

APPENDIX 3

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Single Audit Act of 1984
Questions and Answers

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Office of Inspector General
Office of Audit

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PREFACE

The Questions and Answers presented in this document are based on information gathered during the operation of the National Review center (NRC), Office of Inspector General (OIG). The questions presented are those most frequently asked. In many cases, the answers are based only on the most typical circumstances and do not take into consideration the various exceptions that may be present. They are given as general guidance. Varying circumstances and clarifying guidance, that may be issued by the program Assistant Secretaries, could have an impact on the answers.

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A. INDEPENDENT AUDITOR OR AUDITEE REQUEST FOR INTERPRETATION AND/OR PUBLICATIONS
A-1 Question - The Independent Auditor (IA) and/or the auditee needs Single Audit publications and HUD audit guides to perform audits. Do I refer them to the Regional Inspector General for Audit or the Office of Inspector General, Headquarters?

Answer - No. HUD and the Inspector General did not and will not provide publications and related material to the IA/auditee. The IA/auditee should obtain this material from the appropriate supplier. The following is a list of publications requested in the past and the supplier of those publications.

Item	Supplier
Consolidated Audit Guide for Audits of HUD Programs, Handbook 2000.4 Rev-1 July 1993, Stock #023-000-00805-0	Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20401 (202) 783-3238
Compliance supplement for Single Audits of State and Local Governments	Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20401 (202) 783-3238
Catalog of Federal Domestic Assistance	Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20401 (202) 783-3238
OMB Circulars A-128 and A-133	Office Of Management and Budget (202) 395-7332
Government Auditing Standards (Yellow Book), Stock #020-000-00243-3	Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20401 (202) 783-3238
Interpretation of Continuing Education and Training Requirements Stock #020-000-00250-6	Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20401 (202) 783-3238
Questions and Answers on OMB Circular A-133, Stock #041-001-00374-6	Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20401 (202) 783-3238
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Audits of State and Local Governmental Units	American Institute of Certified Public Accountants, Inc. Order Department, P.O. Box 1003 New York, NY 10108-1003 (212) 575-6481
Accounting Standards Division Statements of Position (SOP)	American Institute of Certified Public Accountants, Inc. Order Department, P.O. Box 1003 New York, NY 10108-1003 (212) 575-6481
Codification of Statements on Auditing Standards (SAS)	American Institute of Certified Public Accountants, Inc. Order Department, P.O. Box 1003 New York, NY 10108-1003 (212) 575-6481
Statements on Auditing Standards	Commerce Clearinghouse, Inc. 4025 W. Peterson Avenue Chicago, IL 60646 (800) 248-3248
Codification of Governmental Accounting and Financial Reporting	Government Accounting Standards Board, Order Department P.O. Box 30784 Hartford, CT 06130 (203) 847-0700, Ext. 10

A-2 Question - IA's are requesting copies of the following:
Handbook IG 7476.3 Rev - Instructions for Analysis of General
Fund Cash Balances, November 1984
Handbook IG 7476.3 - Audit Guide for Audits of Public Housing
Agencies, August 1978

Where can they get copies of those publications?

Answer - Copies of these publications cannot be obtained since they were canceled and are out of print. Those Handbooks were replaced by the Single Audit.

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A-3 Question - IA's are requesting various Copies of HUD Handbooks. Can I release them to the IA?

Answer - Yes, HUD Handbooks can be provided to IAs based on their specific request. You should follow your office policy on who and how the requested material should be provided to the IA or provide them with the new HUD telephone number for requests for HUD publications, (800) 767-7468.

A-4 Question - IA's have technical questions on audits. Do I refer the IA to the Regional Inspector General for Audit or to OIG Headquarters?

Answer - No. Routing referrals to the Regional Inspector General for Audit or to OIG Headquarters are not to be made.

The only time the IA should normally be referred to the Regional Inspector General for Audit is when an actual or potential fraud or illegal act is disclosed during the audit.

