
| <input type="checkbox"/> Northwestern | <input type="checkbox"/> Central |
| <input type="checkbox"/> Southeastern | <input type="checkbox"/> Southcentral |
| <input type="checkbox"/> Northern | <input type="checkbox"/> Western |
| <input type="checkbox"/> Eastern | |

A6. In which region of Alaska is your firm located? Again, please refer to the enclosed community and borough listing to determine the appropriate regional classification.

- | | |
|---------------------------------------|---------------------------------------|
| <input type="checkbox"/> Northwestern | <input type="checkbox"/> Central |
| <input type="checkbox"/> Southeastern | <input type="checkbox"/> Southcentral |
| <input type="checkbox"/> Northern | <input type="checkbox"/> Western |
| <input type="checkbox"/> Eastern | |

B. Your Experience with the Single Audit Process

We are interested in how your organization perceives the single audit process. Please indicate the extent to which you agree or disagree with the following statements. (Circle the number that best reflects your opinion.)

	Agree Strongly	Agree Somewhat	Neither Agree or Disagree	Disagree Somewhat	Disagree Strongly
B1. Single audits are more effective than prior grant specific audits	5	4	3	2	1
B2. Single audits are more efficient than prior grant specific audits	5	4	3	2	1
B3. The quality of single audits performed by our organization has improved over time	5	4	3	2	1
B4. Our auditors are better prepared to perform single audits than previously	5	4	3	2	1
B5. Single audits are more useful than prior audits	5	4	3	2	1
B6. Thresholds for requiring single audits are too low	5	4	3	2	1
B7. Single audit reports (the opinions and other required assurances) are useful to our clients	5	4	3	2	1
B8. The benefits received by our clients as a direct result of the single audit process have exceeded the costs incurred	5	4	3	2	1

C. Any Problems With The Single Audit Act?

The single audit process has been in place over ten years. As with any law, some may experience problems, while others may not. What has your experience been with the process? For each of the possible concerns listed, please indicate the extent to which it has been a problem for your organization, if at all. (*Circle the number that best reflects your opinion.*)

		No Problem at all				Very Serious Problem
THE OVERALL PROCESS						
C1.	Requires excess audit coverage	1	2	3	4	5
C2.	Too costly	1	2	3	4	5
C3.	Too frequent	1	2	3	4	5
C4.	Results in little or no improvement in financial management/financial reporting	1	2	3	4	5
C5.	Requires too many separate reports	1	2	3	4	5
C6.	Allows too much time (13 months) for submitting audits	1	2	3	4	5
C7.	Reports require inconsequential findings	1	2	3	4	5
C8.	Fails to detect fraud	1	2	3	4	5
C9.	Audit work too broad to achieve objectives	1	2	3	4	5
DIFFICULTIES EXPERIENCED						
C10.	Cumbersome audit finding resolution process	1	2	3	4	5
C11.	Difficulty understanding audit requirements	1	2	3	4	5
C12.	Inconsistent guidance by federal agencies	1	2	3	4	5
C13.	Outdated guidance by federal agencies	1	2	3	4	5
C14.	Distinguishing between major and non-major federal programs	1	2	3	4	5
C15.	Identifying federal financial assistance passed through other governmental units to our client	1	2	3	4	5
C16.	Defining single audit reporting entities	1	2	3	4	5
C17.	Working relationship with cognizant (oversight) agency	1	2	3	4	5
C18.	Adequacy of single audit training	1	2	3	4	5

D. Amending the Single Audit Act

In an effort to improve the single audit process, Congress has recently amended the Single Audit Act. The questions in this section address two of the amendments: the increased thresholds for audit coverage and changing the criteria for determining major federal programs.

Congress increased the audit coverage threshold for both primary recipients and subrecipients of federal financial assistance. Any non-federal entity expending \$300,000 or more of federal awards is now subject to the Single Audit Act. Congress also expanded the determination criteria for major federal programs to consider risk-based criteria as well as expenditure levels.

We would like your assessment of whether you expect these changes to impact your firm. For each of the following statements, please mark the answer that best describes your opinion.

D1. To what extent will the change in the audit threshold impact the number of federal single audits performed by your firm?

Number of audits will: 1() Decrease significantly
 2() Decrease moderately
 3() Decrease only slightly
 4() Not change
 5() Increase

D2. To what extent would an identical change in the STATE single audit threshold impact the number of federal single audits performed by your firm?

