



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL OFFICER

August 22, 2016

Dear Colleague,

I am writing about the importance of the Single Audits conducted under the Single Audit Act and OMB Circular A-133, and am seeking your assistance in helping to ensure that the audits conducted are of sufficient quality so that they meet all applicable requirements. As you remember, these are the organization-wide audits to be performed by independent auditors required to be arranged by entities expending more than \$750,000 in Federal assistance.

Single Audits provide essential accountability and transparency over government programs, because they provide an objective analysis of a grantee's ability to administer Federal grant programs effectively and ensure that they are operating in conformity with all legal requirements. Through the audit process, auditors examine a grantee's management, control, and use of Federal funds and test for compliance with selected elements of a program's statutory and regulatory requirements.

Single Audits are required by the Office of Management and Budget's Uniform Guidance (UG) at 2 C.F.R. 200.501. This section states, "a non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit...conducted for that year..." Federal grantees that meet this requirement must submit a single audit annually to the Federal Audit Clearinghouse (FAC). The resolution of single audit findings is one of the most important oversight functions of the Department, and of State entities that administer subgrants under Department programs. The Department, and when applicable, State entities are "responsible for issuing a management decision for findings that related to Federal awards it makes to non-Federal entities." (2 C.F.R. 300.521(c)(3).)

In reviewing Single Audits, we are concerned about the variability of quality among those audits and the weaknesses and lack of completeness of some of those audits. This often creates extra work for the Department and State agencies, may extend the time to resolve audit findings and may result in poor or weak oversight and accountability that undermines the public's confidence in the effectiveness of the grant programs involved. Given the critical role that Single Audits play in effective grant oversight, it is essential that those audits meet the Generally Accepted Government Auditing Standards established by the Government Accountability Office. In our review of the quality and completeness of the Single Audits, there are several government auditing standards (regarding the completeness of the audit findings) that auditors have had some difficulty in meeting, and for which more attention should be given by both the auditor and the auditee. For your convenience, I have attached them to this letter.

When Single Audits lack sufficient analysis and detail to enable the Department or pass-through entities to make informed decisions regarding the audit findings, they can be rejected as non-compliant and returned for further work, and auditees can be subject to more significant

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enforcement actions. The quality of the audits has a direct impact on the Department's or States' ability to rely on Single Audits as a management tool for grant administration. Single Audits lacking detail and a full understanding of the program being audited do not effectively identify and deter program risks, nor allow the comprehensive and accurate correction of identified noncompliance.

As recipients of Federal funds, Department grantees and subgrantees have a significant responsibility to:

- Ensure that a complete and fully compliant Single Audit is conducted annually and submitted to the FAC in a timely manner;
- Hire a fully-qualified auditor;
- Ensure that all required documentation is organized and available to the auditor throughout the engagement;
- Ensure that the auditor understands each program's legal requirements; and
- Provide auditors full access to key grant personnel during the process.

We are providing a similar letter to organizations representing auditors so that they can fully understand our expectations on the quality of the Single Audits. We also welcome your review of the recent Single Audits that have been conducted of your agency, so that you might work with the auditors involved to help them to better understand what is expected of them when your agency arranges for a Single Audit. The Department intends to communicate through webinars and other dissemination of information to help auditees and auditors provide the high quality audits that the public deserves.

To assist grantees in understanding and meeting this responsibility, we offer several resources listed below that the American Institute of Certified Public Accountants has available on its website. These resources include a guide on how to hire a quality auditor; auditee tools and practice aids in preparing for an audit; and a guide to the audit procurement process. They include:

http://www.aicpa.org/InterestAreas/PrivateCompaniesPracticeSection/QualityServicesDelivery/KeepingUp/DownloadableDocuments/Hiring_%20a_%20quality_%20auditor.pdf;

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditeeResourceCenter/Pages/AuditeeTools,PracticeAids,andOtherResources.aspx>; and

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditeeResourceCenter/DownloadableDocuments/RFPPracticeAid.pdf>.

We will be presenting such information at future conferences of grantees and auditors on the role of audits in grants management, the critical importance of 'audit readiness,' as it contributes to audit quality, and the need to have complete audits that meet all applicable auditing standards. We also expect to make additional resources available on the Department's website in the near future.

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If you have any questions on this matter, please do not hesitate to contact me at (202) 245-8017 or via email at Charles.Laster@ed.gov. I appreciate the attention your organizations will give this effort and I know together we can improve the quality of Single Audits and enhance their role as effective tools for program management.

Sincerely,

A handwritten signature in blue ink that reads "Charles B. Laster". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Charles B. Laster
Director
Post Audit Group
Financial Improvement Operations
Office of the Chief Financial Officer

Attachment

ATTACHMENT

The Generally Accepted Government Auditing Standards established by the Government Accountability Office are available at: <http://www.gao.gov/yellowbook/overview>

Here are some examples of relevant provisions on the quality of audits:

4.13 Cause: The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

4.14 Effect or potential effect: The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

4.20 Auditors should include either in the same or in separate report(s) a description of the scope of the auditors’ testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, or grant agreements. Auditors should also state in the reports whether the tests they performed provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, or grant agreements.

4.28 When performing a GAGAS financial audit and presenting findings such as deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should develop the elements of the findings to the extent necessary, including findings related to deficiencies from the previous year that have not been remediated. Clearly developed findings, as discussed in paragraphs 4.10 through 4.14, assist management or oversight officials of the audited entity in understanding the need for taking corrective action, and assist auditors in making recommendations for corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.

4.29 Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.