Technical questions asked during the last three years involved interpretations of HUD Handbook procedures, AICPA Audit Guides or standards, GAO standards and/or the HUD Consolidated Audit Guide. The following should be followed when technical questions are asked in those areas.

-Questions on HUD procedures should be answered by the HUD field office staff consistent with instructions provided to auditees. If the questions cannot be answered, the HUD staff should either obtain the information from Headquarters or refer the caller to the appropriate Headquarters staff person, whichever method is consistent with current local office policy and/or HUD Headquarters policy for the specific program.

-Questions on the Consolidated Audit Guide for Audits of HUD Programs (Handbook 2000.4 REV-1) are to be referred to the Financial Audits Division, OIG, (202) 401-6851.

-Questions on GAO standards are to be referred to the General Accounting Office, (202) 512-9321.

-Questions on the AICPA Audit Guide or on AICPA standards are to be referred to the AICPA, 1-800-272-4272.

-Questions on any OMB publication are to be referred to the Financial Management Division, Office of Management and Budget, (202) 395-7332

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B.NEED FOR AUDIT - TYPE AUDIT NEEDED

B-1 Question - When is a Single Audit in accordance with the Single Audit Act of 1984 and Office of Management and Budget Circular A-128 required?

Answer - Audits of State or local governments and of Public Housing Agencies or Indian Housing Authorities that receive \$100,000 or more a year in total Federal financial assistance are to be conducted in accordance with the Single Audit Act requirements.

Note: When we speak of "total Federal funding" we mean all direct and indirect HUD funding as well as funds received from other Federal agencies.

B-2 Question - What do we tell auditees/IAs when they ask what audit guide

is to be used for those entities who receive total Federal funding between \$25,000 and \$ 100,000 of Federal assistance per year that must be audited but do not have to have a Single Audit.

Answer - The entities received total Federal funding between \$25,000 and \$100,000 a year shall have an audit made in accordance with OMB Circular A-128 or in accordance with Federal laws and regulations governing the programs in which they participate. On May 1, 1986, HUD canceled various audit guides (Handbooks) since they had become obsolete due to the passage of the Single Audit Act of 1984 and the issuance of OMB Circular A-128, "Audits of State and Local Governments."

As a result of this cancellation, affected entities receiving total Federal funding between \$25,000 and \$100,000 must be audited. The scope of the audit will be in accordance with OMB Circular A-128, paragraph 6 or using audit procedures which determines if the entity is in compliance with laws and regulations. However, should the recipient elect to have an audit other than A-128 (OMB Circular A-128, paragraph 4b.), the IA would be responsible for ensuring adequate coverage of HUD programs in conformance with applicable HUD regulations. The American Institute of Certified Public Accountants (AICPA) issued an industry audit guide in February 1986, updated as of May 1, 1993, which incorporates the provisions of the Act and OMB Circular A-128. The AICPA also issued Statement of Position (SOP) 92-7 (Audit of State and Local Governmental Entities Receiving Federal Financial Assistance) that provides the IA guidance in implementing the Single Audit requirements as a supplement to the AICPA Audit and Accounting Guide.

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B-3 Question - Is an entity that receives total Federal assistance of less than \$25,000 required to have an audit?

Answer - No. Entities receiving less than \$25,000 are exempt from the Single Audit Act or any other Federal Audit requirement. However, they may be subject to local or state audit requirements, and must maintain records in accordance with program regulations, suitable for audit in the event that HUD OIG performs an audit or the Department elects to contract to have an audit conducted.

B-4 Question - A PHA is a non-profit corporation and as such, can an OMB Circular A-133 audit be performed?

Answer - No. The PHA's audit requirements were established by HUD in 24 CFR 44 which states that the audit must be performed in accordance with the provisions of the Single Audit Act and OMB Circular A-128.

B-5 Question - What type audit is needed when a PHA owns a multifamily housing project with a HUD-insured or HUD-held loan?

