

104TH CONGRESS  
2D SESSION

# H. R. 3184

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

---

## IN THE HOUSE OF REPRESENTATIVES

MARCH 28, 1996

Mr. HORN (for himself, Mr. CLINGER, Mr. DAVIS, Mrs. MALONEY, and Mr. PETERSON of Minnesota) introduced the following bill; which was referred to the Committee on Government Reform and Oversight

---

## A BILL

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

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

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

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

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

7 (1) promote sound financial management, in-  
8 cluding effective internal controls, with respect to

1 Federal awards administered by non-Federal enti-  
2 ties;

3 (2) establish uniform requirements for audits of  
4 Federal awards administered by non-Federal enti-  
5 ties;

6 (3) promote the efficient and effective use of  
7 audit resources;

8 (4) reduce burdens on State and local govern-  
9 ments, Indian tribes, and nonprofit organizations;  
10 and

11 (5) ensure that Federal departments and agen-  
12 cies, to the maximum extent practicable, rely upon  
13 and use audit work done pursuant to chapter 75 of  
14 title 31, United States Code (as amended by this  
15 Act).

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

17 Chapter 75 of title 31, United States Code, is amend-  
18 ed to read as follows:

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

“Sec.

“7501. Definitions.

“7502. Audit requirements; exemptions.

“7503. Relation to other audit requirements.

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

“7505. Regulations.

“7506. Monitoring responsibilities of the Comptroller General.

“7507. Effective date.

1 **“§ 7501. Definitions**

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

3 “(1) ‘Comptroller General’ means the Comptrol-  
4 ler General of the United States;

5 “(2) ‘Director’ means the Director of the Office  
6 of Management and Budget;

7 “(3) ‘Federal agency’ has the same meaning as  
8 the term ‘agency’ in section 551(1) of title 5;

9 “(4) ‘Federal awards’ means Federal financial  
10 assistance and Federal cost-reimbursement contracts  
11 that non-Federal entities receive directly from Fed-  
12 eral awarding agencies or indirectly from pass-  
13 through entities;

14 “(5) ‘Federal financial assistance’ means assist-  
15 ance that non-Federal entities receive or administer  
16 in the form of grants, loans, loan guarantees, prop-  
17 erty, cooperative agreements, interest subsidies, in-  
18 surance, donated surplus property, food commod-  
19 ities, direct appropriations, or other assistance, but  
20 does not include amounts received as reimbursement  
21 for services rendered to individuals in accordance  
22 with guidance issued by the Director;

23 “(6) ‘Federal program’ means all Federal  
24 awards to a non-Federal entity assigned a single  
25 number in the Catalog of Federal Domestic Assist-

1       ance or encompassed in a group of numbers or other  
2       category as defined by the Director;

3               “(7) ‘generally accepted government auditing  
4       standards’ means the government auditing stand-  
5       ards issued by the Comptroller General;

6               “(8) ‘independent auditor’ means—

7                       “(A) an external State or local government  
8       auditor who meets the independence standards  
9       included in generally accepted government au-  
10      diting standards; or

11                      “(B) a public accountant who meets such  
12      independence standards;

13               “(9) ‘Indian tribe’ means any Indian tribe,  
14      band, nation, or other organized group or commu-  
15      nity, including any Alaskan Native village or re-  
16      gional or village corporation (as defined in, or estab-  
17      lished under, the Alaskan Native Claims Settlement  
18      Act) that is recognized by the United States as eligi-  
19      ble for the special programs and services provided by  
20      the United States to Indians because of their status  
21      as Indians;

22               “(10) ‘internal controls’ means a process, ef-  
23      fected by an entity’s management and other person-  
24      nel, designed to provide reasonable assurance re-

1        regarding the achievement of objectives in the follow-  
2        ing categories:

3                “(A) Effectiveness and efficiency of oper-  
4                ations.

5                “(B) Reliability of financial reporting.

