

A Historical Evaluation of the Single Audit: Thirty Years from Initial Legislation to Uniform Guidance

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ABSTRACT: The U.S. government, through federal granting agencies (grantors), awards grants to state/local governments and nonprofit organizations (grantees) to meet national objectives. Since its initial legislation in 1984, the single audit has been used as a mechanism for ensuring accountability with these federal grants. Despite the consistent goal of accountability, concerns with single audit quality (i.e., whether audits reach appropriate conclusions) persist. In this historical evaluation of the single audit, we examine the major legislative and administrative developments associated with the single audit including (1) Single Audit Act of 1984, (2) Single Audit Act Amendments of 1996, (3) National Single Audit Sampling Project in 2007, (4) Improper Payments Initiative in 2009, and (5) administrative consolidation of all single audit circulars with Uniform Guidance issued in 2013. Understanding these developments should be helpful to researchers and policymakers in directing studies designed to better understand and improve single audit quality.

Keywords: single audit; uniform guidance; federal grants; historical developments; audit quality.

I. INTRODUCTION

Federal agencies (grantors) annually award grants to state and local governments and nonprofit organizations (grantees). The funding reflects a national commitment to key strategic objectives including healthcare, education, social services, and transportation

The authors are grateful for two readers of the paper, Tim West and Deb Oden, whose collective insight improved the paper significantly.

Editor's note: Accepted by Vaughan S. Radcliffe.

Submitted: January 2018
Accepted: February 2019
Published Online: June 2019

(GAO 2011). With federal grants to state and local governments exceeding \$620 billion in 2015 (GAO 2017), the economic and social significance of these awards necessitates accountability that may be achieved in large part with financial audits. Until the late 1970s, financial audits of federal grant recipients were conducted on a grant-by-grant basis, an inefficient process that left gaps in audit coverage. The single audit concept was developed as a remedy, requiring an entity wide, comprehensive audit that incorporated a review of internal controls of the grant recipient (GAO 1984). As noted by then U.S. Comptroller General Charles Bowsher, “This improvement [from closing the gap in audit coverage] will be brought about by an approach that emphasizes a review of the internal controls of the entity being audited rather than a detailed audit of each grant. Achieving adequate coverage through detailed grant by grant audits would be very difficult and extremely costly” (GAO 1982). Such an audit was also expected to reduce costs and administrative burden for federal grant recipient organizations (S. Rep. No. 98-234, U.S. Congress 1983).

Applicable for grantees that exceed a threshold of federal grant awards, the single audit follows Generally Accepted Government Auditing Standards (GAGAS, also commonly referred to as the Yellow Book, GAO [2011]).¹ In addition to the GAGAS requirements related to the evaluation of internal controls and compliance, single audits require the determination of major programs (i.e., federally funded programs that meet certain size and risk criteria). For each major program, an auditor opinion on compliance with laws, regulations, and grant provisions is required. This information may then be used by federal granting agencies to determine future grant awards, i.e., a poorly performing auditee may be at risk for future grant funding. For filing years beginning in 1997, single audit information is publicly available for download from the Federal Audit Clearinghouse.² This move toward transparency provides a wide range of constituents, including other units of government, nonprofit foundations, and individual and corporate donors with the ability to evaluate auditees for other nonfederal funding opportunities.

From its initial legislation in 1984, the single audit has consistently emphasized two primary objectives: (1) increase grantee accountability, and (2) decrease administrative burden for grantees. The comprehensive nature of the single audit (unlike the previous piece-meal approach), evaluation of internal controls, and increasing focus on risk assessment should contribute to accountability with federal grants. One single, comprehensive, standardized audit should also contribute to improved efficiency for auditees that no longer have to manage the separate audit requirements by federal agency that existed prior to the single audit.³

¹ The amount and basis for measurement of the threshold has changed over time. The initial legislation only applies to state and local government grantees that received more than \$100,000 of federal grant awards. After the administrative extension of the single audit to nonprofit organizations in 1990, the threshold was subsequently changed in 1996 to \$300,000 of federal grant awards expended (rather than received). In 2003 (effective in 2004), the threshold was changed to \$500,000 of federal grant awards expended. In 2013 (effective in 2015), the threshold was changed to \$750,000 of federal grant awards expended.

² Single audit filings have been made with the U.S. Census Bureau since 1987 (Brown and Burnaby 1988). The creation of the Federal Audit Clearinghouse under the oversight of the U.S. Census Bureau facilitated public access to single audit filings.

³ For example, for the fiscal year ended June 30, 2017, the Little Rock School District, a special purpose government, expended approximately \$39 million of federal grants from four federal agencies (via 16 distinct federal programs): the U.S. Department of Education, the U.S. Department of Agriculture, the U.S. Department of Health and Human Services, and the U.S. Department of Defense. Prior to the implementation of the single audit, each of the four federal granting agencies would have established their own audit requirements. Under the single audit, there is one standardized audit of the financial statements, internal controls, and compliance (with each agency and program having specific grant compliance requirements). The one standardized audit should, therefore, eliminate some of the audit burden for the auditee.