Answer - An A-128 Single Audit is needed. In addition, the financial statements and reporting requirements for the multifamily housing project, required by HUD Handbook 4370.2 REV-1, Financial operations and Accounting Procedures for Insured Multifamily Projects, are to be included in the report as supplemental financial statements.

The IA should be advised to include in the report statements to the effect that the audit was performed in accordance with the provisions of the Single Audit Act and OMB Circular A-128, and the reporting requirements of HUD Handbook 4370.2 REV-1.

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B-6 Question - In a situation where a Non-Profit entity receives funds from HUD that require either an A-128 audit or an audit in accordance with HUD Handbook 2000.4 REV-1 and also receives funds from other Federal Agencies that require an A-133 audit, can the Non-Profit entity have only one audit performed that satisfies all Federal Agency audit requirements?

Answer - Yes, an A-128 audit or a HUD Handbook 2000.4 REV-1 audit is to be performed on the HUD funds and the Other Federal Agencies program should be

reviewed using A-133 procedures and reporting requirements. The scope section of the auditor's report opinion should state the audit was conducted in accordance with OMB Circular A-128 or HUD Handbook 2000.4 REV-1 and the other Federal Agencies programs (name of agency and program) was subjected to the test and standards of OMB Circular A-133. This procedure will result in one audit which will combine all the requirements and should be acceptable to all Federal agencies.

B-7 Question - An entity has several programs funded by different Federal agencies, is a subgrantee to other entities, and has a locally owned program. Can this entity issue separate reports for each program audited?

Answer - Yes, separate reports can be issued, but only one audit is to be performed of all the entity's activity. When several reports are issued, each report must include a paragraph which states the Single Audit Report consists of xx reports. Each report, by title, is to be mentioned in the paragraph. All reports are to be sent to the Federal agencies involved in the funding of the entity.

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C.AUDIT PERIOD

C-1 Question - When can a biennial audit be performed?

Answer - Audits must be made annually unless the state or local government has by January 1, 1987, a constitutional or statutory requirement for less frequent audits. For those governments, the cognizant agency must permit biennial audits. It shall also approve requests for biennial audits by governments which have an administrative policy that call for audits less frequent than annual, but only for fiscal years beginning before January 1, 1987.

C-2 Question - Can the Single Audit of an entity cover more than one year?

Answer - Yes, on a case by case basis. When an entity is delinquent in submitting audit reports it might be advantageous to have the audit cover the period of delinquency to bring the entity's audit requirement current. This determination must be made on a case by case basis. If a multi-year audit is made, the following financial statements are required:

Low Rent Housing

- Balance sheet at audit date.
- Income and Expense Statements for each fiscal year.
- Analysis of Surplus for each fiscal year audited or one statement that shows the transactions for each fiscal year.
- Schedule of Federal Financial Assistance for each fiscal year.

CDBG

-The only single audit requirement is for the report to contain a Schedule of Receipts and Disbursements and a Schedule of Federal Financial Assistance. Therefore, these schedules are needed for each fiscal year audited.

-Mostly all reports received while the National Review Center was receiving reports also contained Balance Sheets, Income and Expense Statements and other statements required by the auditee. If such statements are to be contained in the report the following would apply:

- Balance Sheet at audit date.
 - Income and Expense for each year audited.
 - Other statements for each year audited.

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C-3 Question - If the fiscal year for the housing authority is different than the City's fiscal year end, how are the financial statements affected?

Answer - If the housing authority is a separate entity rather than a component unit of the City, each would issue separate reports with their

own fiscal years end. If the housing authority is a component unit of the City, the City would be considered the reporting entity, and the year end for audit reporting purposes would be the fiscal year end of the City. However, the City should incorporate financial statements for the housing authority's fiscal year ending during the reporting entity's fiscal year. For example, if the City's year end is December 31 and the housing authority's year end is June 30, the City's 1993 audit report should include financial statements for the housing authority for the year ending June 30, 1993. If the housing authority's fiscal year ends within the first quarter of the City's subsequent year end, it is acceptable to incorporate that fiscal year of the housing authority instead, if timely and accurate presentation of the financial statements of the City is not adversely affected. If the housing authority's year end was March 31 instead of June as in the example above, financial statements published for the housing authority as part of the City's 1993 audit report could be for the year ending March 31, 1994 (GASB 2600.113).

