



December 6, 2018

Ms. Sheleen Dumas
Departmental Lead PRA Officer
Department of Commerce
Office of the Chief Information Officer
14th and Constitution Avenue NW
Washington, DC 20230

Form SF-SAC 2019 Comments – 30 Day PRA

Dear Ms. Dumas:

The American Institute of CPAs (AICPA) is the world's largest member association representing the CPA profession, with more than 431,000 members in 137 countries and territories, 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 final proposed revisions to the Data Collection Form (SF-SAC or the Form), related Form instructions, and burden of collection estimates. Overall, we continue to support the efforts of the Federal Audit Clearinghouse (FAC) to update the Form and instructions and to improve its usefulness to federal agency users.

The Appendix to this letter includes our remaining overarching concerns and detailed comments. We hope that these matters can be addressed in the final version of the Form and instructions.

This comment letter was prepared based on input received by members of the AICPA that have expertise in preparing the Form. We would be happy to discuss these comments with representatives of the FAC and the Office of Management and Budget. Please contact me at 202-434-9259 or mary.foelster@aicpa-cima.com if you have any specific questions or would like to schedule a follow-up discussion.

Sincerely,

A handwritten signature in black ink that reads "Mary M. Foelster".

Mary M. Foelster
Senior Director, Governmental Auditing and Accounting

cc: GAQC Executive Committee

Overarching Comments and Concerns

Date Auditor’s Report was Received Should Not be Adopted at This Late Stage. The *Federal Register* (FR) notice states that a new requirement is being proposed in this final 30-day comment period that would require the auditee to input the date the auditee “received the full, complete report from the auditor” to the Internet Data Entry System (IDES). However, the notice provides limited information about how this requirement will be operationalized and what instructions would be available to the auditee. While we understand the reasons for wanting to capture this date, and that this has long been a measurement of the submission due date that has gone unrecorded, we disagree with its addition at this late stage in the process without further research and time to develop guidance and educate the auditee and auditor communities. Our position is based on our belief that there will be significant confusion by auditees on the date to be input because there is no exact definition of when the full, complete report is received. This will lead to diversity in practice and is especially concerning since an erroneous date could affect an auditee’s ability to be a low-risk auditee in the following years. Therefore, we strongly recommend that the Federal Audit Clearinghouse (FAC) wait until the next version of the Form is issued to implement this change. During the intervening time, more research can be done, underlying guidance developed, and education undertaken.

Consider the following very common scenarios that illustrate the confusion that will likely arise. There could be dozens of other variations of individual scenarios that may be interpreted differently by any given auditee, leading to inconsistency and unreliability of the dates entered.

- The auditor delivers the final audit reports to management of XYZ county government on October 15, 20X8. However, the auditee’s policies are such that the government’s board must officially “accept” the audit before it can be made available to the public. The board meets on November 21, 20X8, and accepts the audit. Which date should be used by the auditee? It would seem the later date, but there is no definitive guidance stating that.
- The definition of the reporting package in 2 CFR 200.512(c) includes the financial statements and related audit reports (i.e., the financial statement report and the Yellow Book report). Often, the single audit reporting is issued later. Auditees may be confused about what the “full, complete report” date is in this scenario and use the initial financial statement report receipt date in error.
- The auditor delivers the audit reports to the accounting manager who has been a main contact during the audit. However, the organization does not consider that the official receipt of the audit occurs until the Chief Financial Officer has received the report which is a later date. Which date should be used by the auditee? It would seem the later date, but there is no definitive guidance stating that.
- A key auditee representative is out of town when the auditor delivered the audit reports, and no one took note of a specific date of receipt. The auditee representative does not know the exact date so makes a best guess when completing the FAC submission. He inputs a date that is several weeks later than the actual date the reports were delivered.
- An auditee receives the audit reports on October 1, 20X8. The auditee makes its submission to the FAC on November 6, 20X8. Realizing that they are only a few days past the 30-day deadline, they input the date such that the 30-day requirement will be met because the dates were so close that they believe it to be an insignificant difference.