Despite the two consistent objectives, the quality of single audits performed has been a concern since inception. Noting that concerns with audit quality predated the single audit for two decades, the U.S. Government Accountability Office (GAO 1985) analyzed the desk reviews of single audits in 1984 by seven federal agencies' Inspectors General. The GAO (1985) found that approximately 25 percent of single audits were deficient, with the two primary deficiencies related to identifying noncompliance and lack of professional care in preparing reports. In a second stage of this analysis, the GAO (1986) found that 34 percent of governmental audits were deficient, often without sufficient evidence to support auditor conclusions about the financial statements, internal controls, and compliance. Some deficiencies were severe enough to warrant reporting to state boards of accountancy. Following a request by the Office of Management and Budget (OMB) at a U.S. House of Representatives hearing in 2002, the President's Council on Integrity and Efficiency (PCIE 2007) conducted a statistical sampling of single audits filed for fiscal years ending between April 2003 and March 2004, and estimated that 35.5 percent of all single audits were unacceptable and 16.0 percent were of limited reliability.⁴

The concerns with audit quality have implications for accountability, i.e., a poorly conducted single audit may fail to identify deficiencies that exist in internal control and compliance. As a result, research has examined the association between single audit expertise by the audit firm conducting the audit and single audit findings. In a sample of approximately 24,000 single audits over the period 2004 through 2010, Waymire, Webb, and West (2018) find that firms with low single audit expertise (conducting ten or fewer single audits in one year) are associated with fewer compliance findings, after controlling for risk and other factors. Similarly, in a sample of 87 single audits with fiscal year-ends on or before November 30, 2015, the American Institute of Certified Public Accountants' (AICPA) peer review team found that audit quality is associated with the expertise of the firm conducting the audit, as well as membership in the AICPA's Governmental Audit Quality Center (GAQC) and qualifications of the engagement partner (AICPA 2017; Tysiac 2017). These studies focus on single audits performed by CPA firms, although many government audits are conducted by the centralized audit agency in the state.⁵ Although increased single audit regulation over time makes strides toward increased accountability and audit efficiencies, if variation in audit quality exists, as noted by prior studies, then the risk of increased cost to taxpayers (due to lack of identifying compliance deficiencies, etc.) may still materialize. This conundrum, in addition to the nature of the complexities inherent in the single audit, may explain the pursuit of continuously improved single audit regulation, even with seemingly slow progress.

In this paper, we take an accounting history methodological approach to evaluate the progression of the single audit. The primary framework we utilize for our analysis is Napier (1989), who highlights two relevant approaches to research related to accounting history: (1) understanding the past for its own sake, and (2) contextualizing accounting. In part, we attempt to understand the past development of the single audit for its own sake because Napier (1989, 243) suggests, "Thorough analyses of legal accounting requirements . . . give us deeper insight into the framework within which accounting occurs." Moreover, we contextualize the

⁴ The PCIE analysis was conducted, in part, because previous analyses were not statistically based, as noted by a former controller of the OMB in congressional testimony in 2002.

⁵ The National Association of State Auditors, Comptrollers, and Treasurers (NASACT) publishes an annual survey that reports whether the centralized state audit agency audits the financial statements of cities, counties, nonprofit organizations, towns and villages, and/or school districts. In 2015, 16 state agencies conducted one or more of these types of audits (NASACT 2015). These state agencies possess significant in-house single audit expertise.

accounting using a genealogy approach whereby we include analysis and discussion of all complex interrelated events over time, related to the single audit, instead of only focusing on one point of historical origin that might explain the current condition of the single audit (Napier 1989).

The challenges with single audit quality have persisted over the entire 30-year history of the single audit, despite significant developments. In this historical evaluation, we examine five key developments of the single audit, including both legislative and administrative actions: (1) Single Audit Act of 1984, (2) Single Audit Act Amendments of 1996, (3) National Single Audit Sampling Project undertaken in 2007, (4) Improper Payments Initiative in 2009, and (5) consolidation of authoritative guidance in 2 CFR § 200 (i.e., Uniform Guidance [UG], OMB 2013) in 2013 and effective in 2015. In Figure 1, we summarize a timeline (Panel A) and key contributors (Panel B) to single audit developments. We consider the scope of the single audit, the organizations to which the single audit applies, the threshold increases over time, and implications of regulatory changes, with a focus on how these changes have not produced an increase in single audit quality. We conclude with some suggestions for future research that should be directed at understanding why the legislative and administrative changes have been unsuccessful in improving single audit quality.

