

# U.S. Department of Labor

Office of Inspector General—Office of Audit

## **SINGLE AUDIT QUALITY CONTROL REVIEW**



## **QUALITY CONTROL REVIEW: SINGLE AUDIT OF THE JOB SERVICE NORTH DAKOTA FINANCIAL REPORT FOR THE YEARS ENDING JUNE 30, 2005 AND 2004**

Date Issued: December 09, 2008  
Report Number: 24-09-001-03-390

U.S. Department of Labor

Office of Inspector General  
Washington, DC 20210



December 09, 2008

**Assistant Inspector General's Report**

Ms. Maureen L. Daley  
Executive Director  
Job Service North Dakota  
1000 E. Divide Avenue  
Bismarck, ND 58506-5507

Dear Ms. Daley:

The purpose of this report is to formally advise you of the results of a Quality Control Review (QCR) the U.S. Department of Labor (DOL), Office of Inspector General (OIG), conducted of the following audit completed by EideBailly, LLP (the Firm), under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):

Single Audit of the Job Service North Dakota Financial Report for the  
Years Ending June 30, 2005 and 2004

The objectives of the QCR were to determine whether: (1) the audit was conducted in accordance with applicable standards and met the single audit requirements, (2) any follow-up work is needed, and (3) there are any issues that may require management's attention.

Our review included the following major programs:

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Unemployment Insurance	17.225
Trade Adjustment Assistance-Workers	17.245
Employment Service Cluster	17.207 (Employment Service)
	17.801 (Disabled Veterans' Outreach Program)
	17.804 (Local Veterans' Employment Representative Program)
Transition Assistance Program	17.807

We determined that the audit work performed was not acceptable and did not meet the requirements of the Single Audit Act and A-133. Additional work is required to bring this audit into compliance with the requirements of the Single Audit Act. Specifically, the Firm needs to: (1) appropriately organize the documentation associated with this audit to provide a clear link to the findings, conclusions, and recommendations; (2) report the lack of controls to detect the two material misstatements as material control weaknesses and reissue its report; (3) document the conclusions why internal control deficiencies in the management letter are not reportable conditions; and (4) include all relevant details regarding reportable conditions in the report and management letter; and (5) adequately document its understanding and testing of internal controls for the audit.

We also noted issues requiring management's attention to improve the quality of future audits. Specifically, the Firm needs to: (1) maintain audit documentation pertaining to the effect of computer processing on the nature, timing, and extent of auditing procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS) requirements; (2) take advantage of a tool to verify completeness and classification of revenues and expenditures; (3) disclose all reportable conditions that could have a direct and material effect on the determination of financial statement amounts as required; (4) document its conclusions relating to internal control deficiencies; (5) report internal control deficiencies in accordance with GAGAS; (6) accurately report its planning and testing of major programs; and (7) adequately document its understanding and testing of the major programs' internal controls and compliance requirements.

The Firm took action to address the noted deficiencies and to improve the quality of future audits. Details on the results of our review are provided in the Enclosure.

Sincerely,



Elliot P. Lewis  
Assistant Inspector General  
for Audit

Enclosure

cc: Barbara Aasen, Partner, EideBailly, LLP

Judith A. Fisher, Director, Division of Policy, Review, and Resolution,  
Employment and Training Administration

Enclosure

**Quality Control Review:  
Single Audit of the Job Service North Dakota  
Financial Report  
For the Years Ending June 30, 2005 and 2004  
(24-09-001-03-390)**

**Introduction**

The Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, created a single organization-wide financial and compliance audit for state and local governments, colleges, universities, and not-for-profit organizations that expend Federal funds equal to or greater than \$300,000 in any fiscal year (\$500,000 for fiscal years ending after December 31, 2003).

On September 2, 2005, the Firm issued a single audit report of the Job Service North Dakota Financial Report for the Years Ending June 30, 2005 and 2004.