C-4 Question - What period should the Single Audit Act cover--the year in which the funds are received or the year the funds are spent?

Answer - The Act's criteria for determining whether a government must have a single audit are based upon total Federal financial assistance received. The level of internal control and compliance auditing work to be performed for each program depends upon the expenditures of Federal financial assistance. Therefore, the Single Audit Act covers the time the entity received, expended, or otherwise administered Federal financial assistance during the year (OMB Circular A-128, paragraph 6b.).

C-5 Question - Will recipients accept single audits of subrecipients if the fiscal period is different from the recipient?

Answer - Yes. Even though the fiscal years may be different, the primary recipient is to accept and review the subrecipient's audit report as discussed in paragraph 9 of OMB Circular A-128. The recipient would record the receipt and expenditure of funds in its accounting records (paragraph 8.b.(1)) based on its fiscal year even though the subrecipient's fiscal year is different.

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C-6 Question - What is the definition of receipts and expenditures for the Act?

Answer - Neither the Act nor A-128 require financial statements to be presented in accordance with Generally Accepted Accounting Principles (GAAP). If a government entity reports on the cash basis, those reports, with an appropriate auditor's opinion, will satisfy the single audit requirements. The terms "received" and "expenditures" should, therefore, be interpreted based upon the basis of accounting employed by the government entity. An entity presenting GAAP reports would define "received" as the point of recognition as revenue in the event of a monetary transaction, and when the economic transaction took place for a non-monetary transaction (cooperative agreements, loan guarantees, insurance, etc.). A cash basis government would define "received" as when received in cash. Expenditures would follow the same practice, i.e., let the basis of accounting determine the definition. This practice will keep the auditing consistent with the financial statements presented.

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D.CONTRACTING FOR AUDIT AUDIT COST - IA QUALIFICATIONS

D-1 Question - Are there Contracting requirements under the Single Audit Act that must be adhered to when procuring the services of an IA?

Answer - Yes. OMB Circular A-128 originally required the procurement standards of OMB Circular A-102, Attachment O, to be followed when

obtaining the services for a single audit. Attachment O was superseded by the "Common Rule" which is incorporated these requirements, and is a part of HUD CFRs. Basically, the entity is required to have free and open competition.

D-2 Question - Can state and local governments impose additional audit requirements on recipients of Federal funds?

Answer - Yes. State and local laws requiring audits are not superseded by the Single Audit Act. The single audit requirements are in addition to the state and local audit requirements. Therefore, state and local governments can impose additional audit requirements. The cost of additional audit requirements are to be borne by the state or local government.

D-3 Question - What is HUD's policy to deal with situations where a funding source (state or local) is unwilling to have a proper audit and/or pay for their portion of the single audit?

Answer - The Single Audit Act provides that no cost may be charged to Federal assistance programs for audits required by the Act that are not made in accordance with A-128.

HUD's policy is to withhold a percentage of the assistance payments or suspend Federal assistance when a state or local government refuses to participate and/or pay for its portion of the audit. The actual sanction taken would depend on the circumstances involved and HUD policy at that point in time.

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D-4 Question - How does an entity distribute the cost of a single audit?

Answer - OMB A-128 allows the cost of the audit to be either direct or allocated indirect costs. The percentage of costs charged to the Federal assistance program is not to exceed the percentage that Federal funds expended represent of total funds expended by the recipient during the fiscal year unless appropriate documentation demonstrates a higher actual cost. State and local governments are required to follow the procurement standards prescribed by the "Common Rule". Circular A-87, "Cost Principles for State and Local Governments," requires the costs to be reasonable and necessary.

