

Union Calendar No. 302

104TH CONGRESS
2^D SESSION

H. R. 3184

[Report No. 104-607]

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").

JUNE 6, 1996

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

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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

JUNE 6, 1996

Additional sponsor: Mr. BAESLER

JUNE 6, 1996

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in *italic*]

[For text of introduced bill, see copy of bill as introduced on March 28, 1996]

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,*

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

2 (a) *SHORT TITLE.*—*This Act may be cited as the “Sin-*
3 *gle Audit Act Amendments of 1996”.*

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

5 (1) *promote sound financial management, in-*
6 *cluding effective internal controls, with respect to*
7 *Federal awards administered by non-Federal entities;*

8 (2) *establish uniform requirements for audits of*
9 *Federal awards administered by non-Federal entities;*

10 (3) *promote the efficient and effective use of*
11 *audit resources;*

12 (4) *reduce burdens on State and local govern-*
13 *ments, Indian tribes, and nonprofit organizations;*
14 *and*

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

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

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

22 **“CHAPTER 75—REQUIREMENTS FOR**
23 **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 Federal*
12 *awarding agencies or indirectly from pass-through*
13 *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, insur-*
18 *ance, food commodities, direct appropriations, or*
19 *other assistance, but does not include amounts re-*
20 *ceived as reimbursement for services rendered to indi-*
21 *viduals in accordance with guidance issued by the Di-*
22 *rector;*

23 *“(6) ‘Federal program’ means all Federal*
24 *awards to a non-Federal entity assigned a single*

1 *number in the Catalog of Federal Domestic Assistance*
2 *or encompassed in a group of numbers or other cat-*
3 *egory as defined by the Director;*

4 “(7) ‘generally accepted government auditing

5 standards’ means the government auditing standards

6 issued by the Comptroller General;

7 “(8) ‘independent auditor’ means—

8 “(A) an external State or local government

9 auditor who meets the independence standards

10 included in generally accepted government audit-

11 ing standards; or

12 “(B) a public accountant who meets such

13 independence standards;

14 “(9) ‘Indian tribe’ means any Indian tribe,

15 band, nation, or other organized group or community,

16 including any Alaskan Native village or regional or

17 village corporation (as defined in, or established

18 under, the Alaskan Native Claims Settlement Act)

19 that is recognized by the United States as eligible for

20 the special programs and services provided by the

21 United States to Indians because of their status as

22 Indians;

23 “(10) ‘internal controls’ means a process, effected

24 by an entity’s management and other personnel, de-

1 signed to provide reasonable assurance regarding the
2 achievement of objectives in the following 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 local
9 government within a State, including a county, bor-
10 ough, 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 program
17 identified in accordance with risk-based criteria pre-
18 scribed by the Director under this chapter, subject to
19 the limitations described under subsection (b);

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

22 “(14) ‘nonprofit organization’ means any cor-
23 poration, trust, association, cooperative, or other or-
24 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-Federal
10 entity that provides Federal awards to a subrecipient
11 to carry out a Federal program;

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

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

17 “(18) ‘single audit’ means an audit, as described
18 under section 7502(d), of a non-Federal entity that
19 includes the entity’s financial statements and Federal
20 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 iden-*
14 *tified if the major programs were defined as any program*
15 *for which total expenditures of Federal awards by the non-*
16 *Federal entity during the applicable year exceed—*

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

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

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

6 “(c) When the total expenditures of a non-Federal enti-
7 ty’s major programs are less than 50 percent of the non-
8 Federal entity’s total expenditures of all Federal awards (or
9 such lower percentage as specified by the Director), the
10 auditor shall select and test additional programs as major
11 programs as necessary to achieve audit coverage of at least
12 50 percent of Federal expenditures by the non-Federal en-
13 tity (or such lower percentage as specified by the Director),
14 in accordance with guidance issued by the Director.

15 “(d) Loan or loan guarantee programs, as specified by
16 the Director, shall not be subject to the application of sub-
17 section (b).

18 **“§ 7502. Audit requirements; exemptions**

19 “(a)(1)(A) Each non-Federal entity that expends a
20 total amount of Federal awards equal to or in excess of
21 \$300,000 or such other amount specified by the Director
22 under subsection (a)(3) in any fiscal year of such non-Fed-
23 eral entity shall have either a single audit or a program-
24 specific audit made for such fiscal year in accordance with
25 the requirements of this chapter.

