



August 5, 2019

Mr. Gilbert Tran  
U.S. Office of Management and Budget  
725 17th Street, NW  
Washington, DC 20500

RE: 2 CFR Part 200 Subpart F—Audit Requirements, Appendix XI—Compliance Supplement—2019

Dear Mr. Tran:

The American Institute of CPAs (AICPA) is the world's largest member association representing the CPA profession, with more than 429,000 members in the United States and worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, nonprofit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent and drives professional competency development to advance the vitality, relevance and quality of the profession.

On behalf of the AICPA and its Governmental Audit Quality Center, we appreciate the opportunity to comment on the Office of Management and Budget (OMB) 2019 *Compliance Supplement*. The Supplement is one of the most important documents auditors use when performing a single audit as it directs the auditor's focus on requirements the federal government believes are most important. We appreciate OMB providing us the opportunity to participate in the 2019 Supplement vett draft process and for incorporating some of our suggestions for improvement. However, there were also a number of comments we made that were not addressed. We have significant concerns about the number of errors that have been identified since the Supplement's issuance, other changes made that lack clarity, and the process that was used to finalize the 2019 Supplement. We are also concerned with the burden reduction messaging that has been released on the Supplement. Our concerns are further described below in two categories—those that we believe need attention for 2019 and those that we hope will be considered by OMB as the 2020 Supplement is developed.

### **Concerns Needing Immediate Action**

*Errors Noted in the 2019 Supplement Need to be Addressed.* Since the 2019 Supplement's release, we have identified a number of errors or other changes made in the Supplement that raise interpretative questions. These items have been provided to OMB in detail and are provided as Attachment 1 to this letter. Many of these errors should be corrected by OMB and the federal agencies for 2019 rather than waiting for the 2020 Supplement. The following summarizes the issues noted at a high level:

- Inconsistencies between the matrices in Part 2 and Part 4 for individual programs.

- Misidentification of programs identified as new or deleted.
- A single program is identified as a cluster.
- There are several “other cluster” issues and questions.
- Certain programs in Part 4 include requirement details for requirements identified as not subject to audit.
- Certain programs in Part 4 do not include requirement details for requirements identified as subject to audit.
- Cross-cutting section problems; for example, discussing requirements that for some programs covered by the cross-cutting section are not subject to audit.
- Some federal agencies have identified certain requirements that have historically been direct and material to a program as not subject to audit which has led to questions about whether errors have been made.
- The illustrative controls in Part 6 contain errors that appear to have occurred when the original Excel file was converted to Word.

These errors will result in confusion and inconsistency in practice. For example, when the matrix between Part 2 and 4 differ, one auditor may use Part 4 and another Part 2. Similarly, if the Part 2 matrix identifies a requirement as subject to audit but the Part 4 section is missing the requirement details, an auditor may inadvertently overlook it.

Given the number of errors already identified and our belief that more will be found over the coming year, the risk of an auditor not auditing in accordance with the expectations of the Uniform Guidance is heightened. Further, the traditional process of an auditor seeking clarification on scope and suggested audit procedures from federal agency single audit coordinators when questions arise may be less effective given the volume of errors, the thousands of auditors impacted, and the possibility that single audit coordinators are not aware of the extent of the errors. We suggest OMB provide the leadership and coordination among federal agencies to immediately address and correct errors in the 2019 Supplement, establish a centralized communication process to users of the 2019 Supplement, and provide guidance to federal agencies to not hold auditors accountable for audit decisions made when relying on erroneous guidance in the Supplement if such matters emerge in future quality control reviews. OMB and the federal agencies should also be aware that some auditors may never learn of the 2019 Supplement errors as they may have downloaded the Supplement upon issuance and do not regularly return to the OMB Web site.

*Student Financial Assistance (SFA) Cluster Issues Need Attention.* The SFA cluster contains many revisions for 2019 and we have noted a number of issues and questions on the changes made; all of which have been recently discussed with the Department of Education (Education) staff. Many of the issues surround confusion over what Education is intending for the auditor to test and questions around the new required communication on sampling. We expect these issues will lead to a significant diversity in practice for audits of the SFA cluster in 2019. If possible, some of the issues noted should be addressed as corrections for 2019, in particular expectations around the Perkins program and clarifying what the required sampling tables are intending to capture. We have included as Attachment 2 to this letter a copy of the communication provided to Education which identifies all questions and concerns in detail. Education

staff has informed us that they are willing to work collaboratively towards improving the SFA cluster section for 2020. See our related longer-term comments on the SFA cluster in the next section of this letter.

