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SENATE

{ REPORT  
104-266 }

## SINGLE AUDIT ACT AMENDMENTS OF 1996

## R E P O R T

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

TO ACCOMPANY

## S. 1579

TO STREAMLINE AND IMPROVE THE EFFECTIVENESS OF CHAPTER  
75 OF TITLE 31, UNITED STATES CODE (COMMONLY REFERRED  
TO AS THE "SINGLE AUDIT ACT").



MAY 13, 1996.—Ordered to be printed

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MAY 13, 1996.—Ordered to be printed

Mr. STEVENS, from the Committee on Governmental Affairs,  
submitted the following

**REPORT**

[To accompany S. 1579]

The Committee on Governmental Affairs, to which was referred S. 1579, the “Single Audit Act Amendments of 1996” to reduce the burden on State and local governments and nonprofit organizations and improve the effectiveness of oversight of Federal assistance, having considered that legislation which is within the jurisdiction of the Committee, reports favorably and recommends that the bill do pass.

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I. PURPOSE

This bill amends the Single Audit Act of 1984 (P.L. 98-502) to reduce the burden on State and local governments and nonprofit organizations and improve the effectiveness of oversight of Federal assistance.

## II. SUMMARY

The “Single Audit Act Amendments of 1996” (S. 1579) amends the Single Audit Act of 1984 (P.L. 98–502). The 1984 Act replaced multiple grant-by-grant audits of Federal assistance programs with an annual entity-wide audit process for State and local governments that receive Federal financial assistance. S. 1579 streamlines the Act, updates its requirements, and provides for more flexibility in both compliance and administration. The bill’s major reforms would:

### IMPROVE AUDIT COVERAGE

The bill would improve single audit coverage and simplify Federal rules by placing State and local governments, and colleges and universities and other nonprofit grantees, under the same single audit process.

### REDUCE BURDENS

The bill would raise the single audit threshold from \$100,000 to \$300,000. It would also eliminate the \$25,000 threshold for requiring that entities either have the financial audits required by the laws governing Federal financial assistance or a single audit under the Act. These changes would reduce audit and paperwork burdens, while preserving audit coverage of the vast majority of Federal assistance.

### IMPROVE AUDIT EFFECTIVENESS

The bill would establish a risk-based approach for selecting programs for detailed audit testing, rather than relying solely on dollar criteria.

### IMPROVE SINGLE AUDIT REPORTING

The bill would improve the contents and timeliness of single audit reports to make them more useful.

### INCREASE ADMINISTRATION FLEXIBILITY

The bill would provide more flexibility for OMB to revise specific requirements within the statutory single audit framework.

In sum, the legislation would improve accountability for hundreds of billions of dollars of Federal assistance, while also reducing auditing and paperwork burdens on grant recipients.

## III. NEED FOR LEGISLATION

### A. BACKGROUND

The Single Audit Act of 1984 was designed to improve accountability over the Federal assistance provided annually to State and local governments, which was approximately \$225 billion for fiscal year 1995. The Act established a structured approach of entity-wide audits to simplify overlapping audit requirements and improve grantee-organization administrative controls. This change eliminated serious gaps in audit coverage and reduced duplication of audit effort.

The Act also prompted improvements in State and local governments' financial management over Federal assistance. The Act did so by placing responsibilities on the audited entities and their auditors. For example, it requires entities to prepare financial statements, arrange for an audit, and develop corrective action plans to resolve audit findings. The Act requires auditors to expand a traditional financial statement audit to include additional testing of the entity's internal controls over Federal programs and the entity's compliance with requirements for those programs.

The Act is built on the premise that prevention, rather than detection, of problems is of utmost importance. Consequently, the auditor reporting on internal controls over Federal assistance and the entity developing corrective action plans to fix problems are particularly important features. Over time, such actions will lead to fewer problems involving the administration of Federal assistance and strengthened accountability over such assistance.

The Congress established a \$100,000 threshold in the 1984 Act, based upon the amount of Federal assistance an entity received during a year either directly from the Federal government or passed through another non-Federal entity, to determine whether an entity would be required to have a single audit. An entity that receives \$25,000 to \$100,000 must arrange for either a financial or financial and compliance audit in accordance with the laws governing the Federal programs under which it receives financial assistance or a comprehensive single audit of the entire entity. Many entities that receive \$25,000 to \$100,000 opt for a single audit. Since the thresholds are established in the Act, they can only be changed by amending the Act.

Single audits are designed to give program managers and others reasonable assurance about an entity's management of Federal programs and, when necessary, to provide the foundation for other oversight activities, including program manager reviews, additional audits, or investigations. The Act specifically preserves Federal agencies' rights to build on the results of single audits, including the right to review and obtain copies of auditors' working papers for purposes consistent with the purposes of the Act.

In 1990, the Office of Management and Budget (OMB) extended the single audit concept to nonprofit organizations. It did so by issuing OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations." OMB circulars are administrative guidance used by agencies to structure their rules. OMB issues such administrative circulars after a process that includes issuing an exposure draft and obtaining comments from interested parties. OMB revised Circular A-133 on April 19, 1996, pursuant to its authority under 31 U.S.C. 503, 1111, and various Executive Orders. The requirements of the Circular, which again only apply to nonprofit organizations receiving Federal financial assistance, are consistent with the provisions of the current legislation (which again covers both State and local governments and nonprofit organizations). The Committee understands that OMB intends to revise the Circular again once the current legislation is enacted into law to provide uniform guidance in one circular for both State and local governments and nonprofit organizations.

The National State Auditors Association (NSAA), the President's Council on Integrity & Efficiency (PCIE), and U.S. General Accounting Office (GAO) issued studies during the past several years which called for improvements in the single audit process. All three studies called for changes that would require amending the Single Audit Act of 1984. The NSAA study (Position Paper: Single Audit Act, NSAA, February 4, 1993) stated that "changes could improve the functioning of the Act." The PCIE study (Study on Improving the Single Audit Process, PCIE Standards Committee, September 30, 1993) stated that "Federal agencies, independent public accountants, State auditors, and State and local program managers have expressed concerns that while the Act is working, the process needs to be improved."

The GAO study was initiated at the request of Senator Glenn, then Chairman of the Committee. In 1994, GAO reported that State and local government officials that were interviewed believed the single audit process has contributed to improving their entities' financial management practices. The entities have installed new accounting systems, begun having annual comprehensive financial statement audits, adopted or accelerated the adoption of generally accepted accounting principles, improved systems for tracking Federal funds, strengthened administrative controls over Federal programs, and increased oversight of entities to whom they distributed Federal funds (Single Audit: Refinements Can Improve Usefulness, GAO/AIMD-94-133, June 21, 1994).

Despite these reported improvements, GAO found that a number of issues burden the single audit process, hinder the usefulness of its reports, and limit its impact. Specifically, under the Act, entities are selected for audit based on prescribed dollar thresholds, which have not changed since passage of the Act in 1984. Because the thresholds have not changed, many entities receiving relatively small amounts of Federal assistance are subject to audits.

According to oversight officials and program managers contacted by GAO, several issues hinder the usefulness of single audit reports. Because the reports do not include summaries of the auditors' conclusions, the most important findings are not highlighted. In addition, single audit reports are not required to be issued until 13 months after the end of the period under review. Such a long time frame limits the usefulness of the reports.

In conducting its study, GAO surveyed Federal managers for 12 programs, State managers in all 50 States, and worked with other stakeholders in the single audit process, including OMB, the PCIE, the American Institute of Certified Public Accountants, the Federal Grants Network, the Government Finance Officers Association, the National Association of State Comptrollers, and the NSAA. GAO also reviewed a random sample of single audit reports.

When Senator Glenn released the GAO study in 1994, he called for a "strengthening" of the Act. GAO subsequently assisted the Committee in developing legislative language to implement recommendations to improve the single audit process. Several preliminary drafts were circulated for comment.

The bill was supported at the Committee's December 14, 1995, financial management hearing by Charles A. Bowsher (Comptroller General), G. Edward DeSeve (OMB Comptroller), and Kurt R.

Sjoberg (California State Auditor). The Comptroller General strongly supported the single audit concept and said that the legislation to amend the Single Audit Act would strengthen the single audit process while at the same time reducing the burden on State and local governments and nonprofit organizations. Mr. DeSeve agreed that the amendments are needed. Mr. Sjoberg said the State auditor community believes that the Act has been a success and fully met its objectives. He added that the State auditors believe that changes in the auditing profession and in Federal, State and local governments' financial management necessitate improvements to the Act.

The NSAA and the PCIE Audit Committee endorsed the bill in letters to the Committee. The NSAA letter stated that the "legislation is an excellent measure that deserves to be passed into law as soon as possible." The PCIE letter said that the audit committee "believes that the improvements to the Single Audit Act of 1984 contained in the proposed amendments will result in significantly more effective and efficient auditing of Federal program funds at State and local governments and nonprofit organizations and we urge that they be passed as soon as possible."

In summary, stakeholder groups support the single audit concept as an appropriate means of applying audit resources to help provide accountability over the hundreds of billions of dollars in Federal assistance provided annually to State and local governments and nonprofit organizations and they endorse the proposed amendments to strengthen the single audit process.

#### B. THE LEGISLATION

The Single Audit Amendments of 1996 would improve the Act in five important ways. It would: (1) Improve audit coverage of Federal assistance; (2) Reduce Federal audit burdens on State and local governments and universities and other nonprofit grantee organizations; (3) Improve audit effectiveness through a risk-based approach for audit testing; (4) Improve the contents, timeliness, and utility of single audit reporting; and (5) Increase administrative flexibility to modify single audit requirements as conditions change.

##### *1. Improve audit coverage*

The bill would improve audit coverage of Federal assistance by including in the single audit process all State and local governments and nonprofit organizations that receive Federal assistance. Currently, the Act only applies to State and local governments. Nonprofit organizations are subject administratively to single audits under OMB Circular A-133.

The Circular A-133 provisions differ in several respects from the Act. For example, different dollar criteria are used to determine which programs must be tested (major programs). For entities that expend between \$100,000 and \$100,000,000 in Federal financial assistance, a major program under the Act is one for which program expenditures exceed the greater of \$300,000 or 3 percent of the entity's expenditures. A major program under Circular A-133 is one for which the nonprofit organization expends the greater of \$100,000 or 3 percent of the organization's Federal program ex-

penditures. Furthermore, Circular A-133 requires all research and development awards to be treated as a single program for audit purposes and allows the entity to elect a program-specific audit if the entity administers only one Federal program, regardless of the amount of expenditures by that program. The Act does not include those provisions.

Including nonprofit organizations under the Act would result in a common set of single audit requirements for Federal assistance. Thus, Federal assistance would be subject to the same audit provisions regardless of whether it is administered by a State or local government or a nonprofit organization. Consequently, auditors would no longer be faced with different provisions for conducting single audits depending simply on the type of organization that is audited.

## *2. Reduce Federal burden*

The bill would simultaneously reduce the Federal burden on thousands of State and local governments and nonprofit organizations and their auditors, and ensure audit coverage over the vast majority of Federal assistance provided to those organizations. It would do so by raising the dollar threshold for requiring a single audit from \$100,000 to \$300,000. The NSAA noted that the higher threshold would relieve many State and local governments of Federal audit mandates. Nonetheless, GAO estimated that a \$300,000 threshold would cover 95 percent of all direct Federal assistance to local governments. The 95 percent coverage is commensurate with the coverage planned at the \$100,000 threshold when the Act was passed in 1984. Thus, exempting thousands of entities from single audits would reduce audit and paperwork burdens, but not significantly diminish the percentage of Federal assistance covered by single audits.