We performed a QCR of the above referenced audit. Our review included the following major programs:

Program	CFDA Number
Unemployment Insurance	17.225
Trade Adjustment Assistance-Workers	17.245
Employment Service Cluster	17.207 (Employment Service)
	17.801 (Disabled Veterans' Outreach Program)
	17.804 (Local Veterans' Employment Representative Program)
Transition Assistance Program	17.807

**Objectives**

The objectives of the QCR were to determine whether: (1) the audit was conducted in accordance with applicable standards and met the single audit requirements, (2) any follow-up work is needed, and (3) there are any issues that may require management's attention.

**Results**

We determined that the audit work performed was not acceptable and did not meet the requirements of the Single Audit Act and A-133. Additional work is required to bring this

audit into compliance with the requirements of the Single Audit Act. Specifically, the Firm needs to: (1) appropriately organize the documentation associated with this audit to provide a clear link to the findings, conclusions, and recommendations; (2) report the lack of controls to detect the two material misstatements as material control weaknesses and reissue its report; (3) document the conclusions why internal control deficiencies in the management letter are not reportable conditions; and (4) include all relevant details regarding reportable conditions in the report and management letter; and (5) adequately document its understanding and testing of internal controls for the audit.

We also noted issues requiring management's attention to improve the quality of future audits. Specifically, the Firm needs to: (1) maintain audit documentation pertaining to the effect of computer processing on the nature, timing, and extent of auditing procedures in accordance with GAGAS requirements; (2) take advantage of a tool to verify completeness and classification of revenues and expenditures; (3) disclose all reportable conditions that could have a direct and material effect on the determination of financial statement amounts as required; (4) document its conclusions relating to internal control deficiencies; (5) report internal control deficiencies in accordance with GAGAS; (6) accurately report its planning and testing of major programs; and (7) adequately document its understanding and testing of the major programs' internal controls and compliance requirements.

## **Planning and Supervision**

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### **1. The Firm did not maintain audit documentation as required by GAGAS.**

The Firm did not maintain audit documentation pertaining to the effect of computer processing on the nature, timing, and extent of auditing procedures in accordance with GAGAS requirements. Specifically, the Firm did not maintain audit documentation prepared by its information technology (IT) auditors with the audit documentation related to the audit. The IT auditors' documentation primarily consisted of four folders of unbound auditee-prepared and auditors' handwritten notes with no index or numbering schema. We were unable to identify the supporting documentation for the IT auditors' findings contained in the management letter. The Firm said that IT auditors did not follow Firm policy which was to follow GAGAS and American Institute of Certified Public Accountants (AICPA) guidance on preparation of audit documentation.

GAGAS, 2003 Revision, paragraphs 4.22 through paragraph 4.24, provide that audit documentation for financial audits performed in accordance with GAGAS should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions.

AICPA standards and GAGAS require auditors to prepare and maintain audit documentation. The information contained in audit documentation constitutes the principal record of the work that the auditors have performed in accordance with professional standards and the conclusions that the auditors have reached. The preparation of audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions the auditors reached, and it should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations contained in the audit report.

As a result, the audit documentation did not provide support for the auditors report as it related to the management letter referred to in the *Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

## **Single Audit Requirements**

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### **2. The Firm did not use an available tool to test revenues and expenditures.**

The Firm did not take advantage of a tool to verify completeness and classification of revenues and expenditures. Although, the Firm believed that it was doing adequate testing to verify revenues and expenditures, it did not make use of the U.S. Department of Health and Human Services (HHS) Payment Management System to obtain grant payment information. Use of the HHS Payment Management System is a “Best Practice”. The Firm was not aware of the automated Payment Management System tool and did not have procedures in its audit guide to use the system.

AICPA Audit Guide - Government Auditing Standards and Circular A-133 Audits, paragraph 7.04, states:

In assessing the appropriateness and completeness of the auditee’s identification of federal programs in the schedule, the auditor should consider, among other matters, evidence obtained from audit procedures performed to evaluate the completeness and classification of recorded revenues and expenditures. This may include sending confirmations to granting federal agencies or pass-through entities in an audit of a subrecipient.