6                “(C) Compliance with applicable laws and  
7                regulations;

8                “(11) ‘local government’ means any unit of  
9                local government within a State, including a county,  
10              borough, municipality, city, town, township, parish,  
11              local public authority, special district, school district,  
12              intrastate district, council of governments, any other  
13              instrumentality of local government and, in accord-  
14              ance with guidelines issued by the Director, a group  
15              of local governments;

16              “(12) ‘major program’ means a Federal pro-  
17              gram identified in accordance with risk-based cri-  
18              teria prescribed by the Director under this chapter,  
19              subject to the limitations described under subsection  
20              (b);

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

23              “(14) ‘nonprofit organization’ means any cor-  
24              poration, trust, association, cooperative, or other or-  
25              ganization that—

1           “(A) is operated primarily for scientific,  
2           educational, service, charitable, or similar pur-  
3           poses in the public interest;

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

6           “(C) uses net proceeds to maintain, im-  
7           prove, or expand the operations of the organiza-  
8           tion;

9           “(15) ‘pass-through entity’ means a non-Fed-  
10          eral entity that provides Federal awards to a sub-  
11          recipient to carry out a Federal program;

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

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

17          “(18) ‘single audit’ means an audit, as de-  
18          scribed under section 7502(d), of a non-Federal en-  
19          tity that includes the entity’s financial statements  
20          and Federal awards;

21          “(19) ‘State’ means any State of the United  
22          States, the District of Columbia, the Commonwealth  
23          of Puerto Rico, the Virgin Islands, Guam, American  
24          Samoa, the Commonwealth of the Northern Mariana  
25          Islands, and the Trust Territory of the Pacific Is-

1 lands, any instrumentality thereof, any multi-State,  
2 regional, or interstate entity which has governmental  
3 functions, and any Indian tribe; and

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

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

17 “(1) the larger of \$30,000,000 or 0.15 percent  
18 of the non-Federal entity’s total Federal expendi-  
19 tures, in the case of a non-Federal entity for which  
20 such total expenditures for all programs exceed  
21 \$10,000,000,000;

22 “(2) the larger of \$3,000,000, or 0.30 percent  
23 of the non-Federal entity’s total Federal expendi-  
24 tures, in the case of a non-Federal entity for which  
25 such total expenditures for all programs exceed

1       \$100,000,000 but are less than or equal to  
2       \$10,000,000,000; or

3           “(3) the larger of \$300,000, or 3 percent of  
4       such total Federal expenditures for all programs, in  
5       the case of a non-Federal entity for which such total  
6       expenditures for all programs equal or exceed  
7       \$300,000 but are less than or equal to  
8       \$100,000,000.

9           “(c) When the total expenditures of a non-Federal  
10      entity’s major programs are less than 50 percent of the  
11      non-Federal entity’s total expenditures of all Federal  
12      awards (or such lower percentage as specified by the Di-  
13      rector), the auditor shall select and test additional pro-  
14      grams as major programs as necessary to achieve audit  
15      coverage of at least 50 percent of Federal expenditures  
16      by the non-Federal entity (or such lower percentage as  
17      specified by the Director), in accordance with guidance is-  
18      sued by the Director.

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

22      **“§ 7502. Audit requirements; exemptions**

23          “(a)(1)(A) Each non-Federal entity that expends a  
24      total amount of Federal awards equal to or in excess of  
25      \$300,000 or such other amount specified by the Director

1 under subsection (a)(3) in any fiscal year of such non-  
2 Federal entity shall have either a single audit or a pro-  
3 gram-specific audit made for such fiscal year in accord-  
4 ance with the requirements of this chapter.

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

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

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

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

23 “(ii) any applicable requirements concerning fi-  
24 nancial audits contained in Federal statutes and reg-

1       ulations governing programs under which such Fed-  
2       eral awards are provided to that non-Federal entity.

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

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

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

19       “(2) A State or local government that is required by  
20 constitution or statute, in effect on January 1, 1987, to  
21 undergo its audits less frequently than annually, is per-  
22 mitted to undergo its audits pursuant to this chapter bien-  
23 nially. Audits conducted biennially under the provisions of  
24 this paragraph shall cover both years within the biennial  
25 period.

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

7       “(c) Each audit conducted pursuant to subsection (a)  
8       shall be conducted by an independent auditor in accord-  
9       ance with generally accepted government auditing stand-  
10      ards, except that, for the purposes of this chapter, per-  
11      formance audits shall not be required except as authorized  
12      by the Director.

13      “(d) Each single audit conducted pursuant to sub-  
14      section (a) for any fiscal year shall—

15             “(1) cover the operations of the entire non-Fed-  
16      eral entity; or

17             “(2) at the option of such non-Federal entity  
18      such audit shall include a series of audits that cover  
19      departments, agencies, and other organizational  
20      units which expended or otherwise administered  
21      Federal awards during such fiscal year provided that  
22      each such audit shall encompass the financial state-  
23      ments and schedule of expenditures of Federal  
24      awards for each such department, agency, and orga-

1 nizational unit, which shall be considered to be a  
2 non-Federal entity.

