HHS-OIG Quality Control Reviews

Identifying Common Quality Deficiencies Found in Single Audits Reports

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Introduction

HHS-OIG builds on the information in the Single Audits of non-Federal entities when planning and conducting oversight activities for Federal programs. HHS program officials use the Single Audits as a key monitoring tool when making management decisions for their programs. Therefore, quality Single Audits are integral to providing assurance that non-Federal entities that receive HHS program funds are properly administering and using the funds for their intended purposes and are complying with Federal requirements. Quality Single Audits thus enhance the integrity of HHS programs and hold non-Federal entities accountable in their use of Federal funds.

A quality control review (QCR) is a single engagement review that expands on the scope of a desk review to include a more in-depth analysis and evaluation of the underlying audit documentation supporting the auditor's planning, performance, and reporting elements of the Single Audit. Its purpose is to ensure that the Single Audit was conducted in accordance with generally accepted auditing standards (GAAS), generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States, and the requirements at Title 2 Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Within HHS-OIG, the Office of Audit Services' Single Audit Division performs QCRs to evaluate the quality of Single Audits that have been submitted to and accepted at the Federal Audit Clearinghouse. These audits are submitted by non-Federal entities such as State and local governments, colleges and universities, Indian Tribes and Tribal organizations, and nonprofit organizations.

Guide for Quality Control Reviews of Single Audits

HHS-OIG uses the edition of the Council of the Inspectors General on Integrity and Efficiency Quality Control Review Guide (CIGIE QCR Guide), applicable for the Single Audit under review, to perform its QCRs. The CIGIE QCR Guide is a comprehensive tool that provides a step-by-step approach to the conducting of QCRs. Copies of the Guide can be obtained from the CIGIE website:
Manuals & Guides | Council of the Inspectors General on Integrity and Efficiency; IGnet

The CIGIE QCR Guide is organized by the auditing standards required for a Single Audit into four sections:

- General Requirements (GR)
- Single Audit Specific Requirements (RS)
- Financial Statement and Related Requirements (FS)
- Major Federal Program Internal Control and Compliance Requirements (AT1)

Each section contains questions covering the various requirements for the Single Audit that relate to the auditor's responsibilities when conducting audits in accordance with GAAS, GAGAS, and the Uniform Guidance. The applicable requirements and standards are referenced in each question's criteria section.

Identifying Quality Deficiencies

HHS-OIG recognizes that transparency and accountability are key objectives for proper management of HHS program operations, and that Single Audits are an important tool in accomplishing these objectives. To promote these objectives, HHS-OIG is providing a list of common quality deficiencies identified in the performance of QCRs as an educational resource to improve the quality, efficiency, effectiveness, and integrity of Single Audits.

Quality deficiencies identified in the underlying audit documentation affect the reliability and value of the Single Audit, which impacts Federal program officials' ability to rely on the Audit to make informed management decisions. Identified deficiencies also affect HHS-OIG's ability to leverage Single Audit information and findings when planning and performing oversight activities designed to identify mismanagement, fraud, waste, and abuse within HHS programs. HHS-OIG identifies quality deficiencies when the information in the underlying audit documentation supporting the auditor's planning, performance, and reporting elements of the Single Audit does not comply with the referenced requirements and standards in a question's criteria section in the CIGIE QCR Guide.

The CIGIE QCR Guide provides three options to rate the quality of the Single Audit based on the QCR: Pass, Pass with Deficiencies, and Fail. The quality deficiencies identified in this document align with each subsection of the Guide. These deficiencies are considered fatal flaws in the audit design, execution, or reporting and will result in either: (1) a Fail rating, which must be corrected in the audit or reporting package under review, or (2) a Pass with Deficiencies rating, which would require correction in future audits.

Common Quality Deficiencies in the GR Section

This section covers the various general requirements in the Single Audit process. The quality deficiencies listed below are organized in five areas as outlined in the GR section of the CIGIE QCR Guide. Users should consult the Guide for the specific question numbers and applicable requirements and standards associated with each component.