The HHS Program Support Center’s web site on audit confirmation procedures states: “The Payment Management System allows the recipient to provide the auditor with confirmation of grant payments during on-site audits.”

Use of the Payment Management System will bring a greater degree of assurance to audit conclusions and reduce audit risk.

## Reporting

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### 3. The Firm did not report internal control weaknesses as required.

The Firm did not disclose all reportable conditions that could have a direct and material effect on the determination of financial statement amounts as required. Specifically, the Firm's *Report on Internal Controls Over Financial Reporting* did not include internal control weaknesses that failed to detect two needed material adjustments to the auditee's records. The Firm prepared a management letter, referred to in its report, which stated, in part:

...professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Agency's financial reporting process. We noted two audit adjustments that we considered material to the financial statements and were recorded by the Agency:

1. An overstatement of unemployment receivable which resulted in overstating assets, revenues and net assets in the business-type activities of the propriety fund by \$1,204,709.
2. An error in recording work-in-progress which resulted in an overstatement of loss on disposal of fixed assets and an understatement of the economic development and assistance function expenses in the government-wide statement of activities by \$437,729.

In its *Report on Internal Control Over Financial Reporting*, the Firm stated, in part: "...We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses...."

The Firm said the engagement personnel considered these instances to be isolated errors and did not consider the lack of controls to identify the errors to be a reportable condition or material weakness. The Firm said that, based on new auditing standards issued since the period of the audit, if the same circumstances occurred it would classify the conditions noted as a material control weakness.

GAGAS, paragraph 5.13, states, in part:

For all financial audits, auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards. AICPA standards define reportable conditions as significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarize, and

report financial data consistent with the assertions of management in the financial statements....

GAGAS, paragraph 5.14, states, in part:

When reporting deficiencies in internal control, auditors should identify those reportable conditions that are individually or in the aggregate considered to be material weaknesses. The AICPA standards define a material weakness as a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions...

Since the internal control weaknesses were not included in the auditors' report, DOL managers were not made aware of the deficiencies so they could perform their regulatory oversight.

#### **4. The Firm did not document conclusion on internal control deficiencies.**

The Firm did not document its conclusions relating to internal control deficiencies noted in a management letter it provided to the auditee. Specifically, the management letter included 26 internal control deficiencies that either should have been reported as reportable conditions, or the audit documentation should have explained why the deficiencies were not determined to be reportable conditions. If the auditor concludes a matter that could appear to be a reportable condition is not, the auditor should document that conclusion. The Firm did not verify during its supervisory reviews that conclusions were documented regarding whether identified deficiencies were or were not reportable conditions.

OMB Circular A-133, Subpart E – Auditors, Section 510 – Audit Findings, describes the kinds of audit findings that the auditor shall report. If the audit work indicates these kinds of audit findings exist, they should be reported.

Further, GAGAS, paragraph 4.22, states, in part:

Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions...

The lack of documented conclusions as to why an internal control deficiency is or is not a reportable condition raises questions regarding the appropriateness of the audit conclusions.

**5. The Firm did not follow GAGAS for reporting deficiencies in internal controls.**

The Firm reported 26 findings in a management letter that lacked the required GAGAS reporting elements of cause, effect and criteria. The Firm did not consider GAGAS reporting elements to be applicable to management letters. Our review of the Firm's audit guide found that it did not require inclusion of reporting elements for findings presented in management letters.

GAGAS, paragraph 5.15, states, in part:

To the extent possible, in presenting audit findings such as deficiencies in internal control, auditors should develop the elements of criteria, condition, cause, and effect to assist management or oversight officials of the audited entity in understanding the need for taking corrective action....

GAGAS, paragraph 5.16, states, in part:

When auditors detect deficiencies in internal control that are not reportable conditions, they should communicate those deficiencies separately in a management letter to officials of the audited entity unless the deficiencies are clearly inconsequential....