II. THE SINGLE AUDIT ACT OF 1984

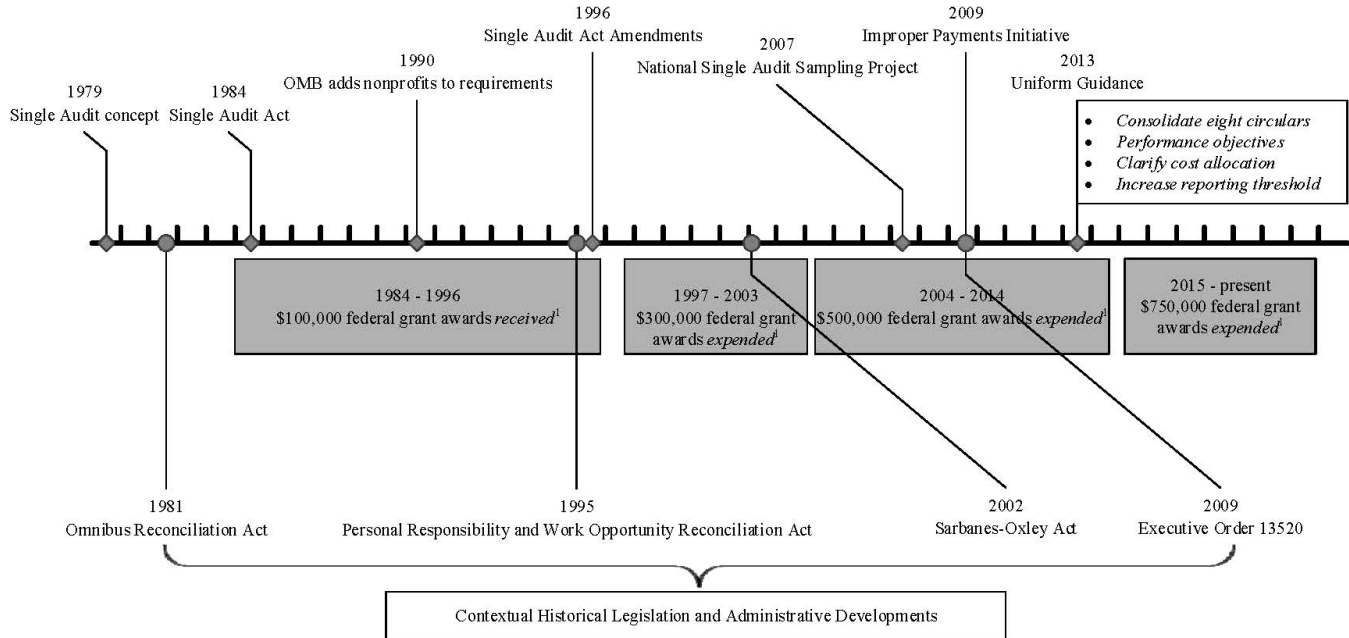
The increase in federal grant funding over the 1960s and 1970s brought with it concerns about accountability with public dollars. In their analysis of the 20 years leading up to the single audit legislation, Brown and Burnaby (1988) note that the legislation of the single audit required an evolutionary process. Beginning with a concept, the single audit sought to rectify gaps in audit coverage and inconsistent audit scope.

Toward the end of President Jimmy Carter's administration, concerns regarding inefficiencies in the audit process of federally funded programs resulted in two primary government studies with significant findings. The GAO found that 80 to 90 percent of federal funds awarded to state and local government recipients were not adequately audited each year. The report titled, "Grant Auditing: A Maze of Inconsistency, Gaps, and Duplication That Needs Overhauling," issued June 1979 explained that grant transactions for some governmental units were audited multiple times, while others were not audited at all (H.R. Rep. No. 98-708, U.S. Congress 1984b). The Joint Financial Management Improvement Project (JFMIP) also conducted a study in 1979, and in its report cited significant overlap and duplication in audits due to a grant-based approach to the audits. As a result of its findings, the JFMIP recommended a single audit approach. This single audit approach would focus on an overall federal program rather than specific grants or specific grant recipients, and would involve both financial and compliance elements. Based upon this recommendation, the OMB issued Attachment P, "Uniform Requirements for Grants-In-Aid to State and Local Governments," to OMB Circular A-102 for governmental agencies on October 22, 1979 (S. Rep. No. 98-234, U.S. Congress 1983).

In 1980, Ronald Reagan won the nomination as the candidate for the Republican Party. The Republican Party's campaign platform included criticisms of President Carter's welfare policies, and suggested policy changes, including block grants to state and local governments (Gerhard and Woolley 1980). In 1981, President Reagan signed the Omnibus Reconciliation Act of 1981 (U.S. House of Representatives 1981), which replaced 77 categorical federal grants with nine new block grants. The goal of the block grants was to give states greater discretion in the distribution of

FIGURE 1
Single Audit Timeline and Developments

Panel A: Single Audit Timeline from Concept in 1979 to Present



¹ Measurement basis of threshold changed from receipts to expenditures with the Single Audit Act Amendments of 1996 in order to align the purpose of the single audit (compliance) with the period that the grants were expended and presumably would serve to smooth the single audit filings.

Panel B: Key Organizations Contributing to Single Audit Developments

Legislative and Administrative Developments

Organization	Single Audit Act of 1984	Single Audit Act Amendments of 1996	National Single Audit Sampling Project (2007)	Improper Payments Initiative (2009)	Uniform Guidance (issued in 2013)
Congress	X	X	X	X	X
State Auditors	X	X	X	X	X
Office of Inspector General (OIG)	X	X	X	X	X
President's Council on Integrity and Efficiency (PCIE)		X	X	X	
Office of Management and Budget (OMB)	X	X	X	X	X
Government Accountability Office (GAO)	X	X	X	X	X
AICPA's Governmental Audit Quality Center (GAQC)			X	X	X
Council on Financial Assistance Reform (COFAR)					X

federal funds (Finegold, Wherry, and Schardin 2004; Gerhard and Woolley 1980). According to a 1996 report issued by the President's Council on Integrity and Efficiency, regulations issued pursuant to the passage of the 1981 Act also granted states significant discretion in determining how to account for grant expenditures (PCIE 1996).

