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**An empirical study of the improvement in financial management  
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Single Audit Act**

**Miller, Gerald John, Ph.D.**

**University of Kentucky, 1994**

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**DISSERTATION**

**Gerald J. Miller**

**The Graduate School  
University of Kentucky**

**1994**



**AN EMPIRICAL STUDY OF THE IMPROVEMENT IN FINANCIAL MANAGEMENT  
PRACTICES OF STATE AND LOCAL GOVERNMENTS  
IN RESPONSE TO THE SINGLE AUDIT ACT**

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**DISSERTATION**

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**A dissertation submitted in partial fulfillment of the  
requirements for the degree of  
Doctor of Philosophy at the University of Kentucky**

**By**

**Gerald J. Miller**

**Glenview, Illinois**

**Director: Dr. Relmond P. VanDaniker  
Professor of Accountancy**

**Lexington, Kentucky**

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May 6, 1998  
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**ABSTRACT**

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## **ABSTRACT**

### **AN EMPIRICAL STUDY OF THE IMPROVEMENT IN FINANCIAL MANAGEMENT PRACTICES OF STATE AND LOCAL GOVERNMENTS IN RESPONSE TO THE SINGLE AUDIT ACT**

The Single Audit Act (SAA) of 1984 was one of the most important pieces of legislation affecting government auditing ever to be enacted. Two of the four stated goals of the SAA were to 1) improve the financial management of state and local governments with respect to federal financial assistance programs, and 2) promote the efficient and effective use of audit resources. The purpose of this research was to determine the extent to which these two goals have been achieved, with an emphasis on the first goal.

Data were collected using a mail questionnaire which was sent to all state governments and a random sample of county governments, municipalities and townships. The survey instrument was designed to determine how important the SAA was in initiating financial management practices/procedures in each of the four government types. A total of thirty-one practices/procedures in five categories of financial management were included in Part II of the instrument.

Research results showed that the SAA has been moderately important in initiating financial management practices/procedures in state and local governments. The SAA had the greatest impact in initiating practices/procedures that are directly related to federal programs, and was most important in initiating practices/ procedures in county governments. The results also showed that duplication of audit effort continues to be a problem in federal program audits despite the SAA.

This study contributes to the accounting literature in that it addresses the issue of whether the SAA has achieved its first stated goal. The study is timely in that it was completed at a time when there is a great deal of interest in the SAA. The President's Council on Integrity and Efficiency (PCIE) recently completed a study dealing with the SAA and the U.S. General Accounting Office (GAO) is in the process of completing their own study. The results of this study, along with the results of the PCIE and GAO studies, will provide information that can be used to evaluate the SAA and determine what changes, if any, need to be made.

Gerald J. Miller  
Gerald J. Miller  
May 6 1994  
Date

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## Chapter One

### INTRODUCTION

The Single Audit Act of 1984 (hereafter referred to as the SAA) was signed into law on October 11, 1984 after the U. S. General Accounting Office (GAO) suggested that Congress enact legislation to make a single, entity-wide financial and compliance audit mandatory for state and local governments receiving federal assistance. The purposes of the SAA are:

- to improve the financial management of state and local governments with respect to federal financial assistance programs;
- to establish uniform requirements for audits of federal financial assistance provided to state and local governments;
- to promote the efficient and effective use of audit resources; and
- to assure that federal departments and agencies, to the maximum extent possible, rely upon and use audit work performed pursuant to the act.

Prior to the SAA, federal agencies had separate audit divisions and audit requirements that were related to their own programs. As a result, state and local governments were often subjected to audits of grants or programs under each agency's guidelines, which sometimes resulted in governmental units having the same transactions or controls audited repeatedly or in having some assistance programs avoid audit altogether. The single audit approach addresses these deficiencies by requiring that grant audits be performed in conjunction with the audit of the government's financial statements.

In addition to eliminating audit duplication and gaps that existed in audit coverage, the SAA intended to provide sufficient information to federal, state and local officials to assure that financial records are accurate and weaknesses in internal controls and noncompliance with laws and regulations are identified. The SAA also intended that single audits provide a basic foundation on which other audits and evaluations of state and local governments would build. This "preventive approach" would result in federal fund recipients using single audit reports to identify and correct weaknesses in their financial management and internal control systems. The desired result would be long-lasting improvements in financial management which would provide for greater accountability over public funds.

Currently, federal financial assistance programs total approximately \$150 billion annually, with about 18,000 state and local governments receiving in excess of \$100,000 per year. Private citizens, legislative and oversight bodies, and investors and creditors have a common interest in knowing if federal funds are being used for the purposes for which they were intended and if federal programs are being carried out in accordance with applicable laws and regulations.

With the massive federal budget deficits of recent fiscal years and the financial difficulties that many state and local governments are currently experiencing, there is a widespread interest in knowing whether the SAA has achieved its goals

during the past ten years. This is particularly true with regard to goal number one, since the SAA is supposed to be preventive in nature.

If the financial management of state and local governments has improved as a result of the SAA, legislators, private citizens, investors and creditors and other interested parties can have increased assurance that federal financial assistance funds are being used for the purposes for which they were intended and that fraud and abuse are being minimized. Broadus and Comtois (1987) stated that passage of the SAA represented the federal government's commitment to financial accountability and recognized the centrality of the audit in reaching the goal.

#### **The Role of Auditing in Government**

Schandl (1978) defined auditing in its broadest sense as a human evaluation process that measures adherence to certain norms with the outcome of that process used to formulate an opinion which is communicated to certain interested parties. According to Knighton (1980), auditing plays a fundamentally different role in the public sector than it does in the private sector. The difference is one of audit emphasis versus audit approach, and results from the different perceptions of the purpose of the audit.

The main purpose of a commercial enterprise is to generate a profit for its owners, while that of a government is to provide services to its citizens within the framework of

controls established by laws. For a commercial enterprise, then, attesting to the fairness of the financial statements is the primary focus of an audit. Although the attest function is an important role of auditing in the public sector, the most important role is the improvement of management (financial management in particular) and the strengthening of control systems. If both of these objectives are achieved through auditing, the overall result is increased accountability over financial resources.

In addition to the different role played by audits in the public versus the private sector, there are other differences. Berry and Wallace (1986) noted that "the environment, types of audits, behavior of auditors, and the auditing process in various levels of government are far broader and more complex than those observed in the private sector."

Baskin (1986), in investigating the impact of audits on credit ratings of municipalities, stated that the audit has perceived value as (1) a monitoring device, (2) an information evaluation and condensation mechanism, and (3) a tool to improve accounting systems and financial management. She noted that, during the course of an audit, auditors may make suggestions for improving internal controls and the accounting system in general. This is particularly true with respect to single audits, since the scope is much broader than a routine financial audit and internal control deficiencies are required to be reported and resolved. As a result, the audit in



general, and the single audit in particular, can be regarded as tools to improve accounting systems and financial management.

Baskin identified the quality of financial management as one of three key factors that can have an impact on creditworthiness decisions made by analysts. Municipalities may therefore have an incentive to use audit reports to the maximum extent possible to improve their accounting systems and financial management. The Government Finance Officers Association (GFOA) has also indicated that one of the best ways to obtain assistance in improving the financial management practices in a municipal government is through the recommendations of an independent auditor.

The authors of the SAA recognized that audits can be effectively utilized to improve the quality of a state or local government's financial management. They realized that better government comes from better financial management, and not from the publication of long lists of audit findings. They also realized that the audit needs to be viewed as a tool which can be used to improve government operations over the long run instead of a vehicle for reporting audit findings to the press. For these reasons, improvement of the financial management of state and local governments was identified as the number one goal of the SAA.

### Statement of the Problem

In an assessment of past work in government auditing research, Berry and Wallace (1986) concluded that "many areas of inquiry are unexplored and provide fruitful opportunities to the inquisitive audit researcher." The SAA is one such area. No empirical research studies have been undertaken to attempt to determine whether the SAA has achieved its major goal of improving the financial management of state and local governments with respect to federal financial assistance programs. This study will attempt to determine if this goal has been achieved by identifying financial management practices and procedures that were initiated to comply with the terms of the SAA or to respond to findings contained in single audit reports. The study will be concerned with the overall financial management of state and local governments, which includes the financial management of federal financial assistance programs.

Most of the studies performed on the SAA during the past six years have dealt with either compliance with reporting requirements or the quality of single audit reports. During the first two to three years after the first reporting year under the SAA (1985), the focus was clearly on whether or not grant recipients were required to undergo a single audit were, in fact, doing so and submitting a report. In the next two to three years, most of the research and evaluation efforts dealt with the quality of audit reports prepared by state and local

government auditors and independent CPA's. Very few studies have dealt with the issue of whether any of the goals of the SAA have been achieved. Those that have were usually performed on a small scale.

The limited amount of research that has been performed is not due to a lack of interest, but rather to the fact that the SAA was a new and extremely complex law which had some significant implementation problems. Since the SAA has been a federal law for almost ten years, there is a need to determine whether or not its goals have been achieved. If the goals have not been achieved, it may be necessary to review the requirements of the SAA to determine if it should continue in its present form.

There are several reasons why it would not have been practical or beneficial to perform a study of this nature prior to this time. First of all, there were numerous implementation problems during the first two to three years after passage of the SAA, as many federal assistance recipients attempted to become familiar with the new audit requirements. There were also problems with audit guidance. The AICPA did not issue a revised version of its governmental auditing guide, Audits of State and Local Governmental Units, until 1986. In addition, the GAO "Yellow Book" (Government Auditing Standards) was not revised to include references to audits performed under the SAA until 1988.

As a result of the implementation problems and the delay in the issuance of audit guidance, it is doubtful if state and local governments made significant improvements to their financial management as a result of the SAA prior to 1988. In addition, the first database of all single audit reports submitted (during calendar year 1986) was not available for use prior to 1988. Although the U.S. Census Bureau has maintained a single audit database beginning with reports submitted during calendar year 1986, a lag of about one and one-half years exists between the end of a time period for which single audit reports are submitted and the time that the database is complete. Performing this study now (using a database of single audit reports submitted between December of 1990 and December of 1991) allows an eight-year period after passage of the Act (1985-1992) to determine what changes, if any, have taken place in the financial management practices of federal financial assistance recipients.

#### Other Goals of the SAA

The establishment of uniform requirements for audits of federal financial assistance programs was identified as the second goal of the SAA. Prior to passage of the SAA, many audits of federal grants and programs were performed according to the requirements of the particular program or agency administering the program. Although Attachment P of OMB Circular A-102 required that a single audit of grant recipients be conducted on an organization-wide basis since

1979, implementation of Attachment P was not successful. Many of the materials and mechanisms necessary for implementation were not in place, and, moreover, Attachment P was not a law. For these reasons, the establishment of uniform audit requirements was identified as one of the goals of the SAA.

This goal has, for the most part, been accomplished. The SAA itself, single audit guidance issued by the OMB, the revision of the GAO Yellow Book, the issuance of a Statement of Position on the performance of single audits by the AICPA and other guidance provided by the OMB are evidence that uniform requirements and guidance have been established. Single audits are now required by law and are performed using common standards.

The third goal, to promote the efficient and effective use of audit resources, resulted from the duplication of audit effort or lack of audit coverage altogether that many federal programs were experiencing. One could state that this goal has also been achieved because the SAA does promote efficiency and effectiveness in the use of audit resources simply by requiring that a single financial and compliance audit be performed. In general, the SAA has required entities that were not previously subjected to audit to be audited and has caused a broader and more consistent coverage of federal programs. Although this study focused on the first goal of the SAA, it also attempted to address the question of whether the SAA has reduced duplication of audit coverage.

Accomplishment of the fourth goal, to ensure that federal departments and agencies rely upon and use audit work performed pursuant to the SAA to the extent practical, is currently under study. Both the GAO and the PCIE (President's Council on Integrity and Efficiency) are completing studies to determine federal managers' perceptions regarding the usefulness of single audit reports. Past status reports issued by the OMB (Office of Management & Budget), as well as PCIE and other reports, have shown that some federal managers are concerned as to whether or not their programs are receiving enough audit coverage under the single audit approach. The GAO and PCIE studies should answer the question of whether or not the fourth goal has been achieved.

#### **Theoretical Foundation**

Since there is no generally accepted theory of governmental auditing, it is necessary to utilize proposed "private sector" auditing theories in order to obtain a theoretical foundation for research. Simunic (1980) viewed the audit service in general as an economic good to the auditee. Simunic and Stein (1987) identified two major audit service characteristics from a consideration of the possible organization structure of an audited company:

- (1) The contribution of the audit to organization control;  
and
- (2) The credibility of the audit as perceived by  
shareholders and creditors.

Although these characteristics were identified within the private sector framework, the key service characteristic in a governmental setting would be the contribution of the audit to organization control. With the single audit consisting of both a financial and compliance audit, its role would appear to be one of strengthening financial management by 1) improving internal controls and financial management practices and procedures, and 2) ensuring compliance with laws and regulations. The "control benefits" to be derived by the audited organization in a government setting are improvements in the quality of management or administration.

The authors of the SAA must have had control benefits in mind when they identified the improvement of financial management of State and local governments as the number one goal. The primary purpose of single audit reports is the identification of problems and weaknesses in the financial management systems of state and local governments. The focus is on the improving the financial management of these governments by correcting the problems and weaknesses identified in the reports. In theory, then, the control benefits to be derived from the SAA are overall improvements in the financial management of state and local governments and, in particular, improvements in financial management with respect to federal financial assistance programs.

### **Research Questions**

The research questions this study attempted to answer are derived from the first and third goals of the SAA and are as follows:

1. To what extent has the SAA achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs?
2. Does type of government entity make a difference in the extent to which the SAA has achieved its first stated goal of improving the financial management of state and local governments with respect to federal financial assistance programs?
3. How important has the SAA been in initiating financial management practices and procedures of state and local governments that are federal financial assistance recipients?
4. Does type of government entity make a difference in the extent to which the SAA has been important in initiating financial management practices and procedures of state and local governments that are federal financial assistance recipients?
5. Within category of financial management, does type of government entity make a difference in the extent to which the SAA has been important in initiating financial management practices and procedures of state and local governments that are federal financial assistance recipients?
6. Has the SAA resulted in more efficient and effective use of audit resources (in particular, eliminating duplication of audit effort) by state and local governments?
7. Does type of government entity make a difference in the extent to which the SAA has resulted in more efficient and effective use of audit resources (in particular, eliminating duplication of audit effort)?



### Overview of Methodology

The data relative to this study were collected by utilizing a mail questionnaire. This technique was selected because there is no archival data or other information that could be used to address the problem. The questionnaire, which consists primarily of a list of financial management practices and procedures, was directed to the chief financial officers, or equivalent, of government entities selected in a stratified random sample.

The financial management practices and procedures in the questionnaire were adopted from a list of "indicators of good financial management" developed by the GAO in 1992. GAO developed this list after researching the provisions of the SAA, talking with individuals who were involved in writing the SAA and getting it passed as a law, and consulting with their own experts on commonly used government accounting practices and procedures.

In developing the instrument, consideration was also given to textbook definitions of financial management in the public sector to ensure that the categories on the GAO list coincided with the "generally-accepted" categories of financial management. The practices and procedures included in the questionnaire are not considered to be an "all-inclusive" list of financial management practices and procedures of State and local governments; however, the sources used resulted in a measuring instrument that provided more than adequate coverage

of the topic being studied. According to Emory (1980), if a survey instrument contains a representative sample of the entire topic of interest, then content validity is good.

The questionnaire is only four pages in length, with Part I consisting of background information for the responding organization. Part II lists the financial management practices and procedures by category, beginning with the general category of "financial management organization." The other four categories are the primary areas of financial management in government as identified by the GAO and defined by textbooks: the accounting system, budgeting, auditing/internal control, and financial reporting.

In part II, respondents were asked 1) if the practices/procedures listed were initiated prior to 1984 (the year the SAA was passed), after 1984, or never initiated; and 2) if the practice/procedure was initiated during or after 1984, to what extent it was initiated to comply with the SAA or was in response to/resulted from a finding(s) in a single audit report(s). An ordinal scale was used, and the respondents had the option of selecting "no basis to judge" as an answer if they could not determine the extent to which a practice/procedure was initiated as a result of the SAA. Respondents were also asked to describe practices/procedures which may have resulted from the SAA, but were not cited as a commonly used practices/procedures in the five categories.

Part III of the questionnaire is a summary section in which the respondents were asked the extent which they believe the first stated goal of the SAA has been achieved. An ordinal scale similar to that in Part II was used. Respondents were also asked to what extent they believe the third goal of the SAA, eliminating duplication of audit coverage, had been achieved. Respondents then had an opportunity to describe what they felt were the limitations or shortcomings of the SAA.

The instrument was pretested using selected members of the Kentucky League of Cities, i.e. that are the chief financial officers of their respective cities, and/or selected members of the GFOA employed in Kentucky.

#### **The Population and the Sample**

The U.S. Bureau of the Census is the designated clearinghouse for single audit reports and is responsible for maintaining the Single Audit Database. At the time of the sample selection, the most current database included state and local governments that submitted single audit reports between December, 1990 and December, 1991. The data fields within the database included a nine digit code that identifies the government as a state, county, municipality, or township and the amount of current year federal financial assistance.

The Executive Director of the National Association of State Auditors, Comptrollers and Treasurers (NASACT) allowed the cover letter to be printed on NASACT letterhead and the

survey package to be mailed from the NASACT office. All fifty states, as well as Washington, D.C. and Puerto Rico, were included in the state category. A random sample of two hundred entities were selected from within the county, municipality, and township categories.

#### **Possible Implications of the Study**

The results of this study should be of interest to all government entities, organizations, groups and individuals that are impacted by the SAA. The study is very timely in that it could have an impact on amendments to the SAA during the next few years. Reding and Engstrom (1992) found that a majority of CPAs and CFOs do not believe that the single audit process or reports produce benefits to the municipality. The results may help to address the cost/benefit issue, recently raised by various state and local governments.

#### **Definition of Terms**

Some of the more important terms that are used in the SAA and throughout this dissertation are defined, at this point, for the benefit of readers not familiar with single audit terminology. Many of these definitions are taken directly from Section 7501 of the SAA.

1. Cognizant agency-a federal agency which is assigned by the Director with the responsibility for implementing the requirements of the SAA with respect to a particular state or local government.
2. Director-the Director of the Office of Management and Budget (OMB) of the federal government. The OMB is responsible for prescribing policies, procedures and guidance for the SAA as well as designating cognizant agencies and reporting to Congress on SAA progress.

3. Federal financial assistance-assistance provided by a federal agency in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations, but does not include direct federal cash assistance to individuals.
4. Finding (audit)-the result of information developed about an organization, program, activity, function, condition, or other matter which was analyzed or evaluated and considered to be of interest, concern or use to the entity.
5. Generally accepted government auditing standards-the standards for audit of governmental organizations, programs, activities, and functions, issued by the Comptroller General and entitled Government Auditing Standards (the "Yellow Book").
6. Independent auditor-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.
7. Internal controls-the plan of organization and methods and procedures adopted by management to ensure that a) resource use is consistent with laws, regulations, and policies; b) resources are safeguarded against waste, loss and misuse; and c) reliable data are obtained, maintained, and fairly disclosed in reports.
8. Local government-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.
9. President's Council on Integrity and Efficiency in Government (PCIE)-a presidential advisory group chaired by the Director of the Office of Management and Budget (OMB) which includes all of the inspectors general of federal agencies. The purpose of the group, formed in 1981, is to identify and combat fraud, waste and abuse in governmental programs.
10. Subrecipient-any government department, agency, or establishment that receives federal financial assistance which is passed through a state or local government.

## Chapter Two

### HISTORY OF THE SINGLE AUDIT ACT AND LITERATURE REVIEW

#### History of the Single Audit Concept

In order to understand how the single audit concept was developed and why the SAA became a public law in 1984, it is necessary to review the events occurring during the 1960's and 1970's which eventually led to single audit legislation.

#### Developments During The 1960's

Problems in auditing federal financial assistance programs began to surface during the early 1960's. In response to these problems, OMB Circular A-73 was issued, in 1965, in an attempt to provide for intergovernmental audit cooperation. The circular required federal auditors to rely on audits performed at the state and local level and attempted to coordinate audits of grant programs both within and between various federal agencies. The single audit concept therefore originated in Circular A-73.

Despite its good intentions, the original Circular A-73 was not successful. Federal auditors were reluctant to rely on state and local government audits because the federal government had different audit guidelines and reporting requirements. In addition, there was very little interaction between federal and state and local auditors and audit agencies at this time.

During the mid-1960's, the federal government began to greatly increase financial assistance funding to state and

local governments in order to improve a variety of public services. Public aid programs for education, employment and training, health, housing and community development, and transportation were developed during this decade. As the number of programs began to increase, so did the amount of funding associated with the programs.

As program funding began to increase, state and local governments became increasingly concerned about the administrative and audit requirements associated with the programs. These concerns led to the passage of the Intergovernmental Cooperation Act of 1968. This act specified certain administrative requirements which had to be met in order for a government to receive federal funds, but the act did not impose an audit requirement.

#### Developments During The 1970's

During the 1970's, there was a shift in attention from helping recipients obtain funds to a concern for fraud, waste and abuse. In 1971, the Office of Management and Budget (OMB) issued Circular A-102, Uniform Administrative Requirements for Grants-in-aid to State and Local Governments. This circular, along with subsequent attachments, prescribed standards for financial management systems of grant-supported activities of state and local governments. Attachment G of the Circular required that audits be performed by the grantee, or at his direction, at least every two years in order to determine the fiscal integrity of financial transactions and reports and

compliance with administrative requirements.

Several other events having a significant impact on the development of the single audit concept took place during the 1970's. The first was the passage of a new general revenue sharing program, the State and Local Fiscal Assistance Act of 1972. This program distributed funds to all 50 states and to about 39,000 local governmental units, many of which received federal funding for the first time (Thompson, 1985). One of the few administrative requirements was for the submission of a report (not an audit report) on the uses of the funds. A 1976 amendment to the revenue sharing program required recipients to have an audit conducted in accordance with generally accepted auditing standards no less than once every three years.

Another event of significance was the development and issuance in 1972 of the new government auditing standards by the Comptroller General of the U.S., "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (commonly referred to as the "Yellow Book"). Although these standards were identified as "broad scope" auditing standards and were initially intended to apply to either audits within the federal government or to audits of external organizations performed by federal auditors, they were eventually used to determine how non-federal audit efforts measured up against work performed by federal auditors.