In addition to our concerns about the lack of clarity on the receipt date, we also believe the FAC and the Office of Management and Budget (OMB) need to develop other guidance to address the following situations prior to issuing a requirement for this date to be input.

- In the event the auditee enters a date that is later determined to be incorrect, how easy will it be to change the date? Will any approvals or notification be required?
- Federal agencies need to be made aware that the auditor is not involved in entering or validating the date that is entered in the date field by the auditee and that the auditor should not be held accountable for incorrect information input by the auditee.
- The OMB *Compliance Supplement* guidance in Appendix VII addressing low-risk auditee status and the 9-month part of the submission deadline will need revision. In addition to discussing the 30-day deadline, it should provide instruction about what an auditor should do if, in the next year, they go to evaluate low-risk auditee status and believe that the auditee has entered an incorrect date into IDES in the prior year.

Additional Guidance Needed on New Corrected Items Field. The FR notice describes another new proposed IDES input field which requires a selection of which items were modified when a revision has been conducted. Our only comment on this addition is that detailed guidance should be provided on whether the requirement extends to only data elements and information in the Form, or other aspects of the submission including other IDES input fields. For example, would this new “revision” field be intended to capture changes made to the new “date received” field if the FAC goes forward with that requirement? See our related comment above regarding the need for the FAC to develop guidance around how changes would be made to the date received field.

Text of Findings, Corrective Action Plan, and SEFA Notes. We have previously described our detailed concerns around the new auditor and auditee requirements to enter the text of findings, the Corrective Action Plan (CAP), and the notes to the Schedule of Expenditures of Federal Awards (SEFA) and will not repeat them in their entirety here. However, we would like to go on record that we continue to have the same concerns about the highly manual process involving the redundant task of transferring information from source documents to the Form. It is a very inefficient approach that we are confident will result in a high potential for error. Additionally, the FAC fully acknowledges in the latest proposal the limitations of how certain text will transfer over and the need to exclude tables, charts, and footnotes. This is concerning because these limitations could change the meaning of the items being transferred.

We understand that the FAC is proceeding with the text transfer requirements to aid federal agencies in their post-audit review. As we have stated previously, while we are willing to accept this approach in the short-term for the sake of progress, we continue to strongly recommend that the FAC and OMB make it a priority to consider whether there are more efficient and effective ways to achieve the end goal, including newer technologies or automated techniques that could read the source documents and reduce the potential for error in the data transfer. We also recommend that efforts be made by both the FAC and OMB, after one full audit cycle has occurred, to evaluate whether and how the agencies are using the information and how the text transfer is going overall to determine whether an adjustment should be made. It is not in the best interest of any of the key stakeholders to maintain a process for 3 years that is burdensome if no one is using the information or if the resulting text that has been transferred is so misleading that it should not continue to be entered.

Also, we appreciate that the FAC has added several notes in the instructions indicating that due to formatting restrictions, the text input may not convey the full meaning of whatever has been transferred. While this is a positive step, individuals or agencies entering the FAC database to look at or pull information will not likely go to the instructions to the Form. Therefore, we ask the FAC to consider whether it could add a cautionary note to the public facing pages on the FAC Web site where the text will appear. Or, alternatively, a pop-up box could be added when someone opens an entity's Form that contains a similar warning. We believe that anyone coming to the FAC site and looking at findings, the CAP, or SEFA notes should be told not to rely solely upon the information in the FAC as the meaning may have been altered from the original information reported with a note to look to other parts of the reporting package for the original information provided by the auditee or auditor.

Finally, the FAC comment summary indicates that each of the proposed new text entry items will have character limits on them and that the FAC will update the Form to include those limits. We hope that the FAC is making those limits quite large as the text of some findings, CAPs, etc., can be quite large. Again, we are concerned if the complete text of an item cannot be entered because of an FAC system limitation resulting in incomplete information being transferred.