Number of audits will: 1() Decrease significantly
 2() Decrease moderately
 3() Decrease only slightly
 4() Not change
 5() Increase

D3. To what extent will increasing the federal audit threshold affect the amount of single-audit revenue your firm generates?

Audit Revenue will: 1() Decrease significantly
 2() Decrease moderately
 3() Decrease only slightly
 4() Not change
 5() Increase

Amending the Single Audit Act *Continued*

D4. To what extent would an identical increase in the STATE single audit threshold affect the amount of single-audit revenue your firm generates?

- Audit Revenue will:**
- 1() **Decrease significantly**
 - 2() **Decrease moderately**
 - 3() **Decrease only slightly**
 - 4() **Not change**
 - 5() **Increase**

D5. To what extent will the use of risk-based criteria affect your firm's audit fees?

- Audit fees will:**
- 1() **Increase significantly**
 - 2() **Increase moderately**
 - 3() **Increase only slightly**
 - 4() **Not change**
 - 5() **Decrease**

D6. To what extent will risk-based criteria affect your firm's ability to estimate the amount of audit work required when bidding on prospective audits?

- Estimating audit work will:**
- 1() **Be significantly more difficult**
 - 2() **Be moderately more difficult**
 - 3() **Be only slightly more difficult**
 - 4() **Not be affected materially**
 - 5() **Be less difficult**

D7. Last, to what extent, if any, will risk-based criteria affect auditors' liability for the failure to uncover fraud, waste, or abuse?

- Auditors' liability will:**
- 1() **Increase significantly**
 - 2() **Increase moderately**
 - 3() **Increase only slightly**
 - 4() **Not change**
 - 5() **Decrease**

APPENDIX C

**REGIONAL CLASSIFICATION FOR ALASKAN COMMUNITIES
Unified Municipalities, Boroughs, Cities, Towns, and Villages
(Use to answer question A7)**

UNIFIED MUNICIPALITIES

Name	Region of Alaska
City and Borough of Juneau	Southeastern
City and Borough of Sitka	Southeastern
Municipality of Anchorage	Southcentral

BOROUGHS

Name	Region of Alaska
Aleutians East Borough	Southcentral
Bristol Bay Borough	Western
City and Borough of Yakutat	Southeastern
Denali Borough	Central
Fairbanks North Star Borough	Northern
Haines Borough	Southeastern
Kenai Peninsula Borough	Southcentral
Ketchikan Gateway Borough	Southeastern
Kodiak Island Borough	Southcentral
Lake and Peninsula Borough	Southcentral
Matanuska-Susitna Borough	Central
North Slope Borough	Northern
Northwest Arctic Borough	Northwestern

CITIES/TOWNS/VILLAGES

Name	Region of Alaska
Akhiok	Southcentral
Akiak	Western
Akutan	Southcentral
Alakanuk	Western
Aleknagik	Western
Allakaket	Northern
Ambler	Northwestern
Anaktuvuk Pass	Northern
Anderson	Central
Angoon	Southeastern
Aniak	Western
Anvik	Western
Atka	Southcentral
Atkasuk	Northern
Barrow	Northern
Bethel	Western

CITIES/TOWNS/VILLAGES

Continued..

Name	Region of Alaska
Brevig Mission	Western
Buckland	Northwestern
Chefornak	Western
Chevak	Western
Chignik	Southcentral
Chuathbaluk	Western
Clark's Point	Western
Coffman Cove	Southeastern
Cold Bay	Southcentral
Cordova	Southeastern
Craig	Southeastern
Deering	Northwestern
Delta Junction	Eastern
Dillingham	Western
Diomedes	Western
Eagle	Eastern
Eek	Western
Egegik	Southcentral
Ekwok	Western
Elim	Western
Emmonak	Western
Fairbanks	Northern
False Pass	Southcentral
Fort Yukon	Eastern
Galena	Northwestern
Gambell	Western
Golovin	Western
Goodnews Bay	Western
Grayling	Western
Haines	Southeastern
Holy Cross	Western
Homer	Southcentral
Hoonah	Southeastern
Hooper Bay	Western
Houston	Central
Hughes	Northwestern
Huslia	Northwestern
Hydaburg	Southeastern
Kachemak	Southcentral
Kake	Southeastern