Lack of the reporting finding elements mitigates the importance of the findings and does not assist the audited entity's management and oversight officials to understand the reason corrective action is needed.

**Internal Control and Compliance for Major Programs**

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**6. The Firm misreported coverage of a Federal program.**

The Firm did not accurately report its planning and testing of a major program. Specifically, the Firm reported it tested controls and compliance requirements for one program when it did not. Specifically, the Firm incorrectly identified the Transition Assistance Program, CFDA 17.807, as a major program on the Schedule of Findings and Questioned Costs. The error occurred as a result of the auditors mistakenly identifying the program as part of the employment services CFDA cluster; and the Firm did not verify the correct identification of CFDA clusters during its supervisory review of audit documentation.

OMB Circular A-133, Subpart E – Auditors, Section 505 – Audit Reporting, paragraph (d)(1)(vii) requires major programs to be reported in the Schedule of Findings and Questioned Costs.

As a result, the Firm’s report on compliance included an opinion for a program that was not audited. Though inadvertent, such errors could be serious because users may rely on the audit report and the auditor’s opinion on a program when the program was not audited. Because the amount was negligible--only \$21,536 of the \$27,631,360 the auditee received--it is unlikely any undue reliance was placed on the audit report.

**7. The Firm did not adequately document its understanding and testing of internal controls and compliance requirements for major programs.**

The Firm did not adequately document its understanding and testing of the major programs’ internal controls and compliance requirements. Of the 30 applicable compliance requirements, the Firm did not clearly document in the appropriate section of the audit file its:

- Understanding of internal controls for 11 compliance requirements it deemed not applicable; or
- Testing of two compliance requirements.

The table below details the number of applicable requirements and the exceptions noted.

Program	CFDA Number	Number of applicable compliance requirements	Understanding of internal controls not clearly documented	Testing requirement not clearly documented
Unemployment Insurance	17.225	11	4	1
Trade Adjustment Assistance-Workers	17.245	10	4	0
Employment Service Cluster	17.207	9	3	1
	17.801			
	17.804			
Total		30	11	2

However, we either found evidence elsewhere in the audit documentation or the Firm explained why the 11 compliance requirements were not applicable. The Firm also identified testing for the two compliance requirements elsewhere in the audit documentation. The Firm attributed the inadequate documentation to an oversight.

OMB Circular A-133 Subpart E – Auditors, Section 500 – Scope of audit, paragraph (c), requires that the auditor perform procedures to obtain an understanding of internal control over compliance for Federal programs sufficient to plan the audit to support a low assessed level of control risk and to perform testing of internal controls.

GAGAS, paragraphs 4.22 through 4.24, provide that audit documentation for financial audits performed in accordance with GAGAS should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. AICPA standards and GAGAS require auditors to prepare and maintain audit documentation. The information contained in audit documentation constitutes the principal record of the work that the auditors have performed in accordance with professional standards and the conclusions that the auditors have reached. The preparation of audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions the auditors reached, and it should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations contained in the audit report.

The lack of adequately documenting the auditors' understanding of internal controls for compliance requirements and testing of those requirements raises questions regarding whether the auditor understood the internal controls and tested the requirements.

## **Recommendations**

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We recommend the Firm:

1. Organize the documentation associated for this and future A-133 audits to provide a clear link to the findings, conclusions, and recommendations.
2. Include in future A-133 audit guides the requirement to use the Payment Management System to confirm grant payments. Use of this tool is not a requirement.
3. Report the lack of controls to detect the two material misstatements as material control weaknesses and reissue its report and, for future A-133 audits, report internal control deficiencies in accordance with GAGAS.
4. Document the conclusions why internal control deficiencies in the management letter were not reportable conditions and, for future A-133 audits, verify the existence of the conclusions during reviews of audit documentation.