Request for Auditor Issued Separate Communications to Auditee. While we acknowledge that the FAC has attempted to clarify what types of information should trigger a yes response to Part III, Item 2f, we continue to strongly disagree with the inclusion of this new question for the same reasons we have expressed in our previous comment letters including: (1) it is establishing a requirement that is not included in the Uniform Guidance outside the due process parameters of the Uniform Guidance regulation; (2) we think as written most auditors would answer the question with a "yes" response and we question the usefulness of a field full of yes responses; and (3) the potential that this question will likely lead federal agencies to request these communications which may result in the unintended consequence of fewer written communications made which would be very unfortunate.

If this question is retained, we recommend the following edits to ensure a consistent understanding.

- f. Did the auditors communicate in a written document (such as a management letter) any observations that were not audit findings or GAGAS findings but contain: 1) other noncompliance that warranted the attention of those charged with governance in accordance with paragraph 4.26 of the 2011 GAGAS (or paragraph 6.44 of the 2018 GAGAS); or 2) other deficiencies in internal controls that merited the attention of management in accordance with AU-C 265.12(b)?

Finally, the FAC should further clarify the above statement that we have edited to explain whether the intent is for the question to be answered "yes" if a management letter was issued but only included matters associated with the financial statement audit. If that is the intent, the phrase "any observations" in our edit above should be revised to say, "any financial or compliance observations."

CAP Text to be Included on Form. In our prior comment letter, we noted that the requirement for CAP text to be input will result in timing complexities because often an auditee's CAP is not complete by the time the auditor completes the single audit and the auditor portion of the Form. This will require additional coordination between auditors and auditees. We recommended that the FAC revise the proposal to have the auditee submit the CAP text in a separate upload to avoid this issue. The FAC comment summary states the FAC did not accept this recommendation because only one copy of the reporting package is to be submitted, attributing this requirement to 2 CFR 200.512(c). It is our understanding that the requirement for one complete copy of the reporting package is driven by the FAC and not the Uniform Guidance. We continue to recommend that the FAC consider a separate

CAP text upload to avoid timing complexities and potential delays. Separately, in our previous comments, we had questioned whether the FAC intent was for the CAP text transfer requirement to extend to GAGAS findings. The FAC comment summary indicates that the Form is not intended to collect the CAP text for GAGAS findings. We recommend that this point be added to the instructions to ensure an appropriate understanding by Form preparers.

Other Comments

Throughout Form and Instructions. Both GAS and GAGAS are used to refer to *Government Auditing Standards*. GAGAS is defined but GAS is not. We recommend picking one acronym, defining it, and referring to it throughout the Form and instructions. All other acronyms should be searched for to ensure they are defined the first time they are used.

Throughout Instructions. The instructions use the term “should” twenty-two times. The federal frequently asked questions document on the Uniform Guidance defines “should” as a best practice (not a requirement which is identified using must). Since the Form is considered Appendix X to the Uniform Guidance, we recommend that the FAC ensure that the instructions not use “should” for items where there is a requirement.

Instructions - Page 1 - Audit Threshold. The threshold is \$750,000 (i.e., a single number). The rest of the text explains the requirement for an audit if \$750,000 or more is expended. We recommend the following edit: “Audit threshold for Federal expenditure is \$750,000 per year...”

Instructions - Page 1 - What’s New - Written Communications (Management Letters) Issued to the Auditee. The period covered by the new Form will also cover audits performed under the December 2011 revision of *Government Auditing Standards* for which 4.26 is the correct reference. Therefore, this paragraph should be revised to say: “as described in paragraph 4.26 of the 2011 GAGAS (or paragraph 6.44 of the 2018 GAGAS).”

Instructions - Page 1 - What’s New - Text of Audit Findings and Corrective Action Plan Sections. These paragraphs include a sentence indicating the audit finding and CAP will be collected exactly except for charts or tables. However, later in the instructions it is noted that footnotes will also need to be excluded. Therefore, those sentences should be revised to read: “excluding charts or tables and footnotes.”