*Application of 6-Requirement Approach and Loans with Continuing Compliance Requirements Need Clarification for 2019.* The CDBG cluster (CFDAs 14.218 and 14.225) identifies “Eligibility” as “N” for the cluster. Many organizations that expend these funds get them only in the form of a loan to build affordable housing. These loans often stay on the organization’s Schedule of Expenditures of Federal Awards for many years because of continuing compliance requirements relating to the “Eligibility” requirement (i.e., only low-income residents can reside in the building). The question that has arisen is what the auditor would be expected to test for the CDBG cluster in years after the building is complete now that “Eligibility” has been identified as “N” for the cluster? This question needs an answer quickly and more broadly since there may be other loan programs where this circumstance could occur.

*Burden Reduction Messaging Should be Revised.* OMB’s e-mail announcement to various single audit stakeholders on the Supplement’s release states that the reduction in compliance requirements “helps focus limited grantee, agency, and auditor resources on the most critical areas affecting programs and has the potential to save taxpayers millions of dollars in audit fees and overhead costs.” We believe this statement sends the wrong message to grantees and erroneously implies that it is not necessary to comply with requirements that are not subject to audit. It is also our observation that some federal agencies removed requirements from the scope of the audit that have historically been considered direct and material. Additionally, as we have previously communicated to OMB, the 6-requirement approach may not result in a significant audit fee reduction depending on the pervasiveness of the requirement(s) removed, the specific facts and circumstances of the program and grantee, and whether a program appears in the Supplement or not (i.e., there is no change for the numerous programs not included in the Supplement and the auditor continues to use Part 7 to determine requirements for testing). Having the federal agencies rotate the requirements subject to the audit each year will also result in audit inefficiencies that may offset cost savings (see related comment below).

### **Other Comments and Suggestions for 2020 Consideration**

*Final Supplement Quality Review Process Needs More Oversight.* There are many examples of issues that we identified in our comments on the vett draft that were not addressed by the federal agencies. For example, many of our comments on performance reports and special reports were not addressed. One program included reporting requirements for the Federal Funding and Accountability Transparency Act (FFATA) which OMB removed from the Supplement in its entirety several years ago due to problems. We also pointed out that CFDA 11.611 was attempting to outsource the federal agency corrective action responsibility to the auditor and asked that it be removed, with no response by the agency. Going forward, we recommend that the final quality review process for the Supplement be enhanced to ensure these types of issues do not occur. The point of the vett draft review is to identify audit and other issues before the Supplement is issued and many of the problems in the final 2019 Supplement were identified through that review. However, it appears that there was a breakdown in the process used by OMB to

verify whether federal agencies had made appropriate corrections in response to comments received. If OMB does not have the staff resources to perform this quality review, we recommend having agency single audit coordinators get more involved. For example, they could be asked to review each federal agencies' programs after vett draft comments have been addressed by the federal agency but before they are submitted back to OMB. Since the coordinators are generally individuals with an audit background, they would be well equipped to determine whether comments were addressed, as well as to assist program officials that may not have an audit background better understand comments received.

*OMB Should Consider an Alternative to the 6-Requirement Approach Going Forward.* We appreciate the effort that was made by OMB and the federal agencies to reduce the scope of the single audit to 6 requirements and fully support a streamlined single audit that focuses auditors on the most important compliance requirements. However, the process used by federal agencies to reach 6 requirements seemed to be somewhat arbitrary, inefficient, and time consuming, with questionable changes made in certain programs, and in some cases, resulted in errors (see our related comments above). Further, if it is OMB's intent to have federal agencies rotate the 6 requirements to be tested on a go-forward basis, we expect the process to be even more challenging for federal agencies, recipients, and auditors. We recommend OMB consider a different approach for 2020 that would make a more effective and permanent change by removing entirely from the Supplement certain requirements that are not essential for the purpose of mitigating improper payments, fraud, waste, and abuse. We have made this recommendation for many years, back to the Advance Notice to the Uniform Guidance. After participating in the 2019 Supplement development process, we recommend even more strongly that OMB consider the following:

- Revise the Supplement to only include the following types of compliance requirements that we believe are most essential for the purpose of mitigating improper payments, fraud, waste and abuse: "Activities Allowed or Unallowed;" "Allowable Costs/Cost Principles;" "Eligibility;" "Reporting;" "Procurement and Suspension and Debarment;" "Subrecipient Monitoring;" and "Special Tests and Provisions." "Activities Allowed or Unallowed" and "Allowable Costs/Cost Principles" could be combined into one requirement.
- "Period of Performance" should be deleted as a separate requirement and, if considered necessary, related audit objectives and procedures could be incorporated into the allowability requirements; however, at a much lower level of audit effort than what Part 3 requires for the separate requirement today.
- For programs where "Matching, Level of Effort, Earmarking;" "Cash Management;" "Equipment and Real Property;" and/or "Program Income;" are critical for a program, they could be incorporated into the "Special Tests and Provisions" requirement. We identified these requirements based on finding information in the Federal Audit Clearinghouse (FAC) database and our belief that they represent a lower level of risk to the federal government. Before permitting federal agencies to move any of these requirements into "Special Tests and Provisions," OMB should require federal agencies to

justify why they play a significant role in mitigating improper payments, fraud, waste, and abuse.