The GAO issued two reports which described the problems that existed in audits of federal assistance programs during the early 1970's. "Increased Governmental Cooperation Needed for More Effective, Less Costly Auditing of Government Programs" was issued in 1974 and highlighted the deficiencies of Circular A-73. "Problems in Reimbursing State Auditors for Audits of Federally Assisted Programs" was issued the following year, and detailed the problems that existed in audit reimbursement procedures. Intergovernmental cooperation and audit reimbursement procedures were major problems that needed to be addressed if the single audit concept were to become successful.

Shortly after the issuance of the new GAO auditing standards, national and intergovernmental audit forums were established, thus enabling audit organizations to exchange ideas for improved auditing and as a vehicle for the coordination of audit efforts. At the same time, the GAO began to recognize that there was little expertise in the areas of compliance, economy and efficiency and program results audits. As a result, GAO developed an audit guide aimed at providing both government and private auditors with procedures for performing these types of audits. GAO also began to address the problem of multiple federal agency audit guides by developing one guide that could be used for all audits of federal assistance programs.

The concept of the single audit began to take shape during the Carter Administration when an increased emphasis was placed on intergovernmental grants management and on improvement in intergovernmental auditing. The 1976 amendment to the State and Local Fiscal Assistance Act of 1972 resulted in a significant expansion of the scope of intergovernmental auditing. Attachment G of Circular A-102 was amended in 1977 to require that grantee financial management systems provide for audits made in accordance with the standards published by the GAO. The attachment also stated that "It is not intended that each grant awarded to the recipient be examined. Generally, an examination should be conducted on an organization-wide basis to test the fiscal integrity of financial transactions, as well as compliance with terms and conditions of the federal grants" (Thompson, 1985). The importance of the single audit concept was clearly beginning to emerge.

In 1978 the Inspector General Act was passed, adding another component necessary in order to implement the single audit concept. Offices of Inspector General (IG) were created for each of the major federal agencies in order to oversee the administration and audits of major federal programs in their agencies as well as other agencies. Creation of the IG offices permitted the various agencies to coordinate audit plans and use their own audit resources more efficiently. The Inspector General Act marked the inception of an effort by

Congress to become more involved in overseeing audits of federal assistance programs.

The first attempt at developing a single audit guide took place in 1978 when the GAO issued Guidelines for Financial and Compliance Audits of Federally Assisted Programs. Although the guide was helpful in providing consistent audit guidance and encouraged the coordination of audit efforts, it did not provide for the assignment of cognizant agencies. As a result, no federal agencies were designated to be responsible for overseeing the conduct of audits by funding recipients and for conducting quality control reviews of audits.

In 1979, representatives of the OMB and GAO realized that a number of problems existed in federal government audit activity, including duplication and overlap of audit coverage, multiple audit guidelines, varying audit approaches, and different methods of reimbursing state and local auditors for their audits of federal programs. The Joint Financial Management Improvement Program (JFMIP) was initiated in 1979 and resulted in a report which recommended the single audit approach as the best solution to the problems that existed.

Also in 1979, a GAO report entitled "Grant Auditing: A Maze of Inconsistencies, Gaps, and Duplication That Need Overhauling" was released. GAO reviewed the audit experience of 73 major grantees for fiscal years 1974 through 1977, and found that 80% of the recipients' \$3.7 billion in federal funds had not been subjected to audit. GAO also found that

only one grant recipient received a single, comprehensive audit, while a number of recipients were audited numerous times by various federal agencies.

Remarkably, the GAO concluded that "if this percentage (80%) were applied to the approximately \$240 billion in grants awarded during the period, it is possible the Government did not provide audits for nearly \$192 billion." The findings of the GAO study and the JFMIP were clear indications that the procedures in place were not working and that an alternative needed to be developed.

#### Initiation of the Single Audit Concept

The single audit concept was formally adopted in October of 1979 when the OMB issued Attachment P, Audit Requirements, to Circular A-102. This administrative directive basically restated the audit requirements of Attachment G; however, three new features were added. First, auditors were required to use the new single audit guide, being developed by the GAO, to conduct the audits. The intention was that the GAO guide would replace the numerous different audit guides being used to perform grant audits and, therefore, provide more consistency. Secondly, a "compliance supplement" was issued by OMB which identified the significant features of major federal assistance programs for use in the audit process. Third, grant recipients were assigned to cognizant federal agencies by OMB. As the designated oversight agencies for single audits, cognizant agencies are responsible for the following:

- 1) ensuring that audits are made and reports received in a timely manner,
- 2) providing technical advice and liaison to state and local governments and independent auditors,
- 3) performing quality reviews of audits made by nonfederal audit organizations,
- 4) informing federal and state and local law enforcement officials of any reported illegal acts or irregularities,
- 5) advising audited governments of audits that have been found not to have met the requirements of OMB Circular A-128,
- 6) coordinating audits made by or for federal agencies that are in addition to the single audit, and
- 7) overseeing the resolution of audit findings.

OMB currently assigns cognizant agency responsibility for approximately 1,800 of the larger state agencies and local governments which receive the preponderance of federal assistance funds. Cognizant agency assignment is usually based on the federal agency which provides the greatest amount of financial assistance to the state or local government.

Due to a number of problems, the single audit concept was slow to be implemented. The new GAO audit guide was not issued until February of 1980, and the compliance supplement and assignment of cognizant agencies were not completed until August of 1980. As a result, almost a year had passed after the issuance of Attachment P before the items necessary to implement the policy were available to federal, state and local government officials.

Overall, there was a substantial amount of confusion regarding the audit requirements of subgrantees under Circular

A-102, parties responsible for conducting the audits, and audit reimbursement procedures. Finally, early in his administration, President Reagan dismissed all of the incumbent Inspectors General and took several months to name replacements. This move greatly hampered the development of the single audit process as the Departments of Inspector General played key roles in implementing the single audit and assuming cognizant agency responsibility.

#### Single Audit Legislation

Attachment P did not carry the force of law and due to the numerous implementation problems that arose, the single audit concept was not well received by recipient governments, federal agencies, or private auditing firms. As a result, Congress began to consider passing a law to address the problems associated with the financial management and audit of federal financial assistance programs. Legislation was first introduced during the 97th Congress (1981-1982) to make the single audit a legal requirement.

Other developments began to take place at the federal level during the early 1980's. The PCIE was formed in 1981 by President Reagan to reduce fraud, waste and abuse in government programs. The PCIE, which consisted of the Director of OMB and all of the newly-appointed inspectors general, immediately saw the single audit as a tool that could be used to help carry out their responsibilities. Also in 1981, the GAO revised the Yellow Book to include separate standards for

financial and compliance audits as opposed to economy and efficiency and program results audits. This revision eliminated another barrier to the acceptance and implementation of the single audit concept.

Despite these positive actions, the single audit concept had not been effectively implemented by the close of 1982. As a result, the House Subcommittee on Intergovernmental Relations held hearings on two legislative proposals, both of which would have required federal fund recipients receiving in excess of \$100,000 per year to conduct a single audit every two years. Although the state and local governments supported the proposals, their primary concern was resolving the problem of who was going to pay for the single audits.

In response to the threat of legislation, the OMB issued a policy paper on the approach to be used in block grant audits. The paper called for states to arrange for an independent financial and compliance audit of block grant funding, to be accomplished following the GAO Yellow Book standards. The states could satisfy the block grant audit requirements by conducting a single state government audit or a single audit of the state departments that were using block grant funds. The policy paper issued by OMB was eventually published in 1982 as a revised Compliance Supplement for Single Audits of State and Local Governments. In addition to the compliance supplement, the OMB also revised its Circular A-50 to establish standards for following up on audit find-

ings.

In 1982, the PCIE appointed a committee to determine the extent to which Attachment P had been implemented and the usefulness of single audit reports that had been issued. In a report issued in May of 1984, the committee stated that many governments had been hesitant in adopting the single audit because of the problems already cited: questions about grantor audit requirements, payment for audit services, and cognizant agency responsibility. As a result of the committee findings, OMB began preparing a revision to Attachment P; however, it was never officially released because single audit legislation had already been introduced in both houses of Congress.

#### Passage of the Single Audit Act

Single audit legislation was initially introduced in the Senate, in 1983, by Senator David Durenberger and in the House, in 1984, by Representative Jack Brooks. The proposals were very similar, and the Senate and House had few differences to resolve. The revised bill was unanimously approved by both the House and the Senate during the first week of October, 1984 and, within one week, was signed into law by President Reagan.

The GAO played a major role in getting single audit legislation introduced and enacted in Congress. Testifying before a Senate subcommittee in 1983, Charles A. Bowsher, Comptroller General of the U.S., stated that he "viewed the initiative to establish uniform single financial audit



requirements for recipients of federal assistance to be one of the most important financial management issues facing us today."

#### **Features of the Single Audit Act**

A single audit is an organization-wide financial and compliance audit. The GAO defines a financial and compliance audit as an audit to determine (a) whether the financial statements of an audited entity presented fairly the financial position, results of operations, and cash flows or changes in financial position in accordance with generally accepted accounting principles, and (b) whether the entity has complied with laws and regulations having a material effect upon the financial statements. By having a single, organization-wide audit, federal grant recipients could avoid having individual audits performed for each grant as well as a possible independent audit of their financial statements.

#### **Organizations Affected and Dollar Thresholds**

The passage of the SAA meant that state and local governments, meeting certain thresholds of federal assistance funding, were required to undergo a single financial and compliance audit for fiscal years beginning after December 31, 1984. Any governmental unit receiving \$100,000 or more in any fiscal year is required to have an audit performed in accordance with the act. Governmental units receiving at least \$25,000, but less than \$100,000, in any fiscal year have the option of having an audit performed in accordance either with

the SAA or with the federal laws and regulations governing the specific programs in which the recipient government participates. Government units receiving less than \$25,000 per year in federal financial assistance are not required to be audited, but are expected to retain accounting records so that an audit can be performed if warranted. According to federal data, the SAA ensures that nearly 90% of the federal funds distributed to state and local governments are subjected to annual audit scrutiny (Thompson, 1988).

#### Audit Standards and Guidance

Single audits must be performed using the most recent version of the generally accepted auditing standards prescribed by the Comptroller General of the U.S. in Government Auditing Standards (GAO yellow book). The Yellow Book embodies all of the American Institute of CPA's (AICPA) auditing standards and adds other standards to them in order to provide guidance to government and nongovernment auditors for required audit work. The Yellow Book was first revised in 1981 and was revised again in 1988 to include, among other things, specific references to the SAA.

The changes to the Yellow Book meant that auditors needed to be familiar with Generally Accepted Government Auditing Standards (GAGAS) as well as with the AICPA audit standards (Generally Accepted Auditing Standards) in order to properly perform a single audit. In general, the single audit placed substantial additional emphasis on the auditor's understanding

and assessment of the internal control structure, and on tests of compliance with applicable laws and regulations.

The Director of OMB is responsible for prescribing policies, procedures and guidelines for implementation of the SAA. Specific guidance regarding the performance of a single audit can be found in OMB Circular A-128, Audits of State and Local Governmental Units. This circular, first issued in December, 1984, and revised in January, 1986, codified into regulation the policies, procedures and guidelines for performing a single audit.

The Circular discusses the broad aspects of the single audit, suggests certain audit tests to be considered in various circumstances, identifies appropriate report formats, and designates the cognizant federal agencies. The cognizant agency acts on behalf of all other federal agencies providing federal assistance to the governmental unit, which avoids having the client and auditor deal with several different agencies to resolve audit problems.

#### Other Requirements

In addition to the requirement that a state or local government must have a single audit if it meets certain funding thresholds, there are some other basic requirements of the SAA, as follows:

- state and local governments are required to maintain records of federal financial assistance and must provide access to these records to federal auditors as stated in Circular A-102.
- audits are to be performed on an annual basis.

- the audit must be performed by an independent auditor in accordance with generally accepted government auditing standards.
- the audit must cover either 1) the entire operations of the state and local government, or 2) separate departments, agencies or establishments which have received, expended or administered federal financial assistance during the year. A series of audits is performed for one fiscal year on individual departments, agencies or establishments can be considered a single audit.
- public hospitals, colleges and universities may be excluded; however, if they are, they must have audits performed in accordance with the provisions of OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.

Governmental subrecipients of federal funds (such as a county government receiving funds from a state government) are subject to the requirements of the SAA if they meet the dollar thresholds that are established for primary recipients. In addition, the primary recipients are responsible for reviewing audit reports prepared for the subrecipient or for conducting reviews themselves if audit reports have not been prepared.

#### The Auditor's Responsibilities

The auditor's principal responsibility under the SAA is to submit the audit report to the grantee. When conducting a single audit, an auditor is required to determine whether the recipient governmental unit has complied with the following requirements:

- issues financial statements that present fairly its financial position and the results of its operation in accordance with generally accepted accounting principles.
- maintains an internal control structure that provides reasonable assurance that federal financial assistance programs are being managed in compliance with applicable laws and regulations.

-follows laws and regulations which may materially affect its financial statements or each major federal financial assistance program, or may be applicable to non-major federal programs.

An auditor's responsibilities in performing a single audit can differ depending on whether the audit involves a major or non-major program. A major program is defined as any program for which the expenditures of federal financial assistance during the applicable year exceed a specified amount relative to the total expenditures for all programs.

The dollar thresholds for determining whether a program is major are as follows:

If total expenditures of federal assistance of the governmental unit are	Then a major federal program is one with expenditures of
More than \$7 billion	\$20 million
" " 6 "	19 "
" " 5 "	16 "
" " 4 "	13 "
" " 3 "	10 "
" " 2 "	7 "
" " 1 "	4 "
" " 100 million	3 "
" " 100 thousand	The greater of \$300,000 or 3% of total expenditures

In general, an auditor is required to perform more extensive audit tests for major programs than for non-major programs. For a major program, the auditor must conduct an audit of compliance with the general and specific laws and regulations applicable to each major program. The concept of a major federal assistance program was made a part of the SAA in order to assure the managers of large programs that these programs would receive the audit coverage warranted based on

the amount of funding involved.

#### The Scope and Content of Audit Reports

In implementing the SAA through Circular A-128, OMB concluded that one single audit report could consist of three to four parts: a report on the financial statements, a report on the study and evaluation of internal control, a report on compliance, and a separate report on fraud, abuse, and illegal acts, if necessary.

In its accounting and audit guide Audits of State and Local Governments (1986), the AICPA concluded that as many as six or seven separate reports were warranted in order to comply with the requirements of the SAA. Reports are classified as being either for the governmental entity or for its federal financial assistance programs. For the governmental entity, requirements are:

- a report on the examination of the general purpose or basic financial statements;
- a report on internal accounting control based solely on a study and evaluation made as part of the audit of the general purpose or basic financial statements; and
- a report on compliance with laws and regulations that may have a material effect on the financial statements.

For federal financial assistance programs, the requirements are:

- a report on a supplementary schedule of federal assistance programs;
- a report on compliance with laws and regulations, together with a summary of non-compliance and/or questioned costs, if any;

-a report on internal controls, including administrative controls used in administering federal financial assistance programs; and

-a report on fraud, abuse, or illegal acts, when discovered.

The AICPA concluded that, with the exception of the separate report on fraud, abuse or illegal acts, the reports issued could be bound as a single report or could be simultaneously presented as separate documents.

OMB Circular A-128 requires that the audit report on the examination of the financial statements include the financial statements, a report on them, and a schedule of federal financial assistance received by the grantee. The report on internal control requires that the auditor study and evaluate the internal control systems of the grantee and determine whether the systems provide reasonable assurance that the recipient is administering federal programs in compliance with the applicable laws and regulations. The internal controls must be reviewed whether or not the auditor intends to rely on them in the determination of the scope of transaction testing.

For the compliance report, the auditor has responsibilities with respect to major federal financial assistance programs and non-major programs, and must consider six general requirements as well as certain specific requirements as determined by OMB. The general requirements are political activity, the Davis-Bacon Act, civil rights, cash management, relocation assistance and real property acquisition, and federal financial reports. The specific require-

ments are types of services allowed or not allowed, eligibility, matching and level of effort or earmarking, and reporting. For major programs, the SAA requires that the independent auditor prepare a written report expressing an opinion on compliance with the specific and general requirements applicable to both individual transactions and the entire program. For non-major programs, a written report is required in which positive assurance is given on transactions tested considering the specific requirements, and negative assurance on transactions not tested.

One of the main problems with the single audit concept from the beginning was the fact that independent CPA's and auditors were not familiar with the regulations and audit procedures applicable to federal financial assistance programs. In many cases, they had very little experience in performing audits of these programs and especially in dealing with the compliance requirements of the programs. The GAO performed a review in 1985 in which 120 randomly selected audits of federal financial assistance programs performed by independent CPA's were analyzed. GAO found that the CPA's failed to follow applicable auditing standards in 34% of the cases.

As a result of this study, the AICPA formed a task force on the quality of audits of government units the objective of which was the development of a plan for improvement. In order to provide the independent auditor with specific guidance



concerning testing and reporting on compliance with laws and regulations, the AICPA issued Statement on Auditing Standards (SAS) No. 63, Compliance Auditing Applicable to Government Entities and Other Recipients of Governmental Financial Assistance, in April of 1989. SAS No. 63 explains in detail the auditor's responsibilities for testing and reporting on compliance in various engagements and how auditors can meet those responsibilities. The reporting provisions of the new SAS became effective for periods starting on or after January 1, 1989.

Reported audit findings can be either monetary or non-monetary in nature. Monetary findings result in questioned costs, which are costs that are unreasonable for performance of the grant activity, are not allowable according to specific regulations or are not beneficial to a grant project, are not treated consistently with costs incurred with non-federal funds, are already charged to other federal grant programs, or lack the necessary supporting documentation.

Non-monetary findings result from non-compliance with the terms and conditions of a grant or weaknesses in internal controls. The GAO Yellow Book requires that auditors identify and report on any material weaknesses identified as a result of the internal control evaluation. Any other compliance finding that does not result in a questioned cost would also be included in the compliance report.

Audit reports generated pursuant to the SAA are issued to the entity being audited and are available to the general public within 30 days after issuance. Corrective action plans are required when the audit report contains noncompliance findings or identifies weaknesses in internal control. The U.S. Census Bureau is the designated clearinghouse for single audit reports, and is responsible for collecting single audit reports and identifying those entities having failed to file reports. The most recent information available from the Census Bureau and the Inspectors General showed that about 98 percent of the required audit reports due by January 30, 1990 were received (U.S. O.M.B., 1990).

#### **Monitoring SAA Progress and Effectiveness**

##### **Status Reports on the SAA**

OMB is responsible for submitting an annual report to Congress on the operations of the SAA, including a list of recipient governments failing to comply. In the most recent report (covering the twelve-month period ending January 31, 1992), OMB stated that almost all of the Inspectors General (IG's) reported that state and local governments were carrying out provisions of the Act. Approximately 98% of the audit reports that were due by January 30, 1992 had actually been received. At the same time, the IG's indicated that there were some issues of concern, including the quality of audits and the usefulness of the audit reports, as well as some other problems.

The IG's analyzed a non-random sample of audits selected for detailed quality control reviews for the period ending September 30, 1991 and found that 1) 73% of the reports were issued without change; 2) 19% were issued after major changes, and 3) 8% had inadequacies so significant that users could not rely on them. The sample consisted of audits performed by both independent CPA's and state/local government auditors. A closer look at the data showed a significant difference between the quality of reports issued by the CPA's versus the state/local auditors:

	<u>Independent CPA's</u>	<u>State/local Auditors</u>
Reports issued without changes or with minor changes	70.7%	87.5%
Reports issued with major changes	19.5%	12.5%
Reports with significant inadequacies	9.8%	0.0%

The IG's noted that the percentage of substandard reports included in their review may well be higher than the overall percentage of substandard reports since the reports analyzed were selected, in most cases, because of concerns raised during routine desk reviews. Nevertheless, the data seem to support concerns expressed about audit quality in prior OMB annual reports, especially regarding reports prepared by independent CPA's. OMB stated that it will continue to work with the IG's and AICPA to address the audit quality issue and that it plans to work with the PCIE to develop a sample for

quality review that is representative of all audits made during a particular time period.

Various federal agencies reported to OMB that they were dissatisfied with single audit reports for a number of reasons. The Departments of Education, Labor and Transportation reported that reports do not always provide enough information to resolve audit findings. The Department of Interior reported significant problems in obtaining timely audit reports from Indian organizations and territorial governments. The Department of Agriculture reported that program managers are still concerned that auditors may not be performing sufficient compliance testing of major programs, while the Department of Commerce was concerned with the limited audit coverage of non-major programs. Finally, the Departments of Agriculture and Transportation reported an increase in delinquent audit reports.

OMB was concerned that single audits were placing unreasonable burdens on smaller grantees, and indicated that it would be working closely with the IG's to determine if the cost of audits exceed the benefits for these grantees. OMB also noted that the Single Audit Clearinghouse would begin making desk reviews of all audit reports subject to the SAA by the end of calendar year 1992. The Clearinghouse is also working on a program to reduce the number of late audit reports. Other actions that the OMB and IG's planned to complete by the end of 1992 were as follows:

- the issuance of a revised Circular A-87, "Cost Principles for State and Local Governments."
- the upgrading of cognizant assignments for state and local governments, universities and other non-profit organizations.
- an update of the Compliance Supplement for Single Audits of State and Local Governments. (This is the document which sets forth the major compliance requirements that auditors should consider in their compliance tests).

#### Federal Government Evaluation Efforts

Several efforts are currently underway in the federal government to evaluate the overall effectiveness of the SAA. The Department of Labor (DOL) Inspector General's Office is finalizing a report on the impact that the SAA has had in providing coverage to DOL funds. The GAO is currently performing a review in response to an August, 1990 request of the Senate Government Affairs Committee. Through the use of questionnaires and interviews, GAO will try to determine the problems that currently exist with the single audit process by obtaining feedback from federal government program managers and officials and state government officials. GAO intends to talk to users of single audit reports to determine what problems exist with the content of audit reports. With regard to goal number one, GAO will interview several experts to get their views as to whether the financial management of state and local governments which receive federal financial assistance has improved as a result of the SAA. This is the most comprehensive effort undertaken to date in an attempt to evaluate the effectiveness of the SAA from the program

manager/user viewpoint.