(1) Auditor Qualifications

- The audit organization did not maintain continuing professional education (CPE) documentation for each individual auditor involved in the GAGAS engagement as required at *Government Auditing Standards* (GAS, also referred to as the Yellow Book) 4.18.
- The audit organization did not maintain a 2-year-period CPE cycle for its auditors performing the GAGAS engagement as required at GAS 4.16.
- The CPE documentation did not support that the CPE requirements at GAS 4.16-.17 were met for each individual auditor involved in the GAGAS engagement.

(2) Independence

- The audit documentation did not support that the auditor applied the GAGAS conceptual framework approach to independence.
- The audit documentation did not support whether or not the auditor identified any threats to independence.
- The audit documentation did not support that the auditor evaluated the significance of identified threats, applied safeguards, or both to eliminate or reduce them to an acceptable level.

(3) Professional Judgment/Due Professional Care

- Based on the identification of quality deficiencies, the audit documentation did not support that the auditor used professional judgment in planning and conducting the audit.
- Scope limitations identified in the audit documentation were not disclosed in the auditor's report or vice versa.

(4) Quality Control

- The audit organization did not have documentation to support that it had an external peer review conducted by independent reviewers within the last 3 years.

(5) Fieldwork

- The audit documentation did not include the identification of engagement team member(s) who performed the audit work, the dates that the audit was performed, or both.
- The audit documentation demonstrated that the engagement partner (or comparable supervisor) did not conduct a review of the evidence in support of the findings, conclusions, and recommendations included in the auditor's report until after the date of the auditor's report.
- The audit documentation provided evidence that the auditor did not consider and apply relevant criteria (e.g., incorrect version of the Compliance Supplement or incorrect version of GAS) throughout the audit.
- Audit documentation was not maintained to support that the auditor planned and performed procedures to detect material misstatements and/or noncompliance due to fraud.
- Audit documentation was not maintained or did not support that the auditor performed the following:
    - had a discussion among the key audit personnel regarding the risks of material misstatement due to fraud, and consideration of such a discussion with respect to the risks of material noncompliance due to fraud; and
    - made inquiries of management, those charged with governance, and others within the entity to obtain their views about: (1) the risks of fraud, including whether there is knowledge of any fraud or suspected fraud affecting the entity and whether the entity has entered into any significant, unusual transactions, and (2) how the risks of fraud were addressed.
- The auditor did not obtain written representations from management.
- Written management representations were obtained but did not include management's acknowledgement of its responsibilities as they relate to nonaudit services performed by the auditor.
- The auditor did not take appropriate actions when management did not provide requested representations.
- The audit documentation did not support whether the auditor considered information about subsequent events relating to applicable compliance requirements that occurred after the end of the audit period and through the date of the auditor's report.
- The audit documentation was not prepared in sufficient detail to provide a clear understanding of the work performed, the audit evidence obtained, and the conclusions reached for the audit of the financial statements, major Federal programs, or both.
    - See also common deficiencies identified in the RS, FS, and AT1 sections below.

Common Quality Deficiencies in the RS Section

This section covers the various Single Audit-specific requirements in the Single Audit process. The quality deficiencies listed below are organized in four areas as outlined in the RS section of the CIGIE QCR Guide. Users should consult the Guide for the specific question numbers and applicable requirements and standards associated with each component.

(1) Schedule of Expenditures of Federal Awards (SEFA)

- The auditor did not document the planned and/or performed procedures to determine whether the SEFA was presented fairly in all material respects in relation to the auditee's financial statements as a whole.
- The audit documentation did not support that the auditor reconciled the SEFA amounts to the amounts in the financial statements.
- The auditor did not document its identification and understanding of internal controls over the SEFA.
- The audit documentation did not support that the auditor considered whether a significant deficiency or material weakness existed in internal controls over financial reporting and/or major programs for the following:
    - Federal programs in the SEFA were not presented in the level of detail required by 2 CFR § 200.510(b)(1-4):
        - Name was not provided for a cluster of programs, a list of the programs within the cluster, or both.
        - Operating Division(s) of HHS (for example, the Administration for Children and Families) was identified as a pass-through entity(s) for Federal awards received as a subrecipient.
        - The total amount of Federal awards expended for each individual program, a cluster of programs, or both was not provided.
    - Notes to the SEFA were not prepared in accordance with 2 CFR § 200.510(b)(5-6):
        - A note on whether or not the auditee elected to use the 10-percent *de minimis* cost rate was not included.
        - A note identifying the basis of accounting used for the SEFA was not included.