- Each agency should identify in the Part 2 matrix which of the requirements retained are applicable to each program as has been done in past years.
- Auditors should continue to test the applicable requirements that could have a direct and material effect on a major program's compliance.

Even if OMB and the agencies do not agree with the requirements we have recommended for deletion, the above suggested approach could be modified to encompass the requirements deemed most critical. Important aspects of the requirements to be deleted could be incorporated into the allowability requirements or the Special Tests and Provisions requirement, if appropriate. Ultimately, we believe this recommendation will result in a more streamlined, efficient, and effective approach for all single audit stakeholders and result in the most important compliance requirements being identified for audit. It would also reduce the likelihood for error in the Supplement going forward and seems more consistent with the stated objectives of the Single Audit Act and the Uniform Guidance which focus auditors on compliance with requirements that could have a direct and material effect on each major program.

*If 6-Requirement Approach is Retained, Changes are Needed.* It appears that federal agencies were given wide latitude by OMB to determine which 6 requirements to select for audit and we question whether each agency took a thorough and consistent approach. If the 6-requirement approach is retained going forward, we recommend that OMB provide federal agencies with more specific instructions on how to select requirements to ensure an approach that focuses on where the most risk is. For example, federal agencies should be instructed to use the FAC database to determine which areas are most prone to findings. Additionally, key requirements instrumental to a program's operations should not be excluded from the audit without justification to OMB. For example, we are aware of several programs where eligibility determinations are a key part of the program, but the matrix identifies "Eligibility" as not subject to audit. One loan program that generally has continuing compliance requirements relating to "Eligibility" identified "Eligibility" as not subject to audit. Similarly, several other programs identified "Subrecipient Monitoring" as not subject to audit even though significant dollars are passed down to subrecipients. Finally, in the interim period between now and the beginning of the 2020 Supplement development process, OMB should: (1) ask each agency to review their 2019 requirement selections using criteria provided by OMB to ensure that the most important requirements have been identified as subject to audit; (2) perform an analysis of the 2019 Part 2 matrix across all federal agencies to look for any inconsistencies; and (3) ensure all errors not addressed in 2019 be corrected for 2020.

*Part 4 Introduction Sends Confusing Message on 6-Requirement Approach.* The last paragraph of this introduction includes the following sentence which we recommend be deleted: "For 2019, only guidance to the compliance requirement areas that are designated as "Y" in the Matrix are included in part III, Compliance Requirements of the program. If the auditor is to review compliance requirement areas that are designated as "N," the auditor has to refer to the 2017 or 2018 supplement for additional information." We believe this statement will cause confusion with auditors wondering when they would

need to test a requirement noted in the matrix with an “N.” To the best of our knowledge, there is no requirement to do so.

*Rotation of Requirements Going Forward Will be Challenging.* We understand the intent is for federal agencies to rotate the 6 requirements that will be tested from year to year. We believe, based on our experience with the development of the 2019 Supplement and some of the errors that occurred, that it will be difficult for federal agencies to maintain and update the Part 4 audit program sections when the requirements change from year to year. Additionally, how will federal agencies retain Supplement guidance relating to requirements that may be deleted this year but will be brought back in a future year? Protocols around this entire process should be developed by OMB if the 6-requirement approach is retained to ensure consistency in approach and an effective review process each year. Additionally, OMB needs to address directly in the Supplement what happens if an auditee has findings relating to a compliance requirement subject to audit one year but not subject to audit in the next year. That is, how do those findings from the prior year affect risk assessment, follow-up, etc. Finally, as noted in our burden reduction comment above, rotating requirements will also be challenging from an audit perspective and could lead to audit inefficiencies.

*Other SFA Cluster Concerns.* We also want to express our continued concern about the sampling tables that were added to the SFA cluster this year and that will be made publicly available in each reporting package posted on the FAC Web site. Auditors should not be asked to disclose, publicly, their audit approach either to their clients or others. What is being asked for is a small part of the overall audit approach and may be misconstrued by those reviewing the information because they do not have the context of how sampling strategy is informed by the auditor’s risk assessment process. We strongly recommend that these tables, if continued, be required to be submitted directly to Education instead of being included in the public reporting package. As noted earlier, the tables should also be revised to more clearly articulate what Education is asking for.

