



*A Comparison of
The Single Audit
Act Amendments
of 1996 and the
Improper
Payments
Information Act
of 2002*

AGA Partnership for Intergovernmental
Management and Accountability

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In March 2008, AGA's Partnership for Intergovernmental Management and Accountability created the Leveraging the Single Audit/Strategies for Reducing Improper Payments Work Group (Work Group) to study apparent overlap between the Single Audit Act Amendments of 1996 (SAA) and the Improper Payments Information Act of 2002 (IPIA). AGA is an association of federal, state and local government financial professionals that is dedicated to advancing government accountability at all levels of government. The Work Group was asked to determine how all levels of government could work together to reduce the workload associated with implementing these acts, while improving the usefulness of both acts to enhance the integrity of Federal grant programs and to reduce improper payments. As part of its analysis, the Work Group prepared a brief summary of the two acts and compared key provisions. This information is provided below.

Overview of the Single Audit Act Amendments of 1996 (SAA)

The SAA

The Single Audit Act, enacted in 1984 and amended in 1996, establishes uniform audit requirements for States, local governments, Indian Tribes and non-profit organizations (non-Federal entities) receiving Federal awards.¹ The purposes of the SAA are to: (1) promote sound financial management, including effective internal control, with respect to Federal awards; (2) establish uniform requirements for audits of Federal awards and promote the efficient and effective use of audit resources; (3) reduce (audit) burden on non-Federal entities; and (4) ensure that the Federal government, to the maximum extent practicable, relies on and uses the audit report required by the Act.

Implementation of the SAA

Under authority of the SAA, the Office of Management and Budget (OMB) issued OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, which provides detailed guidance for implementing the SAA. Under Circular A-133, non-Federal entities that expend Federal awards equal to or in excess of a threshold set by OMB (currently \$500,000) in a year are required to obtain a single audit. A single audit requires an audit of the non-Federal entity's financial statements and a compliance audit of certain Federal programs at

¹ The SAA and OMB Circular A-133 use the term "Federal award" which, means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. For purposes of this paper, Federal awards has the same meaning as Federal grant program (program) expenditures.

the non-Federal entity. The audit is performed in accordance with *Government Auditing Standards* and the requirements in Circular A-133. The specific Federal programs audited are called major programs. Major programs are determined annually by the non-Federal entity's auditor using a risk-based methodology within a framework described in Circular A-133. In applying the risk-based approach for determining major programs for a given single audit, the auditor considers a variety of risk factors relating to the programs including the non-Federal entity's administration of them. Under Circular A-133, all programs at the entity level are evaluated annually to determine which programs will be tested as major programs. As a result, the programs tested can change from year-to-year.

In a single audit, the auditor must for each major program:

- obtain an understanding of the internal controls used by the non-Federal entity to meet applicable compliance requirements,
- assess the non-Federal entity's control risk,
- test internal controls, unless the auditor determines that the controls are ineffective, and
- determine whether the non-Federal entity has complied with the applicable compliance requirements that could have a direct and material effect on the program.

To assist auditors, OMB annually publishes the OMB Circular A-133 Compliance Supplement (Compliance Supplement). The Compliance Supplement identifies the compliance requirements that are generally applicable to the largest Federal programs and provides suggested audit procedures to test compliance with those requirements. The compliance requirements are categorized into 14 types.² The Compliance Supplement also provides guidance related to internal controls for the 14 types of compliance requirements.

Reporting

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 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;
- 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;

² The 14 types of compliance requirements are: activities allowed or unallowed; allowable costs/cost principles; cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching; period of availability of Federal funds; procurement and suspension and debarment; program income; real property acquisition and relocation assistance; reporting; subrecipient monitoring; and special tests and provisions.

- 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 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.

Information Dissemination and Follow-up

All single audit reports, which include all the items listed in the previous section, are electronically submitted to the [Federal Audit Clearinghouse](#) (FAC) for electronic distribution within the Federal government. The non-Federal entity also distributes a copy of the report (either hard copy or electronically) to any pass-through entities from which it receives Federal program funds indirectly. In addition to the full single audit reports, the non-Federal entities' and their auditors are required to enter summary information about the scope and audit results into an online database maintained by the FAC. While all information in the single audit reports submitted to the FAC is considered public information, only the summary information entered into the database is publicly available on the FAC's Internet site. However, OMB's Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009 (Recovery Act – Public Law 111-5) dated February 18 (OMB's Implementing Guidance), 2009, will expand the public's access to this information by requiring for the fiscal years ending September 30, 2009 and later, require all SAA reports filed with the FAC to be made publicly available on the Internet.