CITIES/TOWNS/VILLAGES *Continued...*

Name	Region of Alaska	Name	Region of Alaska
Kaitag	Northwestern	Point Hope	Northern
Kasaan	Southeastern	Port Alexander	Southeastern
Kasigluk	Western	Port Heiden	Southcentral
Kenai	Southcentral	Port Lions	Southcentral
Ketchikan	Southeastern	Quinhagak	Western
Kiana	Northwestern	Ruby	Northwestern
King Cove	Southcentral	Russian Mission	Western
Kivlina	Northwestern	Saint George	Western
Klawock	Southeastern	Saint Mary's	Western
Kobuk	Northwestern	Saint Michael	Western
Kodiak	Southcentral	Saint Paul	Western
Kotlik	Western	Sand Point	Southcentral
Kotzebue	Northwestern	Savoonga	Western
Koyuk	Western	Saxman	Southeastern
Koyukuk	Northwestern	Scammon Bay	Western
Kupreanof	Southeastern	Selawik	Northwestern
Kwethluk	Western	Seldovia	Southcentral
Larsen Bay	Southcentral	Seward	Southcentral
Lower Kalskag	Western	Shageluk	Western
Manokotak	Western	Shaktoolik	Western
Marshall (Fortuna Ledge)	Western	Sheldon Point	Western
McGrath	Western	Shishmaref	Western
Mekoryuk	Western	Shungnak	Northwestern
Mountain Village	Western	Skagway	Southeastern
Napakiaik	Western	Soldotna	Southcentral
Napaskiak	Western	Stebbins	Western
Nenana	Northern	Tanana	Northern
New Stuyahok	Western	Teller	Western
Newhalen	Southcentral	Tenakee Springs	Southeastern
Nightmute	Western	Thorne Bay	Southeastern
Nikolai	Western	Togiak	Western
Nome	Western	Toksook Bay	Western
Nondalton	Southcentral	Tununak	Western
Noorvik	Northwestern	Unalakleet	Western
North Pole	Northern	Unalaska	Southcentral
Nuiqsut	Northern	Upper Kalskag	Western
Nulato	Western	Valdez	Southeastern
Nunapitchuk (Akolmiut)	Western	Wainwright	Northern
Old Harbor	Southcentral	Wales	Northern
Ouzinkie	Southcentral	Wasilla	Central
Palmer	Central	White Mountain	Western
Pelican	Southeastern	Whittier	Southcentral
Petersburg	Southeastern	Wrangell	Southeastern
Pilot Point	Southcentral	Metlakatla	Southeastern
Pilot Station	Western		
Platinum	Western		

BIBLIOGRAPHY

1. Brannan "The Single Audit Act of 1984: A Survey of Practitioners," *Public Budgeting and Finance* (Summer, 1993): 66-74
2. Copely and M. Doucet, "Auditor tenure, fixed fee contracts, and the supply of substandard single audits" *Public Budgeting and Finance* (Fall 1993): 23-36
3. Engstrom and K. Reding, "The Single Audit Act of 1984: Perspectives of Local Government Officials and Auditors," *Government Accountants Journal* (Winter 1992):
- 4.
5. Jakubowski, "Reporting on the Control Structures of City Governments," *The CPA Journal* (Nov. 1994): 66-68.
6. Jakubowski, "Reporting on the Control Structures of Local Government Under the Single Audit Act of 1984," *Public Budgeting & Finance* (Spring 1995): 58 - 71
7. General Accounting Office, "Single Audit, Refinements Can Improve Usefulness," (Washington D.C.: GAO, June 1994).
8. General Accounting Office, "Single Audit Act: Single Audit Quality has Improved but Some Implementation Problems Remain," (Washington D.C.: GAO, July 1989).
9. Miller and R. VanDaniker, "Impact of The Single Audit Act on The Financial Management of State and Local Governments," *The Government Accountants Journal* (Spring 1995): 55-61.
10. President's Council on Integrity & Efficiency Standards Subcommittee, "Study on Improving the Single Audit Process," (Washington D.C. : U.S. Government Printing Office, September 1993).
11. Uehling, "Usefulness of Single Audit Reports: Federal Managers' Perceptions," *Government Accountants Journal* (Fall 1991): 72-77.
12. United States Senate, Committee on Governmental Affairs, "Single Audit Act Amendments of 1996 Report," (May, 1996).