Additionally, we request that Education perform a review of the 2019 Gramm-Leach Bliley Act addition on securing student information after this year, including seeking auditor input. We continue to believe there is an expectation gap risk both between Education and auditors, as well as between auditors and their clients in this area. Additionally, Education should continue to educate institutions on their compliance responsibilities in this area given the magnitude and sensitivity of this topic.

*Performance and Special Reporting Sections Need Improvement.* During the vett draft process, we identified a number of issues in programs that added or revised sections on performance reporting and special reporting in the “Reporting” requirement. Many of those sections did not conform to historical Supplement protocol for “Reporting” as they did not clearly identify the reports covered or provide an identification of the key line items that the auditor is to focus on. We also noted that, in a few cases, it appears that key line items that have been identified may not meet the requirements for inclusion. As we pointed during the vett process, key line items identified by federal agencies need to (1) be practical to test, (2) have objective criteria available for the auditor to assess compliance, (3) be such that the performance of testing adds value, and (4) relate to an area the federal or pass-through-entity do not

otherwise have compliance information about. OMB should ensure that every program in the Supplement that identifies "Reporting" as subject to audit is reviewed at the OMB level to ensure they meet Supplement protocols and identify key line items that have objective criteria against which to measure. Otherwise, there will be diversity in the audit work performed, depending on how individual auditors interpret what is being asked for, and the results of such work may not be useful to OMB and the federal agencies.

*Commerce Program Requirement on Corrective Action Precedent Setting.* In CFDA 11.611, Commerce adds a requirement for the auditor to test the corrective actions taken by the client as part of "Special Tests and Provisions." To our knowledge, there is no other program in the Supplement that asks the auditor to provide opinion-level assurance on whether a recipient has adequately implemented corrective action. As we stated in our comments provided on the vett draft of this program (which were not addressed), the Uniform Guidance identifies the federal agency as responsible for addressing corrective actions taken by a recipient. We strongly recommend this addition be deleted as it goes beyond the scope of the single audit and we are concerned that auditors will not have the expertise to determine compliance depending on the subject matter of the corrective action required.

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In closing, when federal agencies put adequate time and effort into updating the Supplement each year, it helps ensure consistency, higher audit quality, and audits that that meets federal needs. It is in all stakeholders' best interest to work together to achieve this goal and to make improvements to the Supplement going forward, including exploring other ways to achieve the reduction in compliance requirements that OMB is seeking. I would be happy to further discuss these comments and can be reached at 202-434-9259.

Sincerely,



Mary M. Foelster  
Senior Director  
AICPA Governmental Accounting and Auditing

Attachments: 1. Detailed Errors Noted by AICPA with 2019 Supplement Provided to OMB  
2. 2019 SFA Cluster Questions Provided to Department of Education

cc: Timothy Soltis, OMB Deputy Controller  
Governmental Audit Quality Center Executive Committee

**Problems Noted by AICPA with 2019 Supplement Provided to OMB**

**Inconsistencies Between Matrices in Part 2 and Part 4**

CFDAs 14.218/14.225 - Part 2 matrix says Procurement Y and Program Income N. Part 4 matrix says Procurement N and Program Income Y.

CFDA 14.228 - Part 2 matrix says Procurement Y and Program Income N. Part 4 matrix says Procurement N and Program Income Y.

CFDA 14.239 - Part 2 matrix says Eligibility Y, Matching N, Period of Performance N, Reporting N, and Subrecipient Monitoring Y. Part 4 matrix says Eligibility N, Matching Y, Period of Performance Y, Reporting Y, and Subrecipient Monitoring N.

CFDAs 21.012/21.020 - Part 2 matrix says Reporting Y. Part 4 matrix says Reporting N. (See section below regarding additional error relating to CFDA 21.012 in issues with programs identified as deleted).

**Issues Related to Programs Identified as New**

CFDA 11.611 - Name listed incorrectly in TOC and Appendix V as MEP Uniform Guidance. We believe it should be Hollings Manufacturing Extension Partnership based on the program title in Part 4.

CFDAs 93.264 and 93.342 - These programs are not new as they were included in SFA Cluster in both the 2017 and 2018 Supplement. However, these programs are identified as new in the TOC and Appendix V. On the other hand, the Part 2 matrix does not identify them as new.

**Issues Related to Programs Identified as Deleted**

CFDA 21.012 - This program is listed as deleted in the TOC, the Part 2 matrix, and Appendix V which appears to be correct. However, it is still listed in the Part 5 Other Cluster section as part of the Treasury CDFI cluster. Part 4 only includes CFDA 21.020 alone with the title: CDFI Program. So, Part 5 appears to be in error. This leads to the question as to what happens if an entity has expenditures under CFDA 21.012 in current year. Based on Part 5, some may want to treat as a cluster.

CFDAs 84.377 and 84.395. These programs are identified as having been deleted in the TOC, the Part 2 matrix, and Appendix V. However, they were deleted in the 2018 Supplement.