Federal agencies and 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. Furthermore, under OMB's Implementing Guidance, Federal agencies will be required to review Single Audits findings and provide a synopsis of findings relating to obligations and expenditures of Recovery Act funding.

Overview of the Improper Payments Information Act of 2002 (IPIA)

The IPIA

The Improper Payments Information Act establishes requirements for estimating and reporting improper payments by Federal agencies. It specifically requires Federal agencies to review all programs and activities that they administer to identify those programs and activities susceptible to significant improper payments. For each program and activity that is identified as susceptible to significant improper payments, the Federal agency is required to estimate and report the annual amount of improper payments, and to report on the actions the agency is taking to reduce improper payments.

The IPIA defines an improper payment as a payment that should not have been made, or was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative or any other legally applicable requirements; and includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, any payment for a service not received, and any payment that does not account for credit for applicable discounts. Or more simply put, an improper payment is any payment that was made to the wrong payee; in the wrong amount; at the wrong time; **or** for the wrong reason. An improper payment, including commitments for future payments (e.g., loan guarantees), includes payments made by a Federal agency, Federal contractor, a governmental or other organization administering Federal programs, and activities and that are derived from, or will be reimbursed by, Federal funds or other Federal resources.

Implementation of IPIA

OMB has issued detailed requirements that Federal agencies must follow in implementing the IPIA. These requirements are contained in Appendix C to OMB Circular A-123, *Management's Responsibility for Internal Control*. Under a four-step process outlined in the Circular, Federal managers must:

- (1) Review all programs and activities and identify those that are susceptible to significant improper payments. Circular A-123, Appendix C defines significant improper payments as annual improper payments in the program exceeding both 2.5 percent of program payments and \$10 million;
- (2) Obtain a statistically valid estimate of the annual amount of improper payments for programs and activities susceptible to significant improper payments;
- (3) Implement a plan to reduce improper payments; and
- (4) Report estimates of improper payments and progress in reducing them in the agencies' annual Performance and Accountability Reports (PAR).

The risk assessments and estimation processes required by the IPIA are part of the monitoring component of management's internal control over its programs.

Comparison of the SAA and the IPIA

The following table over the next several pages compares the processes under the two Acts in selected areas.

	Single Audit Act (SAA)	Improper Payments Information Act (IPIA)
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<p><u>Area of Coverage</u></p>	<p>The SAA only covers expenditure of Federal awards at the non-Federal entity level.</p>	<p>The IPIA covers expenditure of Federal funds at both the Federal level (e.g., payments for programs administered directly by a Federal agency, such as Medicare and Social Security and other direct Federal expenditures) and non-Federal entity levels (e.g., expenditure of Federal awards at the non-Federal entity level, such as Medicaid, Temporary Assistance for Needy Families and other non-Federal entity expenditures under a Federal award).</p>
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<p>Scope</p>	<p>Auditors perform a risk assessment to determine which programs to audit each year (major programs). The auditor’s risk assessment process is prescribed by OMB Circular A-133, performed at the non-Federal entity level and weighted heavily to the non-Federal entity’s programs with the most Federal awards expended. Additionally, the Circular A-133 Compliance Supplement lists the compliance requirements that could have a direct and material effect on the major programs and categorizes them into 14 types of compliance requirements, not all of which, in the event of noncompliance, would cause improper payments³.</p> <p>For each major program the auditor must obtain an understanding of the non-Federal entity’s internal controls over the 14 compliance requirements that are directly material to the program. If the internal controls appear to be effective in preventing or detecting noncompliance, the auditor must test the controls over these compliance requirements to assess the level of control risk.</p> <p>In addition to testing internal controls over these compliance requirements for each major program, auditors must test the non-Federal entity’s actual compliance with these requirements.</p> <p>Although improper payments may be identified, the scope of the testing is not designed to provide a statistically valid measure of improper payments.</p>	<p>Federal agencies are required to measure and report on the programs specifically identified by OMB as high risk, as listed in the Attachment to Circular A-123, Appendix C. For all other programs, Federal agencies perform a risk assessment in accordance with Circular A-123, Appendix C to determine which programs are susceptible to significant improper payments and therefore require an estimate of improper payments to be developed. The risk assessment is performed at the Federal program level.</p> <p>The risk assessment and improper payment estimation processes focus solely on payment activities and related compliance requirements that, in the event of errors or non-compliance, would result in improper payments (see footnote 3).</p> <p>Testing is designed to provide a statistically valid result.</p>
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³ The types of compliance requirements tested under SAA that are likely to result in improper payments are: activities allowed or unallowed, allowable costs/cost principles, eligibility, and reporting, with eligibility being the most likely to cause improper payments.