The PCIE recently completed a study to evaluate perceived problem areas in the single audit process and to determine the extent and adverse effects of such problems. The PCIE surveyed auditors, the IG's, and program managers at all levels to determine ways and means of improving the single audit process. Results of the PCIE study are discussed briefly in chapter five.

### **Literature Review**

#### **Introduction**

The first section of this literature review deals with articles pertinent to government auditing. The term "government auditing" is used to refer to all types of audits performed at the federal, state and local government levels.

The articles reviewed are intended to give the reader a broad overview of research in governmental auditing over the past fifteen years. The second section reviews the SAA literature in the professional journals. Increased attention has been given to government auditing issues (including the SAA) in the professional journals in recent years. The third section discusses dissertations that have been completed on the SAA.

#### **Government Auditing**

Zimmerman (1977) used agency theory to analyze the incentives that municipal officers have to provide accounting and auditing information beyond what is normally provided in

municipalities' financial reports. He found that differences in the structure of municipal governments are related to differences in the type of accounting and auditing information provided. Zimmerman concluded that the voters (the principals) had little incentive to monitor public officials (the agents) and that the public officials had little incentive to provide better auditing (monitoring) information. Zimmerman's study showed that the structure of a municipal government may have an effect on the amount and type of auditing information provided.

Wallace (1981) examined the impact of state accounting and auditing regulation on interest costs and bond ratings. She found that municipal audits do have an effect on bond ratings and interest costs. Ingram and Copeland (1982) also found that there was an association between information provided in municipal audits and bond ratings.

Raman (1982) focused on the concept of accountability in the public sector. He concluded that low taxes and the provision of good services would result from holding elected public officials accountable for their actions and monitoring them. Baber (1983) examined the role of auditing in the public sector and the incentives of public officials to supply auditing. He concluded that political competition increases the incentives of public officials to audit the disposition of public resources.

Baskin (1986) examined whether audit status (unaudited, state auditor, Big 8 auditor) and audit report opinion (qualified/unqualified) have an impact on credit evaluations made by municipal analysts. She also attempted to ascertain if audit status was associated with an analyst's opinion of the quality of a city's financial management and the reliability of its financial statements. Baskin viewed the audit as a device for (1) monitoring noise and bias, (2) information evaluation and condensation, and (3) improving accounting systems and financial management.

Baskin noted that during the course of an audit, the auditors may make suggestions for improving internal controls, and the accounting system in general, in the form of a management letter. The audit can therefore be regarded as a tool to improve accounting systems and financial management. This view of the function of the audit coincides with the view held by the authors of the SAA, as evidenced by the primary goal of the SAA being the improvement of the financial management of state and local governments.

Baskin found that, overall, neither audit status nor audit report opinions were significantly related to creditworthiness ratings. She did find, however, that higher credit ratings were associated with municipalities which hired Big 8 auditors. Baskin also found that analyst's perceptions of quality of municipality financial management and reliability of financial statements were not significantly related to



audit status. The overall conclusion of Baskin's study was that the accounting and auditing variables included in the study had only a weak, discernible impact on analysts' credit ratings.

Wallace (1986) performed a study to identify the attributes of an audit which generated the initial contracting for the audit service by municipalities. She found that the decision to contract for an initial audit was a function of the joint demands for monitoring, information, insurance, and operating cost savings, adjusted for the cost of the audit (including potential "bad news" effects). The results of Wallace's study revealed that there is strong support for the existence of market incentives in the municipal sector to voluntarily contract for audits.

Rubin (1987) proposed a theory addressing the demand for municipal audits. He noted three differences between audit contracting in private and public sector organizations: (1) the audit may be used as a monitoring tool in both sectors, but it can also be used in the public sector by a politician as a means of increasing personal benefits; (2) the public sector has fewer useful output measures than the private sector, (which can use income measures as incentives); and (3) public sector auditing may be affected by state or municipal statutes, which are non-existent in private sector auditing. These differences suggest that municipal audits may serve a different purpose than private sector audits. Rubin's theory

is that the demand for municipal audits generally stems from the relationship between the politicians and bureaucrats and the relationship of the bondholders with government officials.

#### Professional Journals

Brown and Burnaby (1984) performed a survey in order to determine (1) changes in the audit coverage of grants due to the requirements of the SAA, (2) changes in accounting systems or internal controls that resulted from compliance with the SAA, and (3) how recipient governments rated their cognizant agencies and their suggestions for improvement in the SAA. Thirty New England transit and planning agencies, recipients of federal funds, were the subjects of the survey.

The results of Brown and Burnaby's survey indicated that the single audit did not provide for expanded dollar coverage, no significant changes had to be made to the recipient's accounting systems, and that recipients were generally satisfied with the performance of their cognizant agencies. Although this survey was completed just prior to passage of the SAA, Brown and Burnaby stated that the results were relevant because future single audits would be very similar to Circular A102-P audits and that they would provide insight into the problems encountered in implementing the single audit.

Brown and Burnaby performed another survey (1986) which focused on the progress that the fifty states were making in implementing the SAA. Results of the survey suggested that

implementation of the SAA was proceeding on schedule, and that the parties involved and their respective responsibilities were identified. A more significant finding from this survey was that implementation of the SAA was not as traumatic as expected and that revolutionary audit changes were not required by the states in order to adopt the single audit approach.

Brown and Burnaby attributed these findings to the facts that (1) forty-eight states had experience with Circular A102-P audits or had early implementation of Circular A128 audits, and (2) most states had adequate accounting systems, procedures and financial reporting practices in place as a result of requirements for obtaining funding in the securities markets. Brown and Burnaby suggested that smaller government entities, such as cities and towns, may have more difficulty in implementing the single audit because they may not have been previously audited in their entirety and have traditionally weak accounting and internal control systems.

Brown and Burnaby (1988) wrote yet another article which described the evolution of the single audit process. Although this article was primarily a re-cap of events leading up to passage of the SAA and beyond, Brown and Burnaby did discuss areas for future research. They noted that a study could be performed to "determine how the single audit process could be improved and how entities financial and internal control systems have changed as a result of the single audit process."

McKee and Jackson (1988) analyzed single audit reports completed by the State of Tennessee for the fiscal years ending June 30, 1984, 1985, and 1986. They noted that the first statewide audit took more than two years to plan and execute. McKee and Jackson's study focused on examining audit findings concerning internal control and compliance over the three-year period. They found 1) differences in classifications of findings in statewide audit reports versus individual state department reports, and 2) repetition of material weaknesses and/or enhancement findings among the time periods covered.

Baron (1989) examined fifteen single audit reports from small cities in the State of New Mexico. His objective was to determine the type and frequency of audit findings in the reports, which would in turn indicate where small cities seem to have control and compliance problems. Baron found that the findings related to financial statement items, law compliance violations, internal control deficiencies, and management adviscry items. He also found that sixty percent of the small cities did not receive clean opinions on their financial statements. The lack of an unqualified opinion was attributed to record-keeping problems, common in small cities.

Riordan (1989) showed how the SAA has reached beyond U.S. shores when he studied the first audit performed by the government of the Republic of the Marshall Islands. Because the U.S. has pledged financial support for the Islands until

the year 2000, federal rules regarding fiscal reporting prevail and single audits must be performed. Riordan found that a total of fifteen audit reports were submitted for the first year in response to the SAA (1986), with only two receiving unqualified opinions. He concluded that the SAA had the positive impact of literally forcing the Marshall Islands to improve their accounting systems and procedures for reporting financial information.

Uehling (1991) studied the perceptions of federal managers in the U.S. Department of Health and Human Services (HHS) regarding the usefulness of single audit reports. He found that managers 1) feel that reports tend to have overly general recommendations, 2) were concerned with the coverage of program testing for compliance with federal laws and regulations, and 3) felt that differences in information reported between the federal fiscal year and auditee fiscal year make analyses of reports difficult. Uehling also found that the amount of costs recommended for refund by HHS in fiscal year 1988 was very low (less than 1%).

Reding and Engstrom (1992) studied the perceptions of government finance officials and auditors of governmental units by means of questionnaires and interviews. In general, they found that local government officials are not convinced that single audits are useful, and that auditors do not believe that they are being compensated adequately for the additional work and risk involved with single audits. They

also found that there are a number of implementation problems with single audits that still need to be resolved.

### Dissertations

To date, three dissertations have been completed that deal directly with the Act. Jakubowski (1988) examined single audit reports of 120 counties and 120 cities for the first two reporting years under the Act. The reports were used to determine changes that took place in internal controls, noncompliance, and questioned costs between the two years. The results of Jakubowski's study indicated that there were signs of improvement to the internal control systems of the entities sampled. For both counties and cities, there was a reduction in the frequency of findings related to internal control in the second reporting year. The results pertaining to noncompliance and questioned costs were inconclusive. Counties had fewer reported findings in the second year, whereas the cities had a greater number of findings. Jakubowski also concluded that there was no difference in the frequency or magnitude of audit findings of different size government units.

Irvine (1989) studied small CPA firms to find out how they were implementing auditing procedures for single audits that were in accordance with professional auditing standards as defined by the AICPA and GAO. Small CPA firms were the focus of the study because a GAO audit found that small firms were more prone to audit quality problems than large firms.

Irvine found that small firms surveyed had audit procedures and management practices that were consistent with professional standards. He concluded that small firms can utilize available sources of information and training to deliver an audit report and working papers that can pass an audit quality review.

Brannan (1989) examined whether the Act brought about better compliance with government laws and regulations and what factors were responsible for any improvement in compliance. The study consisted of a survey of three groups: 1) federal officials who are involved in desk audits or final approval of single audits, 2) state and local officials who conduct and oversee single audits, and 3) private practitioners who conduct single audits. All of those surveyed were members of the Intergovernmental Auditing Forum. Brannan viewed the major goal of the Act, to improve the quality of financial management, to be synonymous with having a good internal control system.

Results of the Brannan's study indicated that, overall, the Act has been successful in improving the incidence or quality of compliance by improving the control systems of government entities. However, the study also showed that the three groups had different perceptions regarding the quality of compliance, the quality of implementation of the SAA and the role of the cognizant agency.

These dissertations represent ground-breaking research in the single audit area. Prior to 1990, however, completion of a dissertation dealing with how the SAA impacted on the financial management of State and local governments receiving federal assistance would not have been as meaningful as it is now. Since the SAA was passed more than nine years ago, most State and local governments receiving federal financial assistance have now had enough time to use single audit reports and the single audit process to improve their financial management and internal control systems.

#### Summary

In recent years, an increasing amount of interest has been shown in the SAA in the literature and dissertations. The intent of this project is to carry forward research in this area in order to determine how the SAA has impacted on the financial management practices of state and local governments.



## Chapter Three

### RESEARCH METHODOLOGY

The purpose of this chapter is to discuss the theoretical foundation for the study, present the research questions and hypotheses, and describe the research methodology used in testing these relationships. The chapter includes a discussion of the meaning of "financial management," as used in the SAA, before the presentation of research questions and hypotheses.

#### Theoretical Foundation

The strict view of research, as expressed by Abdel-khalik and Ajinkya (1979), presumes the existence of a theory. This presents a problem in the governmental auditing arena, since there is no overall or unified theory of governmental auditing from either a positive or normative perspective (AAA, 1982). Berry and Wallace (1986) reiterated this view: "to our knowledge a coherent theory of governmental auditing has not been formulated." They also observed that the government audit environment is much broader and the auditing process much more complex than in the private sector.

Robertson (1984) observed that auditing research in general has been criticized by some professors and practitioners for not having an adequate theoretical foundation. With government auditing being an area of specialization under the umbrella of auditing in general, it comes as no surprise that a generally-accepted theory of government auditing does not

exist. Robertson advocates the use of Mautz and Sharaf's Philosophy of Auditing (1961) as a framework for auditing research. Rubin (1987) noted that our understanding of public sector accounting and auditing can be considered to be in its infancy due to the absence of both widely-accepted comprehensive theories of government financial information usage and necessary empirical data.

With no generally accepted theory of government auditing, it is necessary to extract from proposed "private sector" auditing theories in order to obtain a theoretical foundation for research. Simunic (1980) viewed the audit service in general as an economic good to the auditee. Simunic and Stein (1987) identified two major audit service characteristics from a consideration of the possible organization structure of an audited company:

- (1) The contribution of the audit to organization control;  
and
- (2) the credibility of the audit as perceived by  
shareholders and creditors.

Although these characteristics were identified within a private sector framework, the key service characteristic in a government setting would be the contribution of the audit to organization control. With the single audit consisting of both a financial and compliance audit, its role would appear to be one of strengthening financial management by 1) improving internal controls and financial management practices and procedures, and 2) ensuring compliance with laws and

regulations. The "control benefits" to be derived by the audited organization in a government setting are improvements in the quality of management or administration.

Control benefits are what the authors of the SAA had in mind when they identified the improvement of financial management of state and local governments as the number one goal. The primary purpose of single audit reports is the identification of problems and weaknesses in the financial management systems of state and local governments. The focus is on the improving the financial management of these governments by correcting the problems and weaknesses identified in the reports. In theory, then, the control benefits to be derived from the SAA are overall improvements in the financial management of state and local governments and in particular improvements in financial management with respect to federal financial assistance programs.

#### **The Meaning of Financial Management as Used in the SAA**

Although the first stated goal of the SAA is to "improve the financial management of state and local governments with respect to federal financial assistance programs," the SAA did not provide a definition of "financial management" or describe the components of a typical state or local government financial management system. Therefore, the first step in attempting to determine if the SAA has achieved its primary goal is to address this issue.

Several sources were used in order to determine what is meant by "financial management" in general in the public sector and what the components of a typical financial management system are. Vargo (1977) defined financial management as involving the generation, presentation, and analysis of data concerned with both the short-term and long-term integrity of the government. He stated that sound financial management must be built upon an accounting and financial reporting system that provides timely, accurate and relevant information.

McKinney (1986) defined public financial management as the process wherein a governmental unit or agency employs the means to obtain and allocate resources and/or money, and utilizes methods and controls to effectively achieve publicly determined ends. In general terms, financial management is comprised of three main activities: 1) determining the scope and content of fiscal policies, 2) establishing general guidelines and standards to ensure that funds are spent honestly and wisely to achieve publicly determined purposes, and 3) providing organizational structures and controls to effectively carry out fiscal duties and responsibilities. McKinney stressed the critical and integrative role financial management plays in linking the core financial and basic management processes in public organizations.

Freeman, Shoulders and Lynn (1988) stated that financial management includes budgeting, accounting, financial reporting

management is "at least as important in the government and nonprofit sector as in the private business sector."

Mikesell (1991) stated that financial management has, by definition, two basic and broad considerations: financial and managerial. The financial aspects include governmental accounting and financial reporting, economic analyses and forecasting, tax policy and debt policy. The managerial aspects include management of resources, cash, assets and risk.

Extracting from all of the above sources, financial management involves the acquisition of, accountability for, and management of the financial resources of a government entity. A financial management system would be utilized by a government entity to achieve the objectives of planning, programming and evaluation. A financial management system consists of the budgeting (cash management) and financing functions, the accounting system, the financial reporting system, and the auditing function.

The GAO's current study on the effectiveness of the SAA included a survey phase in which a list of indicators of good financial management was developed. The GAO developed this list in an attempt to determine what the authors of the SAA meant by the term "financial management" as used in the first goal. GAO's list was divided into seven categories, as follows:

1. Financial Management Organization
2. Accounting System
3. Financial Reporting
4. Annual Audits
5. Financial Management Awards and Ratings
6. Plans for Meeting Debt Obligations and Cash Flow Requirements
7. Other

The GAO identified specific indicators within each category above by reviewing the provisions of the SAA, as well as guidance on how to perform a single audit, and listing all of the practices and procedures which they felt were indicative of good financial management. GAO sent a preliminary list of indicators to various state and local governments for feedback, and then developed a final list. The textbook definitions described above were considered along with the GAO list of indicators of good financial management in developing the research instrument.

A satisfactory system of financial management would result in full accountability for and proper management of federal financial assistance. If the financial management of state and local governments with respect to federal financial assistance programs is to improve, there would have to be improvements in the practices and procedures of the financial management organization and/or the financial management system.

#### **Research Questions**

The research questions that this study attempted to answer are derived from the first and third goals of the SAA and are as follows:

1. To what extent has the SAA achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs?
2. Does type of government entity make a difference in the extent to which the SAA has achieved its first stated goal of improving the financial management of state and local governments with respect to federal financial assistance programs?
3. How important has the SAA been in initiating financial management practices and procedures of state and local governments that are federal financial assistance recipients?
4. Does type of government entity make a difference in the extent to which the SAA has been important in initiating financial management practices of state and local governments that are federal financial assistance recipients?
5. Within category of financial management, does type of government entity make a difference in the extent to which the SAA has been important in initiating financial management practices of state and local governments that are federal financial assistance recipients have improved?
6. Has more efficient and effective use of audit resources (in particular, eliminating duplication of audit effort) been achieved as a result of the SAA?
7. Does type of government entity make a difference in the extent to which the SAA has resulted in more efficient and effective use of audit resources (in particular, eliminating duplication of audit effort)?

#### **Statement of Hypotheses**

The research questions presented above may be stated in hypothesis format. The following seven hypotheses, each stated in the null form, will be tested in this study:

- H01: The SAA has not achieved its first stated goal of improving the financial management of state and local governments with respect to federal financial assistance programs.

- Ho2:** Type of government entity does not make a difference in the extent to which the SAA has achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs.
- Ho3:** The SAA has not been important in initiating financial management practices of state and local governments that are federal financial assistance recipients.
- Ho4:** Type of government entity does not make a difference in the extent to which the SAA has been important in initiating financial management practices of state and local governments that are federal financial assistance recipients.
- Ho5:** Within category of financial management, type of government entity does not make a difference in the extent to which the SAA has been important in initiating financial management practices of state and local governments that are federal financial assistance recipients.
- Ho6:** More efficient and effective use of audit resources (in particular, eliminating duplication of audit effort) has not been achieved as a result of the SAA.
- Ho7:** Type of government entity does not make a difference in the extent to which the SAA has resulted in more efficient and effective use of audit resources (in particular, eliminating duplication of audit effort).

#### **Method of Data Collection**

No data or database was readily available which provided specific information that could be used to determine what impact the SAA has had on the financial management practices of state and local governments. For this reason, the data relative to this research were collected using a mail questionnaire. This methodology was chosen because it was the most economical, convenient and practical among the alternatives.



There are certain advantages and disadvantages to using mail questionnaires. First of all, the questionnaire permits a wide coverage of the elements at a relatively low cost. This is particularly important with respect to this study since there are approximately 18,000 state and local governments in the most recent single audit database. In addition, the questionnaire provides respondents with a sense of privacy and can be completed at a convenient time and pace.

Common problems with mail questionnaires are low response rates and nonresponse bias. Dillman (1978) found that careful development of the questionnaire and proper follow-up procedures can help to increase response rates to acceptable levels.

#### **Reliability and Validity Considerations**

The three main characteristics of a good measurement tool, according to Emory (1980) are reliability, validity and practicality. In this study, a mail survey is considered the most practical method to gather the data due to the length and complexity of the questionnaire and the fact that the population is widely dispersed in the continental U.S. and beyond.

External validity, according to Kerlinger (1986), means "representativeness or generalizability." With respect to this research project, external validity refers to the degree to which the research results can be generalized to various categories of state and local governments. Since four

categories of state and local governments will be represented, the results should be representative of the changes that have taken place in financial management practices for these categories.

Internal validity is generally defined as the degree to which we measure what we purport to measure. Content validity, one of the three forms of internal validity, was of particular concern with regard to this study since the SAA did not define what was meant by financial management. However, this concern was addressed by considering both textbook definitions of financial management and the GAO list of indicators of good financial management as was discussed in the second section of this chapter.

Reliability is generally defined as the degree to which a measure supplies consistent results. In order to enhance the reliability of the survey instrument, it was pretested using as subjects either members of the Government Finance Officers Association, located in Kentucky, or members of the Kentucky League of Cities who are the chief financial officers (or equivalent) of their respective cities.

#### **The Survey Instrument**

The questionnaire was sent to the chief financial officers (or equivalent) of the state and local governments selected in the sample. The single audit database contains the addresses of government entities that have submitted single audit reports. Included with the address is the title

of the individual responsible for the audit report of the government entity. Most often, the person responsible is the chief financial officer; however, for some entities the responsible official can be the treasurer, chief accountant, clerk, or other official. These are all individuals that are most familiar with the financial management practices (and changes in those practices) of the government entities.

Part I of the questionnaire dealt with background information on the responding governments. Respondents were asked to indicate 1) type of government, 2) the number of years that they have submitted single audit reports since 1985, 3) annual federal financial assistance funding as a percentage of total annual expenditures for the most recent fiscal year, 4) the approximate population, and 5) the title of the individual completing the questionnaire.

Part II of the questionnaire consists of a list of financial management practices and procedures which were evaluated by each respondent. The list used in the questionnaire was adapted from a list of indicators of good financial management which was developed by the U.S. General Accounting Office after a review of the terms and requirements of the SAA. The indicators are divided into five categories, as follows:

- A. Financial Management Organization
  - 1. Organization chart
  - 2. Mission or function statements
  - 3. Written delegations of authority
  - 4. Position of Chief Financial Officer (or equivalent)
  - 5. Written accounting policies

6. Accounting and financial reporting procedures manual

**B. Accounting System**

1. Uniform chart of accounts
2. Long range systems plan
3. System for cash management
- \*4. System for identifying unallowable costs (for Federal programs)
5. GAAP-based accounting system
- \*6. Identification and recording of Federal government funds by catalog of Federal Domestic Assistance number (at the transaction level)
- \*7. System for monitoring recipients of funding

**C. Financial Reporting**

1. Preparation of GAAP-based General Purpose Financial Statements
2. Preparation of a GAAP-based budget
3. Preparation of a Comprehensive Annual Financial Report
- \*4. Preparation of a Schedule of Federal Financial Assistance

**D. Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements**

1. Preparation of annual operating budget
2. Preparation of annual capital budget
3. Preparation of a comprehensive, multi-year financial plan
4. Preparation of periodic reports on status of debt structure
5. Cash forecasting system

**E. Auditing/Internal Control**

- \*1. Annual financial statement audit or single audit
2. Internal audit function
3. Audit committee
4. Establishment of a written system of internal control
5. Upgrading of a previously existing (prior to October of 1984) system of internal control
- \*6. Issuance of internal control reports
- \*7. Issuance of compliance reports
- \*8. Written corrective action plans for audit findings requiring corrective action
- \*9. Formal follow-up system for open audit findings

Indicators that are considered to be directly related to the SAA or federal programs (either a requirement of the SAA or required by most federal programs) were identified with an asterisk. In category F, Other practices/procedures,

respondents were asked to list practices/procedures/improvements initiated since 1984 which were not identified in sections A-E.