Instructions - Page 2. The heading for Part I, General Information, includes a statement that this section is completed by both the auditee and auditor. This does not sufficiently distinguish between what the auditee is responsible for and what the auditor is responsible for in this part. We prefer the responsibilities be distinguished by item. Doing this will ensure that if an error made it will be clear who is responsible. In addition, some auditors perform the nonattest service of assisting the auditee in preparing the auditee portion of the Form. In this circumstance, it is important to understand what portions the auditee responsibilities include.

Part II, Item 1, Loan Program Introduction (following Item 1(h) in the Instructions). While 2 CFR 200.502 may describe the characteristics that should be used for determining if a program is a loan program or not, it is the responsibility of each federal awarding agency to determine if their programs qualify as a loan program for SEFA reporting purposes. To ensure consistency in reporting and comparability between auditees, OMB should provide a complete listing of loan programs in the *Compliance Supplement* instead of leaving it up to each auditee to determine if the program they have been awarded meets the characteristics in 2 CFR 200.502.

Part II, Item 1(l) and 1(m). In the current Form/system, if a correction is necessary to either the pass-through entity name or number, the system requires a complete deletion of the data entered. We recommend the FAC revise this to allow the preparer to change the entry after the original data entry. This will save time for the preparer.

Part II, Item 2. Notes to the Schedule of Expenditures of Federal Awards. This instruction does not include information regarding excluding tables and charts like the other sections for text relating to findings and the CAP. Tables and charts are also used in many footnotes so the FAC should add similar language in the instructions that has been provided for the findings and CAP instructions as follows:

Note: Due to formatting restrictions in the FAC database, the text input in this item may not convey the full meaning of the notes to the SEFA. Users should refer to the reporting package to view the text as it was intended.

Note: If there are any charts or tables within the text, enter "See notes to the Schedule of Expenditures of Federal Awards for chart/table" within the text. The rest of the text is required to be entered. Do not enter "see reporting package" in lieu of the text of the notes to the Schedule of Expenditures of Federal Awards.

Part II, Item 2, Instruction for Note 2. We continue to be troubled by the auto-population of this note as it will likely result in a difference between the wording of the note in the Form versus the note in the SEFA. For example, we are aware of situations where the de minimis cost rate was elected but the auditee charged less than 10% because their costs are not that high. In this case, their note to the SEFA would explain that nuance. With the auto-population feature, there is no ability for the auditee to include such an explanation in the Form.

Part II, Item 2, Instruction for Additional Notes. We recommend the following clarification to the first paragraph of this item as follows: "This field is intended to include the loan/loan guarantee note, if applicable, as note 3, as well as all other additional SEFA notes included in the reporting package. There is no limit to the number of notes that can be entered into the IDES and the text box will allow entry of additional numbered notes and titles for those notes. The automatic numbering of the additional notes may differ from the note numbering in the SEFA. If a note in the SEFA has been identified with a note number, enter that note number from the reporting package in the title field of the additional note field."

Part II, Items 1 and 2. Both of these items include a note that says "if the SEFA [or notes to the SEFA] has already been created, enter the text as it appears..." We believe preparers will be unclear about what this "creation" concept is referring to. For example, wouldn't the auditee still enter these items as they appear in the actual documents when they are eventually issued? Perhaps this is attempting to get at the notion of the system generated SEFA versus a hard copy SEFA, but the intent of this note should be further explained as it is unclear.

Part III, Item 2(a)(i) and (ii). Our previous comment letter recommended the FAC revise this item to ask the auditee to answer the question about whether the special purpose framework was required by state law, as the auditee is in the best position to answer questions about their legal and regulatory requirements. Auditors should not be asked to make management assertions. The FAC's comment summary indicates disagreement because this item "will affect whether an entity can qualify as a low-risk auditee..." We find this response inconsistent with the FAC's proposal to include a requirement for the auditee to provide a date for the receipt of the full, complete auditor report since it will also

affect low-risk auditee status in the future. Therefore, we again recommend that the auditee be asked to indicate whether the framework it is using is required by state law and what the framework is as this should be a management assertion and not an auditor assertion.