<p><u>Extent of Testing</u></p>	<p>Auditors assess the risks of material non-compliance for each applicable compliance requirement, including assessing the effectiveness of the non-Federal entity's internal control over compliance. The auditor uses this assessment to determine the extent of testing, (i.e., the number of transactions to test to support the auditor's opinion on compliance for each major program). Generally, the auditor can test fewer transactions for the applicable compliance requirements for which the non-Federal entity has effective internal control over compliance than for compliance requirements for which the entity's internal control over compliance is ineffective.</p>	<p>Once a program is determined to be susceptible to significant improper payments, the number of transactions to test is driven by the requirement to develop a statistically valid estimate of improper payments that meets OMB required confidence and precision levels. The number of transactions tested is minimally impacted by the effectiveness of internal controls.</p>
<p><u>Reporting of Results</u></p>	<p>SAA reporting provides the results of the audit for the individual non-Federal entity audited. Information about the individual audit is entered into the FAC national database. Federal agencies and others can perform limited analysis of the information in the database at the program level. For example, Federal agencies can obtain information about the number of times a program was audited, how many findings of non-compliance or internal control findings were reported for the program and what types of compliance requirements had findings. However, there is no requirement that Federal agencies perform this type of analysis across programs, or that they summarize the results of single audits of their programs on an annual basis.</p>	<p>The IPIA reporting provides improper payments estimates and related information at the national program level. Federal agencies are required to report a statistical projection of their estimates of improper payments by program in their annual Performance and Accountability Reports (PAR). OMB uses the information to compile a government-wide IPIA Annual Report.</p>
<p><u>Basis of Testing</u></p>	<p>SAA tests non-Federal entities and programs expending both large and small amounts of Federal awards.</p>	<p>IPIA tests Federal programs based on their level of risk (i.e. low risk programs are risk assessed and high risk programs are measured). OMB has deemed a number of programs to be high risk (those with high federal expenditures, as identified in Attachment 1 to OMB's IPIA implementing guidance M-06-23, August 10, 2006), regardless of their risk assessment results.</p>

<p><u>Overpayments and Underpayments</u></p>	<p>Under SAA, the auditor is concerned about overpayments and generally does not test for underpayments. However, if found, underpayments are reported.</p>	<p>Under IPIA, the Federal agency is specifically required to measure and report both overpayments and underpayments. For example, an underpayment is where an eligible recipient receives less than the amount they were entitled to receive.</p>
<p><u>Time Frames</u></p>	<p>The reporting and test period is based upon the non-Federal entity's fiscal year.</p> <p>The SAA report is due within nine months after the non-Federal entity's fiscal year end.</p>	<p>The time period tested is established by the Federal agency, and is usually determined based on program requirements and on the availability of the data. Many programs measure improper payments from the previous fiscal year. For example, improper payments reported in the agency's Performance and Accountability Report may be based on prior-year transactions.</p>
<p><u>Rotation of Program Testing</u></p>	<p>Programs tested may change every year. Larger programs must be tested once every three years or more often if a significant deficiency is identified. (Note: Auditors are required to test the Medicaid program every year by the U.S. Department of Health and Human Services.) Many smaller programs are periodically tested as major programs via the Circular A-133 risk-based approach to selecting major programs.</p>	<p>Programs susceptible to significant improper payments are generally tested annually. However, testing at individual non-Federal entities can be performed less frequently, such as on a three-year rotation (e.g., testing at individual states for Medicaid, SCHIP, and Child Care are on a three-year rotation).</p>