3 “(e) The auditor shall—

4 “(1) determine whether the financial statements  
5 are presented fairly in all material respects in con-  
6 formity with generally accepted accounting prin-  
7 ciples;

8 “(2) determine whether the schedule of expendi-  
9 tures of Federal awards is presented fairly in all ma-  
10 terial respects in relation to the financial statements  
11 taken as a whole;

12 “(3) with respect to internal controls pertaining  
13 to the compliance requirements for each major pro-  
14 gram—

15 “(A) obtain an understanding of such in-  
16 ternal controls;

17 “(B) assess control risk; and

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

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

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

3           “(A) provide such recipient the program names  
4 (and any identifying numbers) from which such  
5 awards are derived, and the Federal requirements  
6 which govern the use of such awards and the re-  
7 quirements of this chapter; and

8           “(B) review the audit of a recipient as nec-  
9 essary to determine whether prompt and appropriate  
10 corrective action has been taken with respect to  
11 audit findings, as defined by the Director, pertaining  
12 to Federal awards provided to the recipient by the  
13 Federal agency.

14       “(2) Each pass-through entity shall—

15           “(A) provide such subrecipient the program  
16 names (and any identifying numbers) from which  
17 such assistance is derived, and the Federal require-  
18 ments which govern the use of such awards and the  
19 requirements of this chapter;

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

23           “(C) review the audit of a subrecipient as nec-  
24 essary to determine whether prompt and appropriate  
25 corrective action has been taken with respect to

1 audit findings, as defined by the Director, pertaining  
2 to Federal awards provided to the subrecipient by  
3 the pass-through entity; and

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

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

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

18 “(h) The non-Federal entity shall transmit the re-  
19 porting package, which shall include the non-Federal enti-  
20 ty’s financial statements, schedule of expenditures of Fed-  
21 eral awards, corrective action plan defined under sub-  
22 section (i), and auditor’s reports developed pursuant to  
23 this section, to a Federal clearinghouse designated by the  
24 Director, and make it available for public inspection within  
25 the earlier of—

1           “(1) 30 days after receipt of the auditor’s re-  
2           port; or

3           “(2)(A) for a transition period of at least 2  
4           years after the effective date of the Single Audit Act  
5           Amendments of 1996, as established by the Direc-  
6           tor, 13 months after the end of the period audited;  
7           or

8           “(B) for fiscal years beginning after the period  
9           specified in subparagraph (A), 9 months after the  
10          end of the period audited, or within a longer time-  
11          frame authorized by the Federal agency, determined  
12          under criteria issued under section 7505, when the  
13          9-month timeframe would place an undue burden on  
14          the non-Federal entity.

15          “(i) If an audit conducted pursuant to this section  
16          discloses any audit findings, as defined by the Director,  
17          including material noncompliance with individual compli-  
18          ance requirements for a major program by, or reportable  
19          conditions in the internal controls of, the non-Federal en-  
20          tity with respect to the matters described in subsection  
21          (e), the non-Federal entity shall submit to Federal officials  
22          designated by the Director, a plan for corrective action  
23          to eliminate such audit findings or reportable conditions  
24          or a statement describing the reasons that corrective ac-  
25          tion is not necessary. Such plan shall be consistent with

1 the audit resolution standard promulgated by the Comp-  
2 troller General (as part of the standards for internal con-  
3 trols in the Federal Government) pursuant to section  
4 3512(c).

5 “(j) The Director may authorize pilot projects to test  
6 alternative methods of achieving the purposes of this chap-  
7 ter. Such pilot projects may begin only after consultation  
8 with the Chair and Ranking Minority Member of the Com-  
9 mittee on Governmental Affairs of the Senate and the  
10 Chair and Ranking Minority Member of the Committee  
11 on Government Reform and Oversight of the House of  
12 Representatives.

13 **“§ 7503. Relation to other audit requirements**

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

22 “(b) Notwithstanding subsection (a), a Federal agen-  
23 cy may conduct or arrange for additional audits which are  
24 necessary to carry out its responsibilities under Federal  
25 law or regulation. The provisions of this chapter do not

1 authorize any non-Federal entity (or subrecipient thereof)  
2 to constrain, in any manner, such agency from carrying  
3 out or arranging for such additional audits, except that  
4 the Federal agency shall plan such audits to not be dupli-  
5 cative of other audits of Federal awards.