Part III, Item 2(a)(i), (ii), and (iii). The functionality of the Form would be increased if the questions in 2(a) about financial statements prepared in accordance with a special purpose framework would only appear if the box is checked in question 2(a) indicating GAAP was not used. We were uncertain whether that would be the case and are offering this as a suggestion in the event it is not.

Part III, Item 3(a). We would like to reiterate this comment which was included in our prior letter. Paragraph 13.33 of the 2018 AICPA Audit Guide, *Government Auditing Standards and Single Audits*, states that: “If the audit of federal awards does not encompass the entirety of the auditee’s operations expending federal awards, the operations that are not included should be identified in a separate paragraph following the first paragraph of the introductory section of the report on compliance for each major program.” The paragraph added to the auditor’s report does not necessarily indicate whether those other entities had separate Uniform Guidance compliance audits as the auditor of the reporting entity may not have knowledge of that. As noted previously we also believe that this question is really one that management should assert to. However, if it is retained as an auditor requirement, it should be revised to say: “Does the auditor’s report on compliance include a statement that the audit of the federal awards does not include departments, agencies, or other organizations units that expended federal awards?” We realize this is a change from the wording that appears in the current Form, but that alone is not a reason it should be retained as currently worded.

Part III, Item 3(c). This item asks: “Did the auditee qualify as a low-risk auditee at the beginning of the audit period?” The phrase “at the beginning of the audit period” is not included in the Uniform Guidance. We suggest it be deleted as it is unnecessary and potentially confusing. The FAC’s comment summary indicates it will not change this item as this statement was previously part of the instruction for this question. We disagree that something that is inconsistent with the Uniform Guidance should be retained without correction even if it was in the prior Form.

Part III, Item 5. In our previous comment letter, we asked for clarification on how text will be entered if a finding is presented in a summarized format in one section of the Schedule of Findings and Questioned Costs with a reference to a related finding (e.g., see section 200.515(d)(3)(ii) of the Uniform Guidance). The FAC’s comment summary indicates that these summarized findings should be handled the same way as non-summarized findings and the text of the finding should be copied as it appears in the Schedule of Findings and Questioned Costs. We recommend that the instructions for this item be revised to include this guidance to help ensure preparers note it. Otherwise, some may be confused about whether they can use the shorter “see other finding” reference or whether they must cut and past the details of the finding being referred to.

Part IV, Item 2. The first sentence states “Enter the full, detailed text, including any header information (such as title, Federal program name, and award identification information) of the Corrective Action Plan exactly as it appears in the Corrective Action Plan.” This sentence should be revised to refer to header information that would be typically found in a CAP based on the Uniform Guidance requirements. The quoted sentence refers to header information that may be found in the Schedule of Findings and Questioned Costs. Different header information would be found in a CAP such as name of contact person responsible for corrective action, the corrective action planned, and the anticipated completion date. Additionally, the note at the end of this item does not mention footnotes. CAPs may include footnotes and we assume that footnotes would not be able to be copied (i.e., like the guidance provided by the FAC for findings text). Therefore, we recommend inserting the following:

Note: If there are any footnotes within the text, enter "See Corrective Action Plan for footnote" at the end of the Corrective Action Plan text in place of any footnotes.

Part V, Item 2. Regarding the second box in the auditor statement, why is the auditor being asked to certify that the information in Part II of the Form is the responsibility of auditee and is based on information included in the reporting package required by the Uniform Guidance? As we stated in our previous comments, this is an oddity that occurs due to the statement being broken down into separate statements with a check box. We continue to strongly recommend that that auditor statement be placed back into paragraph form as it is not logical for the Form to imply separate certifications are being made to what are basically sentences in a paragraph. Additionally, Part III, Item 2 (a) (ii) should also be excluded from the auditor's certification in the third box. Whether the special purpose framework was a basis of accounting required by state law is not found in the auditor's report. See our comment elsewhere in this letter regarding our recommendation that this assertion be made by management and not the auditor.