For each practice/procedure, respondents were asked to indicate when the practice or procedure was initiated: prior to 1984, during or after 1984 or never initiated. For those practices/procedures that were initiated during or after 1984, respondents were asked to indicate to what extent the SAA was important in initiating the practice/procedure. A practice or procedure is considered to be a result of the SAA if it was initiated 1) to comply with the Act, 2) in direct response to a finding or findings in a single audit report or reports, or 3) as a result of information contained in a single audit report or reports. An example of the difference between a response to a finding and the result of information contained in a report is as follows:

A finding in a single audit report stated that there was no written corrective action plan for audit findings contained in audit reports. Implementing a requirement for written corrective actions would be a practice/procedure in response to an audit finding. If the entity also decided to implement a formal follow-up system for open audit findings to go along with the written corrective action plan, but the lack of a formal follow-up system was not an audit finding, the follow-up system would be a result of information contained in a report but not necessarily a response to an audit finding.

This, of course, was left to the judgment of the individual filling out the questionnaire, but, nevertheless, illustrates that changes in financial management practices and procedures can result from a single audit report without

necessarily being a response to a specific audit finding.

An ordinal Likert-type scale was used to evaluating each practice/procedure initiated during or after 1984. The following key was provided for use in evaluating the practices/procedures:

**Extremely Important (5)**-initiation of the practice/procedure was a direct result of the SAA.

**Important (4)**-the practice/procedure was initiated mostly but not entirely as a result of the SAA.

**Moderately Important (3)**-the practice/procedure was initiated equally as a result of the SAA along with some other reason.

**Somewhat Important (2)**-the practice/procedure was initiated somewhat as a result of the SAA, but mostly for some other reason.

**Not Important (1)**-the practice/procedure was not initiated as a result of the SAA.

Respondents were able to select an answer of "no basis to judge" if they could not determine the extent to which a practice or procedure was initiated as a result of the SAA.

Following is the scale as it appears in the questionnaire.

<b>Extremely</b>		<b>Moderately</b>	<b>Somewhat</b>	<b>Not</b>	<b>No Basis</b>
<b>Important</b>	<b>Important</b>	<b>Important</b>	<b>Important</b>	<b>Important</b>	<b>to Judge</b>
<u>5</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>NBTJ</u>

Several assumptions are made with regard to the practices/procedures contained in Part II of the questionnaire. First, all practices/procedures are considered to represent improvements in financial management. Second, it is assumed that information contained in single audit reports will not result in any of the practices/procedures already in

place to be deleted. Third, it is assumed that once practices/procedures are in place, they are followed.

In a summary section (Part III), the respondents were asked to make an overall evaluation of the extent to which the SAA has improved the financial management of state and local governments with respect to federal financial assistance programs. Respondents were also asked to state the extent to which they believe the SAA has eliminated duplication of audit effort. Both questions were answered using a Likert-type scale, as follows:

Fully Achieved	Mostly Achieved	Moderately Achieved	Somewhat Achieved	Not Achieved	No Basis to Judge
5	4	3	2	1	NBTJ

A space was provided for respondents to list what they felt are the limitations or shortcomings (of the SAA). A copy of the survey instrument is presented in Appendix B.

#### **The Population and the Sample**

The U.S. Bureau of the Census is the designated clearinghouse for single audit reports and is responsible for maintaining the Single Audit Database. The most recent database at the time of sample selection included all state and local governments that submitted single audit reports between December, 1990 and December, 1991. The data fields within the database include a nine digit code that identifies the government as a state, county, municipality, or township and the amount of current year federal financial assistance. For the state category, questionnaires were sent to all fifty

states as well as the District of Columbia and the Commonwealth of Puerto Rico. In order to obtain a good cross section of respondents for counties, municipalities and townships, a stratified random sample design was used. Stratification was very useful in this study because it facilitated comparisons of the subgroup responses.

#### **Pretest of the Instrument**

One of the most important steps in performing survey research is pretesting the survey instrument. The objective of pretesting is to eliminate as many defects as possible in the instrument before it is mailed to the sample population. According to Dillman (1978), there are three potential groups of individuals that can be used for pretesting: colleagues or other professionals who understand the purpose of the study, users of the data, and individuals from the population to be surveyed.

Pretest of this survey instrument consisted of professionals who understood the purpose of the study and individuals from the population to be surveyed. First, the instrument was reviewed by one colleague and one professional, both of whom have knowledge of the survey topic. The colleague was a University of Kentucky Accounting Department faculty member who is familiar with the subject area of the study and with survey research for accounting issues. The professional was an individual who had several years of experience as the chief accountant for a mid-size government



entity.

Secondly, the instrument was reviewed by the director and staff of the Survey Research Center at the University of Kentucky. Although Survey Research Center officials were not familiar with the subject area, they are experts in survey research in general and were able to provide an independent, unbiased evaluation of the structure of the questionnaire. Valuable suggestions on how to improve the instrument were received from all three sources, and the instrument was revised accordingly.

After the instrument was revised, it was sent to a pretest group of state/local government officials similar to the subjects that received the final version. The pretest group was asked to complete the questionnaire and to write any comments or criticisms that they may have on each page. They were also asked to state how they would change the questionnaire to make it easier for respondents to complete and to provide the most useful information.

In addition to the pretest group, the revised instrument was also sent to a professional who had several years of experience in state government accounting and finance and was familiar with the subject matter. This individual in turn discussed the format of the questionnaire with several local government officials who are affected by the SAA, and they indicated to him that it was straightforward and easy to address.

Responses of the pretest group seemed to indicate that individuals completing the questionnaire had little or no difficulty. A final copy of the survey instrument was prepared for distribution to all of the state governments and the sample population for counties, municipalities and townships.

#### **Procedures for Improving Response Rate**

Nonresponse is typically a problem for most surveys; however, certain steps can be taken to minimize the problem. Dillman (1978) and Emory (1980) have suggested several techniques that can be utilized to improve the response rate, and some of these techniques were used in this survey.

Of primary importance is whether the topic is an important and timely one which will stimulate the interest of the respondent. As explained earlier, the SAA is an important topic which has had a significant impact on all state and local governments that receive in excess of \$100,000 per year in federal financial assistance. In addition, SAA is also a very timely topic for reasons discussed earlier.

Emory (1980) indicated that there is some evidence that response rates can be improved if a survey is sponsored by a reputable organization. This survey was sponsored by the National Association of State Auditors, Comptrollers and Treasurers (NASACT), which is nationally recognized and respected in the field of government accounting/auditing. Cover letters were printed on NASACT letterhead and the

letters were signed by the NASACT Executive Director. In addition, the survey was mailed from and responses returned to NASACT's main office in Lexington, Kentucky. The association with NASACT helped to enhance the credibility of the questionnaire.

Another technique that is frequently used to increase response rates is to personalize the cover letter, using both the subject's name and address. This was done for the mailings to the states, as the names of state comptrollers/ chief financial officers were readily available from NASACT. Unfortunately, names of the comptrollers, chief financial officers, clerks, etc. were not readily available for the counties, municipalities, and townships. Several sources were used to obtain as many names as possible for these categories before mailing the questionnaires. Slightly less than fifty percent of the questionnaires that were sent to counties, municipalities and townships had personalized cover letters.

Respondents were told in the cover letter that their responses would remain confidential. In addition, respondents were offered the opportunity to receive a summary of the survey results by writing "copy of results requested" along with their address on the back of the return envelope. The cover letter is reproduced in Appendix A.

### **Survey Instrument Mailing and Followup Letters**

The survey package contained a cover letter, the questionnaire (see Appendix B) and a stamped, addressed return envelope. The return envelopes were coded as follows: 1-states; 2-counties; 3-municipalities, and 4-townships. The coding was used for two reasons: 1) for easy sorting when the responses came in, and 2) to make sure that the category of government entity from the sample coincided with the category marked on the questionnaire. The initial mailing to the counties, municipalities and townships was on June 14, 1993, while the initial mailing to the states was sent out on June 18th.

Dillman (1978) recommends that a followup letter be sent to nonrespondents about three weeks after the initial mailing. Since responses were kept confidential and the questionnaires were not coded to be able to separate respondents from nonrespondents, a followup letter was sent to all of the counties, municipalities, and townships that were included in the sample. The followup letter was mailed out three weeks after the initial mailing. A copy of the letter is reproduced in Appendix C.

A followup letter was not sent to the state governments because 1) the cover letters sent with the questionnaire were all personalized, and 2) an adequate response rate (40%) was achieved within the first three weeks after the initial mailing. This initial response rate was probably due to the

fact that almost all of the state government officials that were mailed a questionnaire are members of NASACT and were more willing to respond than nonmembers.

#### **Analysis of Data**

In general, the purpose of this study is to determine what impact, if any, the SAA has had on the financial management practices and procedures of state and local governments which are federal financial recipients. In order to achieve this objective, a number of questions were presented in the survey instrument for the respondents' consideration. Part I of the survey contained questions dealing with demographic information; part II dealt with the issue of how important the SAA has been in initiating/improving financial management practices/procedures, and part III contained questions asking respondents to what extent they felt the first and third goals of the SAA had been achieved.

#### **Hypotheses One and Two**

The first two hypotheses address the issue of whether the SAA has achieved its first stated goal. Data to evaluate hypotheses one and two was collected in part III of the survey instrument, where respondents were asked in one question to indicate the extent to which they feel the first stated objective of the SAA has been achieved. Responses on the five-point Likert-type scale ranged from "fully achieved" (5) to "not achieved" (1). Respondents could also select "no basis to judge" for an answer if they could not respond using

the Likert-type scale.

A confidence interval was developed for all respondents based on the Likert-type scale and was used to evaluate hypothesis one. Frequencies and mean ratings were then calculated for each of the four government types, and a one-way analysis of variance used to evaluate hypothesis two.

#### Hypotheses Three, Four and Five

Part II of the survey consisted of five categories of financial management and thirty-one financial management practices/procedures. Respondents evaluated each of the thirty-one practices/procedures by indicating whether the practice/procedure was initiated prior to 1984 (by marking a "P"), during or after 1984 (by marking an "A") or was never initiated (by marking an "N"). Frequencies and percentages were calculated for the A's, N's and P's.

For each practice/procedure that was initiated during or after 1984 (A's), respondents were asked to use the 5-point Likert-type scale to indicate how important the SAA was in initiating the practice/procedure. The respondents were also able to select the "no basis to judge" answer located to the right of the scale if they had no basis to judge the extent to which the SAA was important in initiating the practice/procedure.

Evaluation of hypotheses three through five attempted to determine 1) to what extent the SAA was important in initiating financial management practices/procedures 2)

whether there is any difference between government types in the extent to which the SAA was important in initiating practices/procedures, and 3) within the five categories of financial management, what differences exist between government types in the extent to which the SAA was important in initiating financial management practices/procedures. To evaluate hypothesis three, a confidence interval was developed for all "A" responses that were rated on the Likert-type scale using the means of each of the thirty-one practices/procedures. Means were then calculated for all "A" responses for each government type in total and by category of financial management to evaluate hypotheses four and five. A one-way analysis of variance was used to determine differences in means between government type and differences in means within categories of financial management.

Some respondents used the Likert-type scale to evaluate practices/procedures that were initiated prior to 1984. In such cases, respondents were not evaluating the extent to which the SAA was important in initiating a practice/procedure, but rather the extent to which the SAA was important in enhancing a practice/procedure which had been initiated prior to 1984. Even though this data was not used in testing any of the hypotheses, it has important informational value. As a result, tables are provided to summarize the results of practices/procedures which were initiated prior to 1984 and rated on the Likert-type scale.

### Hypotheses Six and Seven

Evaluation of the sixth and seventh hypotheses attempted to determine to what extent the SAA has resulted in eliminating duplication of audit effort of state and local governments. Responses to the second question in part III of the survey instrument were used to evaluate hypotheses six and seven. To evaluate hypothesis six, a confidence interval was developed for all respondents combined. For hypothesis seven, mean scores were calculated for each of the four government types and were compared using a one-way analysis of variance.

### Test for Nonresponse Bias

Responses received before and after the followup letter were compared to determine differences between the early and late respondents. Those who responded late were considered to be similar to nonrespondents; a t-test was used to compare the early and late respondents. If there is a significant difference ( $P < .05$ ) between the early and late respondents, nonresponse bias may exist and therefore results of the survey may not be able to be generalized to the population. The t-statistic is used to compare the two groups to determine the probability that any differences between the groups are real and not due to chance.

Means for each of the thirty-one practices/procedures (rated on the Likert-type scale) were compared for differences using the early return group versus the late return group.



### Chapter Summary

A mail survey was sent to a total of 652 state and local governments to collect the data for this study. The state category consisted of all 50 states plus the District of Columbia and Commonwealth of Puerto Rico. The county, municipality and township categories consisted of a stratified random sample of 200 entities per category taken from the Single Audit Database maintained by the U.S. Bureau of the Census.

A survey instrument was developed for use in gathering the data. The instrument was four pages in length (including instructions) and was printed on 11" X 17" paper using both sides so that it appeared in "booklet" format. The response portion of the instrument consisted of three parts: 1) background information, 2) financial management practices/procedures, and 3) summary information.

The pretest group consisted of both state and local government officials and other professionals who understood the purpose of the study. Specific mailing and follow-up procedures were utilized in order to maximize the response rate and allow for a test for non-response bias. Seven hypotheses were developed with the intent of determining whether the SAA has achieved two of its stated goals. Data obtained from the survey was analyzed using descriptive statistics and specific tests where necessary.

## Chapter Four

### ANALYSIS OF DATA AND FINDINGS

#### Survey Response

Surveys were mailed to a total of 652 potential respondents, consisting of 52 states (including the District of Columbia and Puerto Rico) and 200 counties, municipalities, and townships. Questionnaires for the 52 states were sent to the state comptrollers/chief financial officers, with the names and titles obtained from NASACT's membership roster. The 200 counties, municipalities and townships were selected in a stratified random sample using a U.S. Census Bureau roster of government entities that had submitted single audit reports.

Response rates varied for all four categories. The overall trend was that the larger the government entity, the greater the response rate. The overall response rate was 25%, with the highest response rate coming from the states (60%). The states were the only category in which cover letters were personalized and sent on original NASACT stationery, with each letter being signed by the NASACT Executive Director.

For the other categories, 47% of the mailing labels to the counties were personalized, 45% of the labels to municipalities were personalized, and 43% of the labels to townships were personalized. Several sources were used in an attempt to obtain the names of the chief financial officer or equivalent of these government entities. These sources

included single audit reports which are on file at the U.S. Census Bureau Clearinghouse and membership rosters of several government accounting organizations/associations.

The cover letters to counties, municipalities and townships were not personalized (the salutation read "Dear Sir or Madam") and were printed on a copy of NASACT letterhead paper, with the master copy presigned by the Executive Director. The variance in the response rates between the states and other categories can be attributed primarily to two factors: 1) the low percentage of names for the county, municipality and township mailing labels, and 2) the fact that the cover letters were not personalized and were sent on copies of NASACT letterhead paper. In addition, the names of state officials were taken from a current roster, while the sources used to obtain names for the county, municipality and township mailing labels were 1-3 years old. The response rates for all four categories are presented in Table 4-1.

Table 4-1

SURVEY RESPONSE RATES

<u>Government Type</u>	<u>Universe</u>	<u>Sample</u>	<u>Usable Responses</u>	<u>Percent of Usable Responses</u>
State	52	52	31	60%
County	3084	200	51	26%
Municipality	5315	200	41	21%
Township	<u>1032</u>	<u>200</u>	<u>38</u>	19%
Totals	9483	652	161	25%

Twenty questionnaires that were returned could not be used because they were not properly completed. The number of questionnaires that were returned but not usable by category are: states-1; counties-4; municipalities-9, and townships-6. Five questionnaires (two states, one county, one municipality and one township) were returned after the cutoff date of August 6th.

#### Background Information

Respondents were asked to provide five pieces of information in Part I of the questionnaire, as follows: 1) type of government, 2) number of calendar or fiscal years in which a single audit report was submitted since 1985, 3) annual federal financial assistance funding as a percentage of total annual expenditures for most recent fiscal year, 4) population, and 5) the title of the individual completing the questionnaire.

All pre-addressed reply envelopes were coded to ensure that the category of government from the Census Bureau file coincided with the type of government identified on the questionnaire. Of the 161 respondents, 105 had seven or more single audit reports issued since 1985, while 56 had less than seven audits completed. Information on the number of single audit reports completed by the respondents is presented in Table 4-2.

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**Table 4-2**  
**SINGLE AUDIT REPORTS COMPLETED**  
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<u>Government Type</u>	<u>Number of Single Audit Reports Completed</u>							<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7 or more</u>	
State	1	0	2	2	1	5	20	31
County	3	0	3	2	3	5	35	51
Municipality	3	1	3	0	3	3	28	41
Township	2	1	2	1	4	5	22	38
<b>Totals</b>	<b>9</b>	<b>2</b>	<b>11</b>	<b>5</b>	<b>11</b>	<b>18</b>	<b>105</b>	<b>161</b>
<b>Percentages</b>	<b>5.6</b>	<b>1.2</b>	<b>6.8</b>	<b>3.2</b>	<b>6.8</b>	<b>11.2</b>	<b>65.2</b>	<b>100.0</b>

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Respondents were asked to provide an approximate number for federal financial assistance funding as a percentage of total annual expenditures for the most recent fiscal year. Data on federal financial assistance funding as a percentage of total annual expenditures is presented in Table 4-3.

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**Table 4-3**  
**FEDERAL FINANCIAL ASSISTANCE FUNDING**  
**AS A PERCENTAGE OF TOTAL ANNUAL EXPENDITURES**  
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<u>Government Type</u>	<u>Average Federal Financial Assistance Funding Percentage</u>
State	28.20%
County	13.49%
Municipality	5.19%
Township	6.21%

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Population of the respondents ranged from a low of 420 for one of the municipalities to a high of 17,670,000 for the largest state. The mean population for all respondents was 1,053,226. Population averages for each category of government are presented in Table 4-4.

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**Table 4-4**  
**AVERAGE POPULATION BY TYPE OF GOVERNMENT ENTITY**

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<u>Government Type</u>	<u>Average Population</u>
State	5,541,300
County	158,543
Municipality	14,620
Township	13,559

---

The range and population averages reflect a wide disparity in the size of the governments that responded, which should lend credibility to the findings of the study. The last piece of background information requested from the respondents was the title of the individual completing the questionnaire. Because the survey was sent to different types and sizes of governments, the titles of the individuals completing the questionnaire varied. The following key was developed for the titles of respondents.

<u>Number</u>	<u>Title of Official Completing Questionnaire</u>
0	No title
1	Independent CPA
2	Auditor/Deputy Auditor
3	Accounting Manager/Chief Accountant.
4	Treasurer/Deputy Treasurer

5	Chief Financial Officer/Finance Officer
6	Budget Officer/Director
7	Manager of Financial Reporting/Services
8	Comptroller/Deputy Comptroller
9	Clerk-Treasurer/Clerk
10	Manager/Administration
11	Bookkeeper
12	Executive Secretary/Administrative Ass't.

Table 4-5 provides a breakdown of the respondents by title.

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Table 4-5

TITLES OF RESPONDENTS

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Gov't. Type	Title Code													Tot.
	0	1	2	3	4	5	6	7	8	9	10	11	12	
State	2	0	1	9	0	3	0	4	11	0	1	0	0	31
County	4	2	9	5	4	15	3	1	3	4	1	0	0	51
Mun.	0	3	2	3	2	12	0	2	1	9	5	1	1	41
Town.	4	0	1	11	5	9	0	0	1	3	1	2	1	38
Total	10	5	13	28	11	39	3	7	16	16	8	3	2	161
Percent	6	3	8	17	7	24	2	4	10	10	5	2	1	100

---

The titles of those responding most often (for all types of governments) were Chief Financial Officers/Finance Officers (24%) and Accounting Manager/Chief Accountant (17%). The titles of those responding most often for the four types of governments are as follows: states-Comptroller/Deputy Comptroller (35%); counties-Chief Financial Officer/Finance Officer (29%); municipalities-Chief Financial Officer/Finance Officer (29%) and townships-Accounting Manager/Chief Accountant (29%).

### **Nonresponse Bias**

As explained in Chapter 3, nonresponse bias is the bias that may be present in the research results of a mail survey if those who respond to the survey have different opinions from those who do not respond. If nonresponse bias is found to exist, survey results cannot be generalized to the population used to select the sample. A common practice in survey research is to compare the results of the early respondents with the results of the late respondents to determine if there were any significant differences. If no significant difference is found between the two groups, the assumption is made that all of the respondents are representative of the entire population.

A t-test was used to compare the respondents before and after the followup letter. All responses were categorized according to whether they were received before the followup letter. Followup letters were mailed on Saturday, July 3rd so that they would be received three weeks after the initial mailing (since Monday, July 5th was a postal holiday, followup letters were received beginning Tuesday, July 6th). Responses that were postmarked July 7th or after were considered "late" because they were mailed after the followup letter had been received. The same date (July 7th) was used to distinguish between early and late respondents for the states. The final cutoff date for responses included in the results of the survey was August 6th.



Fifty-nine percent of the responses were received after the initial mailing, and forty-one percent after the followup letter. Table 4-6 provides a breakdown of the responses received before and after the followup letter by type of government entity. The table shows that the larger the government entity, the higher the response rate before followup.

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**Table 4-6**  
**RESPONSES BEFORE AND AFTER DATE OF FOLLOWUP LETTER**

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<u>Government Type</u>	<u>Before Followup</u>	<u>(%)</u>	<u>After Followup</u>	<u>(%)</u>	<u>Total</u>	<u>(%)</u>
State	22	(71%)	9	(29%)	31	(100%)
County	31	(61%)	20	(39%)	51	(100%)
Municipality	22	(54%)	19	(46%)	41	(100%)
Township	<u>20</u>	(53%)	<u>18</u>	(47%)	<u>38</u>	(100%)
Total	95	(59%)	58	(41%)	161	(100%)

---

A t-test was run on the response groups before and after followup using the thirty-one practices/procedures in part II of the survey instrument. All practices/procedures initiated after the SAA ("A" responses) and rated on the Likert-type scale were used for the nonresponse bias t-test. Using these responses enabled mean scores to be calculated, which could then be used to run the t-test.