5. Include all relevant details regarding reportable conditions in the report and management letter and, for future A-133 audits, revise audit procedures to ensure all relevant details regarding reportable conditions and all elements of findings are included in management letters.
6. Correctly report major programs and, for future A-133 audits, emphasize the correct identification of CFDA clusters during supervisory review of audit documentation.
7. Adequately document its understanding and testing of internal controls for the audit and, for future A-133 audits, prepare documentation so that it provides a clear understanding of its purpose and conclusions reached.

### **Firm's Response**

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The Firm agreed with the recommendations, and took action to address the noted deficiencies and to improve the quality of future audits.

### **OIG's Conclusion**

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We consider the recommendations resolved and closed.

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# Appendices

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**Background**

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The Single Audit Act of 1984 established consistent and uniform entity-wide audit requirements for state and local governments receiving Federal financial assistance. The single audit is the primary mechanism used by Federal agencies to ensure accountability for Federal awards. Audits performed under the Single Audit Act are intended to satisfy all Federal agencies providing assistance to the entity. The act was amended in 1996 by Public Law 104-156, raising the threshold for single audit to \$300,000 in Federal assistance. The June 27, 2003, revision to A-133 raised this threshold to \$500,000 for fiscal years ending after December 31, 2003.

QCRs are performed to provide evidence of the reliability of single audits to the auditors of Federal agency financial statements, such as those required by the Chief Financial Officers Act, those responsible for the programs, and others. We performed a QCR of the single audit of the Job Service North Dakota Financial Report for the Years Ending June 30, 2005 and 2004, performed by EideBailly, LLP.

Job Service North Dakota became part of government when a public labor exchange was created in 1935 with the signing of the Social Security Act. Through the years, Job Service North Dakota's role in providing unemployment insurance, job placement, job training and labor market information services to the public has continued to expand. It continues to provide numerous services to both job seekers and employers. For the year ending June 30, 2005, Job Service North Dakota expended about \$27.6 million in Federal funds, of which \$24.4 million was attributable to DOL.

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## Appendix B

**Objectives, Scope, Methodology and Criteria****Objectives**

Our objectives were to determine whether:

1. the audit was conducted in accordance with applicable standards and met the single audit requirements;
2. any follow-up work is needed; and
3. there are any issues that may require management's attention.

**Scope**

We performed a QCR of the single audit of the Job Service North Dakota Financial Report for the Years Ending June 30, 2005 and 2004, at the offices of EideBailly, LLP, located at 1050 E. Interstate Avenue, Bismarck, North Dakota, from June 2, 2008 to June 6, 2008.

Our review included the following major programs:

Program	CFDA Number
Unemployment Insurance	17.225
Trade Adjustment Assistance-Workers	17.245
Employment Service Cluster	17.207 (Employment Service)
	17.801 (Disabled Veterans' Outreach Program)
	17.804 (Local Veterans' Employment Representative Program)
Transition Assistance Program	17.807

**Methodology**

Using the President's Council on Integrity and Efficiency Uniform QCR Guide for A-133 Audits, we reviewed audit documentation and held discussions with the Firm's partners and audit manager to accomplish the required steps. The Guide was developed to test for compliance with GAGAS general and fieldwork standards and A-133 requirements. Specifically, we reviewed:

- Competence
- Independence

- Professional Judgment
- Quality Control
- Planning and Supervision
- Management Representations
- Litigation, Claims and Assessments
- Possible Fraud or Illegal Acts
- Determination of Major Programs
- Schedule of Expenditures of Federal Awards
- Audit Follow-up
- Reporting
- Internal Control Over Major Programs
- Data Collection Form

We also reviewed the Firm's peer review applicable to the period of the audit.