CFDA 93.508 - This program is listed as deleted in the TOC, the Part 2 matrix, and Appendix V which appears to be correct. However, it is additionally noted in the Part 2 matrix next to 93.872 as "(Plus CFDA 93.508)." We are unsure of the meaning of this. It was clustered with 93.872 in the prior year. Adding to the confusion on this is that the 2019 Part 5 Other Clusters section identifies only one CFDA, 93.870, under the heading "Maternal, Infant, and Early Childhood Home Visiting Cluster."

CFDA 93.527 - This program is listed as deleted in the Part 2 matrix and Appendix V. However, it is still included on the Part 2 matrix as part of the Health Care Program Cluster and it is noted as part of this cluster in Part 5. Additionally, it is included in the Part 4 section for this cluster.

CFDA 93.714 - This program is listed as deleted in the TOC and Appendix V. However, it is still included on the Part 2 matrix and Part 5 as part of the TANF cluster (in the prior year it was clustered with CFDA 93.558). Part 4 only includes CFDA 93.558 alone with the title: TANF (although the page header still refers to it as a cluster). So, Parts 2 and 5 appears to be in error. This leads to the question as to what happens if an entity has expenditures under CFDA 93.714 in current year. Based on Part 5, some may want to treat as a cluster.

### **Other Cluster Issues**

Part 5 notes the following individual programs as another cluster: CFDA 93.870.

### **Performance Reporting and Special Reporting**

The following is a list of programs that we have noted as continuing to have issues with new sections or changes to the performance reporting or special reporting sections:

- CFDA 10.515 - Identifies a performance report (REEport) but then goes on to refer to various reports within the section (e.g., Project Initiation, Progress Report, Final Report, Financial Report) and includes no key line items. We did not get this program to comment on in vett draft process.
- CFDA 11.300 - Only includes a laundry list of reports under performance reporting but no information about the reports for the auditor or key line items for each report. Under special reporting, it adds a new special reporting section titled, "Subaward Reporting under the Transparency Act." OMB removed FFATA considerations from the Supplement several years ago due to audit criteria issues. Why was Commerce able to include this and what is the auditor to do with it? We commented on this in vett draft process, but no change made.
- CFDA 11.611 - Only includes: "Technical Report (completing all required MEIS fields) - Applicable," which is not enough information for an auditor. There is no form number, description, and MEIS is not even defined. We commented on this in vett draft process, but no change made.
- CFDA 93.423 - Includes both performance reporting and special reporting but only describes the reports and provides no key line items. We did not get this program to comment on in vett draft process.
- CFDA 93.568 - Added performance reporting paragraph describing a report but does not provide any key line items. We did not get this program to comment on in vett draft process.
- CFDA 93.645 - Added performance reporting section with a long discussion of the reports to be included but does not include key line items. We commented on this in vett draft process, but no change made.
- CFDA 14.218 - In the 2018 Supplement, this program had a section on performance reporting with one report identified which included a good description and key line items. However, for 2019 it adds a new requirement for quarterly reports with a long discussion about the report but does not identify any key line items. We did not get this program to comment on in vett draft process.
- CFDA 14.228 - In the 2018 Supplement, this program had a section on performance reporting with one report identified which included a good description and key line items. However, for 2019 it adds a new requirement for quarterly reports with a long discussion about the report but does not identify any key line items. We did not get this program to comment on in vett draft process.
- CFDA 14.867 - In the 2018 Supplement, this program had a section on performance reporting with one report identified which included a good description and key line items. However, for 2019 it adds a new requirement for SF425 report that describes the report but does not clearly

identify key line items. Additionally, it uses problematic language that appears to lack criteria. For example, it asks the auditor to assess the “reasonableness of investment status explanation.” What criteria would an auditor use to make that assessment? This should be deleted. Additionally, it asks the auditor about the timeliness of reporting. As noted earlier, auditors should not be asked to review areas that the agency itself should already know. We did not get this program to comment on in vett draft process.

- CFDA 17.207 - In the 2018 Supplement, this program had a section on performance reporting with one report identified which included a good description and key line items. However, for 2019 it adds a new requirement for WIOA Quarterly Reports that describes the report but does not identify key line items. We did not get this program to comment on in vett draft process.
- CFDA 17.235 - In the 2018 Supplement, this program included one special report with a good description and key line items. In the 2019 Supplement, Labor deleted that report and replaced it with numerous other reports that identify key line items in some cases and not others. However, we are concerned with some of the wording used in this revised section. For example, it instructs the auditor to “compare actual performance with planned performance” with no other explanation. What is the objective of the auditor doing that comparison? We will need more time to work with auditors having experience with this program to know how workable this section is. We commented on this in vett draft process. Some changes were made but there is more work to be done.
- CFDA 45.129 - There was no change made to the Reporting requirement for 2019 but we noted that it includes a special report but does not provide key line items. We did not get this program to comment on in vett draft process.
- CFDA 21.020 - This program adds performance reporting this year but only includes the names of two reports. No description or key line items are provided which is not enough information for the auditor. We did not get this program to comment on in vett draft process.

