



*The Federal
Audit
Clearinghouse:
Meeting
Transparency
Challenges*

AGA Partnership for Intergovernmental
Management and Accountability

June 2009

Federal Audit Clearinghouse: Meeting Transparency Challenges

Introduction

In March 2008, AGA's [Partnership for Intergovernmental Management and Accountability](#) (Partnership) created the Leveraging the Single Audit/Strategies for Reducing Improper Payments Work Group (Work Group) to study the apparent overlap between the Single Audit Act Amendments of 1996 (SAA) and the Improper Payments Information Act of 2002 (IPIA). The Partnership asked the Work Group to determine how all levels of government can work together to reduce the workload associated with implementing both acts, while improving the usefulness of the acts to enhance the integrity of federal grant programs and to reduce improper payments.

In undertaking its charge, the Work Group sought to determine what information is in the Federal Audit Clearinghouse (Clearinghouse) and how it can enhance the integrity of federal grant programs. While the Work Group was studying the Clearinghouse, the American Recovery and Reinvestment Act of 2009 (also known as the Recovery Act – Public Law 111-5) was enacted with an emphasis on transparency. To provide transparency for Single Audit results, the Initial Implementing Guidance (dated February 18, 2009) issued by the Office of Management and Budget (OMB) and its subsequent guidance (dated April 3, 2009) includes the requirement that all single audit reports filed with the Clearinghouse for fiscal years ending September 30, 2009 and later, be made publicly available on the Internet.

From this greater transparency, decision makers will be under more pressure to improve the functionality and information available from the Clearinghouse, which can then be used to improve the integrity of federal grants. The Work Group is issuing this analysis highlighting the strengths, weaknesses, opportunities, and threats facing the Clearinghouse so that decision makers can develop the best practical improvements for the Clearinghouse.

Clearinghouse Background

Purpose

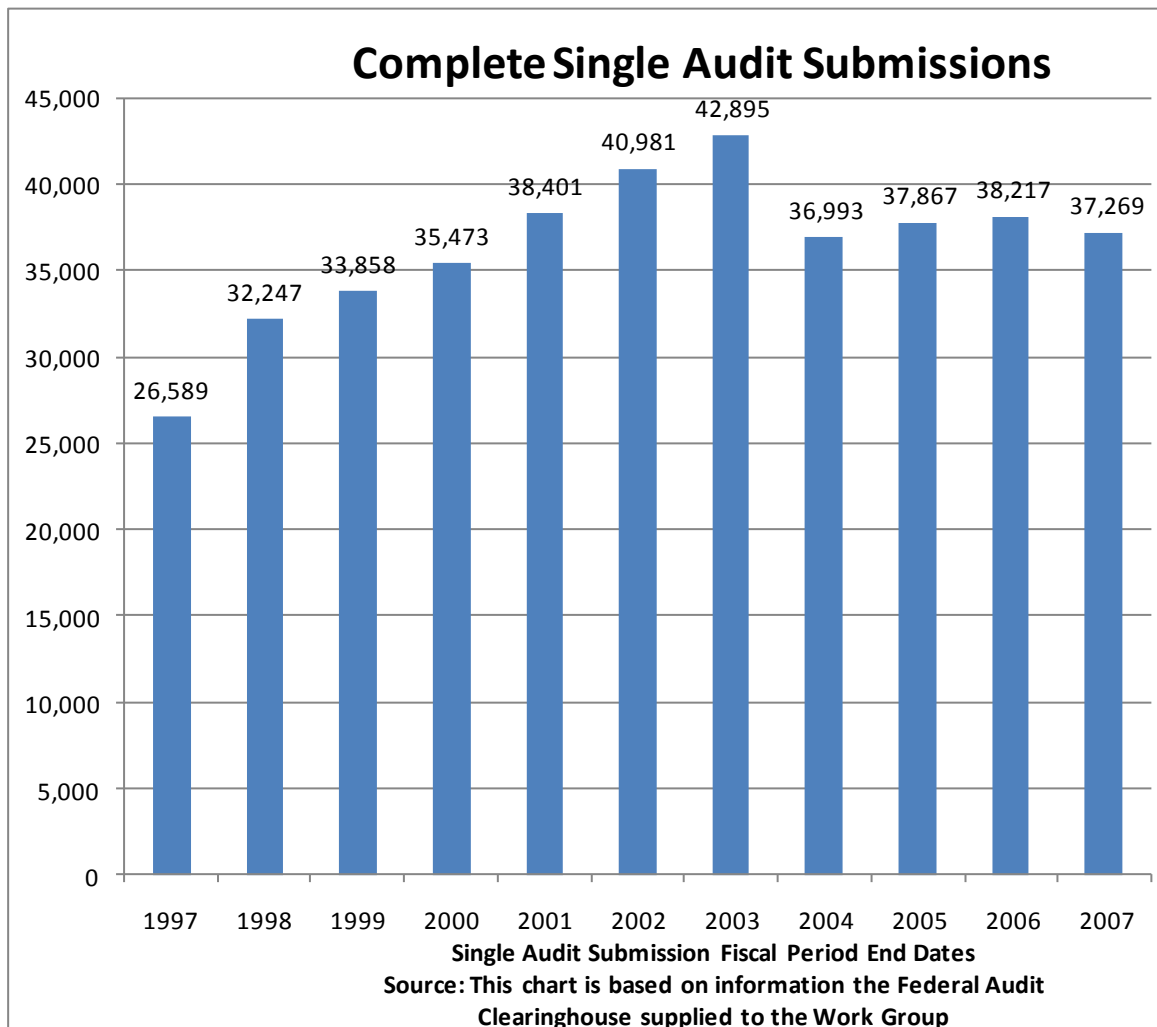
The Single Audit Act Amendments of 1996 require non-federal entities to transmit their SAA reporting package to a Clearinghouse designated by the Director of OMB. OMB designated the U.S. Department of Commerce's Bureau of the Census to operate the Clearinghouse on its behalf. OMB's primary purposes for the Clearinghouse are to:

