
1.PURPOSE. To provide instructions to each Public Housing Agency (PHA) and Indian Housing Authority (IHA) on its eligibility to engage the services of an Independent Auditor (IA) and procedures for obtaining an audit. The instructions contained herein are revised to conform to the requirements of 24 CFR 44, which reflects the requirements of the Single Audit Act of 1984 (Act).

2.HUD AUTHORITY TO REQUIRE AUDITS. The Single Audit Act of 1984 establishes audit requirements for State and local governments, including PHAs and IHAs that receive Federal financial assistance.

3.AUDIT REQUIREMENTS. A PHA/IHA shall engage an IA to conduct a Single Audit in accordance with the requirements of 24 CFR 44. A PHA/IHA shall engage an IA within 90 days following the end of the period to be audited. It is recommended that a large or "Troubled" PHA engage an IA prior to the close of its fiscal year or period to be audited to ensure that the audit is completed within a reasonable period of time. The cost shall be charged to the development cost or operating expense of the Federally-aided low-income, conveyed, Section 8 existing or Section 23 project, as applicable. Requiring PHAs/IHAs to engage IAs does not affect any of HUD's rights under the Annual Contributions Contract and the U.S. Housing Act of 1937, as amended. HUD and the Comptroller General of the United States may make such additional audits of the PHA's/IHA's operations as they deem appropriate. PHAs/IHAs that have not had an audit for periods in excess of one year should contract for an audit to bring themselves current and to coincide with the close of their fiscal year. HUD published a final regulation at 24 CFR 44 in which all references to biennial audit requirements which formerly were in the Performance Funding System regulations (24 CFR 990) were eliminated. An exception to these requirements is that single audits must be made annually unless the State or local government has adopted, by January 1, 1987, a constitutional or statutory requirement for less frequent audits. For those governments (including PHAs and IHAs), HUD will permit biennial audits, covering both years, if the government so requests.

4.REFUSAL OR FAILURE ON PART OF PHA/IHA TO OBTAIN REQUIRED AUDIT. If the PHA/IHA refuses or fails to obtain the required audit, as required, HUD will obtain such audit and the PHA/IHA shall promptly reimburse HUD for its costs, together with interest at the Loan Interest Rate. Section 44.14 of the regulations (See Appendix 1) sets forth other permissible sanctions for failure to do an audit in accordance with Part 44 requirements.

*5PHAs/IHAs NOT SUBJECT TO FEDERAL AUDIT REQUIREMENTS. PHAs/IHAs that receive less than \$25,000 in Federal financial assistance in any PHA/IHA fiscal year shall be exempt from the Act and other Federal Audit requirements. Such PHAs/IHAs are no longer required to have Federal audits, but are subject to the audit requirements of State and

costs in accordance with Section 990.108(a)(3) of the PFS regulations may be approved for such PHAs/IHAs.

Accordingly, while HUD no longer requires PHAs/IHAs that receive a total of federal financial assistance which is less than \$25,000 in any PHA/IHA fiscal year to obtain audits, it is recommended that a PHA/IHA do so as an exercise of its own discretion, primarily for its * own interest in sound and businesslike financial management. The cost of audits obtained either voluntarily or pursuant to State law is an eligible operating expense and PHAs/IHAs are eligible for the additional funds provided in the same manner as when the audits are required by HUD. *

6. HUD/OIG AUDITS.

a. In some special cases, a Field Office, Regional Office or Headquarters may determine that an audit by HUD appears advisable. In such cases, PHAs/IHAs are still required to contract for an audit of their activities.

b. Where the Inspector General advises a Field Office that it will make an audit, the PHA/IHA shall be notified in writing no later than 90 days before the end of the fiscal year to be audited.

*7DEFINITION AND QUALIFICATIONS OF INDEPENDENT AUDITORS. An IA is (1) a State or local government auditor who meets the independence standards specified in the Standards for Audit of Government Organizations, Programs, Activities and Functions developed by the Comptroller General, dated February 27, 1981, or (2) a public accountant (i.e., an individual who meets the qualification standards in Standards for Audit of Government Organizations, Programs, Activities, and Functions for personnel performing government audits) who meets such independence standards.