## Other

TOC - The TOC refers to the Department of Engineering instead of the Department of Energy.

CFDA 11.611 - Commerce adds a requirement for the auditor to test the corrective actions taken by the client as part of “Special Tests and Provisions.” This should be deleted as it goes beyond scope of a single audit since the Uniform Guidance identifies the federal agency as responsible for addressing corrective actions taken by a recipient. We are also concerned that auditors will not have the expertise to determine compliance depending on the subject matter of the corrective action required.

CFDAs 14.157/14.181 - Several have inquired about whether there is an error in the program matrix for CFDA 14.157 as it relates to Eligibility. The matrix indicates Eligibility is a N for CFDA 14.157 and for CFDA 14.181 Eligibility is a Y. These programs are generally the same except for the target population (CFDA 14.181 is for income qualified disabled/handicapped individuals and CFDA 14.157 for income-qualified elderly). 24 CFR Part 891.410 applies to both programs, including tenant eligibility. We have heard from members that the HUD Single Audit Coordinator is telling those that inquire that the CFDA 14.157 matrix has an error and that Eligibility should be a Y.

CFDAs 14.218 and 14.225 - The CDBG cluster (CFDAs 14.218 and 14.225) identifies Eligibility as a N for the cluster. Many organizations that expend these funds get them only in the form of a loan to build affordable housing. These loans often stay on the organization’s Schedule of Expenditures of Federal Awards for many years because of continuing compliance requirements relating to the Eligibility requirement (i.e., only low-income residents can reside in the building). The question that has arisen is what the auditor would be expected to test in the CDBG cluster in years after the building is complete? Generally, the only continuing compliance requirement for this cluster is Eligibility. However, Eligibility

is now identified as a N for the cluster. This question needs an answer quickly and more broadly since there may be other loan programs where this circumstance could occur.

CFDA 20.205 - Per the Part 2 and Part 4 matrices, Equipment/Real Property and Matching are noted with an N but the Part 4 section for this program includes testing requirements for both requirements.

CFDA 93.217 - Per the Part 2 and Part 4 matrices, Special Tests and Provisions is identified as a Y. (This is a change from the prior year as it was identified as a N in the prior year.) However, the 2019 Part 4 section for this program does not include any requirements for special tests.

CFDA 93.767 - Per the Part 2 and Part 4 matrices, Special Tests and Provisions is noted with a Y but there are no Special Tests included in the Part 4 section for this program.

CFDA 93.778 - In Special Tests and Provisions, suggested audit procedures (4)(d)(3) is missing the subpart number for 42 CFR 455 like the other procedures include.

CFDA 97.036 - Per the Part 2 and Part 4 matrices, Special Tests and Provisions is noted with a N but the Part 4 section for this program includes testing requirements for special tests.

Cross-Cutting Section Problems - We did not check every program reference in the Supplement's cross-cutting sections but recommend a careful check be done both in the cross-cutting sections, as well as the individual program sections that are covered by the cross-cutting sections, as we are aware of errors. Some of these problems were noted in our comments on the vett draft but were not addressed. For example:

- Section 84.000 discusses Cash Management, Period of Performance, and Reporting, but these requirements are identified as N in the matrices for CFDA 84.010 and 84.367.
- CFDA 84.367 refers to the 84.000 cross-cutting section for Subrecipient Monitoring, which is noted as subject to audit for the program. However, the cross-cutting section does not include requirements and guidance relating to Subrecipient Monitoring.
- Section 20.001 (Wage Rates Requirements) indicates it applies to CFDA 87.051 and 87.052. However, those CFDA identify Special Tests and Provisions as a N in the relevant matrices and the related Part 4 sections have removed all mention of wage rate requirements and references to cross-cutting section 20.001 (Wage Rates Requirements Cross-Cutting Section).

84.000 - Adds a new requirement in Special Tests and Provisions titled, "Oversight and Monitoring Responsibilities with Respect to Charter Schools With Relationships with Charter Management Organizations (SEAs/LEAs)." In reading the description, audit objectives, and procedures, it seems like this new addition relates to Subrecipient Monitoring and we are unclear why Education was permitted to add it as a special test. Additionally, CFDA 84.424 which is identified as a program for which this requirement applies, identifies Subrecipient Monitoring as a N in its program matrix. It seems contradictory to tell the auditor not to audit Subrecipient Monitoring in the program but then require it as a special test in the cross-cutting section.