Entities whose Federal expenditures are less than the \$300,000 audit threshold are exempt from Federally mandated financial audit coverage. This also eliminates the \$25,000 threshold which requires entities to have a financial audit in accordance with the laws governing each Federal financial assistance program the entity administers. Entities receiving less than \$300,000 in Federal assistance still must comply with Federal requirements to maintain records and permit access to records, and are still subject to monitoring by the funding organization, whether Federal, State, local, or nonprofit. Moreover, both the 1984 Act and the current legislation recognize that funding organizations are free to conduct or arrange for audits as a part of such monitoring.

The \$300,000 threshold is consistent with the 1984 congressional intent to have audit thresholds that could provide very broad coverage (thus the GAO estimate of 95% audit coverage), yet free the smallest recipients from disproportionately burdensome audit requirements. Again, Congress intended programmatic monitoring to ensure accountability for funds given to those smaller recipients. The current legislation, therefore, maintains the congressional intent of the 1984 Act, recognizing increased funding levels.

### 3. *Improve audit effectiveness*

The bill would improve audit effectiveness by directing audit resources to the areas of greatest risk. GAO, NSAA, and PCIE all support adoption of a risk-based program selection approach. Currently, auditors must perform tests of the largest—but not necessarily the riskiest—programs that an entity administers. This testing can involve assessing eligibility of participants, allowability of costs, and adequacy of matching funds.

The bill would require auditors to assess the risk of the entity's programs and select the riskiest programs for testing. As the President of the NSAA said, "It makes good economic sense to concentrate audits where increased corrective action and recoveries are likely to result."

The Act's original program selection criteria are highly effective in ensuring that significant proportions of Federal assistance were subjected to audit testing. However, the result was that the same programs were likely to be tested each year. Consequently, the great majority of programs were likely to not be selected for testing. In 1994, GAO reported that in a sample of single audit reports, only 17 percent of the 526 Federal programs operated by 210 State and Local governments met the program selection criteria. But those programs contributed over 90 percent of the \$15 billion of Federal expenditures for those governments. Adoption of a risk-based program selection approach would allow auditors to use their professional judgment and target audit resources at the areas presenting the greatest risk to the Federal government. Over time, a greater proportion of programs will be selected for testing.

The risk-based program selection approach is subject to a limitation on the number of programs that must be tested during an audit. The limitation is designed to preclude a significant increase in the number of programs tested due to the adoption of a risk-based program selection approach. As described above, only a small percentage of programs qualify for testing under the current dollar-driven program selection approach. For a large entity, such as a State government, hundreds of Federal programs may have received little or no recent auditor testing. Since the absence of recent audit testing is a factor indicating higher risk, an auditor could be faced with the prospect of having to test many more programs than would have been tested under the dollar-driven approach.

The limitation on the number of programs that must be tested is based upon the amount of the non-Federal entity's total Federal expenditures. The auditor must determine the number of programs that meet specified criteria based upon expenditures. That determination establishes the maximum number of programs that must be tested. However, the auditor is not required to test those specific programs. For example, if an entity operated 60 Federal programs and 20 of those programs met the dollar criteria, then the auditor would have to test a maximum of 20 programs. However, the determination of which programs to test would be based upon risks as discussed above.

The bill allows the Director to establish criteria under which a group of related programs, such as research and development, student financial aid, or school breakfast and lunch programs, could

be considered a single program for audit purposes. Such combinations of similar programs would produce efficiencies in the audit testing of Federal awards.

Auditors are required to test the internal controls and compliance with laws and regulations that the entity has established for the programs that provide at least 50 percent of the entity's Federal expenditures, or lesser percentage established by the OMB Director. Internal controls are intended to help prevent problems from occurring. Compliance testing includes determining whether the entity complied with specific program requirements, such as participant eligibility and allowability of costs. The results of such tests provide important insights about the entity's management of the programs.

Single audits are intended to facilitate, rather than inhibit, other oversight activities, including program reviews, additional audits, and investigations of suspect grantees. Single audits are not intended to answer all questions about an entity's stewardship of Federal programs. Rather, when the audits disclose problems with the entity's internal controls, compliance with laws or regulations, or its financial management activities, they can provide leads which prompt follow-on oversight.

Program managers can benefit from single audit reports even if their programs are not tested during the audit. The results of testing of other Federal programs can provide insights into the entity's stewardship over Federal assistance. And the findings can directly result in other audits. GAO reported that the Department of Health and Human Service's Office of Inspector General conducted audits based upon leads in single audit reports. Those "build-upon" audits identified \$360 million in cost containment recommendations.

Effective use of single audits is largely dependent upon Federal agencies' ability to have access to the auditors' working papers which describe the scope of the work and document the results of the work, including any problems found. Mr. Sjoberg, the State Auditor of California, in testifying at the Committee's December 14, 1995 hearing, said that the "build-upon" concept, where Federal agency officials would review his office's working papers, allowed the Federal officials to determine what work had been performed and to avoid unnecessary duplication of effort.

The bill reinforces the Federal government's right to review and obtain copies of working papers. Such access is necessary to plan additional Federally-sponsored "build-upon" audits, to assess the quality of the auditors' work, and to resolve audit findings. The ability to gain access to the working papers and to make copies is important to help Federal agencies use the single audit results in carrying out oversight of Federal programs in the most efficient and effective manner and to assess the quality of the work conducted by non-Federal auditors. Federal agencies should be judicious in their exercise of this authority.

#### *4. Improve single audit reporting*

The bill would greatly improve the usefulness of single audit reports by requiring auditors to provide a summary of audit results. The NASA study stated that "the complexity of the reports makes

it difficult for the average reader to understand what has been audited and reported.” Interpretations of current rules lead auditors to include 7 or more separate reports in each single audit report. Such a large number of separate reports tends to confuse rather than inform users. A summary of the audit results would highlight important information and thus enable users to quickly discern the overall results of an audit. The summary information would supplement rather than supplant the detailed supporting information in the auditors’ reports that would be needed to resolve audit findings. Federal managers surveyed by GAO overwhelmingly supported the summary reporting. They said that summary reporting would save them time and enable them to quickly focus on any problems the auditors found.

The reports would also be due sooner—9 months after the year end rather than the current 13 months. The timing of the single audit reports was debated among stakeholder groups. The debate centered upon the time-value of the information versus the effort necessary to shorten the reporting time frame. Federal managers that GAO surveyed strongly supported a shorter time frame. State auditors who conduct thousands of single audits each year were concerned about their ability to complete the audits in the originally proposed 6-month reporting time frame but agreed to the 9-month time frame.

The bill contains two provisions to ameliorate the impact on the auditors of shortening the reporting time frame. First, it requires OMB to establish a transition period of not less than 2 years for entities to comply with the new reporting time frame. Second, it authorizes Federal agencies to grant waivers to the shortened time frame. The addition of those provisions addressed the State auditors’ concerns and they subsequently supported the bill as written.

The Comptroller General, in his December 14, 1995 testimony before the Committee, stated that “oversight of the hundreds of billions of Federal dollars covered by the single audit process is degraded by reports that are issued more than a year after the end of the period audited. Over time, I hope that it will be the rule, rather than the exception, for the audit reports to be submitted in less than 9 months.”

##### *5. Increase administrative flexibility*

The bill would enable the single audit process to evolve with changing circumstances. For example, rather than lock specific dollar amount audit thresholds into law, OMB would have the authority to revise the audit threshold every 2 years. However, the threshold cannot be lower than the \$300,000 established in this legislation.

The OMB Director could revise criteria for selecting programs for auditing testing. The risk-based program selection criteria that OMB would be required to develop under the legislation may need to be changed if Federal programs and funding approaches change. For example, changes in Federal programs to establish performance measures rather than strict compliance requirements may necessitate new selection criteria.

The OMB Director would also be authorized to permit pilot projects to test alternative ways of achieving the goals of the single

audit process. For example, OMB could permit a State auditor to employ different criteria in using a risk-based approach to select programs for testing. The pilot projects would not be OMB-mandated. Rather, it is anticipated that non-Federal entities and their auditors would propose projects. Additionally, the OMB Director would be required to establish criteria for findings that must be reported in single audit reports. Auditors and program managers welcome such a change. Currently, auditors must report all findings—regardless of the significance of the issue or amount of questioned costs that may be involved. For example, documenting and resolving an inconsequential finding, such as a \$25 questioned cost or the filing of a Federal report 1 day after it is due, is expensive and of limited utility in the management of Federal programs.

The bill would delete the requirement that the OMB Director designate “cognizant agencies” to provide technical assistance to entities subject to the Act. Rather than make specific designations of agencies to provide technical assistance, the OMB Director would be required to prescribe criteria for determining such agencies. The revised approach would enable Federal agencies, non-Federal entities and their auditors to determine the appropriate Federal agency without having to rely on the OMB Director to make specific assignments.

The bill authorizes the OMB Director to designate a clearinghouse to accept copies of audit reports prepared in accordance with the Act, to identify recipient entities that have not submitted required reports, and to conduct studies to assist the Director. The Director should share information on entities that have not complied with the audit provisions of the Act with Federal funding agencies and establish sanctions for entities which repeatedly fail to comply with the requirements of the Act. The Federal funding agencies should take appropriate steps to prompt the non-Federal entities to comply with the Act. The Director should also consider establishing sanctions for Federal funding agencies that fail to take appropriate steps to encourage full compliance with the Act by recipient entities.

By giving OMB authority to revise specific requirements within the statutory single audit framework to reflect changing circumstances that affect accountability for Federal assistance, the single audit process can maintain its effectiveness.

The bill relieves the OMB Director of submitting an annual report to Congress on implementation of the Single Audit Act. However, the Director would still be expected to apprise the Congress with respect to problems that arise in implementing the Act’s provisions. Of particular importance would be entities that habitually fail to comply with the requirements of the Act. Such notification could be accomplished under other OMB reporting to the Congress.

#### CONCLUSION: GOOD GOVERNMENT REFORM

The Committee believes that the Single Audit Act of 1984 has provided a solid foundation for ensuring accountability for the more than \$200 billion provided State and local governments each year by the Federal government and that it has prompted financial management improvements by those entities. Studies by GAO, NASAA, and PCIE have confirmed this judgment. These studies,

however, have also identified areas where the single audit process can be strengthened while reducing Federal burden on State and local governments and nonprofit organizations.

The current legislation reflects the considered judgment of the Committee, GAO, OMB, and the stakeholder community as to specific changes to improve the 1984 Act. Accordingly, the legislation expands the Act's scope, raises the single audit threshold, establishes a risk-based approach to audit testing, improves the usefulness of reporting, increases administrative flexibility, and otherwise updates and streamlines the Act.

#### IV. LEGISLATIVE HISTORY OF S. 1579

Senator Glenn worked with GAO, OMB, PCIE, NSAA and other groups to develop a series of drafts of proposed amendments to the Single Audit Act that were widely circulated to interested parties during the period from March through December 1995. The proposed amendments were based primarily upon recommendations included in GAO and PCIE reports on implementation of the single audit process. The drafts were revised to ensure that the resulting bill fulfilled the goals of reducing burdens on State and local governments and nonprofit organizations, improving accountability over Federal assistance, and providing increased flexibility to the single audit process.

The draft legislation was considered at a hearing of the Committee on December 14, 1995. Witnesses discussing single audit issues and the proposed bill were Charles A. Bowsher, Comptroller General of the United States, G. Edward DeServe, Controller, Office of Federal Financial Management, Office of Management and Budget, and Kurt R. Sjoberg, State Auditor of California and Chair, National State Auditors Association Single Audit Committee.