D-5 Question - Will a grant-specific audit be accepted when the recipient failed to contract for an A-128 audit?

Answer - No. Grant-specific audits would defeat the intent of the Single Audit Act.

D-6 Question - Can HUD require a recipient to get another audit to pursue A-128 findings?

Answer - No. However; while HUD cannot require a recipient to get another audit, the provisions of OMB Circular A-128 do not limit the authority of HUD to contract for (and pay for) any additional audits. Such additional audits may include economy and efficiency audits, program results, and program evaluations (OMB Circular A-128, paragraph 10). When such audits are performed, the audit should build upon and not duplicate any of the Single Audit work performed.

D-7 Question - Can an entity have a "more detailed" audit conducted in addition to a Single Audit?

Answer - Yes. If the entity wants a "more detailed audit", they can have one performed. However, the cost of that audit cannot be charged to HUD assisted programs.

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D-8 Question - If an IA requests HUD to notify all its auditees of the IA's interest in performing audits, should the HUD office notify entities it funds of an IA's interest in conducting audits?

Answer - No. To notify auditees of the IA's interest in conducting audits of HUD funded activities could give the appearance that HUD endorses the

use of that IA. The IA should be advised to use the white pages of the telephone book in the areas they want to conduct audits so they can express their interests directly. If the field office has a list of all its entities, that list can be given to the IA.

D-9 Question - Can an existing one-year contract be amended to have the IA perform audits of subsequent years?

Answer - No. The IAs in submitting their proposals will take into consideration the fact that the engagement will be for one year. Normally, the proposal for multiple year audits will be less than the proposal of a series of one year audits.

D-10 Question - Can an IA be contracted to perform the current audit and future audits?

Answer - Yes. The auditee's Request for Proposal should specify that the proposal is to cover the current audit period and the number of subsequent audits. Entering into multi-year contracts with an IA will take advantage of an auditor's learning curve and reduce costs associated with the annual procurement. Perhaps a one year agreement with the option to extend the agreement for up to five years will have a dual advantage. It will enable the IA to propose a price that takes into account the savings to be realized in subsequent years and saves the entity the cost with repeating the selection process.

It is important that the auditee also considers the state laws. Even if HUD will allow multi-year contracts, if the state law prohibits such contacts, the auditee must solicit and award single-year contracts or the type contract permitted under state law.

D-11 Question - Can an IA request and receive a listing of entities funded by HUD?

Answer - Yes, if the field office has such a list available.

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D-12 Question - Can HUD program staff advise auditees not to use an IA since the program staff believes the IA does not do adequate audit work?

Answer - No. If the program staff has information which supports that the IA's work is inadequate, the staff should take the action to issue a Limited Denial of Participation or take Debarment action. If the staff needs additional support, the field office manager can share the information with the appropriate Regional Inspector General for Audit, who can provide technical advise and/or assistance.

D-13 Question - For an IA to conduct a Single Audit, what qualifications are needed?

Answer - An accountant who performs the audit must be a Certified Public Accountant or a Public Accountant licensed on or before December 31, 1970, or persons working for a Certified Public Accounting firm or a Public Accounting firm licensed on or before December 31, 1970. In addition, all personnel substantially engaged in performance of the audit must meet Continuing Professional Education requirements established by GAO and the firm must have undergone an external quality control review within three years prior to conducting the audit.

D-14 Question - Is it the auditee's or HUD's responsibility to assure an IA has a state license to perform audits?

Answer - It is the auditee's responsibility, not HUD's, to assure that the IA is licensed in the state where the audit is performed. All states have licensing requirements for IA's residing and practicing within their state. In addition, many state's impose additional requirements on out-of-state IA's. The auditee should be aware of the applicable requirements when soliciting and evaluating proposals and awarding contracts for audits.

D-15 Question - If an IA has not performed an audit of HUD programs can a HUD funded entity disqualify the IA from bidding on their audit?