Student Financial Assistance (SFA) Cluster - The SFA cluster contains many revisions for 2019 and we have noted many issues and questions on some of the changes made. We have sent a separate summary of those matters to Education, many of which surround confusion over what Education is intending for the auditor to test and questions around the new required communication on sampling. As a result, we expect there to be a significant diversity in practice for audits of the SFA Cluster in 2019. We have provided OMB a copy of the communication sent to Education which identifies all questions and concerns. At a minimum, these matters should be addressed by Education in the 2020 Supplement,

if not sooner in some cases. We recently met with Education staff who informed us that they are willing to work collaboratively towards improving the SFA cluster section for 2020.

Part 6. There are errors in the Part 6 matrix of illustrative controls that we believe may have occurred when OMB transferred the Excel file to Word. We are providing OMB with a markup of the problems in a separate document.

**2019 SFA Cluster Questions Provided to Department of Education (ED)**

**5-3-8 and 9.** We have received several questions on the sampling tables as follows:

- Which compliance requirements does this reporting apply to? For example, loan disbursements are a different test than eligibility.
- For the Return of Title IV data desired for Pell and Direct Loans, the Supplement asks for the population as if there is only one sample. The Supplement has historically had two different returns tests which each typically involve pulling a sample. Which sample(s) does ED want the information for? The table is formatted in a way that suggests data is needed for only one of the samples.
- For the returns data used to populate the tables, ED asks for the population in a way that suggests it relates to the dollar amount of aid disbursed. Was that intentional? For example:
  - In returns test #1, the population is students who withdrew, dropped, or terminated. Is ED viewing the population data needed (in dollars) to be the original disbursement made to this group of students or the dollar amounts returned/refunded for this group of students?
  - Returns test # 2 is a completeness test. Auditors are asked to sample from a population of students who received aid but for which there was no return/refund to ensure there should not have been a return/refund. Is ED viewing the population data needed (in dollars) to be the original disbursement made for this group of students where there were no returns?
- How will ED access this information? The Data Collection Form has no place for this information to be entered. Therefore, ED would have to review every reporting package to find the information. Might it be more efficient for ED to issue guidance instructing auditors to send the information directly to ED instead of including it in the reporting package? In addition, by requesting information on a student identifier, there is a risk that the report may contain personally identifiable information.

**5-3-34.** Disbursements. What extent of testing is needed to address the requirement to develop and implement a direct loan quality assurance program? The IFAP announcement that describes the required attributes of a DL QA program describes several different “suggested” requirements and areas of application for a program. Is the auditor expected to select a sample of loans and test the program or is it sufficient to review the program documents and perform a walk-through to ensure design and implementation are sufficient?

**5-3-41 - 5-3-43.** Return of Title IV. We have received several questions in this area as follows:

- Procedure (a) asks the auditor to determine the adequacy of the institution’s procedures in various areas. What objective criteria exists for auditors to make the judgment about the adequacy of procedures?
- Procedure (e) is a test related to students or parents who were eligible for a post-withdrawal disbursement. Is this intended to be a test that is part of the sample drawn for procedure (b) (i.e., all students who withdrew, dropped or were terminated), or is

this a stand-alone test with its own separate sample? If the latter, what would the stand-alone population be? Also, if a separate sample is intended, how does that play into the sampling table reporting?

- Procedure (f) is new but reads similarly to procedure (c). What is the difference and what is meant by “applicable students?” Is the intent for this to be a separate test or an additional step for a student that was selected that never began attendance that would have otherwise been tested as part of a sample selected in procedure (b), (c), or (e)?
- As an FYI, several editorial issues were noted as follows: (1) Missing hyperlinks in b(2). (2) The section still refers to sampling methodology on pg. 5-3-9 which was since removed.

**5-3-44 - 5-3-46.** Student Loan Repayments. Generally, there is confusion about ED’s intent for FPL in this section. The following are various questions received illustrating the areas of confusion:

- The references to FPL in the heading of this section were removed, but the audit objective and body of section still discuss Perkins loans. What is ED’s intent for FPL in this section?
- The section on FPL beginning towards the bottom of page 5-3-45 seems misplaced in the HHS section since it relates to the billing and collection of FPL. The FPL section in the Title IV section above only discusses cancellations.
- It is not clear if ED’s intent is that only FPL cancellations in the Title IV section (also separately broken out in the procedures) be tested or is it all FPL repayments?
- It is not clear why FPL cancellations are separately shown as an audit objective at top of page 5-3-46 when cancellations are already covered in the original audit objectives and procedures below.
- Regarding the audit procedure on deferments, the compliance requirements information on FPL deferments was deleted above but deferments are still included in the procedures. Should this continue to be tested?
- It appears intentional that ED has now removed the waiver for testing of FPL cancellations for institutions that use a third-party service provider. Is that correct? The steps listed under the first audit objective on 5-3-46 appear to apply universally to all schools, regardless of a service provider. However, cancellations are still referenced in the steps in the second audit objective (item b) which does clearly offer the auditor the permission to forego testing if this is covered by a third-party service provider. This appears to create inconsistency.