Mr. Bowsher said that the Single Audit Act has both prompted financial management improvements by State and local governments and fostered improved accountability over the hundreds of billions of dollars that the Federal government provides to State and local governments and nonprofit organizations each year. Mr. Bowsher said that GAO's 1994 report to the Committee on the Single Audit Act's implementation discussed the Act's role in helping institutionalize fundamental elements of good financial management in State and local governments, such as preparing financial statements in accordance with generally accepted accounting principles, obtaining annual independent comprehensive audits, assessing internal controls and compliance with laws and regulations, monitoring subrecipients, tracking Federal funds, and resolving audit findings.

In discussing the Act's role in promoting accountability over Federal assistance, Mr. Bowsher said that the Act provides a structured approach to achieve audit coverage over the thousands of State and local governments that receive Federal financial assistance. Moreover, particularly in the case of block grants—where the Federal financial role diminishes and management and outcomes of Federal assistance programs depend heavily on the overall State of local government controls—the single audit process provides accountability of focusing the auditor on the controls affecting the integrated Federal and State funding streams.

Mr. Bowsher fully supported the proposed amendments and commented about several of the major provisions. He said that expanding the Single Audit Act to include nonprofit organizations, as well as State and local governments, would accomplish what this Committee contemplated when the Act was initially debated: uniform single audit requirements for State and local governments and nonprofit organizations.

Mr. Bowsher said that raising the minimum audit threshold from \$25,000 to \$300,000 would exempt thousands of entities from Federally mandated financial audits while still covering 95 percent of Federal assistance to State and local governments. By revising the program selection criteria to employ a risk-based approach, Mr. Bowsher said the proposed amendments would increase the effectiveness of the single audit process.

Mr. Bowsher said that single audit reports would be made more useful by enacting the provisions that would require auditors to provide a summary of the results of their work concerning the audited entity's financial statements, internal controls, and compliance with laws and regulations and by requiring that the reports be submitted within 9 months after the year end rather than the 13 months currently allowed. Mr. Bowsher added that he hoped that it will be the rule, rather than the exception, for the audit reports to be submitted in less than 9 months. He said the auditor's summary would make the reports more useful to program managers.

Finally, Mr. Bowsher said that the proposed amendments would provide greater flexibility than the current Act allows in carrying out this important oversight activity. The proposed amendments do so by providing the OMB Director authority to adjust some aspects of the single audit process to mesh with changing circumstances without increasing the burden on non-Federal entities.

In summary, Mr. Bowsher said that the years of experience under the Single Audit Act has shown that the single audit process is a highly effective way to provide accountability for Federal awards to State and local governments and that the proposed amendments would strengthen this important accountability tool and reduce the burden on thousands of entities.

Mr. DeSeve said that he, too, supported the proposed amendments to the Single Audit Act. He said that the current \$25,000 audit threshold is too low and that the proposed \$300,000 threshold is appropriate. Mr. DeServe added the threshold should be evaluated every 2 years to determine whether it should be raised.

Mr. Sjoberg also supported the proposed changes to the Single Audit Act. He said that the State auditor community believes that the Act has been a success and fully met its objectives. He added that the State auditors believe that changes in the auditing profession and in Federal, State and local governments' financial management necessitate improvements to the Act. He commented favorably about the open and constructive dialog that formed the basis of the proposed amendments. Mr. Sjoberg said that the Committee staff, OMB, and GAO officials willingly obtained the views of the NSAA and other professional groups on how the Act should be amended and, in doing so, fostered positive Federal/State relations.

Mr. Sjoberg specifically addressed two provisions of the proposed legislation: audit thresholds and program selection criteria. He said that the proposal to raise the threshold to \$300,000 would relieve small local governments from Federal audit mandates and thus generate savings in reduced audit costs. Mr. Sjoberg also said that the proposed changes to be criteria for determining the number of programs that must be tested during a single audit of a State government would reduce audit costs in larger States while only minimally reducing audit coverage of Federal program expenditures.

In connection with the proposed adoption of a risk-based program section approach, Mr. Sjoberg said that it makes good economic sense to allow auditors to focus audit resources where the potential for return is greatest. He contrasted the risk-based approach with the current program selection approach which may result in the auditor testing the same grants year after year even when the potential risk is low.

Following the hearing, Mr. Anthony Verdecchia, President of the NSAA submitted a letter on January 29, 1996, to the Committee stating that the "the Association has voted unanimously to support the proposed bill to amend the Single Audit Act of 1984." Mr. Verdecchia's letter also states that "the proposed legislation is an excellent measure that deserves to be passed into law as soon as possible." The legislation was also endorsed by the Audit Committee of the PCIE (letter from Valerie Lau, Chair, Audit Committee, March 12, 1996).

After review of the record of the December 14, 1995, Committee hearing and all other comments, the legislation was introduced, as S. 1579, on February 27, 1996, by Senator Glenn, and co-sponsored by Senators Stevens, Levin, Cochran, Pryor, Cohen, Lieberman, and Brown. Subsequently, Senator Grassley joined as a co-sponsor of the bill. On March 28, 1996, Representative Horn introduced legislation identical to S. 1579 in the House of Representatives (H.R. 3184).

S. 1579 was considered by the Committee during a mark-up on April 18, 1996. After a discussion of the bill and needed minor technical corrections, the Committee by voice vote adopted a technical amendment offered by Senator Glenn. Following adoption of the technical amendment, the Committee, by unanimous voice vote, ordered S. 1579 as amended reported favorably to the Senate.

## V. SECTION-BY-SECTION ANALYSIS

### SECTION 1. SHORT TITLE; PURPOSES

Section 1 states the purposes of the Single Audit Act Amendments of 1996: to promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities; establish uniform requirements for audits of Federal awards administered by non-Federal entities; promote the efficient and effective use of audit resources; reduce burdens on State and local governments, Indian tribes, and nonprofit organizations; and ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code (as amended by the Act).

## SECTION 2. AMENDMENT TO TITLE 31, UNITED STATES CODE

This section replaces chapter 75 of title 31, United States Code, which was established under the Single Audit Act of 1984. As a result of the substantive changes to chapter 75 made by the Single Audit Act Amendments of 1996, some reorganization and technical changes also were necessary. The substantive changes are discussed below.

*Section 7501. Definitions*

Amendments to section 7501 reflect the new terms used in the Act as well as some technical changes to terms retained in the Act. Most of these amendments are self-explanatory. The definitions now contained in subsection (a) are discussed below.

Paragraph (1) “Comptroller General;” is unchanged from current law.

Paragraph (2) “Director;” is unchanged from current law.

Paragraph (3) modifies the definition of “Federal agency” to delete a citation to the United States Code.

Paragraph (4) defines “Federal awards” to reflect the decision for the Single Audit Act to cover certain nonprofit organizations. The use of the term “Federal awards” and its definition here to include cost-reimbursement contracts as well as Federal financial assistance is in response to the fact that nonprofit organizations often receive much of their funding through cost-reimbursement contracts for research and development activities.

Paragraph (5) modifies the definition of “Federal financial assistance” to change the focus from the Federal agency that provides the assistance to the non-Federal entity that receives the assistance. As amended, “Federal financial assistance” also includes food commodities and other assistance and excludes amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the Director of the Office of Management and Budget (OMB).

Paragraph (6) defined “Federal program” to mean all Federal awards to a non-Federal entity assigned a single number in the Catalog of Federal Domestic Assistance or encompassed in a group of numbers or other category as defined by the Director. The use of this term in the Act and its definition here is intended to give the Director the flexibility to facilitate more efficient audit testing by having related programs grouped as a single program.

Paragraph (7) modifies the definition of “generally accepted government auditing standards” to reflect terminology in the 1994 version of Government Auditing Standards issued by the Comptroller General.

Paragraph (8) “independent auditor;” is unchanged from current law.

Paragraph (9) “Indian tribe;” is unchanged from current law.

Paragraph (10) changes the definition of “internal controls” to reflect recent agreements in the financial management community on a common definition of internal controls, and to provide a standard against which non-Federal entities can assess and determine how to improve their controls. The definition is consistent with the definition of internal control contained in Internal Control—Integrated

Framework issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission and subsequently adopted by Statement of Auditing Standards No. 78 issued in December 1995 by the Auditing Standards Board (AICPA). These sources should be consulted for a full description and discussion of internal controls.

Paragraph (11) reflects a modification in the definition of “local government” that is intended to increase audit efficiency by allowing the Director to specify criteria for allowing the grouping of local governments for audit purposes.

Paragraph (12) reflects a change in the definition of “major program” from one based on size to one identified according to risk-based criteria prescribed by the Director. The determination of what Federal programs are “major” is important because the testing of major programs during single audits is required. In contrast to the current dollar-driven approach will allow auditors to use their professional judgment and target audit resources at the areas presenting the greatest risk to the Federal government. Authorizing the Director to prescribed criteria will allow for changes as conditions warrant.

Paragraph (13) adds a definition of “non-Federal entity” to address all the entities subject to the Act with one term. Under current law, State and local governments are subject to the Single Audit Act. Nonprofit organizations are administratively subject to the single audit process under OMB Circular A-133, “Audits of Institutions of Higher Education and Other Nonprofit Organizations.” Amending the Act to include nonprofit organizations as well as State and local governments will help to ensure uniformity of audits and reduce the burden on the auditing community by placing all non-Federal entities that receive Federal awards under the same single audit requirements.

Paragraph (14) adds a definition of “nonprofit organization” to make clear which entities would be affected by expanding the Act to cover nonprofit organizations.

Paragraph (15) adds a definition of “pass-through entity” to describe a non-Federal entity that receives a Federal award that it then provides to a subrecipient to carry out a Federal program.

Paragraph (16) defines “program-specific audit” to mean an audit of one Federal program. The term is used elsewhere in the Act to describe audits that may be conducted under certain circumstances in lieu of a single audit.

Paragraph (17) defines “recipient” to mean a non-Federal entity that receives awards directly from a Federal agency to carry out a Federal program. This term was used, but not defined, in Public Law 98-502.

Paragraph (18) defines “single audit” to mean an audit of a non-Federal entity that includes both the entity’s financial statements and Federal awards. This term was used, but not defined, in Public Law 98-502.

Paragraph (19) “State” is unchanged from current law.

Paragraph (20) modifies the original definition of “subrecipients” to include nonprofit organizations under the term “non-Federal entity.”

The definition of “cognizant agency” is omitted from section 7501. The term is no longer used in the Act and instead section 7504 re-

quires the Director to prescribe criteria for determining which agencies would provide technical assistance and assist non-Federal entities in complying with the requirements of the single audit process. The definition of “generally accepted accounting principles” is omitted because it is a widely understood term.

The definition of “public accountants” is also omitted in favor of a definition of “independent auditor.” The former definition of public accountants required that they meet the qualification standards included in generally accepted government auditing standards. That requirement is maintained because the Act states in section 7502(c) that audits conducted under the Act shall be conducted by an independent auditor in accordance with generally accepted government auditing standards which describe auditor qualification requirements.

Section 7501 also is amended by adding subsections (b)–(d), which establish parameters for the number of programs that will be identified as major under the risk-based criteria and therefore subject to testing.

