

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE




Division of Legislative Audit

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### MEMORANDUM

**TO:** Members of the Legislative Budget  
and Audit Committee

**FROM:** Pat Davidson, CPA   
Legislative Auditor

**DATE:** November 4, 2009

**RE:** Participation in the Single Audit pilot project

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The Division of Legislative Audit is participating with 13 other states in a pilot program authorized under the Single Audit Act of 1984, OMB Circular A-133.

The pilot program is a collaborative effort between volunteer states, the auditors performing audits under Office of Management and Budget (OMB) Circular A-133, and the federal government. The purpose of the pilot project is to provide more timely communication of significant deficiencies and material weaknesses in selected major programs to the agency management and the federal funding agencies.

#### Background Information

The American Recovery and Reinvestment Act of 2009 (ARRA) included specific provisions for accountability and transparency. These provisions included enhanced financial reporting and a robust audit conducted by the Recovery Accountability and Transparency Board, Office of Inspector Generals and the Government Accountability Office (GAO).

One of the concerns expressed by the GAO was that the Single Audits are not timely enough to alert state and federal agencies about deficiencies in programs with ARRA funding. Their concerns were summarized as:

*States have implemented various internal control programs; however, federal Single Audit guidance and reporting does not fully address Recovery Act risk.*

*The Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on deficiencies. Moreover, current guidance does not achieve the level of accountability needed to effectively respond to risks. OMB is vetting a pilot program for early written communication of internal control deficiencies for Recovery Act programs that, if properly scoped to achieve sufficient coverage of Recovery Act programs, could address concerns about the timeliness of Single Audit reporting. Finally, state auditors need additional flexibility and funding to undertake the added Single Audit responsibilities under the Recovery Act.*

The initial proposal was to shorten the deadline for the Single Audit from nine months to six months after the end of the fiscal year. There was substantial opposition from the auditing community and the two to three year implementation phase was considered too long. As an alternative, OMB explored an option that would allow the auditors to provide interim reporting regarding the results of internal control fieldwork.

In early October 2009, OMB issued the guidelines for the Single Audit Internal Control Project for ARRA programs. In these guidelines, OMB expressed its goals for the participants in this pilot project stating:

*By participating in this pilot project, the Auditors and Auditees are demonstrating to Congress and the general public their deep interest in safeguarding the ARRA funds against fraud, waste and abuse. The Auditors are communicating useful, timely, and important information early to the Auditee management on internal control over compliance relating to Federal programs that have expended and/or are receiving substantial funding from ARRA. Further, such communications will allow Auditees to correct internal control deficiencies related to ARRA fund in a timely manner to reduce potential future unallowable costs. Federal agencies will actively work with Auditees to resolve the high risk findings in the most expeditious manner.*

### Responsibilities and Critical dates

November 30, 2009 - To participate in this pilot project Legislative Audit<sup>1</sup> was required to commit to having internal control testwork completed by November 30, 2009 for at least two of the eleven programs selected by OMB. Clean Water and Drinking Water are the two programs selected; however, we anticipate that the internal control testwork for Unemployment Insurance program, Federal Transit – Capital Investment Grants and possibly the Research and Development cluster programs will be completed by November 30, 2009 as well. If the internal control testwork for those programs is completed, then we will include the results in the interim communication.

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<sup>1</sup> The Statewide Single Audit is a combination of work done by Legislative Audit staff and other auditors who primarily audit state quasi-corporations and the University of Alaska.

December 16, 2009 – Legislative Audit will present the packet of interim communications to the Legislative Budget and Audit Committee (LBA). This packet will identify if there are significant deficiencies or material weaknesses in the selected programs. If there are such weaknesses then the relevant findings and recommendations will also be included. We will ask the LBA Committee to authorize the release of this information to the appropriate state and federal agencies.

December 31, 2009 – State agencies will convey the packet of interim communications received from Legislative Audit to Alaska's federal cognizant agency (US Department of Health and Human Services)

January 31, 2010 – Agencies must provide a corrective action plan to the federal cognizant agency.

The federal cognizant agency will immediately distribute the Interim Communications and the corrective action plan to the appropriate federal agency for their review and follow-up.

Any findings and recommendations contained in the Interim Communications will also be incorporated into the Statewide Single Audit which will be presented to the LBA Committee in early March 2010.

If you have any questions or concerns regarding Legislative Audit's participation in the pilot project, or the LBA Committee's role in releasing the Interim Communications, please feel free to contact me at 465-3814.