(2) Determination of Major Federal Programs

- The audit documentation did not support the auditor's determination that the auditee was a low-risk auditee because in at least one of the two prior audit periods:
    - The Single Audit reporting package was submitted late to the Federal Audit Clearinghouse.

- The auditor's opinion on whether the financial statements were prepared in accordance with generally accepted accounting principles was modified.
- Deficiencies in internal control were identified as material weaknesses under the requirements of GAGAS.
- The auditor reported a substantial doubt about the auditee's ability to continue as a going concern.
- Federal programs had one or more audit findings related to the Type A programs:
  - Deficiencies identified as material weaknesses in the auditor's report on internal control over major programs.
  - Modified opinion was issued on at least one Type A major program.
  - Questioned costs exceeded 5 percent of the total Federal awards expended for at least one Type A major program.

- The audit documentation did not support that identified low-risk program(s) were determined in accordance with the Uniform Guidance because, although the program(s) were audited in at least one of the two most recent audit periods, in the most recent audit period the program(s) had:
  - deficiencies identified as material weaknesses in the auditor's report on internal control over major programs,
  - a modified opinion issued on the program(s), or
  - questioned costs that exceeded 5 percent of the total Federal awards expended for the program(s).
- Not all Federal programs precluded from being identified as low-risk Type As were audited.
- Not all Type B Federal programs identified as high-risk were audited.
- Additional Federal programs necessary to meet the required percentage of coverage were not audited.
- Required Type B risk assessments were not performed or documented on Type B programs that exceeded 25 percent of the Type A threshold until the number of high-risk Type B programs were identified as required to replace one-fourth of the low-risk Type A programs identified.

(3) Schedule of Findings and Questioned Costs (SFQC)

- Not all significant deficiencies and/or material weaknesses identified in the audit documentation related to the financial statements were included in the Financial Statement Findings Section of the SFQC.
- Not all significant deficiencies and/or material weaknesses identified in the audit documentation related to Federal awards were included in the Federal Award Findings and Questioned Costs Section of the SFQC.

(4) Summary Schedule of Prior Audit Findings (Summary Schedule)

- The auditor's performance of procedures to assess the reasonableness of the Summary Schedule was not documented.
- The audit documentation did not support the auditor's conclusion to not report a current year finding when the Summary Schedule materially misrepresented the status of one or more prior audit findings.
- The basis for the auditor's conclusion to not report an audit finding in the current year for a Summary Schedule was not included in the current year Single Audit report.

Common Quality Deficiencies in the FS Section

This section covers the various financial statement and related requirements in the Single Audit process. The quality deficiencies listed below are organized in four areas as outlined in the FS section of the CIGIE QCR Guide. Users should consult the Guide for the specific question numbers and applicable requirements and standards associated with each component.

(1) Risk Assessment

- The auditor did not document its understanding of the entity and its environment, including internal control, that was used to identify and assess the risks of material misstatements of the financial statements.

(2) Identification and Evaluation of Audit Findings

- The auditor's evaluation and disposition of control deficiencies for the purpose of determining where to report findings was not documented.
- The auditor's determination as to whether control deficiencies were a significant deficiency or material weakness was not documented.
- The basis for the auditor's conclusion to not report identified exceptions was not documented.

(3) Communication of Audit Findings

- Instances of fraud or noncompliance were identified in the audit documentation but not communicated to those charged with governance.
- GAGAS audit findings defined in GAS 6.40-.41 and Uniform Guidance audit findings defined in 2 CFR § 200.516(a) were communicated in a management letter but were not reported as audit findings in the Single Audit report.