Under subsection (b), a non-Federal entity’s expenditures for each Federal award is compared with a dollar threshold based on the entity’s total expenditures for all Federal programs. The number of programs exceeding that threshold serves as a cap on the number of programs that may be required to be tested as major programs under the Director’s risk-based selection criteria. This provision is designed to ensure that a significant increase in the number of programs tested does not result from the change from a dollar-driven approach to a risk-based approach.

Subsection (c) sets forth a minimum testing requirement that when the total expenditures of a non-Federal entity’s major programs are less than 50 percent of the non-Federal entity’s total expenditures of all Federal awards, the auditor must select and test additional programs as major programs as necessary to achieve audit coverage of at least 50 percent of Federal expenditures by the non-Federal entity. This subsection also authorizes the Director to lower the percentage of Federal expenditures that major programs must provide, enabling the Director to reduce the audit burden on entities that have had good audit results.

Subsection (d) provides that in making the calculations required by section 7501(b), loan or loan guarantee programs as specified by the Director will be excluded. Because they can be so large, including loan or loan guarantee programs in the section 7501(b) calculation of total expenditures for all Federal programs would in some cases significantly increase the section 7501(b) threshold and reduce the number of programs for “cap” purposes. This could result in reducing the number of programs that would be classified as major for a particular non-Federal entity. Therefore, under subsection (d), the Director may provide for the exclusion of loan or loan guarantee programs in determining the section 7501(b) cap when their inclusion would cause a reduction in the number of programs identified as major.

#### *Section 7502. Audit requirements; exemptions*

Sections 7502(a) will substitute a single dollar threshold of \$300,000 for determining which entities must receive audits under

the Act in place of the multiple, lower thresholds contained in current law. The basis of the threshold is also changed from receipts to expenditures, to ensure that the audit will be conducted for the fiscal period during which the non-Federal entity used the Federal awards.

Subsection (a)(1) requires non-Federal entities that expend \$300,000 or more in Federal awards under more than one program to have a single audit. Non-Federal entities that expend \$300,000 or more in Federal awards under only one program, and are not required to otherwise have a financial statement audit, may elect to have a program-specific audit consistent with guidance prescribed by the Director. Subsection (a)(2) exempts non-Federal entities expending a total amount of Federal awards less than \$300,000 from complying with all Federal financial audit requirements. Subsection (a)(3) requires the Director to review the threshold every 2 years and allows the Director to adjust it as necessary, provided that the threshold may not be less than \$300,000. This minimum threshold is a significant increase over the thresholds in current law.

Under current law, entities that receive \$100,000 or more in Federal financial assistance in a year are required to have a single audit, even if they administer only one program, and entities receiving \$25,000 to \$100,000 in Federal financial assistance must have either a single audit or a financial audit in accordance with the laws governing each Federal financial assistance program that the entity administers.

Subsection (b)(1) states the requirement for annual audits under the Act. However, subsection (b)(2) preserves State and local governments' right established under the original Act to, under specified circumstances, have biennial rather than annual audits. Similarly, subsection (b)(3) preserves nonprofit organizations' right established under OMB Circular A-133 to, under specified circumstances, have biennial rather than annual audits. However, subsection (b) prohibits other non-Federal entities from adopting biennial audits. Thus, this subsection preserves, but does not extend, the prerogative to have biennial audits.

Subsection (c) requires the audits to be conducted by an independent auditor and in accordance with generally accepted government auditing standards. It would also allow the Director to authorize audits of information on program performance, which are excluded by current law. This change reflects the increased attention to performance of Federal programs and is consistent with the objectives of the Government Performance Results Act of 1993 which is intended to, among other things, initiated program performance reform in part by setting program goals, measuring program performance against the goals, and reporting publicly on the progress. Auditors can play an important role in assessing the reliability of the reported performance information.

Several provisions contained in current law are ineffective or unnecessary, and will be eliminated by enactment of the Single Audit Act Amendments of 1996. For example, current section 7502(d)(3) has been ineffective because it requires that when transactions are selected as part of the single audit, not because they are from major programs but pursuant to other requirements of section

7502, the auditor must test the transactions for compliance with laws and regulations and report any noncompliance. This requirement could result in the auditor having to test a few transactions from a non-major program even when such testing would not provide useful information about how the program was being administered. Further, it was interpreted to require auditors to report all findings, regardless of materiality. As a result, single audit reports often contain numerous inconsequential findings that are costly to document and divert attention from more significant findings. Also, current section 7502(d)(4) is an example of an unnecessary provision; it requires auditors to use professional judgment in selecting and testing transactions. Government Auditing Standards require auditors to exercise sound professional judgment in conducting audits.

Subsection (e) establishes the auditor's responsibilities. In addition to restatements or technical revisions of responsibilities already required by current law, including expressing an opinion on the financial statements, subsection (e) also codifies a requirement administratively imposed by the Director for the auditor to express an opinion on whether the schedule of expenditures of Federal awards is fairly presented in all material respects in relation to the financial statements. Subsection (e) also expressly states that the auditor must obtain an understanding of the internal controls over the compliance requirements for each major program, assess control risk, and test the controls unless the controls are deemed to be ineffective.

Subsection (f) is designed to help ensure that non-Federal entities and their subrecipients understand and comply with requirements for the Federal awards they receive. Subsection (f)(1) requires Federal agencies to provide recipients with the source and identifying number of the Federal awards and the requirements governing the use of the awards and the requirements of the Act, and review recipients' audit reports to determine whether prompt and appropriate corrective actions to resolve audit findings pertaining to Federal awards have been taken. Subsection (f)(2) places similar responsibilities on pass-through entities with respect to their subrecipients; subsection (f)(2) also requires that pass-through entities monitor each subrecipient's use of Federal awards through site visits, limited scope audits, or other means, and the subrecipients to permit the pass-through entity's auditor to have access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with the Act.

Subsection (g) is designed to provide more useful single audit reports by requiring the auditor to include in the single audit report a summary of the results concerning the entity's financial statements internal controls, and compliance with laws and regulations.

Subsection (h) describes the content, destination, and time frame of the reporting package that a non-Federal entity must submit. The reporting package is to include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan to resolve auditor's findings, and the auditor's reports. The package is to be transmitted to a Federal clearinghouse, designated by the Director, for subsequent distribution. Use of the

clearinghouse should reduce the administrative burden on non-Federal entities by shifting the burden of distributing single audit reports from non-Federal entities to the Federal government. To increase the usefulness of the reports, the reporting package's time frame is shortened from the previously allowed 13 months after the end of the entity's fiscal year or years audited to the earlier of 30 days after the entity receives the report from the auditor or 9 months after the end of the year or years audited. Subsection (h) also authorizes a Federal agency to authorize a longer reporting time frame when the 9-month time frame would place an undue burden on the non-Federal entity. In addition, the Director is required to establish a transition period of not less than 2 years for non-Federal entities to achieve the 9-month reporting time frame. Entities would continue to have 13 months to submit their reporting package during the transition period.

Subsection (i) reflects a modification to current law by requiring non-Federal entities to submit a plan for corrective actions if the auditor identifies audit findings, as defined by the Director, including material noncompliance with individual compliance requirements for a major program or a material weakness in the non-Federal entity's internal controls. Current law requires corrective action plans only if the auditor finds a material noncompliance or material weakness. By authorizing the Director to define the audit findings for which corrective action plans will be required, subsection (i) will help to ensure that appropriate attention will be given to problems that are important, through not in a technical sense material.

Subsection (j) authorizes the Director, in consultation with the Chair and Ranking Minority Member of the Committee on Governmental Affairs of the Senate and the Chair and Ranking Minority Member of the Committee on Government Reform and Oversight of the House of Representatives, to approve pilot projects to test alternative methods of achieving the purposes of the Act. Such pilot projects, which would be voluntary undertakings by non-Federal entities, would provide a means of assessing new ways of testing and reporting on Federal awards.

*Section 7503. Relation to other audit requirements*

The Single Audit Act Amendments of 1996 essentially restate the current law contained in subsections (a) through (d) of section 7503.

Subsection (a) preserves the Act's policy that audits conducted under the Act would be in lieu of audits that a non-Federal entity would be required to have under other Federal law or regulation. It also states that Federal agencies should rely on and use the audits to the extent they provide information the agencies need to carry out their responsibilities.

Subsection (b) preserves Federal agencies' rights to conduct or arrange for additional audits which are necessary for the agency to carry out its responsibilities under Federal law or regulation and requires the agencies to plan the audits to avoid duplication of other audits of Federal awards. It proscribes non-Federal entities from constraining Federal agency efforts to carry out or arrange for additional audits.

Subsection (c) states that the Act does not limit inspectors general or Federal agencies' authority to conduct or arrange for audits or evaluations of Federal awards.

Subsection (d) preserves the original Act's provision that exempts non-Federal entities from complying with provisions of other Federal laws or regulations that require the non-Federal entity to undergo a financial audit if the entity has an audit under the Act even though not required to have such an audit.

Subsection (e) is amended by adding a statement making clear that to prevent duplication, any Federal funding agency conducting or arranging for an audit of a non-Federal entity in addition to the audit under this Act must coordinate the audit with the single Federal agency determined in accordance with section 7504 to be responsible for assisting the non-Federal entity with implementation of chapter 75.

Subsection (f) is a new provision requiring auditors to make their working papers available to Federal agencies or the Comptroller General as part of a quality review program, to resolve audit findings or for other purposes consistent with the purposes of the Act. Subsection (f) makes clear that access to working papers includes the right to obtain copies, and is designed to help Federal agencies assess audit quality, resolve audit findings, and build upon the results of single audits.

It is the Committee's intent that Federal agencies be judicious in the exercise of the authority for reviewing and obtaining copies of non-Federal auditor working papers. It is also the Committee's intent that Federal agencies recognize that working papers may contain trade secrets and confidential commercial and financial information and should treat such information obtained from the working papers as confidential under the Freedom of Information Act.

*Section 7504. Federal agency responsibilities and relations with non-Federal entities*

Subsection (a) is amended to have each Federal agency responsible for monitoring the use of Federal awards that the agency provides to non-Federal entities and assessing the quality of audits conducted under the Act when the agency is the single Federal Agency determined under criteria specified by the Director. The original Act assigned audit-related responsibilities, as well as the responsibility for coordinating additional audits that build upon the required audits, to cognizant agencies as determined by the Director. The deletion of existing provisions in section 7504 regarding the build upon nature of the additional audits conducted by cognizant agencies is in no way intended to suggest that agencies should eliminate or minimize the additional build upon work. The stated purposes of the bill make it clear that Federal agencies are to make efficient and effective use of the audits conducted under the Act and that the agencies should rely on and use the audits.

Subsection (b) is added to give the Director the authority to prescribe criteria for determining the single Federal agency that would be responsible for providing technical assistance to non-Federal entities and help them implement the Act. Under current law, the Director must make specific agency assignments.

Subsection (c) is added to require the Director to designate a Federal clearinghouse to receive copies of reporting packages developed in accordance with this Act. The clearinghouse would be expected to identify recipients that did not undergo an audit in accordance with the Act even though they were required to do so. The clearinghouse would also perform analyses to assist the Director in carrying out responsibilities under the Act.

*Section 7505. Regulations*

This section is restated essentially as it is in current law, except for references to amendments made in other sections.

Subsection (a) requires the Directors to consult with groups involved with the single audit process, including the Comptroller General, other Federal, State, and local government officials as well as representatives of nonprofit organizations. It also requires each Federal agency to promulgate necessary amendments to conform its regulations with requirements of the Act and the Director's guidance.