Results of the t-test for nonresponse bias are presented in Table 4-7. Means for the early (before followup) and late (after followup) respondents are shown, along with the t-value. T-statistics were calculated and used to test the null hypothesis that the means of the early and late respondents are equal (not different). A t-statistic with a P value of less than .05 (the alpha level of significance) would be an indication that there are five or less chances (out of 100) that another value as great as the one observed would occur.

Table 4-7

## RESULTS OF T-TEST FOR NONRESPONSE BIAS

Category of Financial Management and Practice/Procedure	Means		T- statistic
	Early	Late	
<b>Financial Management Organization</b>			
-Organization chart	2.69	2.60	.65
-Mission or function statements	2.71	2.89	-.30
-Written delegations of authority	3.80	3.80	.00
-Position of Chief Financial Officer	3.08	3.44	-.56
-Written accounting policies	3.29	3.25	.09
-Accounting and financial reporting procedures manual	3.50	3.27	.49
<b>Accounting System</b>			
-Uniform chart of accounts	2.57	2.36	.37
-Long range systems plan	2.33	2.31	.05
-System for cash management	2.86	3.00	-.30
-System for identifying unallowable costs	3.77	4.11	-1.37
-GAAP-based accounting system	3.48	3.67	-.48
-Identification and recording of Federal government funds by catalog Federal Domestic Assistance number	4.07	3.97	.35
-System for monitoring recipients of funding	4.30	3.85	1.74

Category of Financial Management and Practice/Procedure	Means		T- statistic
	Early	Late	
<b>Financial Reporting</b>			
-Preparation of GAAP-based General Purpose Financial Statements	3.16	3.84	-1.59
-Preparation of a GAAP-based budget	3.18	3.47	-.62
-Preparation of a Comprehensive Annual Financial Report	3.05	3.08	-.07
-Preparation of a Schedule of Federal Financial Assistance	4.30	4.51	-1.27
<b>Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements</b>			
-Preparation of annual operating budget	3.00	4.50	- *
-Preparation of annual capital budget	2.00	3.00	-1.68
-Preparation of a comprehensive, multi-year financial plan	1.63	2.11	-.75
-Preparation of periodic reports on status of debt structure	2.60	2.88	-.37
-Cash forecasting system	3.09	3.08	.02
<b>Auditing/Internal Control</b>			
-Annual financial statement audit or single audit	3.90	4.22	-.96
-Internal audit function	3.18	4.00	-1.44
-Audit committee	2.75	2.25	.66
-Establishment of a written system of internal control	3.60	2.92	1.24
-Upgrading of a previously existing system of internal control	3.24	3.15	.24
-Issuance of internal control reports	4.04	4.29	-.77
-Issuance of compliance reports	3.93	4.17	-.86
-Written corrective action plans for audit findings requiring corrective action	4.25	4.23	.07
-Formal follow-up system for open audit findings	3.88	3.96	-.29

\* not enough responses to calculate t-value

---

Results of the t-test for nonresponse bias showed no probabilities (P values) equal to or less than .05; therefore, there were no significant differences between the early and late response groups for any of the practices/procedures. As

a result, nonresponse bias should not be a factor on the findings of this study or any inferences that are made from the findings.

### **Hypotheses and Test Procedures**

This section of the chapter presents the results of the statistical tests performed to analyze the hypotheses discussed in Chapter 3. A discussion of the research results, implications and limitations will be presented in Chapter 5.

#### **Test of Hypothesis #1**

Hypotheses #1 and #2 address the primary issue of whether or not the first stated objective of the SAA has been achieved. Stated in the null form, hypothesis #1 is as follows:

**H<sub>01</sub>: The SAA has not achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs.**

Part III of the questionnaire contains a question dealing with the first stated objective of the SAA, as follows:

The first stated objective of the Single Audit Act is "to improve the financial management of state and local governments with respect to federal financial assistance programs." Overall, to what extent do you believe that this objective has been achieved to date?

A 5-point Likert-type scale (ranging from "Fully Achieved" (5) to "Not Achieved" (1)) was used for this question. Respondents were also able to select "No Basis to Judge" if they could not determine the extent to which the objective had been achieved in their government entity.

The null hypothesis assumes that a confidence interval for all respondents (for all types of governments combined) to this question would include 1 ("Not Achieved"). A 95% confidence interval for all respondents (136 in total) was constructed and found to be 3.278 to 3.664; therefore, the null hypothesis is rejected ( $3.278 < 3.664 < 1.00$ ). Results for this question indicate that the respondents (all types of governments combined) feel that the first stated objective of the SAA has been "Moderately Achieved" (a rating of 3 on the Likert-type scale) to "Mostly Achieved" (a rating of 4 on the Likert-type scale).

#### Test of Hypothesis #2

Hypothesis #2, stated in the null form, is as follows:

**Ho2:** Type of government entity does not make a difference in the extent to which the SAA has achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs.

In order to test hypothesis #2, a oneway analysis of variance was performed to determine what differences there were, if any, between the mean responses for the four types of government entities. One of the assumptions needed for applying analysis of variance properly is that of equality of variances (Norusis, p. B-29). In other words, all of the populations from which random samples have been taken must have the same variance. In order to determine if the variances were equal, tests for homogeneity of variance were performed. Results of these tests are detailed in Table 4-8.

Table 4-8

## TESTS FOR HOMOGENEITY OF VARIANCE-HYPOTHESIS #2

Cochrans C=Max. Variance/Sum(Variances)=.2921 P=.838 (approx.)  
 Bartlett-Box F= .515 P=.672  
 Maximum Variance/Minimum Variance=1.458

Results of the tests show that the significance levels are relatively large; therefore, the variances appear to be equal (the groups do not differ too much with regard to their internal variabilities).

Mean scores, standard deviations, and confidence intervals for each of the four government types were calculated. Only those responses which were rated on the Likert-type scale were included in this analysis (responses of "No Basis to Judge" were not included). Results of these calculations are presented in Table 4-9.

Table 4-9

DESCRIPTIVE STATISTICS BY GOVERNMENT TYPE-TO WHAT  
 EXTENT HAS THE FIRST OBJECTIVE OF THE SAA BEEN ACHIEVED?  
 (5=Fully Achieved; 1=Not Achieved)

<u>Government Type</u>	<u>Mean</u>	<u>Standard Deviation</u>	<u>Standard Error</u>	<u>95% Confidence Interval</u>
State	3.30	.9929	.1911	2.90 to 3.69
County	3.71	1.1989	.1787	3.35 to 4.07
Municipality	3.35	1.1836	.1946	2.96 to 3.75
Township	3.47	1.1284	.0968	3.28 to 3.66

The results show that all four government types believe that the first stated objective of the SAA has been between moderately achieved (3 on the scale) and mostly achieved (4 on the scale). County governments, with a mean score of 3.71, felt the strongest about the extent to which the SAA has achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs.

Results of the oneway analysis of variance used to test hypothesis #2 are presented in Table 4-10.

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Table 4-10

ANALYSIS OF VARIANCE-GOVERNMENT TYPES TO WHAT  
EXTENT HAS THE FIRST OBJECTIVE OF THE SAA BEEN ACHIEVED?  
(Hypothesis #2)

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<u>Source</u>	<u>Analysis of Variance</u>				
	<u>Degrees of Freedom</u>	<u>Sum of Squares</u>	<u>Mean Squares</u>	<u>F Ratio</u>	<u>F Prob.</u>
Between Groups	3	4.0573	1.3524	1.0637	.3669
Within Groups	132	167.8250	1.2714		
Total	135	171.8824			

---

The critical value of F at 132 degrees of freedom is approximately equal to 2.68 ( $F_{.05}(3,125)=2.68$ ). Since the calculated F statistic (1.0637) is considerably less than the critical value of F at 3 and approximately 132 degrees of freedom (2.68), there is not a significant difference between the means of the four government types with regard to this

question. The null hypothesis is therefore accepted; i.e., type of government entity does not make a difference in the extent to which the SAA has achieved its first stated goal of improving the financial management of state and local governments with respect to federal financial assistance programs.

#### Information Pertaining to Hypotheses #3, #4 and #5

Hypotheses #3, #4 and #5 deal with the issue of how important the SAA has been in initiating and improving financial management practices and procedures of state and local governments which are federal financial assistance recipients. Results from Part II of the questionnaire were used to evaluate hypotheses #3, #4 and #5. The financial management practices and procedures identified in Part II were divided into five broad categories.

For each practice/ procedure, the respondents were asked to first indicate the time that the practice or procedure was initiated. Practices/procedures that were initiated after 1984 were identified with an "A"; practices/ procedures that were never initiated were identified with an "N", and practices/ procedures that were initiated prior to 1984 (the year that the SAA was passed) were identified with a "P." Table 4-11 presents frequencies of the time of initiation of practices and procedures by category for all responding governments.



Table 4-11

**FREQUENCIES OF TIME OF INITIATION OF FINANCIAL  
MANAGEMENT PRACTICES AND PROCEDURES  
(all types of governments combined)**

<u>Category &amp; Practice/Procedure</u>	<u>Time Initiated</u>			<u>Total Responses</u>
	<u>A</u>	<u>N</u>	<u>P</u>	
<b>A. Financial Management Organization</b>				
1. Organization chart	27	26	101	154
2. Mission or function statements	26	53	72	151
3. Written delegations of authority	18	41	94	153
4. Position of Chief Financial Officer	22	24	109	155
5. Written accounting policies	36	38	80	154
6. Accounting and financial reporting procedures manual	<u>38</u>	<u>45</u>	<u>72</u>	<u>155</u>
Category total	167	227	528	922
<b>B. Accounting System</b>				
1. Uniform chart of accounts	28	3	125	156
2. Long range systems plan	33	62	55	150
3. System for cash management	44	21	88	153
4. System for identifying unallowable costs	47	50	49	146
5. GAAP-based accounting system	44	19	91	154
6. Identification and recording of Federal government funds by catalog of Federal Domestic Assistance number	64	58	24	146
7. System for monitoring recipients of funding	<u>69</u>	<u>47</u>	<u>27</u>	<u>143</u>
Category total	329	260	459	1,048
<b>C. Financial Reporting</b>				
1. Preparation of GAAP-based General Purpose Financial Statements	43	18	93	154
2. Preparation of a GAAP-based budget	37	50	66	153
3. Preparation of a Comprehensive Annual Financial Report	46	32	76	154
4. Preparation of a Schedule of Federal Financial Assistance	<u>101</u>	<u>25</u>	<u>24</u>	<u>150</u>
Category total	227	125	259	611

<u>Category &amp; Practice/Procedure</u>	<u>Time Initiated</u>			<u>Total Responses</u>
	<u>A</u>	<u>N</u>	<u>P</u>	
<b>D. Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements</b>				
1. Preparation of annual operating budget	4	1	152	157
2. Preparation of annual capital budget	14	12	130	156
3. Preparation of a comprehensive, multi-year financial plan	20	79	51	150
4. Preparation of periodic reports on status of debt structure	19	38	94	151
5. Cash forecasting system	<u>28</u>	<u>45</u>	<u>81</u>	<u>154</u>
Category total	85	175	508	768
<b>E. Auditing/Internal Control</b>				
1. Annual financial statement audit or single audit	43	2	113	158
2. Internal audit function	20	53	80	153
3. Audit committee	14	96	35	145
4. Establishment of a written system of internal control	35	54	63	152
5. Upgrading of a previously existing system of internal control	62	63	22	147
6. Issuance of internal control reports	57	57	37	151
7. Issuance of compliance reports	80	38	34	152
8. Written corrective action plans for audit findings requiring corrective action	70	24	60	154
9. Formal follow-up system for open audit findings	<u>67</u>	<u>26</u>	<u>61</u>	<u>154</u>
Category total	448	413	505	1,366
Grand total-all categories	<u>1,256</u>	<u>1,200</u>	<u>2,259</u>	<u>4,715</u>
Percent	26.6%	25.5%	47.9%	100%

Considering all of the practices/procedures for all government types combined, almost half (47.9%) of the practices/procedures had been initiated prior to the passage of the SAA. Approximately one quarter (26.6%) of the practices/procedures were initiated after passage of the SAA,

and about one quarter (25.5%) were never initiated. The number of observations for each practice/procedure ranged from a low of 143 for item B-7, "System for Monitoring Recipients of Funding," to a high of 158 for item E-1, "Annual Financial Statement Audit or Single Audit." In some cases, respondents were not able to determine if a practice/procedure was initiated prior to 1984 or during/after 1984, and, therefore, were not able to specify a time of initiation.

Table 4-12 ranks the practices/procedures for all categories based upon those that were most often initiated (as a percentage of total responses for that practice/procedure) after the passage of the SAA. This table is significant because most of the practices/procedures with "A" responses (initiated after the passage of the SAA) were rated on the five-point Likert scale, which determined the extent to which the SAA was important in initiating the practice/procedure.

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Table 4-12

RANKING OF PRACTICES/PROCEDURES MOST OFTEN INITIATED  
AFTER PASSAGE OF THE SAA

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	"A" Responses	Total Responses	"A" Response %
*1. Preparation of a Schedule of Federal Financial Assistance	101	150	67.3
*2. Issuance of compliance reports	80	152	52.6
*3. System for monitoring recipients of funding	69	143	48.3
*4. Written corrective action plans for audit findings requiring corrective action	70	154	45.4

*5. Identification and recording of Federal government funds by catalog of Federal Domestic Assistance number	64	146	43.8
*6. Formal follow-up system for open audit findings	67	154	43.5
7. Upgrading of a previously existing system of internal control	62	147	42.2
*8. Issuance of internal control reports	57	151	37.7
*9. System for identifying unallowable costs	47	146	32.2
10. Preparation of a Comprehensive Annual Financial Report	46	154	29.9
11. System for cash management	44	153	28.8
12. GAAP-based accounting system	44	154	28.6
13. Preparation of GAAP-based General Purpose Financial Statements	43	154	27.9
*14. Annual financial statement audit or single audit	43	158	27.2
15. Accounting and financial reporting procedures manual	38	155	24.5
16. Preparation of a GAAP-based budget	37	153	24.2
17. Written accounting policies	36	154	23.4
18. Establishment of a written system of internal control	35	152	23.0
19. Long range systems plan	33	150	22.0
20. Cash forecasting system	28	154	18.2
21. Uniform chart of accounts	28	156	17.9
22. Organization chart	27	154	17.5
23. Mission or function statements	26	151	17.2
24. Position of Chief Financial Officer	22	155	14.2
25. Preparation of a comprehensive, multi-year financial plan	20	150	13.3
26. Internal audit function	20	153	13.1
27. Preparation of periodic reports on status of debt structure	19	151	12.6
28. Written delegations of authority	18	153	11.8
29. Audit committee	14	145	9.7
30. Preparation of annual capital budget	14	156	9.0
31. Preparation of annual operating budget	<u>4</u>	<u>157</u>	<u>2.5</u>
Totals	<u>1,256</u>	<u>4,715</u>	<u>26.6%</u>

\*denotes practice/procedure directly related to SAA or federal programs

Mean scores of all "A" responses were computed for each of the thirty-one practices/procedures. Table 4-13 shows, for each of the practices/procedures, the number of "A" responses that were rated on the five-point likert-type scale, the mean score, and the ranking by mean score (highest=1 to lowest=30).

Table 4-13

FREQUENCIES, MEAN SCORES AND RANK BY MEAN SCORE OF  
PRACTICES/PROCEDURES INITIATED AFTER THE SAA  
AND RATED ON THE LIKERT-TYPE SCALE

<u>Category &amp; Practice/Procedure</u>	<u>Frequency</u>	<u>Mean Score</u>	<u>Ranking</u>
<b>A. Financial Management Organization</b>			
1. Organization chart	27	2.54	27
2. Mission or function statements	26	2.78	24
3. Written delegations of authority	18	3.80	10
4. Position of Chief Financial Officer	22	3.23	19
5. Written accounting policies	36	3.27	18
6. Accounting and financial reporting procedures manual	38	3.40	15
<b>B. Accounting System</b>			
1. Uniform chart of accounts	28	2.48	28
2. Long range systems plan	33	2.32	29
3. System for cash management	44	2.93	23
*4. System for identifying unallowable costs	47	3.91	9
5. GAAP-based accounting system	44	3.56	12
*6. Identification and recording of Federal government funds by catalog of Federal Domestic Assistance number	64	4.02	7
*7. System for monitoring recipients of funding	69	4.11	4
<b>C. Financial Reporting</b>			
1. Preparation of GAAP-based General Purpose Financial Statements	43	3.50	13
2. Preparation of a GAAP-based budget	37	3.32	16
3. Preparation of a Comprehensive Annual Financial Report	46	3.07	22

*4. Preparation of a Schedule of Federal Financial Assistance	101	4.39	1
<b>D. Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements</b>			
1. Preparation of annual operating budget	4	3.75	11
2. Preparation of annual capital budget	14	2.54	27
3. Preparation of a comprehensive, multi-year financial plan	20	1.88	30
4. Preparation of periodic reports on status of debt structure	19	2.72	25
5. Cash forecasting system	28	3.08	21
<b>E. Auditing/Internal Control</b>			
*1. Annual financial statement audit or single audit	43	4.05	5
2. Internal audit function	20	3.47	14
3. Audit committee	14	2.58	26
4. Establishment of a written system of internal control	35	3.28	17
5. Upgrading of a previously existing system of internal control	62	3.20	20
*6. Issuance of internal control reports	57	4.15	3
*7. Issuance of compliance reports	80	4.03	6
*8. Written corrective action plans for audit findings requiring corrective action	70	4.24	2
*9. Formal follow-up system for open audit findings	67	3.92	8
*denotes practices/procedures directly related to the SAA or federal programs			

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Seven of the thirty-one practices/procedures initiated after the SAA had mean scores of between 4.0 and 5.0, indicating that the SAA was important to extremely important in initiating these practices/procedures. All seven of these practices/procedures are those that have been identified as directly related to the SAA or to federal programs. Outside of the 4.0 to 5.0 range, the two practices/procedures with the highest mean scores were also those that are directly related

to the SAA or to federal programs. A summary of the mean scores for all practices/procedures initiated after passage of the SAA by score interval is presented in Table 4-14.

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Table 4-14

SUMMARY OF MEAN SCORES OF PRACTICES/PROCEDURES INITIATED  
AFTER PASSAGE OF THE SAA BY SCORE INTERVAL

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<u>Score Interval</u>	<u>Description</u>	<u>Frequency</u>
1-2	Not Important to Somewhat Important	1
2-3	Somewhat Important to Moderately Important	8
3-4	Moderately Important to Important	15
4-5	Important to Extremely Important	<u>7</u>
Total		31 ==

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Test of Hypothesis #3

Hypothesis #3 is stated as follows:

Ho3: The SAA has not been important in initiating financial management practices of state and local governments that are federal financial assistance recipients.

In order to test hypothesis #3, a 95% confidence interval was developed using the means of the "A" responses for all thirty-one practices/procedures for all types of governments combined. Overall, there were 1,149 "A" responses that were rated on the Likert-type scale. Hypothesis #3 would be accepted if the confidence interval included 1.0, meaning that the SAA was not important in initiating practices/procedures. The confidence interval was determined to be 3.22 to 3.46;

therefore the null hypothesis is rejected ( $3.22$  to  $3.46 > 1$ ). A confidence interval of  $3.22$  to  $3.46$  is an indication that, overall, the SAA was moderately important (3 on the Likert-type scale) to important (4 on the Likert-type scale) in initiating financial management practices/procedures after it was passed in 1984.

The mean score for the twenty-two practices/procedures that are not considered to be directly related to the SAA or federal program requirements was  $3.03$ . The mean score for the nine practices/procedures that are considered to be directly related to the SAA or federal programs was  $4.09$ . The SAA was therefore "important" in initiating financial management practices/procedures that are directly related to the SAA or federal programs and "moderately important" in initiating those practices/procedures that are not directly related.

Some respondents elected to rank certain practices/procedures that were initiated prior to the passage of the SAA (P's) on the Likert-type scale. These respondents apparently felt that the SAA was important to a certain extent in enhancing these practices/procedures, even though they had already been initiated. A total of 319 practices/procedures that were initiated prior to the SAA were ranked on the Likert-type scale with an overall mean score of  $3.94$ .

Although there were not enough practices/procedures initiated prior to the SAA and rated on the Likert-type scale to perform the statistical analyses that were performed for



the "A" responses, the results show that the SAA was apparently important in enhancing as well as initiating financial management practices/procedures in state and local governments. None of the hypotheses in this study address the issue of how important the SAA was in enhancing financial management practices/procedures that were already in place; however, mean scores of the "P" responses will be reported in certain sections of this chapter.

#### Test of Hypothesis #4

Hypothesis #4 is stated as follows:

Ho4: Type of government entity does not make a difference in the extent to which the SAA has been important in initiating financial management practices and procedures of state and local governments that are federal financial assistance recipients.

Mean scores were computed for each responding government that rated "A" responses (135 in total) and were used to determine the mean scores by government type. The results are presented in Table 4-15.

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Table 4-15

MEAN SCORES OF ALL "A" RESPONSES BY GOVERNMENT TYPE  
(Scale: 5="Extremely Important" to 1="Not Important")

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<u>Government Type</u>	<u>Mean Score</u>	<u>95% Confidence Interval</u>
State	3.34	3.22 to 3.46
County	3.72	3.60 to 3.84
Municipality	3.59	3.47 to 3.71
Township	3.17	3.05 to 3.29

---

The mean scores suggest that the SAA was most important in initiating financial management practices/procedures in counties and municipalities, and was least important in initiating practices/procedures in townships. All of the mean scores were in the "Moderately Important" to "Important" range.

In order to test hypothesis #4, a one-way analysis of variance was performed using the mean scores for the four government types. Results of the analysis of variance are presented in Table 4-16.

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Table 4-16

ANALYSIS OF VARIANCE BY GOVERNMENT TYPE (Hypothesis #4)

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<u>Source of Variation</u>	<u>DF</u>	<u>Sum of Squares</u>	<u>Mean Squares</u>	<u>F Ratio</u>	<u>F Probability</u>
Between Groups	3	.9970	.3323	.7297	.5361
Within Groups	133	59.2106	.4555		
Total	135	60.2077			

---

The critical value of F at 135 degrees of freedom is approximately equal to 2.68 ( $F_{.05}(3,125)=2.68$ ). Since the calculated F statistic (.7297) is considerably less than the critical value of F at approximately 133 degrees of freedom (2.68), there is not a significant difference between the means of the four government types with regard to this question. The null hypothesis is therefore accepted; i.e., classification of government entity does not make a difference

in the extent to which the SAA has been important in initiating financial management practices and procedures of state and local governments that are federal financial assistance recipients.