8. BUDGETING FOR AUDIT COSTS.

a. PHAs/IHAs whose projects have reached End of Initial Operating Period (EIOP) that engage IAs to make the required audit shall budget for the expense on the appropriate budget form such as the Operating Budget Form HUD-52564, as well as the supporting Form HUD-52571, Schedule of Administration Expense Other Than Salaries, in the annual budget submitted.

b. Budgeted costs of required audits, as approved by HUD and chargeable to public housing operations will be considered in the calculation of operating subsidy eligibility in accordance with HUD regulations at 24 CFR 990.108(a) and reflected on the appropriate lines on Form HUD-52721. For the projects which have not reached EIOP, the costs will be reflected on Form HUD-52483, Public Housing Program - Public Housing Agencies Cost Budget and Cost Statements. The audit period must end with the close of the

PHA's/IHA's fiscal year unless the fiscal year has not been established. Since the audit will be made subsequent to the close of the PHA's/IHA's fiscal year and the cost shall apply to a prior period, it shall not be construed as a prior year adjustment affecting residual receipts. For example, the audit will be made in July and August 1986 for the year ended June 30, 1986 and a PHA/IHA will budget for an audit in its fiscal year

ending June 30, 1987.

9. PRORATION OF AUDIT COSTS. The audit cost shall be prorated on an equitable basis between development and management where applicable. The accounts to be charged are 4170, Accounting and Auditing Fees, and 1400.2/1410.19, Development Cost Sundry Administration Expense.

10. PHA/IHA CONTRACTS WITH IAs. Subsequent to HUD approval of the required audit in the budget, the PHA/IHA shall secure the services of an IA. The PHA/IHA is encouraged to obtain proposals from at least three IAs.

11. SELECTION OF INDEPENDENT AUDITORS.

* a. Prime considerations in selecting the best proposal are qualifications of assigned staff, location of office, and cost. Preferably, IAs should be located within a reasonable vicinity of the PHA/IHA so that the IA may be available to provide guidance and advice on accounting and financial matters if requested by the PHA/IHA. The audit hourly rates charged for members of the audit firm shall be comparable to the prevailing rates in the community. In addition, the overall cost of the audit should be reasonable. Additional selection criteria also should include (a) the auditors previous experience in conducting PHA/IHA audits; (b) the auditors capacity to conduct such audits, including those involved with automated accounting systems; and (c) the scope of the services provided in the auditors base price.

* b. One of the methods of minimizing audit costs is for the PHA/IHA to provide clerical assistance, such as preparing workpaper schedules, pulling paid vouchers, etc. Additional guidance on auditor selection is provided at 24 CFR 44.15 and 44.16. Part 44 is included as Appendix 1 of this Handbook. Part 44 implements OMB Circular A-128 which supersedes Attachment P, "Audit Requirements," of OMB Circular A-102, "Uniform requirements for grants to State and local governments."

12. FORM OF AUDIT REPORT AND REPRESENTATION LETTER.

* a. The form of audit report which will be acceptable to HUD is set forth in Part 44.10. It enables the IA to issue an opinion in the Audit Report on whether the financial statements fairly present the financial position of the PHA/IHA. The Audit Report will contain sections of findings and other pertinent financial comments. The certified financial statements will be the Balance Sheet, Analysis of Surplus, and Income and Expense Statement.

