Mary Taylor, CPA
Auditor of State

Audit Division Advisory Memo 2007-07

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To: **Audit Division Staff and Independent Public Accountants**

From: **Mary Taylor, CPA**
Ohio Auditor of State

Subject: **Reporting Control Deficiencies Under Auditing Standard No. 112**

Background
Statement on Auditing Standards No. 112 (SAS 112) is effective for audits of financial reporting periods ending on or after December 15, 2006. SAS 112 lowered the threshold for reporting control deficiencies. Auditors must now report *material weaknesses* (which SAS 112 redefined) and *significant deficiencies* to auditees.

This Memo clarifies criteria Auditor of State staff uses to evaluate and classify control deficiencies. CPA firms with which we contract may choose to analyze matters slightly differently than this Memo describes, but they obviously must also follow SAS 112.

This Memo includes six parts:

- Part 1: Describes the basic criteria for evaluating (1) whether a control deficiency exists, and (2) how to classify it
- Part 2: Discusses how qualitative and other judgmental considerations may alter the reporting described in Part 1
- Part 3: Discusses the interrelationship of "GAGAS Noncompliance Findings" with SAS 112
- Part 4: Describes SAS 112 applicability to Federal Single Audit requirements
- Part 5: Describes how to communicate significant deficiencies and material weaknesses within 60 Days
- Part 6: Discusses management letters and other considerations

Part 1: Auditor of State Criteria for Evaluating Control Deficiencies

Question 1: Does a control deficiency exist, *and* is the likelihood of a misstatement resulting from the deficiency more than remote?

Considerations: A control deficiency exists, *and* the likelihood of a misstatement is *normally* more than remote if any of the following occurs:

1. We find one or more misstatements (regardless of amount) from a substantive procedure. (That is, a misstatement suggests considerations 2 or 3 below exist.) We normally would deem the likelihood more than remote unless we substantively tested a sufficiently large volume or dollar amount of the transactions to conclude a detected misstatement truly represented a remote occurrence.[1]

2. If a necessary control is inadequately designed or nonexistent, a control deficiency exists. Unless there are adequately-designed compensating controls, the likelihood of misstatement is normally more than remote.

3. A control is adequately designed, but the auditor finds one or more control operating failures, because (a) the failure occurred (and is therefore likely more than remote considering we normally test only a representative sample of control operations) and (b) it potentially could lead to a misstatement. (This again assumes there are no effectively-operating compensating controls we have tested and evaluated.) For example, a failure of a *completeness assertion* control could potentially lead to an incomplete recording of transactions in the tested account, *regardless* of whether we find misstatements due to completeness errors.

4. The three criteria above describe deficiencies auditors often find from substantive or control tests related to account balances or transactions. SAS 112 paragraph 19 and the SAS 112 Appendix describe other indicators of significant deficiencies or material weaknesses. For example, restatements to correct material misstatements from previously-audited statements are prima facie evidence of a material weakness.

If based on the above *Considerations,* we determine a control deficiency exists and the likelihood of misstatement is more than remote, proceed to *Question 2*.

Question 2: Is the misstatement amount that occurred or that could have occurred more than inconsequential to an opinion unit's financial statements?

Considerations: The amount is more than inconsequential (more than 20%[2] of overall financial statement materiality for an opinion unit) if any of the following occurs:

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[1] When auditors detect misstatements, they should also consider the potential of additional misstatements.

[2] For example, an auditor using 5% as overall financial statement materiality would use (5% x 20%) = 1% as the "more than inconsequential" threshold. Also, 20% is *example* guidance, from paragraph 8 of SAS 112. Auditors must also consider qualitative factors, including, but not limited to the qualitative and other judgmental considerations this Memo discusses in Part 2.

Also, one governmental financial statement reporting four opinion units represents *four* financial statements subject to four overall materiality measurements. (¶ 8 refers to financial statement in the singular, rather than the common phrase "financial statements taken as a whole" (plural). Therefore, AOS staff should not use the guidance in AOSAM 37700.22 when evaluating the quantitative effect of control deficiencies.

1. An actual or projected misstatement we detect from a substantive procedure is more than 20% of overall financial statement materiality. (A control deficiency likely exists, because internal controls did not prevent or detect the misstatement.)