Answer - No. The IA must possess adequate professional proficiency for the tasks required. The auditor in accepting the engagement must ensure that they have the skills necessary to perform the specific type audit. The fact that an IA has never performed an audit of a HUD funded entity is not a valid basis for disqualification.

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D-16 Question - Can a fee accountant of an entity perform an audit of that entity?

Answer - To respond to this question, we have to determine if the audit involves HUD insured multifamily projects or only involves Public Housing and/or Community Development activity.

- Public Housing and/or Community Development Activity

Auditees/auditors are to follow the GAO Government Auditing Standards (Yellow Book) in determining independence. Attachment 1 to these Questions and Answers is a copy of the related GAO Government Auditing Standards. Paragraph 15 requires IA's to follow the AICPA code of professional ethics, the code of professional conduct of the state board with jurisdiction over the practice of the IA and the audit organization and the personal and external impairments included in the GAO standards. Basically, the GAO and AICPA code of professional ethics will allow an IA to be the fee accountant and the auditor of an entity as long as the IA does not make management judgements which will effect the management of the entity. When questions are raised in this area, the auditee/auditor should describe, in a written document, the activities/responsibility of the fee accounting work and obtain an opinion from the State Board of Public Accountancy on the independence issue.

- Activities Involving HUD Insured Multifamily Projects

An IA cannot be the fee accountant and the auditor for the same entity. This is prohibited by HUD in its procedures contained in HUD Handbook 4370.2, Chapter 3. The handbook states that the IA must have no business relationships with the auditee except for the performance of the audit, accounting systems work and tax preparation.

D-17 Question - Does HUD have a model form contract that can be provided to auditees and IAs?

Answer - HUD does not have a model form contract. However, HUD did have a model form for PHA/IHA audits, but that contract was contained in a Handbook that was canceled. Some entities have updated that contract for Single Audit purposes. See Question J-7 for additional information.

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E.SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE (SFFA)

E-1 Question - What funds are to be reported on the SFFA?

Answer - All Federal funds are to be reported on the SFFA. The auditee should distinguish on the SFFA between direct funds received and indirect funds passed-down from other agencies.

E-2 Question - What is the basis for defining "receives" Federal financial assistance?

Answer - Generally this means an entity has "received" Federal financial assistance when it has received cash, or it has incurred reimbursable expenditures under a Federal assistance program.

For the purpose of OMB Circular A-128, the receipt of Federal financial assistance shall be when the related assets or revenues are recorded in the financial statements of state and local governments in accordance with generally accepted accounting principles.

For non-monetary transactions such as loan guarantees or insurance programs

receipt of these Federal financial assistance programs will be considered to coincide with the award of the Federal assistance.

E-3 Question - What is the definition of "major" programs?

Answer - To correctly respond to the question one must determine which audit requirement the auditee or IA is following, OMB Circular A-128 or OMB Circular A-133.

Major program is defined by OMB Circular A-133, as an individual award or a number of awards in a category or Federal assistance or support for which total expenditures are the larger of three percent of total Federal funds expended or \$100,000.

Major program is defined by OMB Circular A-128, as an individual award or a number of awards in a category or Federal assistance or support for which total expenditures are the larger of three percent of total Federal funds expended or \$300,000.

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E-4 Question - Are non-major programs to be included on the SFFA?

Answer - Yes, however, the IA must clearly identify all major and non-major programs, including those completed or terminated during the audit period.

E-5 Question - Is it necessary to show the catalog number for each Federal assistance program on the SFFA?

Answer - Yes, if a number exists and is identified in the Catalog of Federal Domestic Assistance. If a program or grant has not been assigned a catalog number, it shall be identified in the SFFA under the caption "Other Federal Assistance."

E-6 Question - What are "pass-through" grant numbers and should they be used on the SFFA?

Answer - "Pass-through" grant numbers are numbers assigned to Federal funds given to the entity by another recipient of Federal funds (Primary Recipient). In this case, the entity is also a subrecipient to that other entity. Since the report will be used by the awarding entity, the "pass-through", numbers should be shown since they will help in the identification of those funds provided by the primary recipient.