- Disseminate audit information to federal agencies and the public.
- Support OMB oversight and assessment of federal award audit requirements.

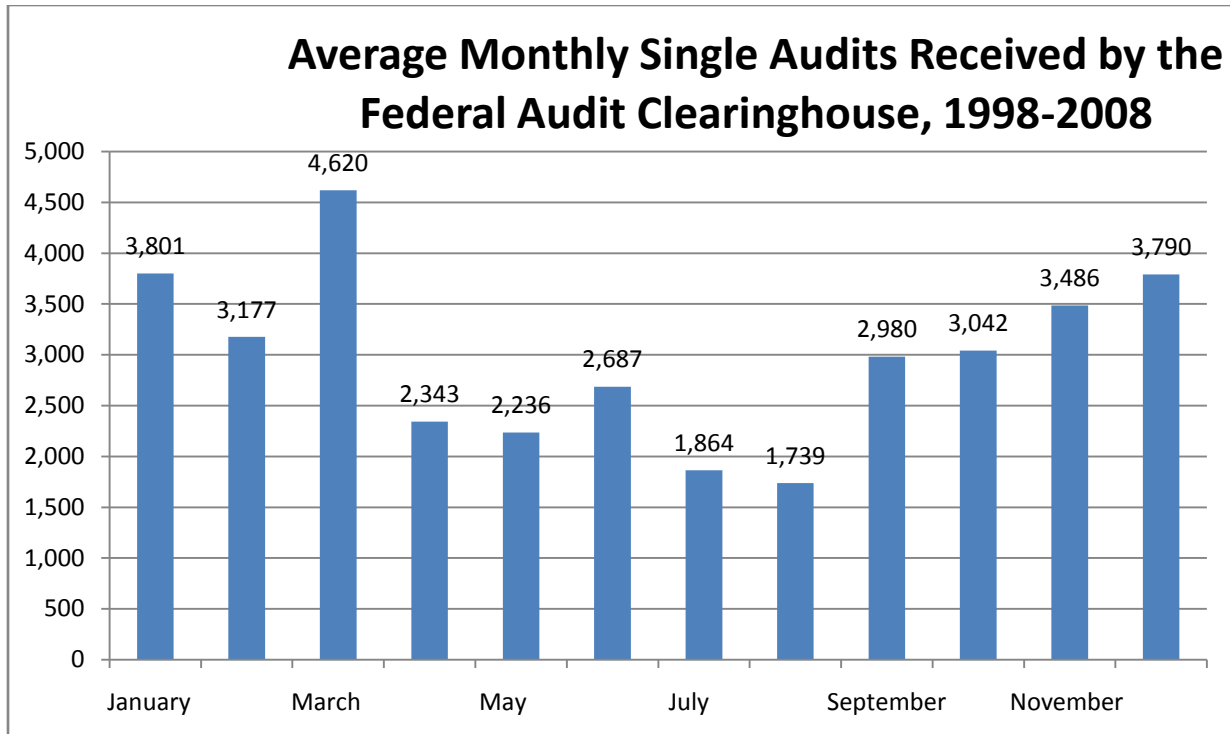
- Assist federal cognizant and oversight agencies in obtaining data and reporting packages prepared in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133).
- Help auditors and auditees minimize the reporting burden of complying with Circular A-133 audit requirements.