Mean scores for practices/procedures initiated prior to the SAA (P's) and rated on the Likert-type scale were computed for all respondents that rated "P's" on the Likert-type scale (a total of 42 respondents did this). These respondent scores were then used to determine the mean scores by government type. The results are presented in Table 4-17.

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Table 4-17

MEAN SCORES OF "P" RESPONSES BY GOVERNMENT TYPE  
(Scale: 5="Extremely Important to 1="Not Important")

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<u>Government Type</u>	<u>Number of Responses</u>	<u>Mean Score</u>
State	48	2.90
County	154	3.86
Municipality	70	3.32
Township	<u>47</u>	4.08
Total	319	
	===	

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Mean scores of the "P" responses indicate that the SAA was most important in enhancing practices/procedures already in place in townships and county governments. The SAA was least important in enhancing practices/procedures in State governments.

Test of Hypothesis #5

Mean scores for all "A" responses were calculated for the five categories of financial management using the practices/procedures within each category, and are presented in Table 4-18.

Table 4-18

MEAN SCORES BY CATEGORY OF FINANCIAL MANAGEMENT-  
"A" RESPONSES FOR ALL RESPONDENTS  
(Scale: 5="Extremely Important" to 1="Not Important")

<u>Category of Financial Management</u>	<u>Mean Score</u>	<u>95% Confidence Interval</u>
Financial Management Organization	3.17	2.95 to 3.39
Accounting System	3.33	3.17 to 3.49
Financial Reporting	3.57	3.35 to 3.79
Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements	2.80	2.60 to 3.00
Auditing/Internal Control	3.66	3.59 to 3.83

The mean scores by category of financial management show that the SAA was most important in initiating practices/procedures in the Auditing/Internal Control and Financial Reporting categories. The SAA was least important in initiating practices/procedures in the Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements and Financial Management Organization categories. Four of the five categories had mean scores in the "Moderately Important" to "Important" range, while one category was in the "Somewhat Important" to Moderately Important" range. The "grand mean"

for all categories combined was 3.34.

Hypothesis #5 stated in the null form is as follows:

**Ho5:** Within category of financial management, type of government entity does not make a difference in the extent to which the SAA has been important in initiating financial management practices and procedures of state and local governments that are federal financial assistance recipients.

Mean scores for all "A" responses were calculated by category of financial management for each government type. These scores are presented in Table 4-19.

Table 4-19

MEAN SCORES BY CATEGORY OF FINANCIAL MANAGEMENT  
AND GOVERNMENT TYPE  
(Scale: 5="Extremely Important" to 1="Not Important")

<u>Category of Financial Management</u>	<u>State</u>	<u>Government Type</u>		
		<u>County</u>	<u>Municipality</u>	<u>Township</u>
Financial Management Organization	2.13	3.34	3.49	3.02
Accounting System	3.23	3.25	3.55	3.42
Financial Reporting	2.77	3.73	3.77	3.69
Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements	1.60	2.76	3.48	2.35
Auditing/ Internal Control	3.26	3.99	3.61	3.56

The mean scores in Table 4-19 show that the SAA was most important in initiating Auditing/Internal Control practices/procedures in county governments and least important in

initiating Budgeting and Plans for Meeting Debt Obligations/  
Cash Flow Requirements practices/procedures in states.  
Fifteen of the twenty scores were in the "Moderately  
Important" (3) to "Important" (4) range. In order to test  
hypothesis #5, a one-way analysis of variance was performed by  
government type for each of the five categories of financial  
management. Results of these tests are presented in Table 4-  
20.

Table 4-20

ANALYSIS OF VARIANCE BY GOVERNMENT TYPE  
FOR FIVE CATEGORIES OF FINANCIAL MANAGEMENT

<u>Category of Financial Management</u>	<u>Mean Squares</u>	<u>F Ratio</u>	<u>F Probability</u>
Financial Management Organization	.8318	1.6950	.1766
Accounting System	.7012	.4737	.7012
Financial Reporting	1.3550	.8899	.4490
Budgeting	.4561	.5604	.6442
Auditing/Internal Control	.8473	.9202	.4336

A comparison of the critical values of F to the calculated F statistics for the five categories showed that no two government types were significantly different within any category at alpha level .05. Hypothesis #5 is therefore accepted in the null form.

In order to obtain even more detailed information about the differences between the four government types within category of financial management, an analysis of variance was

performed for all thirty-one practices/procedures, using the mean scores of all "A" responses. Results of the test are presented in Table 4-21.

Table 4-21

**ANALYSIS OF VARIANCE: PRACTICES/PROCEDURES  
BY GOVERNMENT TYPE**

<u>Category &amp; Practice/Procedure</u>	<u>Critical Value of F</u>	<u>Calculated F-statistic</u>
<b>A. Financial Management Organization</b>		
1. Organization chart	2.99	.37
2. Mission or function statements	3.05	2.07
3. Written delegations of authority	3.34	.83
4. Position of Chief Financial Officer	3.07	1.10
5. Written accounting policies	2.90	1.25
6. Accounting and financial reporting procedures manual	2.88	2.61
<b>B. Accounting System</b>		
1. Uniform chart of accounts	3.01	.89
2. Long range systems plan	2.96	1.29
3. System for cash management	2.83	.74
4. System for identifying unallowable costs	2.82	.71
5. GAAP-based accounting system	2.83	3.14*
6. Identification and recording of Federal government funds by catalog of Federal Domestic Assistance number	2.76	1.78
7. System for monitoring recipients of funding	2.75	1.54
<b>C. Financial Reporting</b>		
1. Preparation of GAAP-based General Purpose Financial Statements	2.85	5.07*
2. Preparation of a GAAP-based budget	2.90	.62
3. Preparation of a Comprehensive Annual Financial Report	2.83	2.91*
4. Preparation of a Schedule of Federal Financial Assistance	2.70	2.04

<u>Category &amp; Practice/Procedure</u>	<u>Critical Value of F</u>	<u>Calculated F-statistic</u>
<b>D. Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements</b>		
1. Preparation of annual operating budget	9.55	2.25
2. Preparation of annual capital budget	3.49	.92
3. Preparation of a comprehensive, multi-year financial plan	3.24	.48
4. Preparation of periodic reports on status of debt structure	3.59	2.42
5. Cash forecasting system	3.03	.82
<b>E. Auditing/Internal Control</b>		
1. Annual financial statement audit or single audit	2.85	6.52*
2. Internal audit function	3.24	1.30
3. Audit committee	3.59	1.74
4. Establishment of a written system of internal control	2.95	.70
5. Upgrading of a previously existing system of internal control	2.78	.78
6. Issuance of internal control reports	2.79	.69
7. Issuance of compliance reports	2.74	.13
8. Written corrective action plans for audit findings requiring corrective action	2.76	1.58
9. Formal follow-up system for open audit findings	2.76	.45

\*significant at alpha level .05

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Results of the one-way analysis of variance show that, for 27 of the 31 practices/procedures, there is not a significant difference in mean scores by government type for those practices/procedures initiated after the SAA. The Tukey-HSD (honestly significant difference) multiple comparison procedure was used to determine which government types were significantly different from each other for the four practices/procedures which were found to be significant at alpha level .05. Results of the multiple range test are



presented in Table 4-22.

Table 4-22  
RESULTS OF TUKEY-HSD MULTIPLE COMPARISON PROCEDURE

<u>Practice/Procedure</u>	<u>Mean</u>	<u>Government</u>	
		<u>Type</u>	<u>State</u>
B5. Generally accepted accounting principles (GAAP) based accounting system	2.33	State	
	3.50	Township	
	3.82	County	*
	4.00	Municipality	*
C1. Preparation of GAAP-based General Purpose Financial Statements	2.30	State	
	3.70	Township	
	3.89	County	*
	4.22	Municipality	*
C3. Preparation of a Comprehensive Annual Financial Report	2.09	State	
	3.22	Municipality	
	3.33	Township	
	3.53	County	*
E1. Annual financial statement audit or single audit	3.10	State	
	4.09	Municipality	
	4.33	Township	*
	4.73	County	*

\*significant difference from state mean at alpha level .05

Results of the multiple comparison procedure show that the mean scores of states were significantly different from 1) counties for all four practices/procedures, 2) municipalities for practice/procedures B5 and C1, and 3) townships for practice/procedure E1. This is probably because most state governments, which generally have more sophisticated accounting systems than local governments, had these practices/procedures in place before passage of the SAA. No

other pairs of government types had means that were significantly different at alpha level .05 for these or any other practices/procedures.

Mean scores by category of financial management are presented in Table 4-23 for all of the practices/procedures that were initiated prior to the SAA and rated on the Likert-type scale.

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Table 4-23

MEAN SCORES OF ALL "P" RESPONSES  
BY CATEGORY OF FINANCIAL MANAGEMENT  
(Scale: 5="Extremely Important to 1="Not Important")

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<u>Category of Financial Management</u>	<u>Number of Responses</u>	<u>Mean Score</u>
Financial Management Organization	80	3.84
Accounting System	74	3.96
Financial Reporting	32	4.42
Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements	62	4.20
Auditing/Internal Control	<u>71</u>	3.62
Total	319	
	===	

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The data in Table 4-23 indicate that the SAA was most important in enhancing practices/procedures already in place in the categories of Financial Reporting and Budgeting & Plans for Meeting Debt Obligations/Cash Flow Requirements. The SAA was least important in enhancing practices/procedures in the Auditing/Internal Control area.

Table 4-24 provides a summary of the mean scores for all "P" responses by category of financial management and type of government.

Table 4-24

MEAN SCORES OF ALL "P" RESPONSES BY CATEGORY OF  
FINANCIAL MANAGEMENT AND TYPE OF GOVERNMENT

Category of Financial Management	State	Government Type		
		County	Municipality	Township
Financial Management Organization	2.88	4.16	3.85	4.58
Accounting System	3.43	4.29	4.89	4.09
Financial Reporting	2.13	4.89	3.75	3.38
Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements	2.00	4.09	3.40	2.31
Auditing/ Internal Control	2.50	3.40	2.31	3.42

The data indicate that the SAA was most important in enhancing financial management practices/procedures in the Accounting System area for states and municipalities, in the Financial Reporting area for counties, and in the Financial Management Organization area for townships.

Other Practices/Procedures

At the end of Part II of the survey instrument, respondents were given the opportunity to list practices/procedures or improvements in their financial

management systems which were initiated since the passage of the SAA but were not identified in any of the categories of financial management on the questionnaire. A total of ten respondents (one state, three counties, four municipalities and two townships) listed such practices/procedures. Table 4-25 summarizes the results of this section of Part II of the survey instrument.

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**Table 4-25**  
**SUMMARY OF "OTHER" PRACTICES/PROCEDURES**

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<u>Government Type</u>	<u>Practice/Procedure</u>	<u>Rating on Scale</u>
State	Documentation and central approval of grant acceptances	5.00
	Automated systems/new technologies	2.00
	Improved payroll time & recordkeeping	3.00
	Improved record retention for audit trails	4.00
County	Tracking federal grant funds by C.F.D.A. at front end	4.00
	Encumbrance accounting system	2.00
	Better management information system	5.00
Municipality	Investment policy (improvement in)	4.00
	Include federal financial assistance programs in overall accounting system	4.00
	All vouchers are reviewed	5.00
	Additional reports from municipal court	5.00
	Upgrading of microcomputer system	5.00
Township	Five-year capital improvement program	5.00
	Investment policy (improvement in)	4.00
	Quarterly meetings with budget committee	5.00

---

Very few responding governments elected to identify these "other practices/procedures." This is an indication that the thirty-one practices/procedures included in the survey instrument comprised a fairly comprehensive list. For those governments that did identify other practices/procedures, the two improvements that were cited more than once were an upgrading of the management information (or microcomputer) system and investment policy.

#### Test of Hypothesis #6

Hypothesis #6 stated in the null form is as follows:

Ho6: More efficient and effective use of audit resources (in particular, eliminating duplication of audit effort) has not been achieved as a result of the SAA.

Part III of the questionnaire contains a question dealing with efficient and effective use of audit resources, as follows:

The third stated objective of the SAA was to promote efficient and effective use of audit resources. Overall, to what extent do you believe that this objective (in particular, eliminating duplication of audit effort) has been achieved?

The same 5-point Likert-type scale (ranging from "fully achieved" (5) to "not achieved (1)") that was used in for the question in hypothesis #1 was used for this question. In order to test hypothesis #6, a 95% confidence interval was developed for all respondents. The null hypothesis assumes that the confidence interval will include 1 (not achieved). The confidence interval for all respondents to this question was 3.318 to 3.718; therefore the null hypothesis is rejected

(3.318 to 3.718 > 1.00). The results indicate that the third stated objective of the SAA has been moderately to mostly achieved.

Test of Hypothesis #7

Hypothesis #7 is stated as follows:

Ho7: Type of government entity does not make a difference in the extent to which the SAA has resulted in more efficient and effective use of audit resources (in particular, eliminating duplication of audit effort).

In order to test hypothesis #7, a oneway analysis of variance was performed to determine what differences there were, if any, between the mean responses for the four types of government entities. As was done with hypothesis #2, a test for equality of variances was performed. Results of the tests for homogeneity of variance are detailed in Table 4-26.

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Table 4-26

TESTS FOR HOMOGENEITY OF VARIANCE-HYPOTHESIS #7

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Cochrans C=Max. Variance/Sum(Variances)=.3509 P=.134 (approx.)  
 Bartlett-Box F=2.320 P=.073  
 Maximum Variance/Minimum Variance=2.437

---

Although the significance levels are relatively small, they are both greater than .05; therefore, the variances appear to be equal (the groups do not differ too much with regard to their internal variabilities).

Mean scores, standard deviations, and confidence intervals for each of the four government types were

calculated. Some respondents selected "No Basis to Judge" in response to this question; these responses are not included in the analysis. Results of these calculations are presented in Table 4-27.

Table 4-27

**DESCRIPTIVE STATISTICS BY GOVERNMENT TYPE-  
TO WHAT EXTENT HAS THE SAA PROMOTED EFFICIENT  
AND EFFECTIVE USE OF AUDIT RESOURCES?**

(5=Fully Achieved; 1=Not Achieved)

<u>Government Type</u>	<u>Mean</u>	<u>Standard Deviation</u>	<u>Standard Error</u>	<u>95% Confidence Interval</u>
State	3.72	.8822	.1638	3.39 to 4.06
County	3.80	1.2757	.1881	3.43 to 4.18
Municipality	3.22	1.3771	.2264	2.76 to 3.68
Township	3.22	1.0500	.2021	2.81 to 3.64

The results show that all four government types believe that the first stated objective of the SAA has been between moderately achieved (3 on the scale) and mostly achieved (4 on the scale). County and state governments, with mean scores of 3.80 and 3.72, respectively, felt that the extent to which the SAA has achieved its third stated objective of promoting efficient and effective use of audit resources (in particular, eliminating duplication of audit effort) was closer to "mostly achieved" than to "moderately achieved." Municipalities and Townships, with identical mean scores of 3.22, felt that the extent to which the SAA has achieved its third stated

objective was closer to "moderately achieved" than "mostly achieved."

Results of the oneway analysis of variance used to test hypothesis #7 are presented in: Table 4-28.

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Table 4-28

ANALYSIS OF VARIANCE-GOVERNMENT TYPES  
TO WHAT EXTENT HAS THE SAA PROMOTED EFFICIENT  
AND EFFECTIVE USE OF AUDIT RESOURCES?  
(Hypothesis #7)

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<u>Source</u>	<u>Degrees of Freedom</u>	<u>Sum of Squares</u>	<u>Analysis of Variance</u>		
			<u>Mean Squares</u>	<u>F Ratio</u>	<u>F Prob.</u>
Between Groups	3	10.7359	3.5786	2.5166	.0609
Within Groups	135	191.9692	1.4220		
Total	138	202.7050			

---

The critical value of F at 135 degrees of freedom is approximately equal to 2.68 ( $F_{.05}(3,125)=2.68$ ). Since the calculated F statistic (2.5166) is less than the critical value of F at approximately 135 degrees of freedom (2.68), there is not a significant difference between the means of the four government types with regard to this question. However, the closeness of the calculated F statistic to the critical value of F and the F probability (.0609) suggest that there is more variability between the means for this question than there was between the means for the similar question in hypothesis #2.



Nevertheless, for hypothesis #7, the null hypothesis is accepted; i.e., type of government entity does not make a difference in the extent to which the SAA has achieved its third stated goal of promoting the efficient and effective use of audit resources (in particular, eliminating duplication of audit effort).

#### Chapter Summary

Surveys were sent to 652 government entities, consisting of 52 state governments and 200 counties, municipalities and townships. The counties, municipalities and townships were selected in a stratified random sample using a U.S. Bureau of the Census Database. The overall response rate was 25%, with the state governments having the highest rate (60%). The response rates of the counties, municipalities and townships were significantly lower due to the fact that less than half of the cover letters sent to these governments were personalized.

Most of the responding governments (65.2%) had seven or more single audits performed since passage of the SAA. The survey instruments that were returned were completed for the most part by individuals holding the title of Chief Finance Officer or Accounting Manager/Chief Accountant. A test for nonresponse bias showed that there was no difference between the early and late respondents; therefore, nonresponse bias will not be a problem with regard to the findings of this study.

Respondents felt that the first and third stated goals of the SAA had been "moderately achieved" to "mostly achieved." Of all four government types, county governments felt the strongest about the extent to which both of these goals had been achieved. Counties and municipalities felt that the SAA was most important in initiating financial management practices/procedures. Results showed that classification of government entity does make a difference in the extent to which the SAA was important in initiating financial management practices and procedures.

Respondents felt that the SAA was most important in initiating practices/procedures in the area of Auditing/Internal Control and least important in initiating practices/procedures in the Budgeting area. Individual practices/procedures that were initiated after passage of the SAA and had the highest mean scores were those that are directly related to the SAA or to federal programs.

## Chapter Five

### **SUMMARY AND CONCLUSIONS, LIMITATIONS, AND FUTURE RESEARCH**

The SAA was one of the most significant pieces of legislation ever to be enacted in the field of government auditing. During the past few years, there has been a great deal of interest in determining whether the SAA has met its objectives, and whether changes should be made to it. The President's Council on Integrity and Efficiency recently completed a study dealing with the issue of how to improve the single audit process. The U.S. General Accounting Office is in the process of completing a study in an attempt to determine what problems exist with the SAA, if the stated goals have been achieved and whether or not changes need to be made.

This study was designed to attempt to determine whether the SAA has achieved two of its four stated goals. Those goals were: 1) to improve the financial management of state and local governments with respect to federal financial assistance programs, and 2) to promote the efficient and effective use of audit resources. Specific objectives regarding goal number one were to determine 1) how important the SAA has been in initiating financial management practices of state and local governments that are federal financial assistance recipients, and 2) whether classification of government entity and category of financial management make a difference in the extent to which the SAA has been important

in initiating financial management practices of state and local governments.

The data for this study were collected using a mail survey, which was sent to 52 state governments and a representative sample of local governments. Results of the survey were analyzed using descriptive statistics and specific tests where appropriate. The summary and conclusions in this chapter are arranged in the order in which the hypotheses were presented in Chapter 4.

#### **The Respondents**

The overall response rate for the survey was 25%. States, which had the highest response rate (60%), were the only group in which cover letters were personalized. The respondents were accounting and finance officials of state and local governments. The titles of those responding most often were Chief Financial Officers/Finance Officers and Accounting Managers/Chief Accountants.

#### **Test of Hypotheses**

Results of a t-test for nonresponse bias showed that there were no significant differences between the early and late response groups. After the test for nonresponse bias was completed, the following hypotheses were tested:

H<sub>01</sub>: The SAA has not achieved its first stated goal of improving the financial management of state and local governments with respect to federal financial assistance programs.

- Ho2:** Type of government entity does not make a difference in the extent to which the SAA has achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs.
- Ho3:** The SAA has not been important in initiating financial management practices of state and local governments that are federal financial assistance recipients.
- Ho4:** Type of government entity does not make a difference in the extent to which the SAA has been important in initiating financial management practices of state and local governments that are federal financial assistance recipients.
- Ho5:** Within category of financial management, type of government entity does not make a difference in the extent to the SAA has been important in initiating financial management practices of state and local governments that are federal financial assistance recipients.
- Ho6:** More efficient and effective use of audit resources (in particular, eliminating duplication of audit effort) has not been achieved as a result of the SAA.
- Ho7:** Type of government entity does not make a difference in the extent to which the SAA has resulted in more efficient and effective use of audit resources (in particular, eliminating duplication of audit effort).

The null hypothesis was accepted for hypotheses #2, #4, #5 and #7, and rejected for hypotheses #1, #3, and #6. Chapter 4 contains the results of the statistical tests used to evaluate the hypotheses.

#### **Achievement of SAA Objectives**

The survey instrument contained two general questions in part III, the summary section, about the extent to which certain SAA objectives had been achieved. The two objectives, as stated in the SAA, were: 1) to improve the financial management of state and local governments with respect to

federal financial assistance programs, and 2) to promote the efficient and effective use of audit resources (in particular, elimination of duplication of audit effort). A five-point Likert-type scale was used for both questions with a range from "fully achieved" (5) to "not achieved" (1). A summary of the results for both objectives are presented in Table 5-1 for each of the four government types.

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Table 5-1  
SUMMARY OF RESULTS FOR SAA "OBJECTIVE" QUESTIONS

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<u>Objective</u>	<u>Mean Scores</u>			
	<u>State</u>	<u>County</u>	<u>Municipality</u>	<u>Township</u>
Improve financial management	3.30	3.71	3.35	3.47
Efficient and effective use of audit resources	3.72	3.80	3.22	3.22

---

Overall, the respondents felt that both objectives had been "moderately achieved" to "mostly achieved." The grand mean for the question dealing with improvement of financial management was 3.471 and for the question dealing with efficient and effective use of audit resources, 3.518. Despite the fact that there was not a "statistically significant" difference between the four government types when comparing the mean scores for these questions, the data provide some interesting information. Of the four government types, county government respondents felt the strongest about

the extent to which both objectives had been achieved. Compared to the other government types, county governments felt particularly strong about the extent to which the SAA had achieved its first stated objective of improving the financial management of state and local governments with respect to federal financial assistance programs.