E-7 Question - Should program income be shown on the SFFA and, if so, where?

Answer - Yes. Income received as a result of the Federal financial assistance program should be included in the SFFA as receipts or revenue recognized under the appropriate program.

E-8 Question - Should all state and local funds be listed on the SFFA?

Answer - No. The only state and local funds that must be shown on the SFFA are indirect Federal assistance. If the state or local government pass down Federal assistance funds to an entity, the entity is to include those funds as "pass-through" funds from the state or local government as applicable.

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E-9 Question - How should Federal guarantee, loan or insurance programs which are operated by the governmental entity, but do not involve a current Federal outlay, be shown on the Schedule of Federal Domestic Assistance and how should they be used in determining the program's status as a major program?

Answer - The existence and value of Federal guarantee, loan or insurance programs at the end of the fiscal year should be disclosed in a footnote to the SFFA. Any interest subsidy, or administrative costs allowance received during the fiscal year under a loan or loan guarantee program should be included in the SFFA.

Generally, the total amount of expenditures of Federal financial assistance included in the Schedule is the basis for applying the criteria in the attachment to A-128 for determining major Federal assistance programs.

However, for a loan or loan guarantee program the total value of new loans during the fiscal year plus the balance of loans for previous years for which the government is at risk and any interest subsidy, cash or administrative costs allowance received, should be used to determine if that program is also a major Federal assistance program. One exception to this is the Guaranteed Student Loan Program. Institutions of higher education that are not lenders should use the value of new loans made during the year.

If based on the above, it is determined that a loan or loan guarantee program is a major program, this determination should not effect the identification of major programs using the criteria applicable to the SFFA. However, on occasion, including a large loan program in the base used to determine major program may distort the base. Therefore, if the number of programs determined to be major is significantly affected by the inclusion of a guarantee loan program in total Federal assistance the auditor should use his/her judgment as to whether the guarantee program should be included when determining which other programs are major.

E-10 Question - If an entity participates in a loan guarantee program which has no expenditures during the period under audit (pursuant to the Single Audit Act and OMB Circular A-128), what procedures, if any, are required of the auditor?

Answer - For major Federal assistance programs that do not have expenditures during a specific period, the auditor should annually perform a study and evaluation of the established internal controls. This study could include tests to determine that loan recipients were eligible beneficiaries, that necessary review and award procedures were performed relative to loans, and that loans are being repaid and a subsequent loan is made under the loan guarantee program. Also, the auditor should test procedures to determine that the entity is in compliance with the appropriate laws and regulations. For non-major programs, a study and evaluation would normally not be performed if the major programs make up at least 50 percent of the total Federal expenditures.

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F.COMPLIANCE SUPPLEMENT

F-1 Question - What is the "Compliance Supplement for Single Audits of State and Local Governments?"

Answer - It is a document that sets forth the major compliance requirements that should be considered in single audits for certain Federal programs. It supplements OMB Circular A-128, "Audits of State and Local Governments."

F-2 Question - What is in the Compliance Supplement?

Answer - It is broken into three parts, an introduction, General Requirements and requirements covering agency programs, referred to as Specific Requirements. Basically the requirement is explained followed by suggested audit procedures.

F-3 Question - What are General Requirements?

Answer - General Requirements are statutory and regulatory requirements applicable to mostly all Federal assistance programs. They involve significant national policies for which failure to comply could have a national impact on an auditee's financial statements including those prepared for Federal programs. The audit of these requirements shall be included as a part of every A-128 Single Audit that involves Federal financial assistance even if the auditee does not have any major programs. The General Requirements are: Political Activity, Davis-Bacon Act, Civil Rights, Cash Management, Relocation Assistance and Real Property Acquisition, Federal Financial Reports, Allowable Costs/Cost Principles, Drug-Free Workplace Act, and Administrative Requirements.