Volume

Reports Received per Year – As seen in the following chart, between 1997 and 2007, the number of Single Audit reports received by the Clearinghouse has fluctuated from 27,000-43,000 per year. The 14 percent decrease in single audit reports between 2003 and 2004 was the result of OMB raising the annual expenditure threshold for requiring a single audit from \$300,000 to \$500,000 in 2004. In the near future, the volume of single audits are expected to increase, as it is logical to assume that more auditees will be pushed over the \$500,000 threshold as a result of receiving Recovery Act funds.



Monthly Receipt of Reports – The following table depicts the wide variation in the average number of reports received by the Clearinghouse, by month. Monthly averages vary from approximately 1,700 to approximately 4,600. March’s volume is considerably higher because these audits are required to be completed within nine months of year-end, and a large number of auditees have June 30th year-ends.



Major Events

Following is a timeline of major events for the Clearinghouse since its creation in 1997.

Collection of Reports:

- 1997 – Paper submissions only of audit reporting packages and summary information
- 1998 – Word and Word Perfect templates to aid paper submissions
- 2000 – Collect summary data over the Internet
- 2004 – Accept revisions over the Internet
- 2008 – All information, Internet submissions only

Dissemination of Reports:

- 1997 – Internet Data Dissemination System (IDSS) – text file downloads
- 2000 – IDSS total database downloads and special reports
- 2002 – Cognizant assignments
- 2003 – Image Management System (IMS) – Electronic images made available to federal agencies
- 2009 – Effective for September 30, 2009 single audits and after, electronic images (PDF files) of reporting packages to be made available on the Internet

Reviews:

- July 2000 – Department of Commerce OIG, “Agreed-Upon Procedures and Assessment of FAC Database”
- May 2004 – Department of Commerce OIG, “Results of Assessment of Federal Audit Clearinghouse Database Utilizing Agreed-Upon Procedures”

Both of the Department of Commerce Office of Inspector General’s reviews, 2000 and 2004, found the functions of the Clearinghouse to be generally reliable.

Contents

The Clearinghouse contains summary and detailed information for the approximately 37,000 single audits that are completed in conformance with Circular A-133 each year. The detailed information is housed within each individual audit reporting package and is supplied by both the auditors and non-federal entities. The SAA requires auditors to comply with *Government Auditing Standards* issued by the Comptroller General of the United States in performing and reporting the results of their audit work. Government Auditing Standards (GAGAS) is commonly referred to as the “Yellow Book.”

Under the SAA, the auditor’s reporting responsibilities include:

- expressing an opinion as to whether the non-federal entity’s financial statements are presented fairly and in conformity, in all material respects, with generally accepted accounting principles;
- expressing an opinion as to whether the non-federal entity complied with applicable laws, regulations, contract provisions, and grant agreements that could have a direct and material effect on each major program;
- expressing an opinion on whether the non-federal entity’s schedule of expenditures of federal awards is presented fairly, in all material respects, in relation to its financial statements taken as a whole;
- reporting significant deficiencies in internal control, identifying those considered to be material weaknesses;
- reporting all instances of fraud and illegal acts, unless inconsequential;
- reporting violations of provisions of contracts or grant agreements and abuse that could have a material effect on the financial statements;
- reporting on the scope and results of the auditor’s work related to the non-federal entity’s internal control over its major programs; and

- preparing a schedule of findings and questioned costs that includes findings of non-compliance, and material weaknesses and significant deficiencies in internal control.

The non-federal entity is required to prepare a detailed corrective action plan addressing the auditor's findings and a summary schedule of the status of prior single audit findings. The auditor is required to report a finding, if the auditor finds that the summary schedule of prior single audit findings materially misrepresents the status of any of the findings.