A possible explanation for the difference in responses of the counties versus the other government types is that county governments were in a position to benefit most from the SAA. In general, county government accounting systems and financial management practices were not as sophisticated as state government systems and practices when the SAA was passed. Although this was probably true for municipalities and townships as well, from a personnel (staff size) and funding standpoint, counties were probably in a better position to initiate practices and procedures when they were recommended in single audit reports. For example, one township cited as a limitation/shortcoming of the SAA "no funding to make internal changes." This is an indication that the desire exists to make changes but not the funding. The limitations/shortcomings of the SAA are discussed in the next section.

The mean scores of state governments, municipalities and townships in response to the question about improvement in financial management practices were very close (a range of 3.30 to 3.47). With most municipalities and townships having relatively small accounting departments, it is possible that

they were not able to initiate financial management practices/procedures to the extent that counties were able to. Most state governments, on the other hand, would have the staff size to initiate new practices/procedures, but probably had many of the practices/procedures in place already.

States and counties, with close mean scores of 3.72 and 3.80, respectively, felt the strongest about the extent to which the SAA has promoted the efficient and effective use of audit resources (in particular, eliminating duplication of audit resources). Municipalities and townships, with identical mean scores of 3.22, did not feel as strong as the larger government types about the extent to which this objective has been achieved. Since the question specifically mentioned eliminating duplication of audit effort, the results indicate that smaller governments (municipalities and townships) have experienced more problems with duplication of audit effort than larger governments (states and counties) since passage of the SAA. The responses to the question about efficient and effective use of audit resources and an analysis of the limitations/shortcomings of the SAA show that duplication of audit effort is still a problem for all four government types.

#### **Limitations/Shortcomings of the SAA**

At the end of part III, respondents were asked to indicate what they feel are the limitations/shortcomings of the SAA. A space was provided for the narrative responses to



this question. Twenty-seven percent of the responding governments (43 out of 161) stated what they feel are the limitations/shortcomings of the SAA.

A total of forty-six comments were received from the forty-three governments, which included thirteen states, sixteen counties, nine municipalities and five townships. The responses were analyzed and then categorized using the following key:

- A. Duplicate audit effort/additional audit work/excessive audit coverage
- B. Increased cost without corresponding benefit/too costly
- C. Resulted in little or no improvement in financial management/financial reporting
- D. Too much compliance reporting/compliance requirements too complex
- E. Managers do not rely on/use single audit
- F. Requires sending out too many copies
- G. Meaning of single audit difficult to comprehend
- H. Cumbersome audit finding resolution process
- I. No funding assistance to make internal changes
- J. Difficult to enforce
- K. Too many reports required

Results of the responses to the narrative question are presented in Table 5-2.

Table 5-2

RESPONSES TO NARRATIVE QUESTION-  
LIMITATIONS AND SHORTCOMINGS OF THE SAA

Response Code	Number of Responses				Total	%
	State	County	Municipality	Township		
A	8	4	3	1	16	35
B	1	4	3	2	10	22
C	2	2	3	-	7	15
D	2	-	-	1	3	7
E	-	2	1	-	3	7
F	-	1	1	-	2	4
G	-	1	-	-	1	2
H	-	1	-	-	1	2
I	-	-	-	1	1	2
J	-	1	-	-	1	2
K	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>2</u>
Totals	14	16	11	5	46	100%

Of those governments that stated limitations/shortcomings, thirty-five percent feel that there is still too much duplicate audit coverage despite the SAA. Twenty-two percent feel that the SAA is either too costly or resulted in increased costs without the corresponding benefit. Fifteen percent feel that the SAA has resulted in little or no improvement in financial management practices/procedures.

Only twenty-seven percent of responding governments elected to identify limitations/shortcomings of the SAA and only one item, duplication of audit effort, was identified by at least ten percent of the respondents as a problem. Either respondents feel that there are few limitations or

shortcomings or they were not willing to take the time to describe what they feel are the limitations or shortcomings. Only six percent of respondents specifically identified cost/benefit as a problem of the SAA. About four percent of the respondents identified the lack of improvement in financial management practices/procedures as a shortcoming of the SAA. Other shortcomings identified were common to no more than three of the responding governments.

#### **Summary of Responses to Questions About Goals of the SAA**

Results of the responses to the two "objective" questions indicate that the SAA has been only moderately successful in achieving two of its stated goals. There was not a statistically significant difference between government types in response to either of these questions; mean scores for all government types to both questions were in the middle of the "moderately achieved" to "mostly achieved" range. The results indicate that in both areas, improvement in financial management and efficient and effective use of audit resources, more progress needs to be made. None of the mean responses to these questions for any government type were in the "mostly achieved" (4) to "fully achieved" (5) range.

When the SAA was passed, no one really knew the extent to which it would be important in improving the financial management of state and local governments. However, it was expected that making the single audit a legal requirement for government entities receiving more than \$100,000 would provide

more efficient and effective use of audit resources by significantly reducing the amount of duplication of audit effort. The survey results show that the SAA has not come close to fully achieving the goal of more efficient and effective use of audit resources.

In addition, duplication of audit effort was the limitation/ shortcoming most often cited in the narrative section of the survey instrument. "Little or no improvement in financial management" was another limitation/shortcoming of the SAA that was cited by several states, counties and municipalities. In summary, the SAA has been at best moderately successful in achieving the two goals that were addressed in the survey instrument.

#### **SAA Importance in Initiating Financial Management Practices/Procedures**

Part II of the survey instrument dealt with the issue of how important the SAA has been in initiating financial management practices and procedures in state and local governments that are federal financial assistance recipients. Table 5-3 provides a summary of the frequencies of time of initiation of the financial management practices/procedures in all five financial management categories for all government types combined. Practices/procedures initiated after the SAA was passed are those in the "A" column; those that were never initiated are in the "N" column and those that were initiated prior to the passage of the SAA are in the "P" column.

Table 5-3

**FREQUENCIES OF TIME OF INITIATION OF FINANCIAL  
MANAGEMENT PRACTICES AND PROCEDURES  
(all types of governments combined)**

	Time Initiated			Total Responses
	A	N	P	
A. Financial Management Organization	167	227	528	922
B. Accounting System	329	260	459	1,048
C. Financial Reporting	227	125	259	611
D. Budgeting and Plans for Meeting Debt Obligations/ Cash Flow Requirements	85	175	508	768
E. Auditing/Internal Control	<u>448</u>	<u>413</u>	<u>505</u>	<u>1,366</u>
Grand total	<u>1,256</u>	<u>1,200</u>	<u>2,259</u>	<u>4,715</u>
Percent	26.6%	25.5%	47.9%	100%

Almost half (47.9%) of the practices/procedures that were categorized by responding governments were initiated prior to the passage of the SAA. About one-quarter (26.6%) of the practices/procedures were initiated after passage of the SAA, and another one-quarter (25.5%) were never initiated. Most (73.4%) of the financial management practices/procedures included in the survey responses were either already in place before the SAA was passed or were never initiated.

Table 5-4 shows the percentages for time of initiation of financial management practices by category of financial management.

Table 5-4

**PERCENTAGES OF TIME OF INITIATION  
OF FINANCIAL MANAGEMENT PRACTICES AND PROCEDURES  
WITHIN CATEGORY OF FINANCIAL MANAGEMENT  
(all types of governments combined)**

	Time Initiated			Total Responses
	A	N	P	
A. Financial Management Organization	18%	25%	57%	100%
B. Accounting System	31%	25%	44%	100%
C. Financial Reporting	37%	20%	43%	100%
D. Budgeting and Plans for Meeting Debt Obligations/ Cash Flow Requirements	11%	23%	66%	100%
E. Auditing/Internal Control	<u>33%</u>	<u>30%</u>	<u>37%</u>	<u>100%</u>
Total	<u>27%</u>	<u>25%</u>	<u>48%</u>	<u>100%</u>

The categories Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements (11%) and Financial Management Organization (18%) had the lowest percentages for practices/ procedures initiated after the passage of the SAA. These were the only two financial management categories which had no individual practices/procedures that are considered to be directly related to the SAA or to federal programs. The data indicate that the highest percentages of practices/procedures already in place prior to passage of the SAA were in these categories.

The categories Financial Reporting (37%) and Auditing/Internal Control (33%) had the highest percentages for practices/procedures initiated after passage of the SAA. Four

of the nine practices/procedures in the in the Auditing/Internal Control area are considered to be directly related to the SAA or federal programs. One of the four practices/procedures in the Financial Management category is considered to be directly related to the SAA or federal programs.

Table 5-5 combines the percentages of procedures initiated after passage of the SAA with the mean scores for all of the "A" responses by category of financial management.

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Table 5-5

PERCENTAGES OF PRACTICES/PROCEDURES INITIATED AFTER THE SAA  
AND MEAN SCORES BY CATEGORY OF FINANCIAL MANAGEMENT

(Scale: 5="Extremely Important" to 1="Not Important")

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<u>Category of Financial Management</u>	<u>Percentage</u>	<u>Mean Score</u>
Auditing/Internal Control	33%	3.66
Financial Reporting	37%	3.57
Accounting System	31%	3.33
Financial Management Organization	18%	3.17
Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements	11%	2.80

---

The data in Table 5-5 show that the SAA had the greatest impact in initiating financial management practices/procedures in the areas of Auditing/Internal Control and Financial Reporting. These two categories had the highest percentage of practices/procedures initiated after the SAA and the highest mean scores for those practices/procedures. The SAA had the least amount of impact in initiating financial management

practices/procedures in the areas of Financial Management Organization and Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements. These were the two categories which had no practices/procedures which are directly related to the SAA or federal programs.

The "Budgeting" area in particular received little impact; only 11% of practices/procedures were initiated after passage of the SAA and the mean score of those practices/procedures was 2.80 (in the "somewhat important" to "moderately important" range). Budgeting and Plans for Meeting Debt Obligations/Cash Requirements was the only category mean score outside of the "moderately important" to "important" range. This is not surprising, since a distinctive characteristic of governmental accounting is the formal recording of a legally approved budget. In fact, current GASB standards require that an annual budget be adopted for every governmental unit and that the accounting systems of these units provide the basis for appropriate budgetary control. As a result, most state and local governments either already had adequate financial management practices/procedures in place in the "Budgeting" area, or these practices/procedures were not initiated as a result of findings and recommendations in single audit reports.

Financial Management Organization is another area where the SAA had minimal impact on the financial management of state and local governments. Only 18% of financial management



practices/ procedures in this category were initiated after passage of the SAA, with a mean score of 3.17. Looking at the practices/ procedures in this category, one would expect this to be the case. Organization chart, mission/function statements, written delegations of authority, position of chief financial officer, written accounting policies and an accounting and financial reporting procedures manual are all items which state and local governments should have in place regardless of the SAA or federal program requirements.

The survey instrument included thirty-one financial management practices/procedures in five categories of financial management. The practices/procedures that the SAA was most important in initiating are those that had the highest percentage of "A" responses and the highest mean scores (for the "A" responses). The five practices/procedures that were most often initiated after passage of the SAA and their corresponding mean scores are presented in Table 5-6.

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Table 5-6

**FINANCIAL MANAGEMENT PRACTICES/PROCEDURES  
MOST OFTEN INITIATED AFTER PASSAGE OF THE SAA  
AND CORRESPONDING MEAN SCORES**

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<u>Practice/Procedure</u>	<u>Category of Financial Management</u>	<u>"A" Response %</u>	<u>Mean Score</u>
1. Preparation of a Schedule of Federal Financial Assistance	Financial Reporting	67.3	4.39
2. Issuance of compliance reports	Auditing	52.6	4.03

3. System for monitoring recipients of funding	Accounting System	48.3	4.11
4. Written corrective action plans for audit findings requiring corrective action	Auditing	45.4	4.24
5. Identification and recording of Federal government funds by catalog of Federal Domestic Assistance number	Accounting System	43.8	4.02

---

The mean scores of all five financial management practices/procedures in Table 5-6 are in the "4" to "5" range, indicating that the SAA was important to extremely important in initiating the practice/procedure. The mean scores, combined with the "A" response percentages, indicate that the SAA was most important in initiating these five practices/procedures out of all of those included in the survey instrument. One possible explanation for the fact that the "A" response percentages for these five practices/procedures were not higher is that some state and local governments may have initiated these practices/procedures prior to the SAA, anticipating its passage. The highest-ranking mean score in terms of both "A" response percentage and mean score was from the Financial Reporting area, while two of the five practices/procedures were from the Auditing area. These were the two areas of financial management that had the highest overall mean scores for "A" responses.

As expected, all five of these practices/procedures are directly related to federal programs and the single audit. For federal financial assistance programs, the SAA requires a Schedule of Federal Financial Assistance and a report on compliance with laws and regulations. Governments receiving federal financial assistance are also required to have a system for monitoring recipients of funding and written corrective action plans for audit findings contained in single audit reports. The results suggest that the SAA had the greatest impact in initiating practices/ procedures that are directly related to SAA or federal program requirements.

With an overall mean score of 3.34 for all "A" responses, respondents felt that the SAA was moderately important to important in initiating financial management practices/procedures after it was passed in 1984. This mean score, near the middle of the five-point Likert-type scale, suggests that the SAA has been slightly better than moderately important in improving the financial management practices of state and local governments through information contained in single audit reports or as a result of SAA requirements.

The mean score for all "A" responses for the twenty-two practices/procedures that are not considered to be directly related to the SAA or federal program requirements was 3.03. For the nine practices/procedures that are considered to be directly related to the SAA or federal program requirements, the mean score of all "A" responses was 4.09. The SAA, then,

has been important (mean of at least 4.0) in initiating practices/procedures that are directly related to the SAA or federal program requirements and moderately important (mean of at least 3.0) in initiating financial management practices in state and local governments that are not directly related to the SAA or federal program requirements.

Improving the financial management of state and local governments with respect to federal financial assistance programs was the primary goal of the SAA. Although the data show that the SAA has been important in initiating financial management practices/procedures that are directly related to the SAA or federal program requirements, the overall and individual mean scores indicate that more work needs to be done in this area. Either the form and/or content of single audit reports need to be improved so that reports are more useful to state and local governments or these governments need to make more use of the reports to implement the necessary controls.

Another possibility is that auditors may not be "building on" audit findings. Auditors should be looking for common or recurrent findings and making recommendations to implement controls where they are needed. If auditors are not "building on" audit findings, the areas where improvements in practices/procedures could have the greatest impact are being ignored in favor of areas where there are already adequate controls.

Comparing Government Types

A comparison of the mean scores for the four government types showed that the SAA was most important in initiating financial management practices/procedures in county governments and municipalities. The mean scores by government type for all "A" responses are presented in Table 5-7.

Table 5-7

MEAN SCORES OF ALL "A" RESPONSES BY GOVERNMENT TYPE  
(Scale: 5="Extremely Important" to 1="Not Important")

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<u>Government Type</u>	<u>Mean Score</u>
State	3.34
County	3.72
Municipality	3.59
Township	3.17

---

Although there was not a statistically significant difference between the mean scores of the four government types, the scores show that the SAA has been more important in initiating financial management practices in counties and municipalities than in states and townships. County governments had the highest mean score for "A" responses (3.72) and the highest score for the question dealing with the extent to which the goal of improving financial management practices had been achieved (3.71). Therefore, from the standpoint of improving financial management practices/procedures, county governments have benefitted the

most from the SAA.

As discussed earlier, county governments were in a position to benefit most from the SAA. Their financial management systems are generally not as sophisticated as those of states, and therefore would be open to more improvement. The ability to initiate financial management practices/procedures and other controls depends on available resources. From this standpoint, most counties were probably in a better position to initiate practices/procedures than municipalities and townships, some of which have very small and sometimes part-time accounting staffs.

A breakdown by government type of the mean scores of "A" responses for all practices/procedures that are related to the SAA or federal program requirements versus those that are not related is presented in Table 5-8.

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Table 5-8

MEAN SCORES FOR "A" RESPONSES BY GOVERNMENT TYPE OF PRACTICES/PROCEDURES THAT ARE RELATED TO THE SAA/FEDERAL PROGRAM REQUIREMENTS VERSUS THOSE THAT ARE NOT RELATED

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<u>Type of Government</u>	<u>Practices/Procedures Related to SAA</u>	<u>Practices/Procedures Not Related to SAA</u>
State	4.00	2.24
County	4.29	3.17
Municipality	3.99	3.40
Township	4.19	2.86

---

The mean scores in Table 5-8 indicate that, for all government types, the SAA was more important in initiating financial management practices/procedures that are related to the SAA or federal program requirements than in initiating those that are not related. The SAA was most important in initiating practices/procedures that are related to the SAA or federal program requirements in counties. For practices/procedures not related to the SAA or to federal program requirements, the SAA was most important in initiating practices/procedures in municipalities.

An interesting finding from the survey results was that the smaller governments (municipalities and townships) had identical rankings for mean scores (for all "A" responses) by category of financial management. These rankings are presented in Table 5-9.

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Table 5-9

RANKINGS OF MEAN SCORES OF ALL "A" RESPONSES  
BY CATEGORY OF FINANCIAL MANAGEMENT  
FOR MUNICIPALITIES AND TOWNSHIPS

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<u>Category of Financial Management</u>	<u>Municipality</u>		<u>Township</u>	
	<u>Score</u>	<u>Rank</u>	<u>Score</u>	<u>Rank</u>
Financial Reporting	3.77	1	3.69	1
Auditing/Internal Control	3.61	2	3.56	2
Accounting System	3.55	3	3.42	3
Financial Management Organization	3.49	4	3.02	4
Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements	3.48	5	2.35	5

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Looking at the ranking of category of financial management, the data suggest that the SAA had a similar impact on the financial management practices of municipalities and townships. In both government types, the SAA was most important in initiating financial management practices/procedures in the Financial Reporting area and least important in initiating financial management practices/procedures in the Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements area. Although the rankings are the same for the five categories for both government types, the SAA had a much greater impact in initiating financial management practices in the Financial Management Organization and Budgeting areas in municipalities than in townships.

A comparison of the mean scores for states and counties showed that the SAA was most important in initiating financial management practices in the Auditing/Internal Control area. Counties had higher mean scores than states in all five categories of financial management, which indicates that the SAA was more important in initiating financial management practices in counties for all categories. The mean scores and rankings are for states and counties are presented in Table 5-10.



Table 5-10

**RANKINGS OF MEAN SCORES OF ALL "A" RESPONSES  
BY CATEGORY OF FINANCIAL MANAGEMENT  
FOR STATES AND COUNTIES**

<u>Category of Financial Management</u>	<u>State</u>		<u>County</u>	
	<u>Score</u>	<u>Rank</u>	<u>Score</u>	<u>Rank</u>
Auditing/Internal Control	3.26	1	3.99	1
Accounting System	3.23	2	3.25	4
Financial Reporting	2.77	3	3.73	2
Financial Management Organization	2.13	4	3.34	3
Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements	1.60	5	2.76	5

For the smaller governments (municipalities and townships), the SAA had the greatest impact in initiating financial management practices/procedures in the Financial Reporting area. For the larger government types, the SAA had the greatest impact in initiating financial management practices/procedures in the Auditing/Internal Control area. For all government types, the SAA had the least amount of impact in initiating financial management practices/procedures in the Budgeting and Plans for Meeting Debt Obligations/Cash Flow Requirements area. The low impact of the SAA on this area is not surprising since budgeting is one of, if not, the primary accounting function for governments. Budgeting practices/procedures would, for the most part, be in place for reasons other than the SAA or findings contained in single audit reports.

Some respondents elected to rate certain practices/procedures that were initiated prior to ("P") the passage of the SAA on the Likert-type scale when completing the questionnaire. The assumption made regarding these practices/procedures is that they were rated on the scale because the SAA or information contained in single audit reports served to enhance practices or procedures which were already in place. The number of respondents rating "P" responses on the Likert-type scale was significantly less than the number of respondents that rated "A" responses on the scale since respondents were not directed to rate "P" responses. As a result, the number of "P" responses rated on the scale is somewhat limited and could not be used for statistical analysis or hypothesis testing. However, the mean scores of the "P" responses are reported. Given the assumption above, the mean scores seem to indicate that the SAA was most important in enhancing financial management practices/procedures in townships.

Townships and counties had the highest mean scores for the "P" responses (4.08 and 3.86, respectively). Townships reported the lowest mean score for "A" responses, and the highest mean score for the "P" responses. The low "A" response mean score and high "P" response mean score suggests that the SAA was more important in enhancing financial management practices/procedures already in place in townships than in initiating new practices/procedures. State

governments had the lowest mean score for "P" responses (2.90), which was the only score in the "somewhat important" to "moderately important" range. The low "P" response mean score is an indication that the SAA had a minimal impact in enhancing financial management practices/procedures that were already in place in state governments prior to the SAA. A summary of the mean scores for all "A" and "P" responses by government type is presented in Table 5-11.

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Table 5-11

MEAN SCORES OF ALL "A" AND "P" RESPONSES BY GOVERNMENT TYPE

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<u>Government Type</u>	<u>Mean Scores</u>	
	<u>"A" Responses</u>	<u>"P" Responses</u>
State	3.34	2.90
County	3.72	3.86
Municipality	3.59	3.32
Township	3.17	4.08

---

Summary of SAA Importance in Initiating Financial Management Practices/Procedures

Approximately 25% of all practices/procedures categorized by all governments in the survey instrument were initiated after the SAA was passed. The mean score of all practices/procedures that were passed after the SAA and rated on the Likert-type scale was 3.34, in the "moderately important" to "important" range, but closer to "moderately important." Nine of the thirty-one practices/procedures are

considered to be directly related to the SAA or federal program requirements; the mean score for all "A" responses for these practices/procedures was 4.09. For the remaining twenty-two practices/procedures, the mean score for all "A" responses was 3.03.

In general, the results indicate that, overall, the SAA has been slightly better than moderately important in initiating financial management practices and procedures in state and local governments that are federal financial assistance recipients. An analysis of the mean scores for individual practices/procedures indicates that the SAA had the greatest impact in initiating practices/procedures that are directly related to the SAA or to federal financial assistance programs. With a mean score of 4.09 for all "A" responses, the SAA was important in initiating these practices/procedures. For practices/procedures not directly related to the SAA or federal programs, the SAA was only moderately important in their initiation.