2. A nonexistent or inadequately-designed control could potentially lead to a misstatement of more than 20% of overall financial statement materiality. In evaluating the potential amount, if for example, *occurrence assertion* controls are nonexistent for a transaction type, we would normally deem the potential misstatement to be the entire transaction type or balance for which no occurrence control existed, *regardless* of whether we find misstatements due to occurrence errors.

3. A control operating failure rate (projected or otherwise) could potentially lead to a misstatement of more than 20% of overall financial statement materiality. The potential misstatement would be the transaction type or balance subject to the control, multiplied by the projected control failure rate.

(In assessing *Considerations 2* and *3* immediately above, also consider whether compensating controls or other factors we have evaluated and tested mitigate the potential risk of a more-than-inconsequential misstatement.)

If considerations 1, 2 or 3 exist, a *significant deficiency* exists (subject to the qualitative and other judgmental considerations Part 2 describes). Proceed to Question 3 to determine whether the significant deficiency is also a material weakness.

Question 3: Is the misstatement amount that occurred or that *could* have occurred material to an opinion unit's financial statements?

Considerations: Subject to the *Qualitative and Other Judgmental Considerations* described next, the significant deficiency is also a material weakness if any of the following occurs:

1. An actual or projected error we detect from a substantive procedure is material to a financial statement. (A control deficiency likely exists, because internal controls did not prevent or detect the misstatement.)

2. A nonexistent or inadequately-designed control could potentially lead to a material financial statement misstatement. We would normally deem the potential misstatement to be the entire transaction type or balance for which the control deficiency existed, *regardless* of whether we find misstatements.

3. The control failure rate (projected or otherwise) could potentially lead to a material financial statement misstatement. The potential misstatement would be the transaction type or balance subject to the control, multiplied by the projected control failure rate.

(In assessing *Considerations 2* and *3* immediately above, remember to consider whether compensating controls or other factors we have evaluated and tested mitigate the potential risk of a material misstatement.)

Part 2: Qualitative and Other Judgmental Considerations

An auditor should also consider whether qualitative or other judgmental considerations outweigh a control deficiency's actual or potential *quantitative* materiality.

Additionally, paragraph 17 of SAS 112 states: "The auditor should conclude whether prudent officials, having knowledge of the same facts and circumstances, would agree with the auditor's classification of the deficiency." In other words, the *prudent official test* would outweigh the auditor's initial judgment. In this context, a prudent official is a regulator or someone from an oversight agency (such as a grantor).

The examples below illustrate circumstances where qualitative or other judgmental considerations may outweigh quantitative materiality.[3]

Example 1: Quantitatively Material Misstatements Might Not Result in a Significant Deficiency

Assume a local government uses the Uniform Accounting Network as part of its accounting system. During the audit period, the fiscal officer posts a *state-levied license tax* to a *property and other local taxes* receipts code. Assume the amount is more than inconsequential, but less than material to an opinion unit's *Statement of Receipts, Disbursements and Changes in Fund Cash Balances*. Is this misposting a significant deficiency?

As is often the case, this ultimately requires auditor judgment. However, we should consider the following:

- Appendix B of the Auditor of State's Uniform Accounting Network (UAN) Accounting Manual explains that *state-levied license taxes* are *intergovernmental revenue*, not *property and other local taxes*. Therefore, a misclassification occurred. Auditing Standards Section AU 312.07b includes misclassifications in its definition of *misstatements*.

- Because a misstatement occurred and the local government's internal control failed to prevent or detect it, a control deficiency exists and its likelihood of occurrence is more than remote. In this example, the amount is more than inconsequential, suggesting it is a significant deficiency.

- *However*, the auditor must judge how this misstatement would affect the judgments of reasonably-knowledgeable financial statement users. In evaluating the effect on readers' judgments, the auditor might consider:
    - Total receipts are unaffected.
    - The change in fund cash balance for the year is unaffected.
    - Beginning and ending fund cash balances are unaffected.

[3] See Statement on Auditing Standards No. 107, paragraph 60, especially c. and i. and 2007 *Government Auditing Standards* 5.12 for additional examples of qualitative materiality.

- The misposting is not material noncompliance.[4]

Therefore, the auditor might conclude the control deficiency is not a significant deficiency. The auditor should document this reasoning.