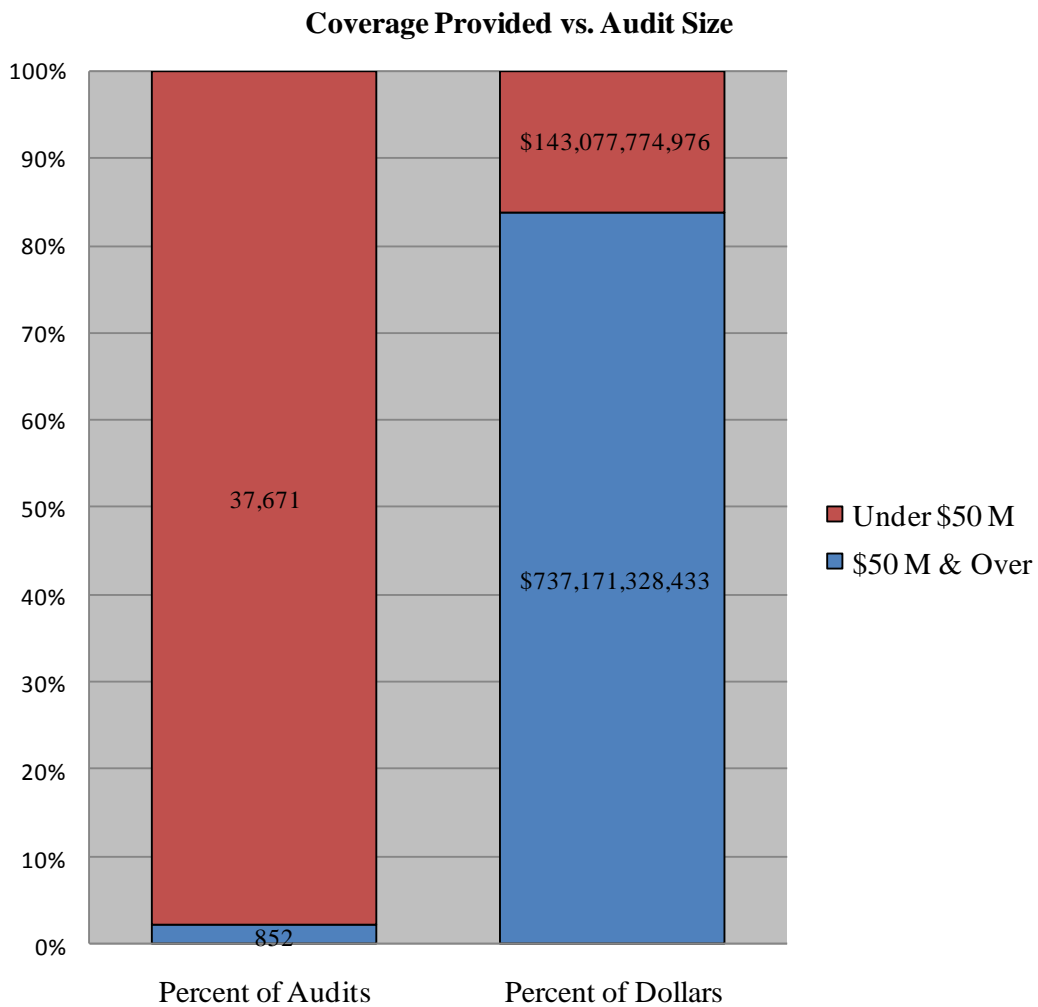
In addition to the full detailed single audit reports, the non-federal entities and their auditors are required to enter summary information about the scope and audit results into a database administered by the Clearinghouse. Currently, only this summary information is publicly available from the Clearinghouse. This publicly available information, including the auditee's and auditor's name includes the following:

- Type of auditor's opinion on the financial statements;
- Type of auditor's opinion on the schedule of expenditures of federal awards;
- For each federal program administered by the non-federal entity
 - The amount of expenditures for the audit period;
 - Whether the program was audited as a major program;
 - Type of auditor's opinion on compliance with applicable laws, regulations, contract provisions, and grant agreements; and
 - Whether there were any findings of noncompliance, significant deficiencies or material weaknesses and, if so, which compliance requirements they affected
- Whether there were any significant deficiencies or material weaknesses in internal control over financial reporting or internal control over compliance for federal programs reported;
- Whether there were any questioned costs reported; and
- Whether the non-federal entity was considered a low-risk auditee. The entire audit package is currently uploaded to the Clearinghouse as a single PDF file.

Coverage and Size

According to a report issued by the President's Council on Integrity and Efficiency (PCIE) in June 2007, a few hundred of the 38,000 single audits that were submitted and accepted by the Clearinghouse in a 12-month period provide a majority of the audit coverage. Specifically, the PCIE's *Report on National Single Audit Sampling Project* noted that the larger non-federal

entities, those expending over \$50 million in federal grants individually, represent less than three percent of single audits yet cover about 85 percent of federal award expenditures. Whereas, the remaining non-federal entities, which individually expended under \$50 million in federal grants each year accounted for over 97 percent of the single audits, but represent about 15 percent of federal award expenditures. The following graph shows how a small percentage of single audits provide a vast majority of the audit coverage.