#### **Research Implications**

Part of the focus of this research was on the extent to which certain objectives of the SAA had been achieved. The results of this part of the study indicate that all four government types believe that the SAA has "moderately" to "mostly" achieved two of its four stated objectives. No one government type felt that either of the two objectives had been "mostly achieved" to "fully achieved." The results

suggest that changes can be made to the SAA in order to make the entire single audit process more beneficial to state and local governments that are federal financial assistance recipients.

The other issue which this research study focused on, which is related to the first objective, was the extent to which the SAA was important in initiating financial management practices/procedures after it was passed in 1984. The results indicate that, overall, the SAA has been "moderately important" to "important" in initiating financial management practices and procedures since its passage. No one government type felt that, overall, the SAA was "important" to "extremely important" in initiating financial management practices/procedures.

The mid-sized governments (counties and municipalities) felt the strongest about the extent to which the SAA has been important in initiating financial management practices/procedures, and therefore appear to have benefitted the most from it. As discussed earlier, one possible explanation for this is that the mid-sized governments were in a better position to benefit from the SAA. That is, because of the size of their accounting/financial management staffs, they were able to implement more recommendations and make more improvements than townships. On the other hand, their accounting systems are probably not as sophisticated in general as the state accounting systems, which leaves more

room for improvement.

This research did not intend to focus on the extent to which the SAA was important in enhancing financial management practices/ procedures that were already in place prior to 1984. However, the results indicate that some respondents feel that the SAA has been important in enhancing as well as initiating financial management practices/procedures since it was passed. Information gathered in this study about the extent to which the SAA has been important in enhancing financial management practices/procedures is reported, but is not used in hypothesis testing.

#### Limitations of the Study

One of the major considerations with regard to survey research is nonresponse bias. In other words, the results of the study are based only on those who respond. Certain procedures can be followed to minimize nonresponse bias, and testing can be done as well. For this study, a test for nonresponse bias was performed and none was found to exist.

The population used to obtain the sample governments was the U.S. Census Bureau's database of state and local governments that have received at least \$100,000 per year in federal financial assistance and have submitted a single audit report. The survey results can therefore be generalized only to state and local governments that receive this amount of financial assistance and submit a single audit report to comply with the SAA.

### **Comparison of Results with Past Studies**

Most studies dealing with the SAA have focused on how to improve the single audit process rather than trying to determine if the objectives of the Act have been achieved. There have been no studies completed which have attempted to determine how important the SAA has been in initiating financial management practices/ procedures in state and local governments. As a result, a comparison of the results of this study with similar studies is not possible or beneficial at this time.

The PCIE Standards Subcommittee issued a report in September 1993 entitled "Study on Improving the Single Audit Process." The PCIE's objectives were to 1) identify perceived problems related to the single audit, 2) determine the validity, extent, and adverse effects of perceived problems, and 3) make cost-effective recommendations concerning changes to the SAA. In order to obtain information, the PCIE surveyed five groups: Office of Inspectors General staff, auditors, federal program managers, state and local government managers, and small local government managers.

Although the PCIE study did not focus directly on the objectives of the SAA, respondents were asked whether they believed that each of the four objectives had been achieved. Study results indicated that, overall, all groups of respondents felt that the objectives of the SAA had been achieved. Data showing the extent to which the groups

believed the objectives had been achieved was not included in the report.

The U.S. General Accounting Office is in the process of completing a study which deals in part with the impact of the SAA on the financial management practices of state and local governments that are federal financial assistance recipients and with the issue of duplication of audit effort. Since the GAO took a different approach to determine the impact of the SAA on the financial management of state and local governments, it will be interesting to compare the results of this study with the GAO results when they are available.

#### **Research Recommendations**

Results of this research show that the SAA has been moderately successful in achieving two of its four stated goals. Improvements need to be made in both areas: single audit reports need to be more effective and/or more effectively used in implementing the proper controls and duplication of audit effort needs to be further reduced.

Although the SAA has been in effect for almost a decade, there is no centralized source of information to determine what changes have resulted in the financial management practices of government entities from single audit reports. The U.S. Census Bureau recently began performing desk reviews of single audit reports that are processed through the Single Audit Clearinghouse. Although the reviews are mainly concerned with the content of single audit reports, they are



a "first step" in developing a centralized automated database containing information on single audit reports. Data collected from these desk reviews may be useful in performing future studies on the form and content of single audit reports.

The best potential source of information on the impact of the SAA is the state and local governments that are federal financial assistance recipients. If duplication of audit effort is still a problem as this study suggests, perhaps state and local governments need to keep a written record of what they consider to be instances of duplication. This information could be sent to the cognizant agency and used to determine why the duplication occurred. If state and local governments are concerned about duplicate audit effort, they should be willing to accumulate and report this information.

The same idea could be used with financial management practices/procedures and controls. Governments should document those practices/procedures or controls that are initiated specifically as a result of SAA requirements or information contained in single audit reports. This type of documentation would provide specific information on the benefits that governments are receiving from the single audit process.

Documenting instances of audit duplication and financial management practices/procedures that are initiated as a result of single audit reports would require some additional

recordkeeping on the part of recipient governments. However, it would be worthwhile as collectively this information would provide a much clearer picture of the impact of the SAA on state and local governments. This information would also be very helpful to governments that are disenchanted with the SAA as it would provide evidence of the problems and/or shortcomings that exist.

#### **Suggestions for Further Research**

States, counties, municipalities and townships are not the only types of government entities that receive federal financial assistance and are subject to the SAA. Many special districts, school districts, Indian Governments and regional organizations receive in excess of \$100,000 per year of federal financial assistance and are required to comply with the SAA.

A similar study could be performed for these other four types of entities that are impacted by the SAA. One of the problems that would be encountered in such a study would be that the special district and regional organization categories contain many different types and sizes of organizations, which would hamper comparability between groups. For example, the special district category includes water districts, sewer districts, and transportation districts. The regional organization category includes regional planning commissions, economic development districts, leagues of cities, etc.

Another problem with regard to a study involving these groups would be the difficulty in obtaining names of finance/accounting officials to send a survey instrument to. The experience for government types included in this survey was that the lower the number of personalized cover letters/ mailing envelopes, the lower the response rate. This is probably the case for most survey research, and would be a problem for a study involving special districts, school districts, Indian Governments and regional organizations.

One of the major problems that existed prior to passage of the SAA was that auditors from different federal agencies were auditing their own program funds. In the process of performing these audits, overhead rates and charges would be reviewed and other routine audit procedures performed. The result was that auditors from different federal agencies would in some cases repeat the same audit procedures for a government in the same time period. The single audit concept was developed in the late 1970's with the primary objective of eliminating this duplication of audit effort by having one entity-wide audit performed that would include all federal programs.

The results of this study indicate that the SAA has not been highly successful in eliminating duplication of audit effort. Duplication of audit effort is an area that could be worthy of further examination. Among the questions that could be addressed in dealing with this issue are:

- 1) how often does duplication of audit effort occur?
- 2) in what government types does duplication of audit effort occur most often?
- 3) why does duplication of audit effort occur?
- 4) are cognizant agencies doing their part to make sure that duplication of audit effort does not occur?
- 5) what steps can be taken to eliminate duplication of audit effort?

Another area that may be worthy of future research is the usefulness of single audit reports. Do single audit reports in their current form identify where the risks are, and make specific recommendations regarding controls? Are recipients of federal funds making full use of the reports to make sure that the appropriate controls are in place? Should the form and content of single audit reports be revised to make them more readable and usable for managers? Some of these questions may have already been answered in the PCIE or GAO reports. The U.S. Census Bureau's desk review data may be of help in the future in answering some of these questions.

Related to the issue of the usefulness of single audit reports is the extent to which auditors are building upon audit findings. Audit findings should be used as "leads" to identify weaknesses in controls. Since the SAA is supposed to be preventive in nature, this is an area that may be worth investigating.

The cost/benefit issue is another area that may be worthy of future research. Although cost/benefit is an issue that some state and local governments have raised with regard to the SAA, there have been no studies to determine if the benefits that state and local governments receive from single

audit reports are worth the additional cost of complying with the SAA. The problems in dealing with this issue are that it may be difficult to determine how much additional costs state and local governments incur from having a single audit performed, and what specific benefits are accruing from single audit reports.

#### **Summary**

The SAA has clearly been an improvement over the "piecemeal" approach to auditing federal financial assistance programs that existed prior to 1984. However, the results of this study indicate that the SAA has been moderately successful at best. There has been moderate improvement in the financial management of state and local governments that are federal financial assistance recipients as a result of the SAA, but more can be done in this area. Although duplication of audit effort has probably decreased since the SAA was passed, it still occurs.

The first stated goal of the SAA was "to improve the financial management of state and local governments with respect to federal financial assistance programs." This study contains two sources of information which can be used to determine if this goal has been achieved. First, one of the questions in part III of the survey instrument asked respondents to evaluate the extent to which they feel the first goal of the SAA has been achieved. Using a five-point Likert-type scale, the mean score for all responses to this

question was 3.471 (3=moderately achieved and 4=mostly achieved).

The other source of information was the mean score of all "A" responses to the nine financial management practices/procedures that are considered to be directly related to the SAA or federal financial assistance programs. The mean score for all nine of these practices/procedures was 4.09 (5=extremely important and 4=important). This score indicates that the SAA was important in initiating financial management practices/procedures that are directly related to the SAA or federal financial assistance programs.

Using both sources of information, the conclusion with respect to the first stated goal is that the SAA has in fact improved the financial management of state and local governments with respect to federal financial assistance programs. The SAA has also resulted in some improvement in the overall financial management of state and local governments, but the overall impact is not as great as the impact on accounting for federal financial assistance programs. These conclusions assume that state and local governments are better off having the financial management practices and procedures shown in Part II of the survey instrument in place than not having them in place.

Despite the fact that the results lead to the conclusion that the first stated goal has been achieved, there is still room for improvement. Responses to the question in part III

of the survey instrument show that no government type felt that the SAA has "mostly" to "fully" achieved its first stated goal. Also, the highest mean score for a financial management practice/procedure for all government types combined was 4.39. The SAA was therefore not "extremely important" in initiating any of the thirty-one practices/procedures.

The third stated objective of the SAA was "to promote the efficient and effective use of audit resources." Although the SAA has "promoted" efficient and effective use of audit resources since its inception, this study gathered information to determine the extent to which this goal has been achieved. Two sources of information were available: responses to the question about this goal in part III of the survey instrument and limitations/ shortcomings of the SAA which were cited by respondents.

The mean score for all respondents to the question, which specifically asked about the extent to which the SAA has eliminated duplication of audit, was 3.518 (3=moderately achieved and 4=mostly achieved). For those respondents identifying limitations/ shortcomings, the one most often cited was duplication of audit effort.

Considering both sources of information, the best that can be said is that this goal has been only moderately achieved. The continued existence of duplication of audit effort is particularly disturbing, since the main idea behind the single audit concept was to have one "all-encompassing"

financial and compliance audit. The results indicate that duplication of audit effort is still a problem for state and local governments receiving federal financial assistance despite the SAA.

Steps need to be taken to make the single audit process more effective in achieving its primary goal of improving the financial management of state and local governments over federal financial assistance programs. If this goal is to come closer to "fully achieved," SAA administrators, auditors and state and local governments need to have a cooperative effort. Administrators need to make sure that the form and content of single audit reports are such that the reports will be useful to state and local governments. Auditors should focus on areas of weakness and "build on" audit findings to make sure that the necessary controls, practices, and procedures are recommended in audit reports. State and local governments need to make sure that the recommended controls/practices/procedures are implemented. The cooperation of all three groups is necessary if the SAA is to come closer to fully achieving its primary goal and be more preventive in nature.

Steps also need to be taken to further reduce incidents of duplication of audit effort. Reducing duplication of audit effort will require the cooperation of various groups such as state and local governments, cognizant agencies, federal program managers and federal agencies.



**Conclusion**

The results of this study suggest that the SAA is not "broken," but clearly needs to be improved. If the SAA is to become more "preventive" in nature, as was originally intended, responsible officials (Congress, OMB, PCIE, AICPA and GAO) must take steps to ensure that single audit reports do a better job of identifying weaknesses in internal controls and financial management practices/procedures. State and local governments must in turn use the findings and recommendations contained in single audit reports to improve their financial management. Federal officials also need to address the problem of duplication of audit effort, which still exists almost a decade after passage of the SAA.

**APPENDICES**



*National Association of  
State Auditors, Comptrollers and Treasurers*

**PRESIDENT**  
Michael L. Fitzgerald  
State Treasurer  
State Capitol Building  
Des Moines, IA 50319  
(515) 281-5368

June 11, 1993

Dear Sir or Madam:

You have been selected in a random sample of government entities that have submitted single audit reports to the U.S. Census Bureau to participate in a study dealing with the Single Audit Act (SAA) of 1984. The purpose of the study is to determine if the SAA has achieved one of its primary goals of improving the financial management of state and local governments that are federal financial assistance recipients.

The survey is only four pages in length and has been designed so that it can be completed in a very short time. We assure you that your responses will be confidential, and only summary information will be reported from the study.

Please take time to read the instructions and complete the survey. If you are not the appropriate party to complete the survey, please forward it to your finance director, supervisor of accounting, treasurer or auditor. You will receive a summary of the results of this study by writing "copy of results requested" on the back of the return envelope and printing your name and address below it.

This survey is an opportunity for you to show how the SAA has impacted on the financial management of your government entity and to express your opinion as to whether the Act has achieved one of its primary goals. If you have any questions regarding completion of the survey, please contact Gerald Miller at (606) 272-7715. Your input is very important to this study and is appreciated. Thank you very much for your assistance.

Sincerely,

*Reimond P. VanDaniker*  
Reimond P. VanDaniker  
Executive Director

*First Vice President:* Douglas R. Norton, Auditor General, Arizona; *Second Vice President:* N. Anthony Calhoun, Comptroller, District of Columbia; *Treasurer:* Marshall Bennett, State Treasurer, Mississippi;  
*Secretary:* Margaret Kelly, State Auditor, Missouri;  
*Immediate Past President:* Harvey C. Eckert, Deputy Secretary for Comptroller Operations, Pennsylvania  
Reimond P. Van Daniker, Executive Director for NASACT, 2401 Regency Road, Suite 302, Lexington, Kentucky 40503.  
Telephone (606) 276-1147, FAX (606) 278-0507, and 444 N. Capitol Street, N.W.  
Washington, DC 20001, Telephone (202) 642-5451, FAX (202) 624-5473

PART I: BACKGROUND INFORMATION

- A. Type of government (place an "X" in the appropriate space)  
 \_\_\_ State \_\_\_ County \_\_\_ Municipality \_\_\_ Township
- B. Number of calendar or fiscal years submitted single audit report since calendar year 1985 (first year a report was required under the Act)  
 \_\_\_ One \_\_\_ Two \_\_\_ Three \_\_\_ Four \_\_\_ Five \_\_\_ Six \_\_\_ Seven
- C. Annual federal financial assistance funding as a percentage of total annual expenditures for most recent fiscal year (approximate percentage)  
 \_\_\_ %
- D. Population (approximate)  
 \_\_\_\_\_
- E. Title of individual completing this questionnaire  
 \_\_\_\_\_

PART II: FINANCIAL MANAGEMENT PRACTICES AND PROCEDURES

**INSTRUCTIONS:** the purpose of this section is to identify the extent to which the Single Audit Act (SAA) has resulted in changes in your financial management practices and procedures. A practice or procedure is considered to be influenced by the SAA if it was initiated 1) to comply with the Act, 2) in direct response to a finding(s) in a single audit report(s), or 3) as a result of a information contained in a single audit report(s).

Beginning on page two is a list of commonly used financial management practices and procedures which are organized into five categories. There is one required response (when the practice/procedure was initiated), and one possible response (the extent to which the practice/procedure was initiated as a result of the SAA) for each practice/procedure.

Time of initiation—use the following key to identify when the practice/procedure was initiated:

F—initiated prior to 1984  
 A—initiated during or after 1984  
 N—never initiated

Extent SAA was important in initiating the practice/procedure—circle the appropriate number on the following scale for each practice/procedure initiated during or after 1984 (A). Do not circle a number on the scale for practices/procedures initiated prior to 1984 (F) or never initiated (N).

Extremely Important (5)—initiation of the practice/procedure was a direct result of the SAA.

Important (4)—was initiated mostly but not entirely as a result of the SAA.

Moderately Important (3)—was initiated equally as a result of the SAA along with some other reason.

Somewhat Important (2)—was initiated somewhat as a result of the SAA, but mostly for some other reason.

Not Important (1)—was not initiated as a result of the SAA.

No Basis to Judge (NBTJ)—circle if there is no basis to judge the extent to which the SAA was important in initiating the practice/procedure.

	Time Initiated (Y, A or N)	Extent IIA was important in initiating practice/procedure:					No basis to judge NBTJ
		Extremely Important	Important	Moderately Important	Somewhat Important	Not Important	
		5	4	3	2	1	
<b>A. Financial Management Organization</b>							
1. Organization chart	_____	5	4	3	2	1	NBTJ
2. Mission or function statements	_____	5	4	3	2	1	NBTJ
3. Written delegations of authority	_____	5	4	3	2	1	NBTJ
4. Position of Chief Financial Officer (or equivalent)	_____	5	4	3	2	1	NBTJ
5. Written accounting policies	_____	5	4	3	2	1	NBTJ
6. Accounting and financial reporting procedures manual	_____	5	4	3	2	1	NBTJ
<b>B. Accounting System</b>							
1. Uniform chart of accounts	_____	5	4	3	2	1	NBTJ
2. Long range systems plan	_____	5	4	3	2	1	NBTJ
3. System for cash management	_____	5	4	3	2	1	NBTJ
4. System for identifying unallowable costs (for Federal programs)	_____	5	4	3	2	1	NBTJ
5. Generally accepted accounting principles (GAAP) based accounting system	_____	5	4	3	2	1	NBTJ
6. Identify and record federal government funds by Catalog of Federal Domestic Assistance number (at transaction level)	_____	5	4	3	2	1	NBTJ
7. System for monitoring subrecipients of funding	_____	5	4	3	2	1	NBTJ
<b>C. Financial Reporting</b>							
1. Preparation of GAAP-based General Purpose Financial Statements	_____	5	4	3	2	1	NBTJ
2. Preparation of a GAAP-based budget	_____	5	4	3	2	1	NBTJ
3. Preparation of a Comprehensive Annual Financial Report	_____	5	4	3	2	1	NBTJ
4. Preparation of a Schedule of Federal Financial Assistance	_____	5	4	3	2	1	NBTJ

Time Initiated (P, A or W)	Extent SAA was important in initiating practice/procedure:					No basis to judge NBTJ
	Extremely Important	Important	Moderately Important	Somewhat Important	Not Important	
	5	4	3	2	1	NBTJ

**D. Budgeting and Plans for Meeting  
Debt Obligations/Cash Flow  
Requirements**

1. Preparation of an annual operating budget	_____	5	4	3	2	1	NBTJ
2. Preparation of an annual capital budget	_____	5	4	3	2	1	NBTJ
3. Preparation of a comprehensive, multi-year financial plan	_____	5	4	3	2	1	NBTJ
4. Preparation of periodic reports on status of debt structure	_____	5	4	3	2	1	NBTJ
5. Cash forecasting system	_____	5	4	3	2	1	NBTJ

**E. Auditing/Internal Control**

1. Annual financial statement audit or single audit	_____	5	4	3	2	1	NBTJ
2. Internal audit function	_____	5	4	3	2	1	NBTJ
3. Audit committee	_____	5	4	3	2	1	NBTJ
4. Establishment of a written system of internal control	_____	5	4	3	2	1	NBTJ
5. Upgrading of a previously existing (prior to October of 1984) system of internal control	_____	5	4	3	2	1	NBTJ
6. Issuance of internal control reports	_____	5	4	3	2	1	NBTJ
7. Issuance of compliance reports	_____	5	4	3	2	1	NBTJ
8. Written corrective action plans for audit findings requiring corrective action	_____	5	4	3	2	1	NBTJ
9. Formal follow-up system for open audit findings	_____	5	4	3	2	1	NBTJ

7. Other practices/procedures: list practices/procedures/improvements initiated since 1984 which were not identified in sections A-E.	Time Extent SAA was important in initiating practice/procedure:						No Basis to Judge
	Initiated (P, A or N)	Extremely Important	Moderately Important	Somewhat Important	Not Important	No Basis to Judge	
1. _____	5	4	3	2	1	NBTJ	
2. _____	5	4	3	2	1	NBTJ	
3. _____	5	4	3	2	1	NBTJ	
4. _____	5	4	3	2	1	NBTJ	

**Part III: Summary**

A. The first stated objective of the Single Audit Act is "to improve the financial management of State and local governments with respect to Federal financial assistance programs." Overall, to what extent do you believe that this objective has been achieved to date? (circle the appropriate response)

Fully Achieved	Mostly Achieved	Moderately Achieved	Somewhat Achieved	Not Achieved	No Basis to Judge
5	4	3	2	1	NBTJ

B. The third stated objective of the SAA was to promote efficient and effective use of audit resources. Overall, to what extent do you believe that this objective (in particular, eliminating duplication of audit effort) has been achieved?

Fully Achieved	Mostly Achieved	Moderately Achieved	Somewhat Achieved	Not Achieved	No Basis to Judge
5	4	3	2	1	NBTJ

If your answer to either of the questions above was other than "Fully Achieved," please briefly indicate what you feel are the limitations or shortcomings of the SAA in the space below.

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Thank you for your cooperation in completing this questionnaire.



*National Association of  
State Auditors, Comptrollers and Treasurers*

**PRESIDENT**  
Michael L. Fitzgerald  
State Treasurer  
State Capital Building  
Des Moines, IA 50319  
(515) 281-3368


July 5, 1993

Dear Sir or Madam:

A questionnaire concerning the effectiveness of the Single Audit Act was mailed to you about three weeks ago. As an employee of a government entity that is impacted by the Single Audit Act, your input is very important.

If you have already completed and returned the questionnaire, please accept our sincere thanks. If not, please do so today. The questionnaire has only been sent to a limited number of individuals, so it is extremely important that your response is included in the results. If for some reason you cannot complete Part II of the questionnaire, please answer the more general questions in Part III and return the questionnaire using the return envelope that was provided.

If you did not receive the questionnaire or if you have any questions, please contact Gerald Miller at (606) 272-7715. Thank you.

Sincerely,  
  
Reimond P. VanDaniker  
Executive Director

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