Subsection (b) concerns the use of Federal awards to pay a share of the cost of audits conducted under this chapter. Under subsection (b), the percentage of the audit cost charged to Federal awards generally cannot be greater than the ratio of the entity's Federal awards expended to its total expenditures. A greater percentage of the audit cost may be charged to Federal awards only if the entity can demonstrate that the cost of auditing the Federal awards was higher. Subsection (b) is modified to prohibit such use when an entity's expenditure of Federal awards is less than \$300,000 (or such higher threshold specified by the Director under section 7502(a)). This provision is added to preclude the charging to Federal awards the cost of comprehensive audits of entities that have comparatively small amounts of Federal expenditures. However, the Director may allow recipients to charge to their Federal awards the cost of limited scope audits to monitor subrecipients in accordance with section 7502(f)(2).

Subsection (c) maintains a provision of the original Act which mandates that the Director's guidance shall include provisions to ensure that small businesses and business concerns owned and controlled by socially and economically disadvantaged individuals will have the opportunity to participate in contracts for the conduct of audits under the Act.

*Section 7506. Monitoring responsibilities of the Comptroller General*

This section maintains the Comptroller General's responsibility under current law to monitor legislation and identify inconsistencies with the Single Audit Act.

Subsection (a) preserves the Comptroller General's responsibility to monitor bills and resolutions introduced in Congress that contain provisions requiring audits of Federal awards. Subsection (b) requires the Comptroller General to notify in writing the committee that reported the bill or resolution as well as the Committee on Governmental Affairs of the Senate or the Committee on Government Reform and Oversight of the House of Representatives if the provisions are inconsistent with the provisions of this bill.

*Section 7507. Effective date*

The requirements of this Act shall apply to any non-Federal entity's fiscal year beginning after June 30, 1996.

Former subsection (b) requiring the Director to submit an annual report to the Congress on operations under the Act is deleted.

## SECTION 3. TRANSITIONAL APPLICATION

This section makes clear that for fiscal years beginning before July 1, 1996, State and local governments shall continue following the requirements in current law without regard to the single Audit Act Amendments of 1996.

## VI. REGULATORY IMPACT

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee has considered the regulatory impact of S. 1579. The legislation is designed to reduce the Federally-mandated burden on State and local governments and non-profit organizations that receive Federal assistance by raising the dollar threshold which subjects entities to Federal audit requirements. The bill would also improve the accountability over Federal assistance by focusing audit resources on the areas of greatest risk and improve the content and timing of auditors' reporting. Finally, it would make the underlying single audit process more flexible so that appropriate changes can be made to deal with changing circumstances involving Federal assistance. These provisions will have the following impact on the public:

## REGULATORY IMPACT

The legislation would require OMB to revise its guidance for implementing single audit requirements. However, since the legislation would consolidate all single audit requirements under one statute, OMB would be able to consolidate two current grants management circulars into one circular. Other streamlining provisions, as well as the new higher single audit threshold, would also result in less regulatory impact across State and local governments and non-profit organizations that receive Federal assistance. There should be no regulatory impact on the general public.

## ECONOMIC IMPACT

The legislation's reduction of audit and paperwork burdens, its higher single audit threshold, and other streamlining amendments would lessen the economic impact of the Act on entities that receive Federal assistance. While the legislation would adversely impact auditors whose clients would be exempted from Federal single audit requirements, entities thus exempted would be able to apply funds that would have paid for the audits to support program activities. Thus, in total, the economic impact of the Single Audit Act on the general public, i.e., the ultimate beneficiaries of Federal assistance, would be improved by this legislation.

## PRIVACY IMPACT

The legislation would have no adverse impact on individuals' personal privacy. Audits conducted under this legislation would focus on organizations that administer Federal programs rather than the beneficiaries of such programs.

## PAPERWORK IMPACT

The legislation would significantly reduce the paperwork burden on State and local governments and nonprofit organizations that receive Federal assistance by exempting thousands of such entities from Federal single audit requirements and otherwise streamlining the single audit process. Other paperwork requirements associated with administering Federal programs would not be changed by the legislation.

## VII. COST IMPACT

In accordance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the Committee was provided the following estimate of the cost of S. 1579, as prepared by the Congressional Budget Office.

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, April 26, 1996.*

Hon. TED STEVENS,  
*Chairman, Committee on Governmental Affairs,  
U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S. 1579, the Single Audit Act Amendments of 1996, as ordered reported by the Senate Committee on Governmental Affairs on April 18, 1996. CBO estimates that S. 1579 would not significantly affect spending by the federal government. Because the bill would not affect direct spending or receipts, pay-as-as-go procedures would not apply.

## BILL PURPOSE

S. 1579 would:

Increase from \$100,000 in annual awards to \$300,000 in annual expenditures the dollar threshold at which a nonfederal entity has to undergo an independent audit of its operations and use of federal funds;

Substitute risk for program size in selecting major programs for auditing in addition to the comprehensive single audit;

Extend the coverage of the Single Audit Act to include educational institutions are required by OMB Circular A-133 but not by law;

Shorten the amount of time between the end of an audit period and the submission of the audit report from 13 months to 9 months; and

Require that the Director of the Office of Management and Budget designate a federal clearinghouse to receive copies of the audit reports, to identify entities that do not comply with

the single audit requirement, and to provide analyses requested by the Director.

FEDERAL BUDGETARY IMPACT

CBO estimates that S. 1579 would not significantly affect federal spending because the bill would primarily affect the need for an regulation of audits conducted by nonfederal entities. Any small increase in spending from designating a federal clearinghouse or from providing technical assistance and other information to non-federal entities would be subject to the availability of appropriated funds.

MANDATES STATEMENT

Section 4 of Public Law 104–4 excludes from the application of that law provisions that require “compliance with accounting and auditing procedures with respect to grants or other money or property provided by the federal government.” CBO has determined that all provisions of S. 1579 fit within that exclusion.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is John R. Righter.

Sincerely,

JAMES L. BLUM,  
(for June E. O’Neill, Director)

VIII. TEXT OF S. 1579, AS REPORTED

A BILL To streamline and improve the effectiveness of chapter 75 of title 31, United States Code (commonly referred to as the “Single Audit Act”)

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE; PURPOSES.**

(a) **SHORT TITLE.**—This Act may be cited as the “Single Audit Act Amendments of 1996”.

(b) **PURPOSES.**—The purposes of this Act are to—

- (1) promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities;
- (2) establish uniform requirements for audits of Federal awards administered by non-Federal entities;
- (3) promote the efficient and effective use of audit resources;
- (4) reduce burdens on State and local governments, Indian tribes, and nonprofit organizations; and
- (5) ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code (as amended by this Act).

**SEC. 2. AMENDMENT TO TITLE 31, UNITED STATES CODE.**

Chapter 75 of title 31, United States Code, is amended to read as follows:

**“CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS**

“Sec.

“7501. Definitions.

- “7502. Audit requirements; exemptions.
- “7503. Relation to other audit requirements.
- “7504. Federal agency responsibilities and relations with non-Federal entities.
- “7505. Regulations.
- “7506. Monitoring responsibilities of the Comptroller General.
- “7507. Effective date.

#### “§ 7501. Definitions

- “(a) As used in this chapter, the term—
  - “(1) ‘Comptroller General’ means the Comptroller General of the United States;
  - “(2) ‘Director’ means the Director of the Office of Management and Budget;
  - “(3) ‘Federal agency’ has the same meaning as the term ‘agency’ in section 551(1) of title 5;
  - “(4) ‘Federal awards’ 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;
  - “(5) ‘Federal financial assistance’ means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance, but does not include amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the Director;
  - “(6) ‘Federal program’ means all Federal awards to a non-Federal entity assigned a single number in the Catalog of Federal Domestic Assistance or encompassed in a group of numbers or other category as defined by the Director;
  - “(7) ‘generally accepted government auditing standards’ means the government auditing standards issued by the Comptroller General;
  - “(8) ‘independent auditor’ means—
    - “(A) an external State or local government auditor who meets the independence standards included in generally accepted government auditing standards; or
    - “(B) a public accountant who meets such independence standards;
  - “(9) ‘Indian tribe’ means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians;
  - “(10) ‘internal controls’ means a process, effected by an entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
    - “(A) Effectiveness and efficiency of operations.
    - “(B) Reliability of financial reporting.
    - “(C) Compliance with applicable laws and regulations;
  - “(11) ‘local government’ means any unit of local government within a State, including a county, borough, municipality, city,

town, township, parish, local public authority, special district, school district, intrastate district, council of governments, any other instrumentality of local government and, in accordance with guidelines issued by the Director, a group of local governments;

“(12) ‘major program’ means a Federal program identified in accordance with risk-based criteria prescribed by the Director under this chapter, subject to the limitations described under subsection (b);

“(13) ‘non-Federal entity’ means a State, local government, or nonprofit organization;

“(14) ‘nonprofit organization’ means any corporation, trust, association, cooperative, or other organization that—

“(A) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;

“(B) is not organized primarily for profit; and

“(C) uses net proceeds to maintain, improve, or expand the operations of the organization;

“(15) ‘pass-through entity’ means a non-Federal entity that provides Federal awards to a subrecipient to carry out a Federal program;

“(16) ‘program-specific audit’ means an audit of one Federal program;

“(17) ‘recipient’ means a non-Federal entity that receives awards directly from a Federal agency to carry out a Federal program;

“(18) ‘single audit’ means an audit, as described under section 7502(d), of a non-Federal entity that includes the entity’s financial statements and Federal awards;

“(19) ‘State’ means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe; and

“(20) ‘subrecipient’ means a non-Federal entity that receives Federal awards through another non-Federal entity to carry out a Federal program, but does not include an individual who receives financial assistance through such awards.

“(b) In prescribing risk-based program selection criteria for major programs, the Director shall not require more programs to be identified as major for a particular non-Federal entity, except as prescribed under subsection (c) or as provided under subsection (d), than would be identified if the major programs were defined as any program for which total expenditures of Federal awards by the non-Federal entity during the applicable year exceed—

“(1) the larger of \$30,000,000 or 0.15 percent of the non-Federal entity’s total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed \$10,000,000,000;

“(2) the larger of \$3,000,000, or 0.30 percent of the non-Federal entity’s total Federal expenditures, in the case of a non-

Federal entity for which such total expenditures for all programs exceed \$100,000,000 but are less than or equal to \$10,000,000,000; or

“(3) the larger of \$300,000, or 3 percent of such total Federal expenditures for all programs, in the case of a non-Federal entity for which such total expenditures for all programs equal or exceed \$300,000 but are less than or equal to \$100,000,000.

“(c) When the total expenditures of a non-Federal entity’s major programs are less than 50 percent of the non-Federal entity’s total expenditures of all Federal awards (or such lower percentage as specified by the Director), the auditor shall select and test additional programs as major programs as necessary to achieve audit coverage of at least 50 percent of Federal expenditures by the non-Federal entity (or such lower percentage as specified by the Director), in accordance with guidance issued by the Director.

“(d) Loan or loan guarantee programs, as specified by the Director, shall not be subject to the application of subsection (b).

**“§ 7502. Audit requirements; exemptions**

“(a)(1)(A) Each non-Federal entity that expends a total amount of Federal awards equal to or in excess of \$300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such non-Federal entity shall have either a single audit or a program-specific audit made for such fiscal year in accordance with the requirements of this chapter.

“(B) Each such non-Federal entity that expends Federal awards under more than one Federal program shall undergo a single audit in accordance with the requirements of subsections (b) through (i) of this section and guidance issued by the Director under section 7505.