**Criteria**

Generally Accepted Government Auditing Standards

Guidance on GAGAS Requirements for Continuing Professional Education

Single Audit Act of 1984

Single Audit Act Amendments of 1996

OMB Circular A-133

**Acronyms and Abbreviations**

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A-133	Office of Management and Budget Circular A-133
AICPA	American Institute of Certified Public Accountants
CFDA	Catalog of Federal Domestic Assistance
DOL	Department of Labor
Firm	EideBailly, LLP
GAGAS	Generally Accepted Government Auditing Standards
HHS	U.S. Department of Health and Human Services
IT	Information Technology
OIG	Office of Inspector General
OMB	Office of Management and Budget
QCR	Quality Control Review

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**Independent Public Accountant Response To Draft Report**



November 14, 2008

Mr. Elliot P. Lewis  
Assistant Inspector General for Audit  
Office of Inspector General  
US Department of Labor  
200 Constitution Ave. NW, Room S-5512  
Washington DC 20210

On June 6, 2008 the U.S. Department of Labor, Office of Inspector General (OIG), completed a Quality Control Review (QCR) of the following audit completed by Eide Bailly, LLP under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):

Single Audit of the Job Service North Dakota Financial Report for the Years Ended June 30, 2005 and 2004

The results of the Quality Control Review identified seven items for our Firm's attention. Our responses to those items are as follows:

**1. The firm did not maintain audit documentation as required by GAGAS.**

We agree that the documentation prepared by information technology staff was incomplete. We organized the necessary documentation for this engagement to provide a clear link to the findings, conclusions, and recommendations. We advised staff, including information technology staff, of the applicable documentation requirements.

**2. The Firm did not use an available tool to test revenues and expenditures.**

We appreciate being informed of the availability of this tool, and communicated its existence and availability to staff assigned to applicable engagements. The use of this tool, however, is not a Single Audit Requirement, and we assert that the audit procedures performed with respect to revenue support our conclusions and our opinion expressed on the financial statements. It is also our understanding that the Quality Control Review has not suggested that the procedures performed were not considered to be sufficient.

**3. The Firm did not report internal control weaknesses as required.**

We agree with this comment, and specifically, that the two items noted should have been reported as material weaknesses. We reissued our report on November 20, 2008, with appropriate identification of the material adjusting entries as material weaknesses. In future GAGAS engagements, we will report internal control deficiencies in accordance with GAGAS.

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[www.eidebailly.com](http://www.eidebailly.com)

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**4. The Firm did not document conclusion on internal control deficiencies.**

We agree with the comment and have appropriately modified our documentation to evaluate and appropriately classify the noted deficiencies as control deficiencies, reportable conditions, material weaknesses, or best practices, and to document the related basis for our conclusions. We also reissued our letter to management to remove the items that are not required to be communicated in writing on November 20, 2008. For future audits, we will verify the existence of the conclusions during reviews of audit documentation.

**5. The Firm did not follow GAGAS for reporting deficiencies in internal control.**

We agree with the finding that we failed to disclose all the required elements of certain findings due to an oversight. We have reissued our management letter and included all required elements. We have communicated to the applicable professional staff the reporting requirements.

**6. The Firm misreported coverage of a Federal program.**

We agree with the finding that we incorrectly identified a program as a major program, which resulted in errors in reporting. As noted in the report, the related amount of federal dollars received was negligible. We communicated to professional staff involved in these engagements the importance of accurate identification of major programs. Our reissued report correctly identified the major programs that were tested.

**7. The Firm did not adequately document its understanding and testing of internal controls and compliance requirements for major programs.**

We agree that the documentation was unclear with respect to our understanding of internal controls and compliance requirements of major programs. We revised our documentation to clearly reflect the procedures that were performed and our conclusions relating to understanding of internal controls and compliance requirements for the major programs tested. We also communicated to professional how to clearly document their understanding and testing of internal controls and compliance. For future A-133 engagements, we will review the identification of CFDA numbers during reviews of audit documentation.

In addition to reissuing our report and adding the necessary documentation for this engagement, we have communicated these findings via an email to the Firm's professional staff that are involved in GAGAS engagements. We will also include these items in appropriate future trainings.

Sincerely,



Barb Aasen, CPA  
Partner