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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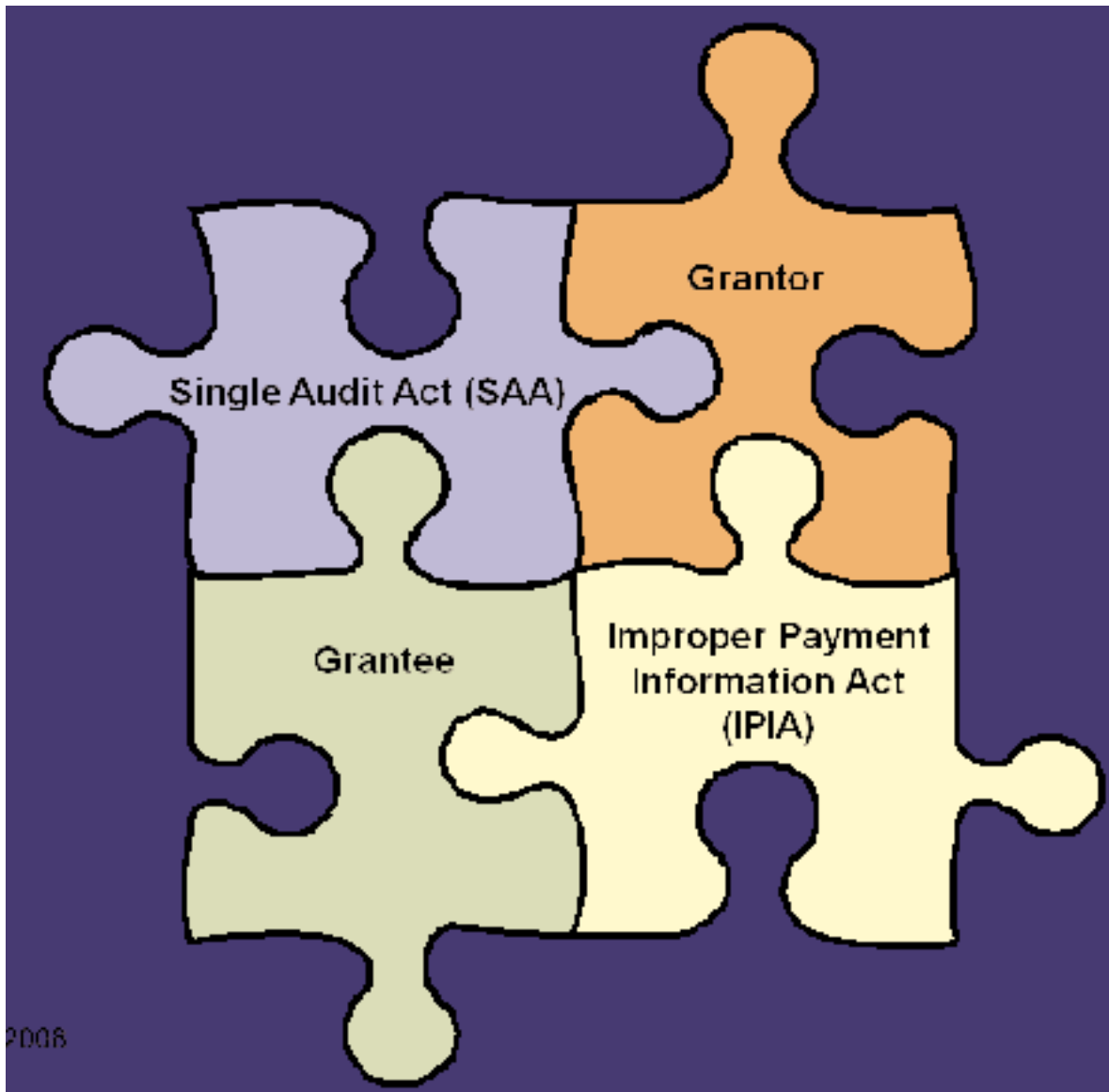
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