While attachment P to OMB Circular A-102 promoted and required a single audit approach with the intention of correcting the extant audit issues, it lacked the force of law. The Single Audit Evaluation Committee of the President's Council on Integrity and Efficiency found that, of the 80,000 state and local governmental units targeted to implement single audits, only about 550 had completed single audits as of January 1983. According to the OMB only 1,100 state and local governmental units had completed audits by September 1983. The Senate Committee on Governmental Affairs and the U.S. House of Representatives Governmental Operations Committee both concluded that Congress needed to write legislation that would enforce implementation of single audits. The House of Representatives and the Senate drafted separate legislation, and the Senate Bill, S. 1510 became the final version after redrafting to take into account language from the House version, H.R. 4821 (H.R. Rep. No. 98-708, [U.S. Congress 1984b](#)).

The bill included three components to the single audit requirement. The first component of a single audit involved evaluations of financial statements and compliance with grant requirements where auditors employ Generally Accepted Government Auditing Standards (GAGAS). The second component of a single audit included an assessment of the governmental entity's internal controls, and a report detailing the internal control system, internal control weaknesses, and the amount of transaction testing necessary based upon the internal control system. The third component of a single audit comprised the actual testing of major and non-major program representative transactions as defined in the legislation (H.R. Rep. No. 98-708, [U.S. Congress 1984b](#)).

On October 19, 1984, the Single Audit Act of 1984 became law ([U.S. Congress 1984a](#)). The legislation created a single audit requirement for state and local governmental units that received at least \$100,000 in federal funds. The Single Audit Act also established other accountability requirements for state and local governments that received between \$25,000 and \$100,000 in federal funds. Entities in this category could choose the single audit treatment or continue to have audits conducted under applicable federal agency guidelines. In addition, Circular A-128 "Audits of States and Local Governments" superseded Attachment P to Circular A-102 and became the implementation guidance for the statute. As the title of the OMB guidance indicated, this initial single audit legislation did not include a single audit requirement for nonprofit organizations, universities, and hospitals. The OMB did not believe that the written guidance for colleges and universities contained in Attachment F of Circular A-110 met the same level of specificity contained in Attachment P to Circular A-102 (H.R. Rep. No. 98-708, [U.S. Congress 1984b](#)).

Although requirements for single audits of nonprofit organizations were not explicitly incorporated as part of the language of the 1984 Act, nonprofit organizations could be subject to the single audit provisions as subrecipients of grant funds through state or local governments ([Kalin 1990](#)). In 1990, the [OMB \(1990\)](#) provided audit guidance to nonprofit organizations in Circular A-133 "Audits of Institutions of Higher Education and Other Non-Profit Organizations." This guidance became effective for entities with fiscal years beginning on or after January 1, 1990 ([OMB 1990](#)). It appears that Circular A-133 did not answer all questions regarding audit requirements for nonprofit organizations receiving federal funds ([Kalin 1990](#)). In fact, not every federal agency necessarily adopted A-133 guidance, so nonprofit organizations had to contact the federal agency providing the grant funds to find out whether OMB Circular A-110, OMB Circular A-128, or OMB Circular A-133 applied. Of course, nonprofit organizations that received grant funds below certain thresholds could also remain subject to audits of grants received rather than a single audit ([Kalin 1990](#)).

III. SINGLE AUDIT ACT AMENDMENTS OF 1996

During the early to mid-1990s, Congress and President Clinton had debates regarding welfare reform, and the lack of consensus between the branches of government resulted in legislation that Clinton refused to sign. Following the 1994 elections, Republicans gained control of the U.S. Senate and the House of Representatives, with Newt Gingrich serving as speaker of the House (Berke 1994). Also during this time period, Clinton met with resistance from Congressional members of his own party, and had difficulty gaining support for his welfare reform policies from more liberal democrats in Congress (Pear 1996). Finally, after vetoing two previous welfare reform bills, on August 22, 1996 Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (U.S. Congress 1996b). The Act made expansive changes to U.S. welfare systems; perhaps most notably, the elimination of Aid to Families with Dependent Children (AFDC), and the adoption of a block grant called Temporary Assistance to Needy Families (TANF) (U.S. Congress 1996b).

In the midst of a debate in 1995 concerning welfare reform, the GAO provided members of Congress with a report that examined administration and management of block grants. The report provided an analysis of the block grants created under the Omnibus Reconciliation Act of 1981 and made several recommendations regarding the block grant method of providing funding to state and local governments. The study on block grant administration included a discussion on accountability for block grant funds. The report specifically addressed provisions of the Single Audit Act of 1984 and revealed weaknesses in the single audit mandate (GAO 1995, 10). The weaknesses mentioned included the fact that grantees had 13 months after the period end to issue the audit report. Report users complained that the information contained in a report issued 13 months after period end lost its usefulness over that length of time. In addition, the law did not require grantees to assess the adequacy of internal control structures or summarize audit findings in a way that would have made for easier review by managers and officials (GAO 1995).