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With reference to the Actual Development Cost Certificate (ADCC), Form HUD-52427, and the Actual Modernization Cost Certificate (AMCC), Form HUD-53001, PHAs/IHAs are instructed to complete and certify the ADCC or AMCC, upon project completion, and submit them to HUD. The form(s) have been certified by the PHA/IHA and submitted to HUD, and therefore, can be included in the audit's scope as the IA is required to perform tests to assure that the PHA's/IHA's financial status

* report contain accurate and reliable data. (See Appendix 3, for an OIG Question and Answer Document on the Single Audit Act; Question J-5 specifically addresses the ADCC and AMCC.)

b.PHAs/IHAs may not contract for separate, special audits of completed projects.

c.In some cases, the IA may request that the PHA/IHA prepare a representation letter at the close of the audit. This letter deals with the status of particular accounts and any other facts which might affect the overall accuracy of the financial statement. In addition, this letter minimizes the liability of the auditor for matters that are not recorded on the books and records of the PHA/IHA.

d.Some PHAs use their financial reports as official documents to support other financial activities. Consequently, the question arises concerning the auditor's responsibility for the information contained in these statements. If the PHA/IHA requires a representation letter from the auditor in this regard, the PHA/IHA should specifically so state in the bid documents.

13.CHANGING OR DISCONTINUING INDEPENDENT AUDITORS. If a PHA/IHA changes an auditor at any time subsequent to the signing of contracts, the PHA/IHA shall secure the service of another auditor from the end of the last audit period.

14.SUBMISSION OF AUDIT REPORT BY INDEPENDENT AUDITORS.

a. Upon completion of the field work, the auditor shall prepare the Audit Report and submit it to the PHA/IHA Board of Commissioners. The auditor shall provide

sufficient copies for each Commissioner, the Executive

* Director, plus two copies for PHA/IHA submission to HUD, and one copy for submission to the Federal Audit Clearinghouse.

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* b. The program participants (PHA/IHA) shall submit two copies to the local HUD management office identified in Appendix 4 within 30 working days of the completion of the audit, but no later than one year after the end of the audit period. The PHA/IHA may stipulate the completion date in its contract with the auditor to be less than the maximum 12 month submission requirement of the Single Audit Act (see Appendix 3, Question J-6).

* c. The PHA/IHA shall submit one copy of the audit report, within 30 days after issuance, to the Bureau of the Census at the following address:

Federal Audit Clearinghouse
Bureau of the Census
PO Box 5000
Jeffersonville, IN 47199-5000

*

15. REVIEW BY HUD OF THE AUDIT REPORT. The Field Office shall record receipt of the audit report in SMIRPH/MIRS, and shall review the report to identify significant findings as a part of the overall risk management strategy. For those findings

considered significant by the Field Office, the Field Office shall enter such findings into SMIRPH/MIRS and take appropriate followup action, including review of the subsequent audit report, to ascertain if satisfactory corrective action has been taken by the HA to resolve the findings.

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16. PAYMENT TO THE INDEPENDENT AUDITOR. The PHA/IHA may negotiate the payment schedule with the IA; no approval by HUD is required prior to payment of the audit fee by the PHA/IHA.

17. COPY OF AUDIT REPORT TO APPOINTING OFFICIAL. The Field Office Director of Public Housing shall send one copy of the Audit Report to the appointing official in the community, who usually is the Mayor.

18. AUDITS OF NON-PHA SECTION 8 OWNERS. Project owners that are private entities and have housing assistance payment contracts under the Section 8 or the revised Section 23 programs are not sub-recipients subject to the requirements of Part 44 - Non-Federal Government Audit Requirements.

19. STATE, COUNTY, OR MUNICIPAL AUDITS. In the case of PHAs/IHAs which are not independent agencies, the State or local government has the choice of including the PHA/IHA in its own audit or doing a separate audit of the PHA/IHA.

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20. AUDITS OF INDIAN HOUSING AUTHORITIES. IHAs shall obtain the services of an IA in accordance with this Handbook.

21.24 CFR PART 44. "Non-Federal Government Audit Requirements" sets forth the requirements that PHAs/IHAs must observe in obtaining an audit. Part 44 provides that the audit should be performed in accordance with (1) generally accepted government auditing standards as defined in Standards for Audit Government Organizations, Programs, Activities and Functions, developed by the Comptroller General, dated February 27, 1981, and (2) Compliance supplements approved by OMB. (See Appendix 1 for a copy of Part 44 and Appendix 2 for a copy of the Compliance supplements.)

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