Example 2: Quantitatively Immaterial Amounts Result In a Possible Material Weakness

Assume a village uses the UAN accounting system, has a major electric fund, and participates in *American Municipal Power's* Joint Venture 5 (JV 5). JV 5's debt includes an operating revenue / debt service coverage covenant requirement.

- Assume the village's fiscal officer misposts a receipt from a *sale of fixed assets* (a nonoperating receipt) to an *other operating receipts* code.

- UAN requires reporting sales of fixed assets as a nonoperating receipt. Because a misclassification occurred, and internal control did not prevent or detect it, an internal control deficiency exists and its likelihood of occurrence is more than remote.

- As with Example 1, the misposting did not affect total receipts (operating plus nonoperating), the change in fund cash balance or fund cash balances.

- <u>However</u>, the misclassification overstates the opinion unit's *Total Operating Receipts*, and could potentially cause the Village to report that it complied with its revenue / debt service coverage covenant requirement, when in fact it did not comply.
    - Noncompliance with a covenant is usually material noncompliance, which the covenant may even define as an event of default.
    - Therefore the deficiency is qualitatively material, and may be a material weakness. (It is also reportable noncompliance if adjusted *Total Operating Receipts* show the village failed the covenant requirement.)

Example 3: Professional Disagreements Regarding Complex Accounting Principles or Forming Highly Subjective Estimates Might Not be Indicative of a Control Deficiency

Preparing GAAP financial statements often require interpreting complex accounting principles or forming highly subjective estimates. Management is responsible for implementing controls to help assure it complies with routine and complex / subjective GAAP principles. Additional inherent risk exists regarding complex principles, adopting new principles and preparing highly subjective estimates. Management can use the following to enhance its compliance with these more complex standards and estimates:

- Reading and retaining copies of the standards and other reference materials (GASB Implementation Guides, magazine articles, etc.)

[4] Ohio Administrative Code Section (OAC) 117-2-02 includes requirements for governments to establish internal controls and report financial information properly. However, we would not automatically deem one misclassification as reportable noncompliance under this OAC Section.

- Attending training
- Contracting with accounting experts to either compile the information or review management's compilation regarding complex standards or estimates
- Networking with other governments subject to the same requirements
- Discussing the issue with their independent auditor prior to compiling statements for audit
- Contacting experts in fields related to the subject matter, such as:
  - Attorneys
  - Actuaries
  - Engineers

Nevertheless, auditors may disagree with management's estimates or its application of a principle, ultimately resulting in financial statement audit adjustments. Should auditors deem resulting audit adjustments as prima facie evidence of a control deficiency? We believe auditors must judge these instances case by case. As an example, assume management prepared a material estimate. Assume the auditor materially disagrees with the estimate. After "negotiation," the auditee agrees to adjust its statements. Did a control deficiency exist? To answer this, the auditor should consider:

- While the auditor disagrees, did the entity or compiler use reasonable judgment in preparing the estimate?
- Did management use "due care," such as applying some of the controls described above?

If the answer to the above is "yes," the auditor *might* reasonably conclude the disagreement / adjustment does not indicate a control deficiency exists.

Conversely, if management's estimate includes mathematical errors, is based on clearly erroneous assumptions or misunderstanding of the guidance, inadequate research, etc. this would lead the auditor to conclude a deficiency exists in the control environment or other control components.

Part 3: Determining whether "GAGAS Noncompliance Findings" Also Require Reporting as SAS 112 Control Deficiencies

Section 4.28 in the AICPA's *Government Auditing Standards and Circular A-133 Audits* requires auditors to report noncompliance findings that also relate to control deficiencies in both (1) the internal control and (2) the compliance sections of the GAGAS report.

Several Revised Code sections mandate governments to implement internal controls, such as budgeting (Chapter 5705), purchasing / contracting controls (see Ohio Compliance Supplement Chapter 2) and investing policies (Ohio Rev. Code 135.14). *However, unless noncompliance with these mandated controls contributes to misstatements or potential misstatements, auditors should not report them under SAS 112.* The Appendix to SAS 112 provides the following example that we can relate to some Ohio Revised Code requirements:

> "Material weaknesses relating to controls over the safeguarding of assets would only exist if the company does not have effective controls (considering both safeguarding and other controls) to prevent or detect a material misstatement of the financial statements."