While the House Committee on the Budget worked to craft welfare reform legislation, Congress presented a bill to the president that would amend the 1984 Single Audit Act. On July 5, 1996, President Clinton signed into law the Single Audit Act Amendments, Pub. Law No. 104-156 (U.S. Congress 1996a). Initiated with Senate Bill 1579, the legislation was designed to improve upon the initial 1984 legislation and had four stated objectives: (1) reducing audit burden for both auditees and federal government oversight agencies, (2) improving audit effectiveness through the adoption of a risk-based approach, (3) improving the contents and timeliness of single audit reporting, and (4) increasing flexibility by providing the OMB with the authority to make future changes to single audit requirements (U.S. Congress 1996a). Although the OMB had administratively added nonprofit organizations to the requirements of the single audit, effective in 1990 with the issuance of OMB Circular A-133, the law was explicitly inclusive of both state and local governments and nonprofit organizations receiving federal financial assistance.

In reducing audit burden, the threshold for requiring the single audit increased from \$100,000 of federal grant awards *received* to \$300,000 of federal grant awards *expended*. In addition, the initial legislation's provision requiring federal grant recipients receiving between \$25,000 and \$100,000 to either have a single audit or a grant-specific audit was rescinded.⁶ President Clinton stated that the increase in threshold to \$300,000 would "save millions of dollars by reducing the

⁶ Government or nonprofit federal grant recipients expending less than \$300,000 of federal grant awards are still required to maintain records that could be subject to review or audit by the federal granting agency (S. Rep. No. 104-266, U.S. Congress 1996c).

need for costly audits,” while also preserving “audit coverage for 95 percent of Federal assistance” ([The American Presidency Project 1996](#)).⁷ The change in the basis of measurement (from federal grant awards received to federal grant awards expended) is also significant. S. Report 104-266 ([U.S. Congress 1996c](#)) provides as a rationale, “The basis of the threshold is . . . to ensure that the audit will be conducted for the fiscal period during which the non-Federal entity used the Federal awards.” Presumably, the move to an expenditure-based threshold would also serve to smooth single audit filings, i.e., expenditures of federal awards would be expected to be more even than federal grant receipts.

All of the major stakeholders included in the deliberations process (GAO, National State Auditors Association, and the Presidents’ Council on Integrity and Efficiency) supported the transition to a risk-based single audit approach (S. Rep. No. 104-266, [U.S. Congress 1996c](#)). Previous emphasis given to large programs generally ignored risk factors that may be appropriate to consider in the single audit. Emphasizing large programs, rather than risk, also resulted in many programs being tested every year and some programs with complete absence of oversight. In the post-1996 period, one risk factor was whether a program had not been tested in prior years, ensuring greater single audit coverage over time. Shifting to a risk-based approach was therefore viewed as a more efficient and effective use of audit resources. The legislation mandated audit coverage to include sufficient major program testing of at least 50 percent of total grant expenditures.

At least seven audit reports generated from the mandated major program testing were viewed as difficult to interpret; these reports included a financial statement opinion, reports on internal controls, and reports on major programs (i.e., compliance with federal grant awards). The Single Audit Act Amendments of 1996, therefore, included a provision that required grantees to incorporate a summary schedule of audit results as part of the audit report (S. Rep. No. 104-266, [U.S. Congress 1996c](#)). This requirement was designed to improve the contents of the single audit filing. However, the complexity of the single audit and the required reports contributed to a lengthy audit timeline. In response to complaints about the delay mitigating the usefulness of report contents, the legislation shortened the timeline for filing the single audit from 13 months to nine months ([U.S. Congress 1996a](#)).⁸

In addition to its explicit changes to existing single audit legislation, the Single Audit Act Amendments of 1996 provided autonomy to the OMB for future single audit changes. The primary future decisions deferred to the OMB related to threshold. The legislation specifically required the OMB to evaluate thresholds for a single audit every two years (S. Rep. No. 104-266, [U.S. Congress 1996c](#)). However, the OMB did not exercise the authority to increase the threshold until 2003, with an increase to \$500,000 of federal grant awards expended ([OMB 2003](#)). In its proposal to increase the threshold the OMB stated, “an audit threshold increase from \$300,000 to \$500,000 would relieve almost 6,000 entities from the audit requirements of Circular A-133 while only exempting from audit less than one half of one percent of Federal awards expended (in dollars) by entities currently filing Circular A-133 audits” ([OMB 2002](#)). The OMB was also permitted to make

⁷ S. Rep. No. 104-266 ([U.S. Congress 1996c](#)) also indicates that the 95 percent coverage expected with the new threshold of \$300,000 was consistent with the coverage when the initial threshold of \$100,000 was established.

⁸ The deadline for completing the audit was debated by the stakeholder groups. Federal managers preferred a six-month deadline, while state auditors were concerned that six months would not be sufficient. The nine-month deadline represented a compromise by the stakeholder groups (S. Rep. No. 104-266, [U.S. Congress 1996c](#)). Due to the nature of the audit work required, the nine-month deadline is significantly longer than the SEC 10-K reporting deadlines, which range from two to three months depending on filer size.

changes in other audit criteria and to develop pilot projects to test additional ways to improve the single audit process (S. Rep. No. 104-266, [U.S. Congress 1996c](#)).