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

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

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

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

19 “(ii) *any applicable requirements concerning fi-*
20 *nancial audits contained in Federal statutes and reg-*
21 *ulations governing programs under which such Fed-*
22 *eral awards are provided to that non-Federal entity.*

23 “(B) *The provisions of subparagraph (A)(ii) of this*
24 *paragraph shall not exempt a non-Federal entity from com-*
25 *pliance with any provision of a Federal statute or regula-*

1 *tion that requires such non-Federal entity to maintain*
2 *records concerning Federal awards provided to such non-*
3 *Federal entity or that permits a Federal agency, pass-*
4 *through entity, or the Comptroller General access to such*
5 *records.*

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

11 “(b)(1) *Except as provided in paragraphs (2) and (3),*
12 *audits conducted pursuant to this chapter shall be con-*
13 *ducted annually.*

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

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

1 “(c) *Each audit conducted pursuant to subsection (a)*
2 *shall be conducted by an independent auditor in accordance*
3 *with generally accepted government auditing standards, ex-*
4 *cept that, for the purposes of this chapter, performance au-*
5 *dits shall not be required except as authorized by the Direc-*
6 *tor.*

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

9 “(1) *cover the operations of the entire non-Fed-*
10 *eral entity; or*

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

21 “(e) *The auditor shall—*

22 “(1) *determine whether the financial statements*
23 *are presented fairly in all material respects in con-*
24 *formity with generally accepted accounting prin-*
25 *ciples;*

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

5 “(3) with respect to internal controls pertaining
6 to the compliance requirements for each major pro-
7 gram—

8 “(A) obtain an understanding of such inter-
9 nal controls;

10 “(B) assess control risk; and

11 “(C) perform tests of controls unless the con-
12 trols are deemed to be ineffective; and

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

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

20 “(A) provide such recipient the program names
21 (and any identifying numbers) from which such
22 awards are derived, and the Federal requirements
23 which govern the use of such awards and the require-
24 ments of this chapter; and

1 “(B) review the audit of a recipient as necessary
2 to determine whether prompt and appropriate correc-
3 tive action has been taken with respect to audit find-
4 ings, as defined by the Director, pertaining to Federal
5 awards provided to the recipient by the Federal agen-
6 cy.

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

8 “(A) provide such subrecipient the program
9 names (and any identifying numbers) from which
10 such assistance is derived, and the Federal require-
11 ments which govern the use of such awards and the
12 requirements of this chapter;

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

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

22 “(D) require each of its subrecipients of Federal
23 awards to permit, as a condition of receiving Federal
24 awards, the independent auditor of the pass-through
25 entity to have such access to the subrecipient’s records

1 *and financial statements as may be necessary for the*
2 *pass-through entity to comply with this chapter.*

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

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

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

18 *“(1) 30 days after receipt of the auditor’s report;*

19 *or*

20 *“(2)(A) for a transition period of at least 2*
21 *years after the effective date of the Single Audit Act*
22 *Amendments of 1996, as established by the Director,*
23 *13 months after the end of the period audited; or*

24 *“(B) for fiscal years beginning after the period*
25 *specified in subparagraph (A), 9 months after the end*

1 of the period audited, or within a longer timeframe
2 authorized by the Federal agency, determined under
3 criteria issued under section 7504, when the 9-month
4 timeframe would place an undue burden on the non-
5 Federal entity.

6 “(i) If an audit conducted pursuant to this section dis-
7 closes any audit findings, as defined by the Director, in-
8 cluding material noncompliance with individual compli-
9 ance requirements for a major program by, or reportable
10 conditions in the internal controls of, the non-Federal entity
11 with respect to the matters described in subsection (e), the
12 non-Federal entity shall submit to Federal officials des-
13 ignated by the Director, a plan for corrective action to
14 eliminate such audit findings or reportable conditions or
15 a statement describing the reasons that corrective action is
16 not necessary. Such plan shall be consistent with the audit
17 resolution standard promulgated by the Comptroller Gen-
18 eral (as part of the standards for internal controls in the
19 Federal Government) pursuant to section 3512(c).