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

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

15 “(e) A Federal agency that provides Federal awards  
16 and conducts or arranges for audits of non-Federal enti-  
17 ties receiving such awards that are in addition to the au-  
18 dits of non-Federal entities conducted pursuant to this  
19 chapter shall, consistent with other applicable law, arrange  
20 for funding the full cost of such additional audits. Any  
21 such additional audits shall be coordinated with the Fed-  
22 eral agency determined under criteria issued under section  
23 7504 to preclude duplication of the audits conducted pur-  
24 suant to this chapter or other additional audits.

1       “(f) Upon request by a Federal agency or the Comp-  
2 troller General, any independent auditor conducting an  
3 audit pursuant to this chapter shall make the auditor’s  
4 working papers available to the Federal agency or the  
5 Comptroller General as part of a quality review, to resolve  
6 audit findings, or to carry out oversight responsibilities  
7 consistent with the purposes of this chapter. Such access  
8 to auditor’s working papers shall include the right to ob-  
9 tain copies.

10 **“§ 7504. Federal agency responsibilities and relations**  
11 **with non-Federal entities**

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

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

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

21       “(b) Each non-Federal entity shall have a single Fed-  
22 eral agency, determined in accordance with criteria estab-  
23 lished by the Director, to provide the non-Federal entity  
24 with technical assistance and assist with implementation  
25 of this chapter.

1 “(c) The Director shall designate a Federal clearing-  
2 house to—

3 “(1) receive copies of all reporting packages de-  
4 veloped in accordance with this chapter;

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

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

12 **“§ 7505. Regulations**

13 “(a) The Director, after consultation with the Comp-  
14 troller General, and appropriate officials from Federal,  
15 State, and local governments and nonprofit organizations  
16 shall prescribe guidance to implement this chapter. Each  
17 Federal agency shall promulgate such amendments to its  
18 regulations as may be necessary to conform such regula-  
19 tions to the requirements of this chapter and of such guid-  
20 ance.

21 “(b)(1) The guidance prescribed pursuant to sub-  
22 section (a) shall include criteria for determining the appro-  
23 priate charges to Federal awards for the cost of audits.  
24 Such criteria shall prohibit a non-Federal entity from  
25 charging to any Federal awards—

1 “(A) the cost of any audit which is—

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

4 “(ii) conducted in accordance with this  
5 chapter when expenditures of Federal awards  
6 are less than amounts cited in section  
7 7502(a)(1)(A) or specified by the Director  
8 under section 7502(a)(3), except that the Direc-  
9 tor may allow the cost of limited scope audits  
10 to monitor subrecipients in accordance with sec-  
11 tion 7502(f)(2)(B); and

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

15 “(2) The criteria prescribed pursuant to paragraph  
16 (1) shall not, in the absence of documentation demonstrat-  
17 ing a higher actual cost, permit the percentage of the cost  
18 of audits performed pursuant to this chapter charged to  
19 Federal awards, to exceed the ratio of total Federal  
20 awards expended by such non-Federal entity during the  
21 applicable fiscal year or years, to such non-Federal entity’s  
22 total expenditures during such fiscal year or years.

23 “(c) Such guidance shall include such provisions as  
24 may be necessary to ensure that small business concerns  
25 and business concerns owned and controlled by socially

1 and economically disadvantaged individuals will have the  
2 opportunity to participate in the performance of contracts  
3 awarded to fulfill the audit requirements of this chapter.

4 **“§ 7506. Monitoring responsibilities of the Comptrol-  
5 ler General**

6 “(a) The Comptroller General shall review provisions  
7 requiring financial audits of non-Federal entities that re-  
8 ceive Federal awards that are contained in bills and reso-  
9 lutions reported by the committees of the Senate and the  
10 House of Representatives.

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

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

17 “(2)(A) the Committee on Governmental Af-  
18 fairs of the Senate (in the case of a bill or resolution  
19 reported by a committee of the Senate); or

20 “(B) the Committee on Government Reform  
21 and Oversight of the House of Representatives (in  
22 the case of a bill or resolution reported by a commit-  
23 tee of the House of Representatives).

1 **“§ 7507. Effective date**

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

5 **SEC. 3. TRANSITIONAL APPLICATION.**

6       Subject to section 7507 of title 31, United States  
7 Code (as amended by section 2 of this Act), the provisions  
8 of chapter 75 of such title (before amendment by section  
9 2 of this Act) shall continue to apply to any State or local  
10 government with respect to any of its fiscal years begin-  
11 ning before July 1, 1996.

○