A significant authority given to the OMB in this legislation was the ability to create an online submission system for single audit filings ([U.S. Congress 1996a](#)). The Federal Audit Clearinghouse, established in 1997, is managed by the U.S. Census Bureau. The summary electronic forms, SF-SAC, capture both audit findings, as well as detailed grant award information. This information has drawn academic attention to single audits, having since been used extensively in academic research (e.g., [Jalandoni, Petrescu, and Green 2005](#)). Furthermore, academic research has encouraged additional development of the repository including tagging database items with XBRL technology to improve the data's usefulness (e.g., [Kull 2010](#)).

IV. NATIONAL SINGLE AUDIT SAMPLING PROJECT

The new century commenced with important, and tragic, events that demanded immediate governmental attention. In 2001, George W. Bush became president, and on September 11 of that same year terrorists attacked the Pentagon, hijacked and crashed a commercial flight in Pennsylvania, and attacked and destroyed the World Trade Center towers in New York City ([The September 11 Digital Archives 2018](#)). Immediately following the terrorist attacks, national discourse focused on security and war, as revealed by a survey of presidential announcements and legislation enacted during the initial aftermath of the attacks. At the end of 2001, Enron Corporation declared bankruptcy following revelations of accounting controversies ([University of Virginia Miller Center 2018](#)).

While the United States grappled with its response to the terrorist attacks, another accounting scandal led to bankruptcy. In July 2002, WorldCom, the second largest long-distance telephone company, filed for bankruptcy, outranking Enron's bankruptcy filing as the largest in history ([Beltran 2002](#)). Now Congress had to turn its attention to the financial markets, and the behavior of participants involved in those markets. While H.R. Bill 3763 had already been introduced in the House of Representatives in February 2002 following Enron's collapse, WorldCom's bankruptcy filing created an even greater sense of urgency in lawmakers. Accordingly, H.R. 3763 became the Sarbanes-Oxley Act of 2002 on July 30, 2002 when the president signed the bill into law ([U.S. House of Representatives 2002](#)).

During this era of intense scrutiny of the audit process of corporate financial statements, the OMB controller confirmed at a 2002 U.S. House of Representatives hearing that prior federal agency quality control reviews had disclosed some audit quality deficiencies in single audits of governmental units. However, the OMB controller indicated the reviews did not include statistically based measures of audit quality. Thus, the OMB, several federal agencies, and three state auditors contributed to the National Single Audit Sampling Project in an effort to represent a statistically based measure of single audit quality. The project's purpose was to employ a sound statistically based approach to determine the level of single audit quality and to recommend any changes to requirements or procedures in order to improve single audit quality ([PCIE 2007](#)).

The President's Council on Integrity and Efficiency randomly selected a statistical sample of 208 single audits from a population of approximately 38,500 single audits issued from April 2003 through March 2004. From the sample of 208 single audits reviewed, 115 (55.3 percent) were "acceptable," 30 (14.4 percent) were of "limited reliability," and 63 (30.3 percent) were "unacceptable." Interestingly, a difference in audit quality was noted between Stratum I (larger audits where at least \$50 million in federal funds were expended) and Stratum II (smaller audits where at least \$500,000, but less than \$50 million, of federal funds were expended). For

comparison, 63.5 percent (48.2 percent) of single audits in Stratum I (Stratum II) were “acceptable,” 12.5 percent (16.1 percent) of single audits in Stratum I (Stratum II) were of “limited reliability,” and 24.0 percent (35.7 percent) of single audits in Stratum I (Stratum II) were “unacceptable.” The three primary deficiencies noted were (1) “not documenting the understanding of internal controls over compliance requirements,” (2) “not documenting testing internal controls of at least some compliance requirements,” and (3) “not documenting compliance testing of at least some compliance requirements” (PCIE 2007, 3).

In June 2007, President George W. Bush’s Council on Integrity and Efficiency issued the report on the National Single Audit Sampling Project to the OMB. Based on the project results, the President’s Council on Integrity and Efficiency recommended that the OMB work with various parties, including the President’s Council on Integrity and Efficiency, the AICPA, and the AICPA’s Governmental Audit Quality Center (GAQC) to uniformly improve single audit quality. The President’s Council on Integrity and Efficiency specifically recommended that the OMB “revise and improve single audit standards, criteria and guidance,” “establish minimum requirements for training on performing single audits,” and “review and enhance processes to address unacceptable single audits” (PCIE 2007, 4).

On October 25, 2007, the director of the National Single Audit Sampling Project, directors from the AICPA and the GAO, and the controller of the OMB testified before a Senate Subcommittee on Federal Financial Management. The primary focus of the hearing was to discuss the National Single Audit Sampling Project’s results and recommendations, and the oversight roles that cognizant agencies have over single audits. The Director of the AICPA’s GAQC emphasized the importance of improving grantee-level governance mechanisms. Additionally, she suggested that the focus should not solely be on auditors, but that parties at all levels should participate to enhance the single audit process. Additional discussion included the complexity of single audits and potential benefits of the federal government utilizing state auditor-level expertise for increased involvement in improving single audit quality (U.S. Senate Committee on Homeland Security & Governmental Affairs 2007).