“(C) Each such non-Federal entity that expends awards under only one Federal program and is not subject to laws, regulations, or Federal award agreements that require a financial statement audit of the non-Federal entity, may elect to have a program-specific audit conducted in accordance with applicable provisions of this section and guidance issued by the Director under section 7505.

“(2)(A) Each non-Federal entity that expends a total amount of Federal awards of less than \$300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such entity, shall be exempt for such fiscal year from compliance with—

“(i) the audit requirements of this chapter; and

“(ii) any applicable requirements concerning financial audits contained in Federal statutes and regulations governing programs under which such Federal awards are provided to that non-Federal entity.

“(B) The provisions of subparagraph (A)(ii) of this paragraph shall not exempt a non-Federal entity from compliance with any provision of a Federal statute or regulation that requires such non-Federal entity to maintain records concerning Federal awards provided to such non-Federal entity or that permits a Federal agency, pass-through entity, or the Comptroller General access to such records.

“(3) Every 2 years, the Director shall review the amount for requiring audits prescribed under paragraph (1)(A) and may adjust such dollar amount consistent with the purposes of this chapter, provided the Director does not make such adjustments below \$300,000.

“(b)(1) Except as provided in paragraphs (2) and (3), audits conducted pursuant to this chapter shall be conducted annually.

“(2) A State or local government that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.

“(3) Any nonprofit organization that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.

“(c) Each audit conducted pursuant to subsection (a) shall be conducted by an independent auditor in accordance with generally accepted government auditing standards, except that, for the purposes of this chapter, performance audits shall not be required except as authorized by the Director.

“(d) Each single audit conducted pursuant to subsection (a) for any fiscal year shall—

“(1) cover the operations of the entire non-Federal entity; or

“(2) at the option of such non-Federal entity such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered Federal awards during such fiscal year provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and organizational unit, which shall be considered to be a non-Federal entity.

“(e) The auditor shall—

“(1) determine whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;

“(2) determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole;

“(3) with respect to internal controls pertaining to the compliance requirements for each major program—

“(A) obtain an understanding of such internal controls;

“(B) assess control risk; and

“(C) perform tests of controls unless the controls are deemed to be ineffective; and

“(4) determine whether the non-Federal entity has complied with the provisions of laws, regulations, and contracts or grants pertaining to Federal awards that have a direct and material effect on each major program.

“(f)(1) Each Federal agency which provides Federal awards to a recipient shall—

“(A) provide such recipient the program names (and any identifying numbers) from which such awards are derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; and

“(B) review the audit of a recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the recipient by the Federal agency.

“(2) Each pass-through entity shall—

“(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;

“(B) monitor the subrecipient’s use of Federal awards through site visits, limited scope audits, or other means;

“(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and

“(D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient’s records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

“(g)(1) The auditor shall report on the results of any audit conducted pursuant to this section, in accordance with guidance issued by the Director.

“(2) When reporting on any single audit, the auditor shall include a summary of the auditor’s results regarding the non-Federal entity’s financial statements, internal controls, and compliance with laws and regulations.

“(h) The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity’s financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditor’s reports developed pursuant to this section, to a Federal clearinghouse designated by the Director, and make it available for public inspection within the earlier of—

“(1) 30 days after receipt of the auditor’s report; or

“(2)(A) for a transition period of at least 2 years after the effective date of the Single Audit Act Amendments of 1996, as established by the Director, 13 months after the end of the period audited; or

“(B) for fiscal years beginning after the period specified in subparagraph (A), 9 months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under section 7504, when the 9-month timeframe would place an undue burden on the non-Federal entity.

“(i) If an audit conducted pursuant to this section discloses any audit findings, as defined by the Director, including material non-

compliance with individual compliance requirements for a major program by, or reportable conditions in the internal controls of, the non-Federal entity with respect to the matters described in subsection (e), the non-Federal entity shall submit to Federal officials designated by the Director, a plan for corrective action to eliminate such audit findings or reportable conditions or a statement describing the reasons that corrective action is not necessary. Such plan shall be consistent with the audit resolution standard promulgated by the Comptroller General (as part of the standards for internal controls in the Federal Government) pursuant to section 3512(c).

“(j) The Director may authorize pilot projects to test alternative methods of achieving the purposes of this chapter. Such pilot projects may begin only after consultation with the Chair and Ranking Minority Member of the Committee on Governmental Affairs of the Senate and the Chair and Ranking Minority Member of the Committee on Government Reform and Oversight of the House of Representatives.

#### **“§ 7503. Relation to other audit requirements**

“(a) An audit conducted in accordance with this chapter shall be in lieu of any financial audit of Federal awards which a non-Federal entity is required to undergo under any other Federal law or regulation. To the extent that such audit provides a Federal agency with the information it requires to carry out its responsibilities under Federal law or regulation, a Federal agency shall rely upon and use that information.

“(b) Notwithstanding subsection (a), a Federal agency may conduct or arrange for additional audits which are necessary to carry out its responsibilities under Federal law or regulation. The provisions of this chapter do not authorize any non-Federal entity (or subrecipient thereof) to constrain, in any manner, such agency from carrying out or arranging for such additional audits, except that the Federal agency shall plan such audits to not be duplicative of other audits of Federal awards.

“(c) The provisions of this chapter do not limit the authority of Federal agencies to conduct, or arrange for the conduct of, audits and evaluations of Federal awards, nor limit the authority of any Federal agency Inspector General or other Federal official.

“(d) Subsection (a) shall apply to a non-Federal entity which undergoes an audit in accordance with this chapter even though it is not required by section 7502(a) to have such an audit.

“(e) A Federal agency that provides Federal awards and conducts or arranges for audits of non-Federal entities receiving such awards that are in addition to the audits of non-Federal entities conducted pursuant to this chapter shall, consistent with other applicable law, arrange for funding the full cost of such additional audits. Any such additional audits shall be coordinated with the Federal agency determined under criteria issued under section 7504 to preclude duplication of the audits conducted pursuant to this chapter or other additional audits.

“(f) Upon request by a Federal agency or the Comptroller General, any independent auditor conducting an audit pursuant to this chapter shall make the auditor’s working papers available to the Federal agency or the Comptroller General as part of a quality re-

view, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this chapter. Such access to auditor's working papers shall include the right to obtain copies.

**“§ 7504. Federal agency responsibilities and relations with non-Federal entities**

“(a) Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency—

“(1) monitor non-Federal entity use of Federal awards, and

“(2) assess the quality of audits conducted under this chapter for audits of entities for which the agency is the single Federal agency determined under subsection (b).

“(b) Each non-Federal entity shall have a single Federal agency, determined in accordance with criteria established by the Director, to provide the non-Federal entity with technical assistance and assist with implementation of this chapter.

“(c) The Director shall designate a Federal clearinghouse to—

“(1) receive copies of all reporting packages developed in accordance with this chapter;

“(2) identify recipients that expend \$300,000 or more in Federal awards or such other amount specified by the Director under section 7502(a)(3) during the recipient's fiscal year but did not undergo an audit in accordance with this chapter; and

“(3) perform analyses to assist the Director in carrying out responsibilities under this chapter.

**“§ 7505. Regulations**

“(a) The Director, after consultation with the Comptroller General, and appropriate officials from Federal, State, and local governments and nonprofit organizations shall prescribe guidance to implement this chapter. Each Federal agency shall promulgate such amendments to its regulations as may be necessary to conform such regulations to the requirements of this chapter and of such guidance.

“(b)(1) The guidance prescribed pursuant to subsection (a) shall include criteria for determining the appropriate charges to Federal awards for the cost of audits. Such criteria shall prohibit a non-Federal entity from charging to any Federal awards—

“(A) the cost of any audit which is—

“(i) not conducted in accordance with this chapter; or

“(ii) conducted in accordance with this chapter when expenditures of Federal awards are less than amounts cited in section 7502(a)(1)(A) or specified by the Director under section 7502(a)(3), except that the Director may allow the cost of limited scope audits to monitor subrecipients in accordance with section 7502(f)(2)(B); and

“(B) more than a reasonably proportionate share of the cost of any such audit that is conducted in accordance with this chapter.

“(2) The criteria prescribed pursuant to paragraph (1) shall not, in the absence of documentation demonstrating a higher actual cost, permit the percentage of the cost of audits performed pursuant to this chapter charged to Federal awards, to exceed the ratio

of total Federal awards expended by such non-Federal entity during the applicable fiscal year or years, to such non-Federal entity's total expenditures during such fiscal year or years.

“(c) Such guidance shall include such provisions as may be necessary to ensure that small business concerns and business concerns owned and controlled by socially and economically disadvantaged individuals will have the opportunity to participate in the performance of contracts awarded to fulfill the audit requirements of this chapter.

**“§ 7506. Monitoring responsibilities of the Comptroller General**

“(a) The Comptroller General shall review provisions requiring financial audits of non-Federal entities that receive Federal awards that are contained in bills and resolutions reported by the committees of the Senate and the House of Representatives.

“(b) If the Comptroller General determines that a bill or resolution contains provisions that are inconsistent with the requirements of this chapter, the Comptroller General shall, at the earliest practicable date, notify in writing—

“(1) the committee that reported such bill or resolution; and

“(2)(A) the Committee on Governmental Affairs of the Senate (in the case of a bill or resolution reported by a committee of the Senate); or

“(B) the Committee on Government Reform and Oversight of the House of Representatives (in the case of a bill or resolution reported by a committee of the House of Representatives).

**“§ 7507. Effective date**

“This chapter shall apply to any non-Federal entity with respect to any of its fiscal years which begin after June 30, 1996.”.

**SEC. 3. TRANSITIONAL APPLICATION.**

Subject to section 7507 of title 31, United States Code (as amended by section 2 of this Act) the provisions of chapter 75 of such title (before amendment by section 2 of this Act) shall continue to apply to any State or local government with respect to any of its fiscal years beginning before July 1, 1996.

**IX. CHANGES TO EXISTING LAW**

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by S. 1579, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new material is printed in italic, existing law in which no change is proposed is shown as roman):

**TITLE 31, UNITED STATES CODE**

**CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS**

Sec.

7501. Definitions.

7502. Audit requirements; exemptions.

7503. Relation to other audit requirements.

7504. **[Cognizant agency responsibilities.]** *Federal agency responsibilities and relations with non-Federal entities.*

7505. Regulations.

7506. Monitoring responsibilities of the Comptroller General.

7507. Effective date[; report].

### § 7501. Definitions

(a) As used in this chapter, the term—

[(1) ‘cognizant agency’ means a Federal agency which is assigned by the Director with the responsibility for implementing the requirements of this chapter with respect to a particular State or local government.]

[(2)1] ‘Comptroller General’ means the Comptroller General of the United States[.];

[(3)2] ‘Director’ means the Director of the Office of Management and Budget[.];

[(5)3] ‘Federal agency’ has the same meaning as the term ‘agency’ in section 551(1) of title 5[.];[United States Code.]

(4) *Federal awards’ 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;*

[(4)5] ‘Federal financial assistance’ means assistance [provided by a Federal agency] *that non-Federal entities receive or administer* in the form of grants, [contracts,] loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, *food commodities*, [or] direct appropriations, or *other assistance*, but does not include [direct Federal cash assistance to individuals.] amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the Director;

(6) *‘Federal program’ means all Federal awards to a non-Federal entity assigned a single number in the Catalog of Federal Domestic Assistance or encompassed in a group of numbers or other category as defined by the Director;*

[(6) ‘generally accepted accounting principles’ has the meaning specified in the generally accepted government auditing standards.]