For example, part of ORC 135.14 mandates an investment policy to protect governments from losses related to risky investments, such as certain derivatives. This policy is an asset safeguarding control. However, purchasing a derivative (a failure to monitor compliance with the ORC control policy) would likely <u>not</u> be a SAS 112 control deficiency if the government had controls to help assure the proper valuation and disclosure for the derivative. Under GAGAS, auditors would report material noncompliance for purchasing a derivative contrary to the ORC 135.14 investment policy, but would <u>not</u> categorize this violation as a SAS 112 significant deficiency or material weakness, if it did not result in an actual or potential misstatement.

Additionally, we consider *authorization* as a control objective, and some laws mandate authorizations. But unless an authorization control failure contributed to or could potentially contribute to a misstatement, an authorization control failure would not be reportable under SAS 112. As one example, appropriations authorize expenditure limits. Many governments present budgetary statements or disclose budget vs. actual amounts. Overspending appropriations is normally reportable GAGAS noncompliance, but "mere" overspending would not be a significant deficiency or material weakness under SAS 112.[5] That is, the budgetary statements could still "fairly present" the over expenditure.

Conversely, assume a government failed to record all appropriation amendments in its accounting system, and used the accounting system's budget amounts to prepare its budgetary presentation. A misstatement would result and auditors should determine whether to report it as a significant deficiency or material weakness using the criteria from Part 1 of this Memo. (That is, properly designed and operating *completeness* controls should prevent or detect unrecorded appropriation amendments.) Because Ohio Administrative Code 117-2-02(C)(1) requires governments to integrate budgetary information into their accounting systems, auditors might also judge this to be reportable GAGAS noncompliance, if significant.

As a final example, various Revised Code and other regulations specify interest allocation requirements (see Ohio Compliance Supplement step 5-9 for counties and 5-5 for many other governments). A failure to allocate / post interest properly is a misstatement auditors must evaluate under SAS 112. Causes of the misstatement may include a lack of legal knowledge or even disregard of the requirement. A lack of knowledge or disregard of the legal requirements may indicate a SAS 112 control deficiency relating to the control environment, as well as material noncompliance.

Notice the examples above relate directly to financial statement *amounts*. Some compliance requirements in Ohio Compliance Supplement Chapters One through Six, while significant, do

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[5] The discussion above does not imply *authorization* controls are never 112 deficiencies. For example, if a fiscal officer reviews a payment voucher, and this approval / authorization includes judging whether the payment is classified to the proper fund and account code, this authorization should help prevent financial statement misclassifications. Unless compensating controls operate effectively, an auditor should evaluate the authorization control failure using Part 1 of this Memo.

not relate directly to financial statement amounts and therefore would not normally fall within the purview of SAS 112. Examples might include requirements related to preparing or filing reports by mandated deadlines.

In conclusion, auditors should consider whether GAGAS noncompliance findings also suggest a control deficiency based on a detected or potential misstatement.

Part 4: Applicability to Federal Single Audit Requirements

The June 26, 2007 *Federal Register* announced a revision to OMB Circular A-133, adopting SAS 112 reporting requirements to single audit reports for audits of fiscal years ending on or after December 15, 2006. You can view example reports at the following website:

http://gaqc.aicpa.org/

In addition to changing the definitions of control deficiencies in A-133 § ___ .510(a)(1), this change also altered how auditors determine low-risk programs and low-risk auditees.

Determining Low-Risk Programs
A-133 § ___ .520(c)(2) states: " . . . For a Type A program to be considered low-risk . . . it shall have had no audit findings under § ___ .510(a)." Therefore the existence of a significant deficiency related to a Type A program would preclude an auditor from classifying the program as low risk.

(We are unaware of any requirement for an auditor to consider whether a reportable condition from audit periods ending prior to December 31, 2006 should be considered a significant deficiency during the subsequent audit.)

Determining Low-Risk Auditees
A-133 § ___ .530(c) prohibits classifying an auditee as low risk unless "There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS . . ." Similar to the above, we are unaware of a requirement for auditors to consider whether reportable conditions from audit periods ending prior to December 31, 2006 would now be deemed SAS 112 material weaknesses.

Implementation
The Auditor of State will not reissue December 31, 2006 single audits that did not follow SAS 112. However, we are now applying SAS 112 requirements to Federal single audits.