The Director of the National Single Audit Sampling Project testified before the Senate Subcommittee regarding two primary reasons for the difference in audit quality results between Stratum I (larger audits) and Stratum II (smaller audits). He indicated that when higher volumes of federal expenditures are present (1) grantees tend to have stronger governance mechanisms with higher volumes of federal expenditures, and (2) there is generally more federal agency oversight of grantees and more federal agency monitoring of auditors through quality control reviews. An important point from the Senate Subcommittee hearing discussion was agreement that the study revealed the tradeoff between focusing more audit resources in higher volume (risk) areas and shifting audit resources away from lower volume (risk) areas. Moreover, during this hearing timeframe, approximately \$450 billion in federal grant awards were disbursed to nonfederal grantees annually. One of the consistent major concerns from the single audit study results was that approximately 7 percent of the dollar amount of single audit grant awards reviewed could not be relied upon. This concern was deemed important because it would represent more than \$30 billion in federal grant awards categorized in the study as “limited reliability” or “unacceptable” (U.S. Senate Committee on Homeland Security & Governmental Affairs 2007).

V. IMPROPER PAYMENTS INITIATIVE

Following the revelation of concerns about the effectiveness of the single audit process as reported in the National Single Audit Sampling Project, the GAO (2009) conducted an additional

performance audit between February 2008 and January 2009, and summarized its conclusions in Report 09-307R dated March 13, 2009. The goals of the audit were to determine whether the existing federal structure provided adequate oversight of the effectiveness and efficiency of the single audit process, ascertain recommendations for improvements to the process, as well as implementation guidance, and determine the status of actions regarding recommendations made in the President's Council on Integrity and Efficiency report. As a result of its audit findings, the GAO made recommendations for the OMB. Those recommendations included establishing a group to monitor the single audit process throughout the government, creating a workgroup to assess the existing single audit process and make recommendations for improvements to the process, and overseeing the status of the activities of workgroups and task forces composed of the AICPA, National Association of State Boards of Accountancy (NASBA), and the OMB (GAO 2009).

Later that year on November 20, 2009, President Obama issued Executive Order 13520, "Reducing Improper Payments" (The White House, Office of the Press Secretary 2009) Unlike his predecessors Presidents Reagan's and Clinton's goals to overhaul welfare programs, President Obama led the charge to combat waste and fraud in government spending by eliminating the improper payments of federal funds. The mission of his executive order was to, "reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries" (Exec. Order No. 13520 2009, The White House, Office of the Press Secretary 2009, 62204). In addition, in his Order, President Obama specifically addressed the issue concerning the effectiveness of the single audit process. He charged the OMB with establishing a working group consisting of federal and elected state and local government officials with the purpose of improving single audit effectiveness. In particular, President Obama ordered recommendations to address "the effectiveness of single audits in identifying improper payments and opportunities to streamline or eliminate single audit requirements where their value is minimal" (Exec. Order No. 13520 2009, The White House, Office of the Press Secretary 2009, 62204).

The National Single Audit Sampling Project and Executive Order 13520 set the momentum for change in single audit guidance. The OMB acted on the recommendations made in the GAO report and the Executive Order and created working groups and a new oversight organization. In fiscal year 2010, the OMB formed the OMB Super Group. The Super Group reviewed 34 recommendations submitted by other working groups formed by the OMB pursuant to Executive Order 13520. As a result of the work conducted by the Super Group, by February 2013, the OMB issued its proposed Uniform Guidance, which included a proposal to raise the audit threshold to \$750,000 in federal expenditures.⁹ The OMB had previously formed the Council on Financial Assistance Reform in 2011 and assigned the organization with the task of providing recommendations "on policies and actions necessary to effectively deliver, oversee, and report—through single audits—on grants and cooperative agreements" (GAO 2009). The OMB also participated with the AICPA in "Single Audit Roundtables" as part of its mandate to monitor the activities of other interested groups. The OMB cited a lack of resources when it communicated that it could not monitor the activities of the National Association of State

⁹ The initial proposal included a threshold of \$1,000,000 in expenditures of federal awards. The final guidance included the lesser threshold of \$750,000, representing a compromise among the interested parties and, consistent with the evolution of the threshold, designed to balance accountability and efficient use of audit resources.

Boards of Accountancy (NASBA) as recommended by the GAO, but that it did conduct other monitoring activities of other stakeholders through its newly established Council on Financial Assistance Reform (GAO 2009).

VI. UNIFORM GUIDANCE

The Uniform Guidance, issued in December 2013 and effective in 2015, superseded and streamlined guidance from eight previous OMB circulars. Most governments and nonprofit organizations were audited under this new Uniform Guidance beginning with a June 30, 2016 year-end (Thomson Reuters 2016). The reform was based on work performed from 2011 through 2013 by federal entities and nonfederal entities such as state and local governments, colleges and universities, nonprofit organizations, and auditors. The overall goal of this work was to enhance standards governing the stewardship of federal dollars. Much of this work was in response to two Presidential directives: (1) Executive Order 13520 in 2009, and (2) a memorandum in 2011 directing the OMB to “reduce unnecessary regulatory and administrative burdens and redirect resources to services that are essential to achieving better outcomes at lower cost” (OMB 2013).