Information Dissemination and Follow-up

All single audit reports, including all the items listed in the contents section, are electronically submitted to the Clearinghouse for possible electronic distribution within the federal government. Non-federal entities must also distribute copies of their audit reports (either hard copy or electronically) to any pass-through entities from which they receive federal program funds. Federal agencies and non-federal pass-through entities are required to determine what

action should be taken to address the auditor's findings and ensure that the audited non-federal entity takes appropriate corrective action. In addition to the previously mentioned requirement of OMB's Recovery Act guidance for all single audit reports filed with the Clearinghouse to be made publicly available on the Internet, the guidance also requires federal agencies to review single audits of Recovery Act funded grants and provide a synopsis of audit findings relating to obligations and expenditures.

Strengths, Weaknesses, Opportunities, and Threats

Below is a summary of strengths, weaknesses, opportunities, and threats to the Clearinghouse. The Work Group urges the Obama Administration to consider these aspects of the Clearinghouse in deciding how to make information more accessible and useful:

Strengths:

- The Clearinghouse is already the repository for all audits of non-federal entities, which expend more than \$500,000 in federal grant awards annually. As of the date of this report, the Clearinghouse contains the results of 434,500 audits.
- Non-federal entities are required to make the information they submit to the Clearinghouse available for public inspection. All information in the Clearinghouse is, therefore, public information.
- Non-federal entities certify that the summary information is accurate. Auditors make a statement that the summary information they provide was based on the information in the reporting package.
- The Clearinghouse uses various edit checks and follows-up on exceptions to promote accuracy of the summary information.
- The Clearinghouse provides the public with an online search engine for retrieving summary information about specific non-federal entities. Additionally, the Clearinghouse provides the public with an option to download all summary information for external analysis and query summary information by program using the Catalogue of Federal Domestic Assistance (CFDA) number.
- The Clearinghouse provides electronic image files to federal agencies to facilitate federal program oversight. This information includes resolution of audit findings.
- After 2007, non-federal entities and their auditors were required to submit all of their information electronically to the Clearinghouse through a web portal.
- The Clearinghouse provides the ability to analyze audit results on a program-wide basis. Federal managers and the public can perform queries on a program basis that will provide information such as:

- how many (and which) entities filed audit reports that included the program and how much was expended;
- in how many (and which) of those audits was the program audited as a major, and how much funding was covered by an audit;
- how many (and which) audits had clean or modified opinions on compliance for the program; and
- an analysis of how often there were compliance and internal control findings for each of the 14 types of compliance requirements for the program.

Weaknesses:

In evaluating the current weaknesses of the Clearinghouse, the Work Group concluded that the weaknesses fall into three broad categories: availability, technology, and information. These weaknesses are described in this section with detailed discussions following in the “Opportunity” section on the actions decision makers can take to correct these weaknesses through enhancements to the Clearinghouse.

Availability

The Clearinghouse suffers from a lack of public exposure and utilization, as the detail information it contains is not currently accessible to the public and others involved in grant oversight. However, this will change when the Clearinghouse is opened to the public for reports after fiscal years ending after September 30, 2009.

Structure and Requirements

Consistent with OMB guidance, the Clearinghouse currently makes it possible to download available summary information. In the future, it will be possible to download the full audit reporting package. Subject to the availability of funding and the establishment of appropriate business rules, the Clearinghouse could modify its program operations further to accommodate new requirements.

Information

The Clearinghouse plans to disclose most of the information it receives as individual PDFs within a narrative form. Although, this is good for learning about individual non-federal entities receiving federal awards, it limits the ability to use automated tools to analyze all single audit reports to see systemic problems that are difficult to identify from reviewing one or a few single audit reports.

Opportunities:

As discussed earlier, the Work Group determined that there are three main areas of weaknesses for the Clearinghouse: availability, technology, and information. With the right amount of willingness, decision makers can use these weaknesses, which are discussed in detail within this section, as focal points of opportunities to improve the Clearinghouse.

Availability

OMB has already made the decision to open the Clearinghouse by making all information it collects for fiscal years ending after September 30, 2009 available to the public. Once these reports are available, it will be possible for auditors to review the audit findings of other non-federal entities to identify emerging risks for their clients.