Interpretation
Also, AU 9325.03 interprets how SAS 112 relates to single audit internal controls over compliance:

> " . . . [T]he following definitions should be used when an auditor reports on internal control over compliance in a single audit. This change in terminology and the related definitions may result in the reporting of additional internal control over compliance matters than had been reported using the previous terminology and definitions.

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a *type of compliance requirement* of a federal program.

- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a *type of compliance requirement* of a federal program that is more than inconsequential will not be prevented or detected.

- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a *type of compliance requirement* of a federal program will not be prevented or detected."

References above to "type of compliance requirement" mean the 14 compliance items listed in OMB Circular A-133 § .320(b)(2)(xii), such as eligibility, matching, reporting, etc. Therefore "112 evaluations" for A-133 purposes differ significantly from the noncompliance Part 3 describes.

For example, Part 3 of this Memo states the failure to prepare or file a report would not be a GAGAS / SAS 112 control deficiency if it did not contribute to an actual or potential misstatement. However, *Reporting* is an A-133 compliance requirement. Therefore, noncompliance with A-133 *Reporting* would suggest a control deficiency auditors should evaluate for inclusion in the internal control section of their A-133 report (as well as being an A-133 noncompliance finding.)

Part 5: Communicating Significant Deficiencies and Material Weaknesses within 60 Days

SAS 112 requires written communication of the following within 60 days of the ***opinion release date***:

- Significant deficiencies
- Material weaknesses
- Significant deficiencies and material weaknesses uncorrected since the prior audit

Including these matters in the schedule of findings to the *Government Auditing Standards* report on compliance and internal controls fulfills this written communication requirement.

Because the Clerk of the Bureau (Clerk) normally releases the financial opinion and GAGAS report together, this is rarely an issue. However, exceptions sometimes occur with comprehensive annual financial reports (CAFRs), when we grant an auditee permission to use our signed opinion before the Clerk releases the full audit report. In these circumstances, Auditor of State staff[6] will use the following steps to meet the 60-day requirement:

1. Release the signed opinion when the auditee needs it for their CAFR deadline if fieldwork is complete.
    a. Fieldwork is not complete unless the audit documentation includes summaries of significant deficiencies / material weaknesses (SD / MW).
    b. During the 60-day period SAS 103 permits for completing audit documentation, the audit staff should draft SD and MW in a format suitable for release in the GAGAS report. That is, the SD / MW should include all finding elements GAGAS requires:
        - Describe the criteria, condition, cause and effect (GAGAS 4.14 – 4.18)
        - Place each finding in perspective (GAGAS 5.22)
        - Obtaining management's responses (GAGAS 5.32 – 5.39) during this time is certainly permissible, but SAS 112 does not require it.
    c. The region must keep track of the 60-day deadline. If the 60-day deadline approaches and there is risk the Clerk will not release the GAGAS report within the deadline, proceed to step 2.
    d. If the Clerk will meet the 60-day deadline, skip step 2 and proceed to step 3.

2. The region should prepare the "transmittal" letter SAS 112 ¶ 26 requires (A&A will place a transmittal letter example in the Audit Briefcase for AOS staff).
    a. Append the findings the staff drafted per step 1.b to the transmittal letter. We may, but need not include management's responses.
    b. The regional chief should sign the letter.
    c. The region should send the letter (electronic, conventional mail, hand delivery are all acceptable) to those charged with governance.
    d. Maintain documentation that you sent the communication, such as a copy of the letter, a copy of the e-mail with the addressees, date sent, etc.
    e. Proceed to Step 3.

3. Complete the GAGAS report:
    a. Insert the SD / MW the staff drafted per step 1.b above.
    b. Insert noncompliance findings
    c. Insert any management's responses.
    d. Complete the A-133 report.
        i. Consider whether any A-133 findings also require inclusion in the GAGAS report.
        ii. If so, include them in the GAGAS report.
        iii. If we include any SD / MW in the GAGAS report we did not include in a transmittal letter per step 2, label them in the GAGAS report as matters we did not previously communicate. (A&A will update the GAGAS letter shell with example language.)