(4) Compliance With American Institute of Certified Public Accountants (AICPA) Standards (GAAS)

- The audit documentation identified and supported special considerations relating to the audit of the financial statements in accordance with AU-C section 570 and/or AU-C section 800, but the appropriate disclosures were not made in the Single Audit report.
    - For example, special considerations were not disclosed in an Emphasis-of-Matter paragraph in the Independent Auditor's Report, the Notes to the Financial Statements, or both.

Common Quality Deficiencies in the AT1 Section

This section covers the various major Federal program internal control and compliance requirements in the Single Audit process. The quality deficiencies listed below are organized in four areas as outlined in the AT1 section of the CIGIE QCR Guide. Users should consult the Guide for the specific question numbers and applicable requirements and standards associated with each component.

(1) Considerations Related to Audits of Major Federal Program

- The auditor identified the compliance requirements for each major program using a Compliance Supplement that was not in effect for the period under audit.
    - For example, the period under audit was for the fiscal year from January 1, 2020, through December 31, 2020. However, the auditor used the 2021 Compliance Supplement, which applies to audits with fiscal years beginning after June 30, 2020.
- Materiality was not determined for one or more major Federal program(s).
- Materiality was determined as a whole for all major Federal programs but not in relation to each major program.
- The determination of direct and material compliance requirements was not documented.
- The basis for the auditor's conclusion that a compliance requirement was not direct and material was not documented.
- The basis for the auditor's determination that a compliance requirement was not direct and material was not reasonable or consistent with the audit documentation.
    - For example, the auditor based its determination that the subrecipient monitoring compliance requirement was not direct and material on a conclusion that the entity had no subrecipients. However, the SEFA identified that Federal awards for the program were passed through the entity to subrecipients.

(2) Sampling – Major Federal Programs (Internal Control and Compliance)

- The sample selected for the testing of internal controls and/or compliance was not representative of the population because it was a sample selected from a sample of a population.
    - A common example involves payroll transaction testing: The auditee submitted payroll transactions for employees for each pay period in a 26-pay-period fiscal year. The auditor defined its population to be payroll transactions for the entire fiscal year, from which the auditor chose 6 pay periods and then selected a sample of 25 payroll transactions from the resulting population. This sample was not representative of the entire population for the fiscal year because the auditor redefined the population to consist of transactions from only six pay

periods. The auditor should have selected a sample of 25 payroll transactions from a population of all 26 pay periods.

- The sample selected for the testing of internal controls was not the appropriate size based on the assessed level of control risk.
    - Another common example involves nonpayroll testing: The auditor must plan the audit to support a low assessed level of control risk, which requires the auditor to plan to obtain a high level of assurance that controls are appropriately designed and are operating effectively. (Note: The control testing sample size from the table in the AICPA Audit Guide is designed to provide a high level of assurance.) Based on the auditor's assessed level of control risk, the minimum sample size needed was 40 transactions. However, the auditor selected a sample size of 25 transactions. Therefore, the testing of internal controls did not support a low assessed level of control risk.
- The sample selected for the testing compliance was not the appropriate size based on the desired level of assurance (remaining risk of material noncompliance).
    - As another example drawn from nonpayroll testing: The assurance required from a compliance sample depends on the risk of material noncompliance remaining after other audit procedures have been executed (e.g., control testing, testing of individually significant items, and analytical procedures). (Note: The compliance testing sampling table in the AICPA Audit Guide suggests the minimum sample sizes associated with high, moderate, and low remaining risk of material noncompliance.) Based on the auditor's desired level of assurance, the minimum sample size needed was 60 transactions. However, the auditor selected a sample of 55 transactions. Therefore, the sample did not allow the auditor to obtain the desired level of assurance on compliance for the major program.
- A sampling plan was not documented.
- The basis for deviations from the sampling plan was not documented.
    - An example involves the selection of sampling size: The sampling plan identified that a sample size of 40 items would be selected for the testing of internal controls. However, the auditor selected only 30 items and did not document the basis for its deviation from the sampling plan.