Technology

- OMB could expand the functionality of the Clearinghouse to go beyond the reporting of static information, by using emerging technologies to broadcast the information it receives to end users in near real-time.

OMB could develop an audit follow-up feature that would capture and track corrective action plans and progress. Initially, tracking could be limited to recipients who receive more than \$50 million annually. These audits represent less than 3 percent of single audits yet cover about 85 percent of federal award expenditures. This centralized tracking system would be consistent with a GAO March 13, 2009 recommendation to move away from a one-size-fits-all approach to single audits.¹ Demonstrating progress in fixing single audit weaknesses will likely become a higher priority, once the public can access detailed single audit findings.

- The Clearinghouse could provide an organized way for the public to submit feedback to the Clearinghouse. Feedback should be sent to the Federal cognizant/oversight agencies for a response. The Clearinghouse could be set up to serve as a gateway to collect this information from the public and disseminate it to the Federal agencies.
- OMB could require the Clearinghouse to display audit findings by program at a summary level, with a link to the detail information so that a program manager can see both the big program-wide picture as well as zoom in on specifics. A “top-down” view by program is needed to support corrective actions both at the Federal level to improve program design as well as address deficiencies common among non-Federal entities.
- OMB could set common data standards for Federal agencies to use in submitting audit results to the Clearinghouse. Common standards would help ensure that all Federal

¹ GAO-09-307R, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, March 13, 2009.

agencies could interface electronically with the Clearinghouse. If these systems interface, federal agencies would not have to manually re-key audit results into their internal systems.

- OMB could require additional functionality be added to the Clearinghouse Internet Data Entry System (IDES) to capture additional detail (i.e., audit finding text, etc.).
- OMB could require additional functionality be added to the Clearinghouse Internet Data Dissemination System (IDDS) to enable users to extract different levels of information.

Information

OMB could require auditors to enter more of their information into the Clearinghouse in a format that is conducive to high-level analysis across tens of thousands of non-federal entities and thousands of federal grants and to take advantage of new technological enhancements. For example, OMB could develop a taxonomy/drop down menu for audit findings that will allow auditors to classify their findings by: severity, compliance requirements, controls that failed, etc.

Threats:

- Some non-federal entities and their auditors inadvertently enter Personally Identifiable Information (PII) into the Clearinghouse. OMB will need to require the use of technologies (e.g., searches, edit checks, etc.) to mitigate the risk of releasing protected PII into the public domain. This risk is not only a threat to the Clearinghouse, but also to all federal agencies, which are bound by Federal regulations strictly prohibiting the release of information that would violate the Privacy Act.
- Without OMB establishing common data standards to take advantage of future information, it will be difficult to understand, analyze and share new information in the Clearinghouse. Data standards are common information building blocks. They are an agreed upon set of rules that make it possible to share data by relying on a common formats, meanings, and the actual contents of data elements. They are not merely forms, like Form SF-SAC, which is the data collection form currently used for filing reports with the Clearinghouse. For instance, the Food and Drug Administration has established the FDA Data Standards Council (DSC), which OMB could replicate to coordinate the evaluation, development, maintenance, and adoption of health and regulatory data standards to ensure that common data standards are used throughout the Clearinghouse and the standards are consistent with those used outside the federal government. The lack of new common data standards for the Clearinghouse will inhibit any new information from being fully utilized.
- Unless OMB establishes a mechanism for fully funding the increased functionality of the Clearinghouse, its potential gains may never be realized.
- Unanticipated demand for Clearinghouse information may cause system failure or degrade response times to the point that using the Clearinghouse becomes inefficient and

ineffective. Unanticipated demand may come from non-federal pass-through entities using the Clearinghouse to fulfill their sub-recipient monitoring responsibilities. This potential threat can be mitigated by performing an impact assessment and, if necessary, upgrading the IT infrastructure to handle the increased demand.

Conclusion

As a result of initiatives stemming from the Recovery Act, there is an important opportunity for the federal government to expand the functionality of the Clearinghouse, increase the number of Clearinghouse users and improve transparency for non-federal entities. These new users, the general public, pass-through entities, and the independent auditors, along with federal managers, can use these new functionalities to aid in their evaluations of grant programs and grant recipients to ensure the best use of public funds.

Publication Acknowledgements

This document was developed by the [Leveraging the Single Audit/Strategies for Reducing Improper Payments Work Group](#) of AGA's Partnership for Intergovernmental Management and Accountability.

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