(7) ‘generally accepted government auditing standards’ means the *government auditing* standards [for audit of governmental organizations, programs, activities, and functions,] issued by the Comptroller General[.];

(8) ‘independent auditor’ means—

(A) an external State or local government auditor who meets the independence standards included in generally accepted government auditing standards[.]; or

(B) a public accountant who meets such independence standards[.];

[(10)9] ‘Indian tribe’ means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians[.];

[(9) 10] ‘internal controls’ means [the plan of organization and methods and procedures adopted by management to en-

sure that] a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: [—]

(A) [resource use is consistent with laws, regulations, and policies;] *Effectiveness and efficiency of operations.*

(B) [resources are safeguarded against waste, loss, and misuse; and] *Reliability of financial reporting.*

(C) [reliable data are obtained, maintained, and fairly disclosed in reports.] *Compliance with applicable laws and regulations;*

(11) 'local government' means any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, [and] any other instrumentality of local government[.] and, in accordance with guidelines issued by the Director, a group of local governments;

(12) 'major [Federal assistance] program' means a Federal program identified in accordance with risk-based criteria prescribed by the Director under this chapter, subject to the limitations described under subsection (b); [any program for which total expenditures of Federal financial assistance by the State or local government during the applicable year exceed—]

[(A) \$20,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$7,000,000,000;]

[(B) \$19,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$6,000,000,000 but are less than or equal to \$7,000,000,000;]

[(C) \$16,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$5,000,000,000 but are less than or equal to \$6,000,000,000;]

[(D) \$13,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$4,000,000,000 but are less than or equal to \$5,000,000,000;]

[(E) \$10,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$3,000,000,000 but are less than or equal to \$4,000,000,000;]

[(F) \$7,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$2,000,000,000 but are less than or equal to \$3,000,000,000;]

[(G) \$4,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$1,000,000,000 but are less than or equal to \$2,000,000,000;]

[(H) \$3,000,000 in the case of a State or local government for which such total expenditures for all programs exceed \$100,000,000 but are less than or equal to \$1,000,000,000; and]

[(I) the larger of (i) \$300,000, or (ii) 3 percent of such total expenditures for all programs, in the case of a State or local government for which such total expenditures for all programs exceed \$100,000 but are less than or equal to \$100,000,000.]

[(13) ‘public accountants’ means those individuals who meet the qualification standards included in generally accepted government auditing standards for personnel performing government audits.]

(13) ‘non-Federal entity’ means a State, local government, or nonprofit organization;

(14) ‘nonprofit organization’ means any corporation, trust, association, cooperative, thirty-two or other organization that—

(A) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;

(B) is not organized primarily for profit; and

(C) uses net proceeds to maintain, improve, or expand the operations of the organization;

(15) ‘pass-through entity’ means a non-Federal entity that provides Federal awards to a subrecipient to carry out a Federal program;

(16) ‘program-specific audit’ means an audit of one Federal program;

(17) ‘recipient’ means a non-Federal entity that receives awards directly from a Federal agency to carry out a Federal program;

(18) ‘single audit’ means an audit, as described under section 7502(d), of a non-Federal entity that includes the entity’s financial statements and Federal awards;

[(14)]19 ‘State’ means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, America Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe [.]; and

[(15)]20 ‘subrecipient’ means a[ny person or government department, agency, or establishment] non-Federal entity that receives Federal [financial assistance] awards through [a State or local government,] another non-Federal entity to carry out a Federal program, but does not include an individual [that] who receives financial assistance through such [assistance] awards.

(b) In prescribing risk-based program selection criteria for major programs, the Director shall not require more programs to be identified as major for a particular non-Federal entity, except as prescribed under subsection (c) or as provided under subsection (d), than would be identified if the major programs were defined as any program for which total expenditures of Federal awards by the non-Federal entity during the applicable year exceed—

(1) the larger of \$30,000,000 or 0.15 percent of the non-Federal entity’s total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed \$10,000,000,000;

(2) the larger of \$3,000,000, or 0.30 percent of the non-Federal entity’s total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed \$100,000,000 but are less than or equal to \$10,000,000,000; or

(3) the larger of \$300,000, or percent of such total *Federal* expenditures for all programs, in the case of a *non-Federal entity* for which such total expenditures for all programs equal or exceed \$300,000 but are less than or equal to \$100,000,000.

(c) *When the total expenditures of a non-Federal entity's major programs are less than 50 percent of the non-Federal entity's total expenditures of all Federal awards (or such lower percentage as specified by the Director), the auditor shall select and test additional programs as major programs as necessary to achieve audit coverage of at least 50 percent of Federal expenditures by the non-Federal entity (or such lower percentage as specified by the Director), in accordance with guidance issued by the Director.*

(d) *Loan or loan guarantee programs, as specified by the Director, shall not be subject to the application of subsection (b).*

#### **§ 7502. Audit requirements; exemptions**

(a)(1)(A) Each [State and local government] *non-Federal entity* [which] that [receives] *expends* a total amount of Federal [financial assistance] *awards* equal to or in excess of [\$100,000] \$300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such [government] *non-Federal entity* shall have [an audit] *either a single audit or a program-specific audit* made for such fiscal year in accordance with the requirements of this chapter [and the requirements of the regulations prescribed pursuant to section 7505 of this title].

(B) *Each such non-Federal entity that expends Federal awards under more than one Federal program shall undergo a single audit in accordance with the requirements of subsections (b) through (i) of this section and guidance issued by the Director under section 7505.*

(C) *Each such non-Federal entity that expends awards under only one Federal program and is not subject to laws, regulations, or Federal award agreements that require a financial statement audit of the non-Federal entity, may elect to have a program-specific audit conducted in accordance with applicable provisions of this section and guidance issued by the Director under section 7505.*

[(B) Each State and local government that receives a total amount of Federal financial assistance which is equal to or in excess of \$25,000 but less than \$100,000 in any fiscal year of such government shall—]

[(i) have an audit made for such fiscal year in accordance with the requirements of this chapter and the requirements of the regulations prescribed pursuant to section 7505 of this title; or]

[(ii) comply with any applicable requirements concerning financial or financial and compliance audits contained in Federal statutes and regulations governing programs under which such Federal financial assistance is provided to that government.]

[(C)2)(A) Each [State and local government] *non-Federal entity* that [receives] *expends* a total amount of Federal [financial assistance which is] *awards* of less than [\$25,000] \$300,000 or such other amount specified by the Director under subsection (a)(3) in

any fiscal year of such [government] *entity*, shall be exempt for such fiscal year from compliance with—

(i) the audit requirements of this chapter; and

(ii) any applicable requirements concerning financial [or financial and compliance] audits contained in Federal statutes and regulations governing programs under which such Federal [financial assistance is] *awards* are provided to that [government] *non-Federal entity*.

(B) The provisions of [clause] *subparagraph* (A)(ii) of this [sub]paragraph [do] shall not exempt a [State or local government] *non-Federal entity* from compliance with any provision of a Federal statute or regulation that requires such [government] *non-Federal entity* to maintain records concerning Federal [financial assistance] *awards* provided to such [government] *non-Federal entity* or that permits a Federal agency, *pass-through entity*, or the Comptroller General access to such records.

(3) *Every 2 years, the Director shall review the amount for requiring audits prescribed under paragraph (1)(A) and may adjust such dollar amount consistent with the purposes of this chapter, provided the Director does not make such adjustments below \$300,000.*

[(2) For purposes of this section, a State or local government shall be considered to receive Federal financial assistance whether such assistance is received directly from a Federal agency or indirectly through another State or local government.]

(b)(1) Except as provided in paragraphs (2) and (3), audits conducted pursuant to this chapter shall be conducted annually.

(2) [(If a) A State or local government *that is required*—]

[(A)] by constitution or statute, [as] in effect on [the date of enactment of this chapter, or] *January 1, 1987*,

[(B) by administrative rules, regulations, guidelines, standards, or policies, as in effect on such date,] to [conduct] *undergo* its audits less frequently than annually, [the cognizant agency for such government shall, upon request of such government, permit the government to conduct] *is permitted to undergo* its audits pursuant to this chapter biennially. [, except as provided in paragraph (3). Such a] *Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.*

(3) Any [State or local government] *nonprofit organization* that *had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995*, is permitted, [under clause (B) of paragraph (2),] to [conduct] *undergo* its audits pursuant to this chapter biennially. [by reason of the requirements of a rule, regulation, guideline, standard, or policy, shall, or any of its fiscal years beginning after December 31, 1986, conduct such audits annually unless such State or local government codifies a requirement for biennial audits in its constitution or statutes by January 1, 1987.] *Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.*

(c) Each audit conducted pursuant to subsection (a) shall be conducted by an independent auditor in accordance with generally accepted government auditing standards, except that, for the purposes of this chapter, [such standards shall not be construed to require economy and efficiency] *performance audits*, [program re-

sults audits, or program evaluations] *shall not be required except as authorized by the Director.*

(d)~~[(1)]~~ Each *single* audit conducted pursuant to subsection (a) for any fiscal year shall—

(1) cover the ~~entire State or local government's~~ operations of the *entire non-Federal entity*; or

(2) ~~except that,~~ at the option of such ~~government~~ *non-Federal entity*~~—~~

~~[(A)]~~ such audit ~~may,~~ *shall include a series of audits that except as provided in paragraph (5),* cover ~~only each~~ departments, agenc~~y~~ies, ~~or establishment~~ and other organizational units which ~~received,~~ expended~~,~~ or otherwise administered Federal ~~financial assistance~~ awards during such fiscal year~~,~~ provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and organizational unit, which shall be considered to be a non-Federal entity.

(e) THE AUDITOR SHALL—

(1) *determine whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;*

(2) *determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole;*

(3) *with respect to internal controls pertaining to the compliance requirements for each major program—*

(A) *obtain an understanding of such internal controls;*

(B) *assess control risk; and*

(C) *perform tests of controls unless the controls are deemed to be ineffective; and*

(4) *determine whether the non-Federal entity has complied with the provisions of laws, regulations, and contracts or grants pertaining to Federal awards that have a direct and material effect on each major program. [and*

~~[(B)]~~ such audit may exclude public hospitals and public colleges and universities.]

~~[(2)]~~ Each such audit shall encompass the entirety of the financial operations of such government or of such department, agency, or establishment, whichever is applicable, and shall determine and report whether—

~~[(A)(i)]~~ the financial statements of the government, department, agency, or establishment present fairly its financial position and the results of its financial operations in accordance with generally accepted accounting principles; and

~~[(ii)]~~ the government, department, agency, or establishment has complied with laws and regulations that may have a material effect upon the financial statements;

~~[(b)]~~ the government, department, agency, or establishment has internal control systems to provide reasonable assurance that it is managing Federal financial assistance programs in compliance with applicable laws and regulations; and

[(C) the government, department, agency, or establishment has complied with laws and regulations that may have a material effect upon each major Federal assistance program.]

[In complying with the requirements of subparagraph (C), the independent auditor shall select and test a representative number of transactions from each major Federal assistance program.]

[(3) Transactions selected from Federal assistance programs, other than major Federal assistance programs, pursuant to the requirements of paragraphs (2)(A) and (2)(B) shall be tested for compliance with Federal laws and regulations that apply to such transactions. Any noncompliance found in such transactions by the independent auditor in making determinations required by this paragraph shall be reported.]

[(4) The number of transactions selected and tested under paragraphs (2) and (3), the selection and testing of such transactions, and the determinations required by such paragraphs shall be based on the professional judgment of the independent auditor.]

