

Legislative Analysis



STATEWIDE SINGLE AUDIT

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House Bill 5553 (reported without amendment)

Sponsor: Rep. Cindy Denby

Committee: Oversight, Reform, and Ethics

First Analysis (5-9-12)

BRIEF SUMMARY: Beginning October 1, 2011, the bill would require that an annual statewide single audit be performed for purposes of complying with the requirements of federal law pertaining to audit evaluation of the internal controls of the state government, and compliance with material features of laws and regulations related to major federal assistance programs.

FISCAL IMPACT: According to the Statewide Single Audit Feasibility Study, published by the Office of the Auditor General (OAG) in December of 2011, a conversion to a statewide single audit would have no net fiscal impact due to a shift in the use of the funds. The study estimated that the Office of Auditor General would bill state agencies approximately \$500,000 less under the statewide approach. The administrative funding saved through a statewide single audit would allow agencies to have an additional \$500,000 available for federal grant awards.

THE APPARENT PROBLEM:

During the Granholm Administration, Office of Financial Management in the State Budget Office requested that a workgroup be organized to determine if the State of Michigan should convert to a consolidated statewide single audit approach. Currently all agencies are subject to separate single audits and single audit reports, rather than one annual audit and one report for the State of Michigan as a whole.

Forty seven states in the United States perform single audits on a statewide basis. However, the State of Michigan has used the agency level approach--that is, by state department, biennially--since the inception of the Single Audit Act and passage of implementing state legislation in the 1980s.

An interagency workgroup with representatives from nine state departments was convened in July 2008, and completed its review in November 2008. According to the workgroup's 50-page report submitted to the state budget director on December 15, 2008, (entitled the "Statewide Single Audit Feasibility Study: State Agencies' Workgroup Report on Converting to a Statewide Single Audit"), performing individual agency audits rather than a single statewide audit, results in a lower materiality threshold (ranging from \$300,000 to \$30 million depending on the program versus a materiality threshold of \$36 million for a single statewide audit). This, in turn, results in more federal programs being subject to single audit review than would otherwise be the case. Consequently, the

overall objective of the workgroup was to explore whether this extra audit coverage of federal programs was cost beneficial and essential to the State of Michigan.

At the end of its review, the workgroup recommended a statewide single audit approach, noting that the costs of meeting the requirements of the Single Audit Act would be significantly lower using the statewide approach. Further, although fewer programs would require specific testing and fewer reports would have to be prepared, fully 96 percent of the state's federal expenditures would continue to be audited, and the Office of the Auditor General would have greater flexibility enabling auditors to focus their review on high-risk high-cost programs.

Legislation has been introduced to require an annual statewide single audit, in order to comply with audit evaluation requirements in federal law.

THE CONTENT OF THE BILL:

House Bill 5553 would amend the Management and Budget Act (MCL 18.1461) to require that an annual statewide single audit be performed for purposes of complying with the requirements of federal law [31 USC 7501 to 7507, known as the Single Audit Act] pertaining to audit evaluation of the internal controls of the state government and compliance with material features of laws and regulations related to major federal assistance programs. As introduced, the bill applies to the fiscal year beginning October 1, 2011, and to each fiscal year thereafter.

Under the bill, funding for the statewide single audit would be allocated to federal programs based on a methodology determined by the director of the Department of Technology, Management, and Budget, in accord with federal compliance requirements.

Further, the bill would require that the department director, in consultation with the Auditor General, issue directives to all state agencies about the procedures and timelines for compiling the schedule of expenditures of federal awards, and all other information required for the statewide single audit. Also under the bill the director would be required to submit that schedule of expenditures of federal awards to the Auditor General, and to both the House and Senate Fiscal Agencies.

Currently the law specifies: "As required by federal law, all federal grants awarded to the state shall be audited by the Auditor General, an independent accounting firm selected by the Auditor General, or an auditor approved by the appropriate federal agency. The funding for each audit shall be from the respective federal grants audited." Under the bill, this language would be eliminated.

BACKGROUND INFORMATION:

To review the conclusions of the 50-page report issued on December 15, 2008--entitled the "Statewide Single Audit Feasibility Study: State Agencies' Workgroup Report on Converting to a Statewide Single Audit," see:

ARGUMENTS:

For:

This legislation will change the way that the Office of the Auditor General conducts its audits of state agencies. Instead of the current biennial departmental approach, this bill would allow an annual statewide approach. If Michigan adopts this approach, the state will join 47 other states that have already done so.

According to committee testimony, the current threshold for individual agency audits ranges from \$300,000 to \$30 million, depending upon the program. Under a single statewide audit, that threshold would increase to \$36 million. Despite the heightened materiality threshold, the Office of the Auditor General would continue to audit 96 percent of Michigan federal expenditures.

Further, under the current system there are 133 audits over two years, while under the single statewide audit approach, that number would fall to 34 audits each year. This change would allow the Office of the Auditor General to increase its oversight in high impact, high risk performance audits (where there is a backlog of over 250 audits), and in audit follow-ups.

Against:

Some observe that while the single statewide audit approach is currently a 'best practice' in 47 of the 50 states, the statewide audit approach provides a lower level of oversight and accountability of federal programs and departmental financial statements than does Michigan's biennial individual agency/department approach.

POSITIONS:

The Office of the Auditor General testified in favor of the bill. (5-8-12)

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