20 “(j) The Director may authorize pilot projects to test
21 alternative methods of achieving the purposes of this chap-
22 ter. Such pilot projects may begin only after consultation
23 with the Chair and Ranking Minority Member of the Com-
24 mittee on Governmental Affairs of the Senate and the Chair
25 and Ranking Minority Member of the Committee on Gov-

1 *ernment Reform and Oversight of the House of Representa-*
2 *tives.*

3 **“§ 7503. Relation to other audit requirements**

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

12 “(b) *Notwithstanding subsection (a), a Federal agency*
13 *may conduct or arrange for additional audits which are*
14 *necessary to carry out its responsibilities under Federal law*
15 *or regulation. The provisions of this chapter do not author-*
16 *ize any non-Federal entity (or subrecipient thereof) to con-*
17 *strain, in any manner, such agency from carrying out or*
18 *arranging for such additional audits, except that the Fed-*
19 *eral agency shall plan such audits to not be duplicative of*
20 *other audits of Federal awards.*

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

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

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

15 “(f) Upon request by a Federal agency or the Comp-
16 troller General, any independent auditor conducting an
17 audit pursuant to this chapter shall make the auditor’s
18 working papers available to the Federal agency or the
19 Comptroller General as part of a quality review, to resolve
20 audit findings, or to carry out oversight responsibilities
21 consistent with the purposes of this chapter. Such access to
22 auditor’s working papers shall include the right to obtain
23 copies.

1 **“§ 7504. Federal agency responsibilities and relations**
2 **with non-Federal entities**

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

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

8 “(2) assess the quality of audits conducted under
9 this chapter for audits of entities for which the agency
10 is the single Federal agency determined under sub-
11 section (b).

12 “(b) Each non-Federal entity shall have a single Fed-
13 eral agency, determined in accordance with criteria estab-
14 lished by the Director, to provide the non-Federal entity
15 with technical assistance and assist with implementation
16 of this chapter.

17 “(c) The Director shall designate a Federal clearing-
18 house to—

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

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

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

3 **“§ 7505. Regulations**

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

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

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

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

19 “(ii) conducted in accordance with this
20 chapter when expenditures of Federal awards are
21 less than amounts cited in section 7502(a)(1)(A)
22 or specified by the Director under section
23 7502(a)(3), except that the Director may allow
24 the cost of limited scope audits to monitor sub-

1 recipients in accordance with section
2 7502(f)(2)(B); and

3 “(B) more than a reasonably proportionate share
4 of the cost of any such audit that is conducted in ac-
5 cordance with this chapter.

6 “(2) The criteria prescribed pursuant to paragraph (1)
7 shall not, in the absence of documentation demonstrating
8 a higher actual cost, permit the percentage of the cost of
9 audits performed pursuant to this chapter charged to Fed-
10 eral awards, to exceed the ratio of total Federal awards ex-
11 pended by such non-Federal entity during the applicable
12 fiscal year or years, to such non-Federal entity’s total ex-
13 penditures during such fiscal year or years.

14 “(c) Such guidance shall include such provisions as
15 may be necessary to ensure that small business concerns and
16 business concerns owned and controlled by socially and eco-
17 nomically disadvantaged individuals will have the oppor-
18 tunity to participate in the performance of contracts
19 awarded to fulfill the audit requirements of this chapter.

20 **“§ 7506. Monitoring responsibilities of the Comptroller**

21 **General**

22 “(a) The Comptroller General shall review provisions
23 requiring financial audits of non-Federal entities that re-
24 ceive Federal awards that are contained in bills and resolu-

1 tions reported by the committees of the Senate and the
2 House of Representatives.

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

7 “(1) the committee that reported such bill or res-
8 olution; and

9 “(2)(A) the Committee on Governmental Affairs
10 of the Senate (in the case of a bill or resolution re-
11 ported by a committee of the Senate); or

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

16 **“§ 7507. Effective date**

17 “This chapter shall apply to any non-Federal entity
18 with respect to any of its fiscal years which begin after June
19 30, 1996.”

20 **SEC. 3. TRANSITIONAL APPLICATION.**

21 Subject to section 7507 of title 31, United States Code
22 (as amended by section 2 of this Act), the provisions of
23 chapter 75 of such title (before amendment by section 2 of
24 this Act) shall continue to apply to any State or local gov-

- 1 *ernment with respect to any of its fiscal years beginning*
- 2 *before July 1, 1996.*