[(5) Each State or local government which, in any fiscal year of such government, receives directly from the Department of the Treasury a total of \$25,000 or more under chapter 67 of this title (relating to general revenue sharing) and which is required to conduct an audit pursuant to this chapter for such fiscal year shall not have the option provided by paragraph (1)(A) for such fiscal year.]

[(6) A series of audits of individual departments, agencies, and establishments for the same fiscal year may be considered to be an audit for the purpose of this chapter.]

*(e)f(1) Each Federal agency which provides Federal awards to a recipient shall—*

*(A) provide such recipient the program names (and any identifying numbers) from which such awards are derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; and (b) review the audit of a recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the recipient by the Federal agency.*

**[(1)2] Each [State and local government] pass-through entity [subject to the audit requirements of this chapter, which receives Federal financial assistance and provides \$25,000 or more of such assistance in any fiscal year to a subrecipient,] shall—**

*(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;*

*(B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;*

*(C) [(A) if the subrecipient conducts an audit in accordance with the requirements of this chapter,] review [such] the audit of a subrecipient as necessary to [and ensure] determine whether [that] prompt and appropriate corrective action [is taken on] has been taken with respect to audit findings, as defined by the Director, pertaining [instances of material non-compliance with applicable laws and regulations with respect] to Federal [financial assistance] awards provided to the sub-*

*recipient by the [state or local government] pass-through entity; [or] and [.]*

(**[2]D**) **[Each such State and local government shall] require each of its subrecipients of Federal [assistance,] awards [through such government] to permit, as a condition of receiving [funds from such] Federal [assistance,] awards, the independent auditor of the [State or local government] pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the [State or local government] pass-through entity to comply with this chapter.**

**[(B) if the subrecipient does not conduct an audit in accordance with the requirements of this chapter—]**

**[(i) determine whether the expenditures of Federal financial assistance provided to the subrecipient by the State or local government are in accordance with applicable laws and regulations; and]**

**[(ii) ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government.]**

*(g)(1) The auditor shall report on the results of any audit conducted pursuant to this section, in accordance with guidance issued by the Director.*

*(2) When reporting on any single audit, the auditor shall include a summary of the auditor's results regarding the non-Federal entity's financial statements, internal controls, and compliance with laws and regulations.*

**[(f)h] The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditor's reports [made on any audit conducted] developed pursuant to this section, [shall, within thirty days after completion of such report, be transmitted to [the appropriate Federal officials] a Federal clearinghouse designated by the Director, and [made] make it available [by the State or local government] for public inspection within the earlier of [.]—**

*(1) 30 days after receipt of the auditor's report; or*

*(2)(A) for a transition period of at least 2 years after the effective date of the Single Audit Act Amendments of 1996, as established by the Director, 13 months after the end of the period audited; or*

*(B) for fiscal years beginning after the period specified in subparagraph (A), 9 months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under section 7504, when the 9-month timeframe would place an undue burden on the non-Federal entity.*

**[(g)i] If an audit conducted pursuant to this section discloses any audit findings, as defined by the Director, including [finds any] material noncompliance with [applicable laws and regulations] individual compliance requirements for a major program by, or [material weakness] reportable conditions in the internal controls of,**

the [State or local government] *non-Federal entity* with respect to the matters described in subsection [(d)(2)](e), the [State or local government] *non-Federal entity* shall submit to [appropriate] Federal officials *designated by the Director*, a plan for corrective action to eliminate such [material noncompliance] *audit findings* or [weakness] *reportable conditions* or a statement describing the reasons that corrective action is not necessary. Such plan shall be consistent with the audit resolution standard promulgated by the Comptroller General (as part of the standards for internal controls in the Federal Government) pursuant to section 3512 ([b]c) [of this title.]

(j) *The Director may authorize pilot projects to test alternative methods of achieving the purposes of this chapter. Such pilot projects may begin only after consultation with the Chair and Ranking Minority Member of the Committee on Governmental Affairs of the Senate and the Chair and Ranking Minority Member of the Committee on Government Reform and Oversight of the House of Representatives.*

### § 7503. Relation to other audit requirements

(a) An audit conducted in accordance with this chapter shall be in lieu of any financial [or financial and compliance] audit of [an individual] Federal [assistance program] *awards* which a [State or local government] *non-Federal entity* is required to [conduct] *undergo* under any other Federal law or regulation. To the extent that such audit provides a Federal agency with the information it requires to carry out its responsibilities under Federal law or regulation, a Federal agency shall rely upon the use that information [and plan and conduct its own audits accordingly in order to avoid a duplication of effort].

(b) Notwithstanding subsection (a), a Federal agency [shall] *may* conduct or *arrange for* [any] additional audits which are necessary to carry out its responsibilities under Federal law or regulation. The provisions of this chapter do not authorize and [State or local government] *non-Federal entity* (or subrecipient thereof) to constrain, in any manner, such agency from carrying out or *arranging for* such additional audits[.], *except that the Federal agency shall plan such audits to not be duplicative of other audits of Federal awards.*

(c) The provisions of this chapter do not limit the authority of Federal agencies to conduct, or [enter into contracts] *arrange for* the conduct of, audits and evaluations of Federal [financial assistance programs] *awards*, nor limit the authority of any Federal agency Inspector General or other Federal [audit] official.

(d) Subsection (a) shall apply to a [State or local government] *non-Federal entity* which [conducts] *undergoes* an audit in accordance with this chapter even though it is not required by section 7502(a) to [conduct] *have such an* audit.

(e) A Federal agency that [performs] *provides Federal awards and conducts* or [contracts] *arranges for* audits of *non-Federal entities receiving such awards that are* in addition to the audits [conducted by] of [recipients] *non-Federal entities conducted* pursuant to this chapter shall, consistent with other applicable law, arrange for funding the *full* cost of such additional audits. [Such additional

audits include economy and efficiency audits, program results audits, and program evaluations.] *Any such additional audits shall be coordinated with the Federal agency determined under criteria issued under section 7504 to preclude duplication of the audits conducted pursuant to this chapter or other additional audits.*

(f) *Upon request by a Federal agency or the Comptroller General, any independent auditor conducting an audit pursuant to this chapter shall make the auditor's working papers available to the Federal agency or the Comptroller General as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this chapter. Such access to auditor's working papers shall include the right to obtain copies.*

**§ 7504. [Cognizant agency responsibilities] Federal agency responsibilities and relations with non-Federal entities**

(a) **[The Director shall designate cognizant agencies for audits conducted pursuant to this chapter.]** *Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency—*

*(1) monitor non-Federal entity use of Federal awards, and*

*(2) assess the quality of audits conducted under this chapter for audits of entities for which the agency is the single Federal agency determined under subsection (b).*

(b) **[A cognizant agency shall—]** *Each non-Federal entity shall have a single Federal agency, determined in accordance with criteria established by the Director, to provide the non-Federal entity with technical assistance and assist with implementation of this chapter.*

**[(1) ensure that audits are made in a timely manner and in accordance with the requirements of this chapter;]**

**[(2) ensure that the audit reports and corrective action plans made pursuant to section 7502 of this title are transmitted to the appropriate Federal officials; and]**

**[(3)(A) coordinate, to the extent practicable, audits done by or under contract with Federal agencies that are in addition to the audits conducted pursuant to this chapter; and (B) ensure that such additional audits build upon the audits conducted pursuant to this chapter.]**

(c) *The Director shall designate a Federal clearinghouse to—*

*(1) receive copies of all reporting packages developed in accordance with this chapter;*

*(2) identify recipients that expend \$300,000 or more in Federal awards or such other amount specified by the Director under section 7502(a)(3) during the recipient's fiscal year but did not undergo an audit in accordance with this chapter; and*

*(3) perform analysis to assist the Director in carrying out responsibilities under this chapter.*

**§ 7505. Regulations**

(a) The Director, after consultation with the Comptroller General, and appropriate *officials* from Federal, State, and local governments and *nonprofit organizations* **[officials,]** shall prescribe **[policies, procedures, and guidelines]** *guidance* to implement this

chapter. Each Federal agency shall promulgate such amendments to its regulations as may be necessary to conform such regulations to the requirements of this chapter and of such [policies, procedures, and guidelines] *guidance*.

(b)(1) The [policies, procedures, and guidelines] *guidance* prescribed pursuant to subsection (a) shall include criteria for determining the appropriate charges to [programs of] *Federal* [financial assistance] *awards* for the costs of audits. Such criteria shall prohibit a [State or local government] *non-Federal entity* [which is required to conduct an audit pursuant to this chapter] *from charging to any [such] Federal [program] awards*—(A) the cost of any [financial or financial and compliance] *audit which is*—

(i) not conducted in accordance with this chapter[, and]; or

(ii) *conducted in accordance with this chapter when expenditures of Federal awards are less than amounts cited in section 7502(a)(1)(A) or specified by the Director under section 7502(a)(3), except that the Director may allow the cost of limited scope audits to monitor subrecipients in accordance with section 7502(f)(2)(B); and (B) more than a reasonable proportionate share of the cost of any such audit that is conducted in accordance with this chapter.*

(2) The criteria prescribed pursuant to paragraph (1) shall not, in the absence of documentation demonstrating a higher actual cost, permit [(A) the ratio of (i) the total charges by a government to Federal financial assistance programs for] *the percentage of the cost of audits performed pursuant to this chapter[, charged to Federal awards, [to (ii) the total cost of such audits,] to exceed [(B)] the ratio of [(i)] total Federal [financial assistance] awards expended by such [government] non-Federal entity during the applicable fiscal year or years, to [(ii)] such [government's] non-Federal entity's total expenditures during such fiscal year or years.*

(c) Such [policies, procedures, and guidelines] *guidance* shall include such provisions as may be necessary to ensure that small business concerns and business concerns owned and controlled by socially and economically disadvantaged individuals will have the opportunity to participate in the performance of contracts awarded to fulfill the audit requirements of this chapter.

#### **§ 7506. Monitoring responsibilities of the Comptroller General**

(a) The Comptroller General shall review provisions requiring financial [or financial and compliance] audits of [recipients of] *non-Federal entities that receive Federal [assistance] awards* that are contained in bills and resolutions reported by the committees of the Senate and the House of Representatives.

(b) If the Comptroller General determines that a bill or resolution contains provisions that are inconsistent with the requirements of this chapter, the Comptroller General shall, at the earliest practicable date, notify in writing—

(1) the committee that reported such bill or resolution; and

(2)(A) the Committee on Governmental Affairs of the Senate (in the case of a bill or resolution reported by a committee of the Senate); or

(B) the Committee on Government **【Operations】** *Reform and Oversight* of the House of Representatives (in the case of a bill or resolution reported by a committee of the House of Representatives).

**§ 7507. Effective date [; report]**

**【(a)】** This chapter shall apply to any **【State or local government】** *non-Federal entity* with respect to any of its fiscal years which begin after **【December 31, 1984】** *June 30, 1996*.

**【(b)】** The Director, on or before May 1, 1987, and annually thereafter, shall submit to each House of Congress a report on operations under this chapter. Each such report shall specifically identify each Federal agency or State or local government which is failing to comply with this chapter.**】**

**【(b)】** The provisions of this Act shall not diminish or otherwise affect the authority of the Tennessee Valley Authority to conduct its own audits of any matter involving funds disbursed by the Tennessee Valley Authority.**】**

**【(c)】** The table of chapters for subtitle V of title 31, United States Code, is amended by inserting after the item relating to chapter 73 the following new item:

**【75. Requirements for Single Audits ..... 7501.**

**【Approved October 19, 1984.】**