[6] Obviously IPAs are subject to the same 60-day SAS 112 reporting requirement. IPAs should consider adopting a similar policy.

iv. If we date the A-133 report later than the financial opinion / GAGAS report date (as 12.27 of the GAGAS / A-133 Audit Guide permits):
   - AU 560.12 requires obtaining an updated representation letter. We believe this letter should have the same date as the A-133 report. Our staff should obtain an updated representation letter.[7]
   - Auditors must recognize that completing A-133 work after the financial opinion date imposes a risk of detecting matters that would have required adjusting the basic statements had the work been completed by the financial opinion date. Therefore, these matters *may* require restating / reissuing previously issued audited financial statements.
   - Detecting potential material misstatements after the financial opinion date requires auditors to apply AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.* For example detecting material noncompliance resulting in a previously unknown material contingent liability *may* require reissuing the basic statements and the auditor's opinion.
   - Regardless, when we use a later date for the A-133 report, 12.27 of the GAGAS / A-133 Guide requires the auditor to update subsequent events work through the A-133 report date. See AU 560 for the required procedures. (AOS staff should use our specimen audit program steps for *subsequent events*.)

e. Submit the reports to the Clerk for issuance within the deadlines Circular A-133 § .320(a) impose.

[7] The update should be substantially the same letter as we obtained at the financial opinion date, but should now include the A-133 representations. AOS staff can obtain this from the latest Briefcase example.

Part 6: Management Letters and Other Considerations

Management Letters

Auditors may judge whether and how to report insignificant / inconsequential control deficiencies. However, the auditor should document all these communications, whether written or oral. (GAGAS 5.14)

In determining "whether and how" to report insignificant / inconsequential control deficiencies, consider the following:

- GAGAS no longer requires communicating "more than inconsequential but less than reportable" control deficiencies in a management letter.
- The reduced threshold for reporting control deficiencies in the GAGAS report per SAS 112 should "move" some control deficiencies we would have previously reported in management letters to the GAGAS report.
- While GAGAS does not require auditors to evaluate the cost-benefit of implementing controls to remediate insignificant / inconsequential control deficiencies, we prefer management letters not include comments relating to clearly inconsequential 112 control deficiencies.
- Because SAS 112 only applies to financial statements and disclosures auditors opine on, auditors could include deficiencies related to compiling unaudited CAFR introductory or statistical tables or RSI in a management letter.
- As described in **Part 3** above, 112 prohibits reporting deficiencies related to safeguarding assets or authorizations in the GAGAS report on internal controls, unless they contribute or could potentially contribute to misstatements. However, we <u>*can*</u> use management letters to report these deficiencies.
    - We believe there would be no need to repeat a GAGAS noncompliance finding related to safeguarding assets or authorizations in the management letter.
        - For example, Part 3 explains that purchasing an investment RC 135 prohibits would be a noncompliance finding, but would not be a SAS 112 control deficiency if the entity had controls reasonably assuring the investment was properly valued, classified and disclosed. Because the GAGAS report discloses the relevant facts, you *need not* repeat it as a control deficiency in the management letter.
        - Conversely, if an entity violated its internal policy requiring supervisory approval of transactions, the auditor *might* conclude the violation would not potentially contribute to misstatements.[8] So auditors would not report this in the GAGAS report. However, the auditor *could* report this in the management letter.
- Other suitable topics for management letters that would not likely be reportable under SAS 112 include:
    - Weaknesses and inefficiencies in controls not related to financial data.
    - Operational inefficiencies

[8] This requires auditor judgment. See footnote 5 for an example.

- Opportunities to increase revenue, such as by investing idle cash.
- New accounting pronouncements that will affect future financial statement periods.

Other Considerations

Infrequently, we may issue audits under GAAS but not GAGAS. An example could be an enterprise fund financial audit to meet a debt covenant requirement. In this instance, we would not issue a GAGAS report on compliance or controls. For these audits, we would communicate any SD / MW via the transmittal letter Part 5, Step 2 discusses.

2007 GAGAS 5.13 also states if an entity remediates a reported deficiency before the auditor issues his or her report, and the auditor has evidence of the remediation, the auditor should still report the deficiency, but should describe the auditee's remediation.

We realize this Memo is lengthy and complex. Be assured we took all reasonable efforts to assure its accuracy, including limited discussion with the AICPA and other governmental practitioners. However, as auditors become more familiar with SAS 112, we may become aware of guidance that could alter portions of this Memo. If these matters arise, we will communicate them to you.