



February 8, 2022

Deidre Harrison, Controller (Acting)
U.S. Office of Management and Budget
725 17th St. NW
Washington, DC 20503

William Truitt, Director
U.S. Department of Education
830 First Street NE, Washington, DC 20202

Dear Ms. Harrison and Mr. Truitt:

On behalf of the National State Auditors Association, I am writing to express our strong concerns about the draft of the Compliance Supplement section for the Student Financial Assistance Cluster (SFA) we received on December 16, 2021. These concerns relate to the new proposed disclosures, the U.S. Department of Education's directions for sampling methodology, and especially Education's unprecedented suggestion that they select a portion of the auditor's sample.

New Disclosures

Disclosing in the financial statements of an Institute of Higher Education (IHE) that related party transactions **do not** exist is not required by generally accepted accounting principles (GAAP). As such, the financial statements of IHEs, if related party transactions are not present, will not include any such disclosure, and so this proposed requirement is impossible to implement without deviating from GAAP.

The requirement to disclose the level of materiality for compliance testing that could result in a non-monetary finding is confusing. Normally, compliance testing on non-monetary elements is driven by qualitative, rather than quantitative, materiality, and as a result providing a "level of materiality" for non-monetary findings would not be practical or consistent across audits.

For the disclosures on draft pages 5-3-7 and 5-3-8, a logistical concern is the lack of a method of delivery for the proposed disclosures. In the case of audit findings, Uniform Guidance (UG) and Generally Accepted Government Auditing Standards (GAGAS) already prescribe what elements must be present. Therefore, single audit findings are not an appropriate mechanism for relaying this new information, and in the absence of a finding, there is no method for relaying this information. Compiling this information would create an additional burden on auditors and higher costs for IHEs. Based on the language in the Compliance Supplement, our members do not see the benefit of these



additional disclosures given requirements in existing standards, and therefore, the additional cost and burden are not justified.

Sampling Methodology

Education has stipulated in detail expectations for sample selections, even to the point of suggesting a sample may be selected and provided to the auditors. The most significant issue with this approach is that any auditors who accept a sample selected by an external party would be violating GAGAS independence requirements. Specifically, this practice would create an undue influence threat as described in GAGAS.

3.42 Examples of circumstances that create undue influence threats for an auditor or audit organization include existence of the following... (b) External interference with the selection or application of engagement procedures or in the selection of transactions to be examined.

If state auditors are forced to depart from GAGAS by accepting an external sample, the independent auditors' reports can no longer state that the audit was performed in accordance with those standards. A departure of this magnitude, particularly for auditor independence, would call into question the reliability of the auditors' opinions. Additionally, 2 CFR Part 200.514 Scope of audit (a) states, "The audit must be conducted in accordance with GAGAS." Therefore, if this draft language were to stand, not only would it be impossible for auditors to comply with GAGAS, but UG as well.

Beyond compromising the integrity of independent auditors performing single audits, Education selecting a sample on behalf of the auditors is conceptually unsound. In accordance with professional auditing standards, the nature, timing, and extent of audit procedures is best determined by the auditors who are assessing, evaluating, and testing internal controls at the IHEs under audit. Based on this evaluation, auditors are best positioned to respond to the inherent and control risks of the IHEs. A sample selected without consideration of such factors would be unsuitable to achieve the objectives of a single audit. Sampling methodology is best left governed by the professional standards already in place. Externally selected samples would likely make the audit more inefficient, and without considering the internal control environment of the individual IHEs, less effective.

We are also concerned about the burden and timing of SFA audits if this language remains. If auditors must wait for an externally provided sample, this would make the completion of all SFA audits contingent on timely coordination with Education, the auditors, and the IHEs. Given the number and diversity of IHE engagements, this would create operational gridlock for the state auditors which would not only delay the completion of the SFA audits, but their other scheduled engagements as well.

The concerns outlined above lead me to request that the U.S. Office of Management and Budget partner with Education on revising the draft language of the 2022 SFA



Compliance Supplement. Auditor judgment is a cornerstone of the profession, and Education's foray into sampling methodology is an affront to the single audit process, the professionalism of state auditors, and would set a damaging precedent. Among the responsibilities of federal awarding agencies outlined at 2 CFR Part 200.513, the following is present, "[The federal awarding agency must perform the following] Ensure that audits are completed and **reports are received in a timely manner and in accordance with the requirements of this part**" (emphasis added). In order to meet its responsibilities under UG, we ask that Education revise, or better yet, remove the new disclosures and sampling methodology language from the draft 2022 Compliance Supplement. We appreciate the opportunity to comment on the 2022 Compliance Supplement and express our concerns. Should you have any questions or concerns, please contact me.

Respectfully,

A handwritten signature in blue ink that reads "Greg Griffin". The signature is fluid and cursive.

Greg Griffin
NSAA President

CC Gil Tran
U.S. Office of Management and Budget

Mark Robinson
U.S. Department of Education