**5-3-50 and 51.** Excess Cash. We have received several questions in this area as follows:

- How is this procedure different than Cash Management testing? Is the auditor expected to test something different here and have a separate sample from cash management?
- With regard to the suggested audit procedure involving selecting at least one drawdown and obtaining student disbursement rosters corresponding to that drawdown to confirm disbursement were made within 3 days, the word “sample” is not part of the suggested audit procedure. Is it expected that this will be audited for all students at the Institution for whom funds were drawn down (which would be 100s of students) or it is reasonable for auditors to sample students covered by that drawdown?

**5-3-51.** Program Eligibility. We received several questions in this area as follows:

- One of the three programs to be tested is Short Term Programs at Postsecondary Vocational Institutions and the suggested audit procedures center around testing completion and placement calculations. In reviewing the calculations in 34 CFR 668.8 (f) and (g), the computations have several elements involving student data. Suggested audit procedure (c) calls for selecting samples of students to test accuracy of data used in the calculations but it is not clear which elements of the computation samples are expected in. Is it all of them? If so, this would result in a lot of sampling. Having more specific suggested audit procedures in this area would be helpful so auditors can focus their sampling in areas ED views to be the most important.
- 9(B)(b) is also covered in Allowable Activities. Per the Allowable Activities section other eligible programs can be added after the school's most recent certification without obtaining ED's approval if they meet the program eligibility requirements of 34 CFR 668.8 Eligible Programs. These sections appear to contradict each other. Can we get clarification? Is testing expected to be different than that done in Allowable Activities (i.e. different populations/sample?)
- The suggested audit procedures on 5-3-52 are broad and extend to academic programming (an area not frequently reviewed by auditors conducting single audits). Specifically, in step (a) the requirement states that the auditor is to review the accreditation for "all corresponding education programs..." which will likely be very time consuming. Additionally, this requirement is programmatic in nature and the extent of testing is somewhat vague. For example, is the intent for the auditor to simply compare a program from the institutions catalog back to the accreditation reports, which in some cases may not use the same terminology or consistency? Can a sampling approach be used for this requirement to alleviate the amount of testing required? The same question applies to Distance Education Programs on page 5-3-52-53.

**5-3-52.** Distance Education. The audit objective discusses properly recording attendance for these students, but the suggested audit procedures does not address this objective. Is this intended to be tested with its own sample or tested as warranted as part of the sample in the Return of Title IV special test? Additionally, the last sentence under the suggested audit procedures at the top of this page appears incomplete and may be also misplaced.

**5-3-54.** Now that the section on Perkins Liquidation has been deleted, what are auditees supposed to do if they are liquidating their portfolio? How should FPL liquidations be tested? Does this now require a separate liquidation audit? Or can the auditor perform procedures in connection with a Single Audit as has been allowed previously?

#### **Other Items for Future Discussion/Clarification in 2020 Supplement**

**5-3-3.** The following sentence appears misplaced in section E since FPL is no longer in heading and FPL is included in separate section (L): "The Federal Perkins Loan Program Extension Act of 2015 issued guidance to participating institutions that its authority to make new Perkins Loans would cease beginning September 30, 2016 for graduate students and September 30, 2017 for undergraduate students."

**5-3-6.** The new verbiage that has been added about institutions' responsibility to submit their audits via EZAudit may be confusing to auditors since the auditor is not involved in the EZAudit process either from a submission or audit testing perspective. Why is this information included?

**5-3-14.** Eligibility (E.1.a.4). It would appear that FPL should be removed from the heading?

**5-3-26.** Special reporting. FPL was deleted (Part III). Was this intentional even with FPL back in the cluster? This information is still required to be reported on the FISAP. Is it no longer considered "key"?

**5-3-27.** Verification. Why is 2019-20 referenced in compliance requirement section? Also, a procedure was added to ascertain whether the institution correctly coded the student's verification status in the Common Origination and Disbursement (COD) system, but no discussion was added in the Compliance Requirements section (Electronic Announcement on status codes issued in April 2019 not mentioned). Finally, it references Appendix B, but that appendix appears to be missing.

**5-3-54.** Under "Other Information," the reference to the FFEL program was removed when the school is the lender. However, ED did not change the guidance in Part 4 for 84.032. Clarification is needed as to whether the testing is expected to change in this area.

**5-3-57.** Should #25 be deleted since it was previously only applicable to FPL?