The Uniform Guidance’s specific objective relates to regulatory and administrative issues and reducing the risk of fraud and waste. Before this guidance took effect, nonfederal organizations dealt with burdensome oversight and audit findings that at times had no merit due to inappropriate application of conflicting standards. However, consolidating previous OMB circulars into one streamlined document serves to substantially improve consistency and reduce any duplicated requirements. The new guidance also focuses more on grantees achieving certain performance goals instead of just compliance to a set of requirements. Specifically, the federal grantor agencies are now required to give grantees appropriate performance objectives to help ensure federal grant dollars achieve certain performance outcomes. Additionally, the Uniform Guidance updates previous guidance associated with (1) the efficient use of modern information technology, (2) more government-wide consistency in allocating direct and indirect costs to programs, (3) setting more limitations for allowable costs associated with federal programs, (4) standardizing business processes and data usage to reduce burden on administration, (5) more flexible policies for grantees to allow employees a better work-life balance (e.g., allowable child care costs for conferences), (6) requiring federal grantors to review risk profiles of grantees prior to grant awards, and (7) improving single audit provisions whereby auditors focus attention on areas of greatest risk of fraud and abuse (OMB 2013).

A key aspect of the Uniform Guidance reform is that it raised the single audit threshold to \$750,000 in federal awards from the previous threshold of \$500,000 in federal awards. This provision was important because it served to reduce audit resources used by almost 5,000 nonfederal grantees. Furthermore, over 99 percent of total federal dollars would still have single audit coverage, even with the increase in threshold to \$750,000 (OMB 2013). As noted in Figure 1, Panel A, there has been an upward trend in thresholds since the original 1984 Act’s (U.S. Congress 1984a) threshold of \$100,000 in federal grant awards received. This trend primarily highlights regulators’ consistent attempts over the past three decades to increase audit efficiency by performing fewer audits while still capturing a large percentage of total federal dollars. Additionally, a secondary component to the increase in thresholds may be due to an increase in the magnitude of the average federal grant awards.

One particular Notice of Proposed Guidance related to removing requirements for only institutions of higher education (IHEs) to comply with Federal Acquisition Regulation Cost Accounting Standards. These requirements involve IHEs filing disclosure statements when federal

awards reach \$25 million. Some commenters on the proposal were concerned about removing this requirement because they felt the disclosure statement helped to reduce fraud and abuse. In addition, most of the burden falls on the IHE the first time they reach the threshold dollar amount. Consequently, the Council on Financial Assistance Reform recommended keeping the requirement at a new threshold level of \$50 million instead of \$25 million. Moreover, according to the Council on Financial Assistance Reform, a large component of the administrative burden comes from an IHE's uncertainty while waiting for federal entity approval of a change submitted in a disclosure statement. The Council on Financial Assistance Reform then recommended that the guidance require nonfederal grantees only to submit any changes at least six months prior to any implementation without having to wait for federal approval. The importance of these changes to the guidance is associated with mitigating administrative burden and uncertainty while avoiding "unnecessary audit findings" (OMB 2013, 78600).

VII. DISCUSSION AND CONCLUSION

In this paper, we provide a history of the single audit and related scope, thresholds, and regulatory burden, an important endeavor considering ongoing single audit quality concerns. This 30-year analysis extends [Brown and Burnaby's \(1988\)](#) summary of the 20-year history preceding the Single Audit Act of 1984. We highlight key changes in legislation and administrative developments around the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the ultimate consolidation of previous OMB circulars as part of the 2013 Uniform Guidance. During this time period, the basis of measurement changed from federal grant awards received to federal grant awards expended, and in an attempt to more efficiently allocate audit resources, the threshold increased from \$100,000 to \$750,000.

Despite the consistent goals of accountability and decreased audit burden, concerns with single audit quality have persisted over its 30-year history and significant evolution (e.g., [AICPA 2017](#); [GAO 1985, 1986](#); [PCIE 2007](#); [Tysiac 2017](#); [Waymire et al. 2018](#)). Whether the new Uniform Guidance, which includes substantial changes from previous single audit guidance, will increase accountability and decrease burden remains to be seen. Early feedback suggests that auditors and grant recipients have encountered challenges related to implementation ([Thomson Reuters 2016](#)).¹⁰ We therefore recommend future empirical research geared toward ongoing single audit quality challenges and the newly implemented Uniform Guidance. Although the [PCIE \(2007\)](#) points to the ability of large federal grantees to better manage grant compliance, attention to the constraints of the supply of qualified audit firms should also be addressed. Therefore, future research should consider whether market constraints, e.g., supply of capable and willing audit firms, have hindered gains in accountability and efficiency envisioned by legislative and administrative actions. For example, researchers might consider single audit quality differences between market-driven audit states (i.e., those where CPA firms conduct single audits) and more centralized audit states (i.e., those where responsibility for single audits resides with a centralized state audit agency). Furthermore, recent implementation of Uniform Guidance offers researchers the opportunity to evaluate these single audit market characteristics and the effectiveness of single audits pre- and post-implementation.

¹⁰ Some challenges, for example, those related to multiple effective dates ([Thomson Reuters 2016](#)), will not be present in the post-implementation period. However, other challenges, such as those related to increased documentation of internal controls ([Thomson Reuters 2016](#)), will likely persist after the implementation period.

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