(3) Testing of Internal Control Over Compliance

- The audit documentation supported that the auditor gained an understanding of internal controls at the entity level but not at the level of the Federal program compliance requirement.
- The audit documentation did not identify relevant controls for planned tests of each direct and material compliance requirement of a major program.
- Internal control testing was not performed and documented for each compliance requirement that the auditor deemed direct and material to a major program.

- Internal control testing was not adequately documented for each direct and material compliance requirement of a major program.
    - For example, when the auditor was performing dual-purpose testing of internal controls and compliance, the attributes tested did not clearly distinguish which were tests of relevant controls and which were tests of compliance.
    - For another example, the auditor had to verbally explain to the HHS-OIG reviewer the control testing they performed for a direct and material compliance requirement because the testing was not documented.
- Testing of internal controls was not sufficient because audit samples were not selected in accordance with AU-C section 530.
    - For example, the auditor selected a sample of nonpayroll transactions that were related to multiple major programs to test internal controls, but the relevant controls tested were not centralized controls that addressed all of the programs.
- An evaluation of whether control deficiencies (either individually or in combination) were significant deficiencies or material weaknesses, in relation to each compliance requirement for the major Federal program, was not documented.
- The evaluation and disposition of each exception was not documented.
    - For example, the basis for the auditor's conclusion to not report identified exceptions was not documented.

(4) Testing for Compliance With Direct and Material Compliance Requirements

- Compliance testing was not performed and documented for each compliance requirement that the auditor deemed direct and material to a major program.
- Compliance testing was not documented such that an experienced auditor (having no connection to the audit) could reach the same conclusions for each direct and material compliance requirement of a major program.
    - For example, when the auditor was performing dual-purpose testing of internal controls and compliance, the attributes tested did not provide a clear distinction of which were tests of relevant controls and which were tests of compliance.
    - For another example, the auditor had to verbally explain to the HHS-OIG reviewer the compliance testing they performed for a direct and material compliance requirement because the testing was not adequately documented.
- The audit documentation did not support that compliance tests were planned and performed to meet the audit objectives for a direct and material compliance requirement.
    - For example, the documented testwork identified a "single" attribute stating that compliance was tested, but the attribute was not sufficiently detailed, or the documentation did not state which specific steps were performed, to test the audit objectives or to explain how the specific audit objectives were met.
- Compliance testing of specific program requirements identified in Part 4 of the Compliance Supplement was not performed and/or documented for each compliance requirement of a major program.

    - For example, the reporting compliance requirement in Part 4 of the Compliance Supplement identified "key line items" that must be tested, but the documented testwork did not identify which line items and/or key line items were tested or describe procedures to test the key line items.
- Compliance testing was not sufficient because audit samples were not selected in accordance with AU-C section 530.
    - For example, the auditor selected a global sample of payroll and nonpayroll expenditures to test for all compliance requirements designated as applicable, direct, and material to program compliance. In doing so, the auditor failed to obtain sufficient audit evidence for nonexpenditure-driven compliance requirements.
- The evaluation and disposition of each exception was not documented.
    - For example, the basis for the auditor's conclusion to not report identified exceptions was not documented.

What To Do If You Have Questions or Need Further Information About the Common Quality Deficiencies Provided by HHS-OIG

Effective communication between HHS-OIG and stakeholders in the Single Audit community is mutually beneficial so that issues and discrepancies can be addressed to improve audit quality and maintain the integrity of HHS programs. HHS-OIG works to provide clear, accurate, and timely information regarding QCR results.

If you have questions or need further information about the common quality deficiencies provided in this document, please submit your question to HHS-OIG through email at SingleAudit.TA@oig.hhs.gov.

When contacting HHS-OIG, please provide sufficient details in your email to enable the technical assistance group to provide a well-researched and well-developed response. The group will review the technical assistance request and promptly either provide appropriate responses or request clarifying information.