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F-4 Question - What are Specific Requirements?

Answer - Specific Requirements are specific to programs that provide over 90 percent of the Federal aid to State and local governments. For each program, the following is provided: Objectives of the program; a brief description of how the program operates; and the major compliance requirements, including Code of Federal Regulations (CFR) or statutory reference where additional information for the requirement can be obtained. The requirements are organized into five categories: (1) types of service allowed or unallowed; (2) eligibility; (3) matching, level of effort or earmarking requirements; (4) reporting requirements; and, (5) special tests and provisions. Federal agencies have determined that, in general, not complying with those requirements might materially affect the program. Each requirement is accompanied by suggested audit procedures that can be used to test for compliance.

The HUD programs and the audit procedures have been established by HUD Headquarters Assistant Secretaries and the Inspector General.

F-5 Question - Are IAs required to make the review using the audit procedures for program compliance requirements in the Compliance Supplement?

Answer - For major and/or nonmajor programs the use of the Compliance Supplement is not mandatory. However, the Federal Government recommends its use for identifying the compliance requirements to be tested. The requirements contained in the Compliance Supplement are those that Federal program officials and the Inspectors General have identified as being the minimum requirement for their programs. However, the auditor is responsible for ensuring that specific requirements which are modified because of changes in laws or regulations are included in the audit procedures. IAs should apply professional judgement and use any procedures that they choose to decide the extent of reviews and tests performed. The procedures used by the IA (those contained in the Compliance Supplement, extended procedures or alternate procedures) are to be documented in the IA's working papers.

F-6 Question - What are the IA's audit responsibilities when the auditee has a major program but the program is not included in the Compliance Supplement?

Answer - For those programs not contained in the Compliance Supplement, it is the IA's responsibility to ascertain compliance requirements. If the HUD program manager has information assembled on the program's compliance requirements, they should share this information with the IA. If not, the IA should be advised to research the statutes, Code of Federal Regulations and agreements governing the individual program. The IA should apply professional judgement in designing and applying the audit program to be used in performing the audit tests.

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G. COGNIZANT AGENCY

G-1 Question - When is HUD the cognizant agency for a state or local government unit?

Answer - HUD is the cognizant agency only if that government unit has been specifically identified by the Office of Management and Budget (OMB). The government unit may be a state, city, state agency, county, town, local agency or Indian tribe. The most current listing of Federal agencies and their related recipients is identified in the Federal Register, Part V, page 552, OMB, dated January 6, 1986. A listing was previously provided to your office which we have updated based on changes made. OMB will assign cognizant agencies for states and their subdivisions and larger local governments and their subdivisions. OMB Circular A-128, Audits of State and Local Governments (paragraph 11a.), states that smaller governments,

not assigned a cognizant agency, will be under the general oversight of the Federal agency that provides the most funds whether directly or indirectly.
G-2 Question - How much time should the cognizant agency allow the auditee to send the report to Federal agencies?

Answer - Distribution of the reports is required within 30 days after completion, but no later than one year from the end of the audit period (OMB Circular A-128, paragraph 13f.). The cognizant agency can extend the date; however, all possible efforts should be made for a timely issuance, i.e., within 30 days. Should HUD grant an extension, the official granting the extension must advise the Single Audit Clearinghouse. Otherwise the Single Audit Clearinghouse will notify Congress if the report is not received at the time designated. The address is:

Single Audit Clearinghouse
Bureau of the Census, Data Preparation Division
1201 East Tenth Street
Jeffersonville, Indiana 47132
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G-3 Question - If HUD is the cognizant agency, must HUD review the cost allocation plan?

Answer - Yes. The January 6, 1986 cognizant assignment list makes each designated Federal agency responsible for both cost allocation and audit. A memorandum from OMB entitled "Overhead Costs," dated June 25, 1986, states in part that Federal departments and agencies shall require local governments for which they are responsible to submit cost allocation plans (central cost allocation plans and departmental indirect cost proposals) for review and approval. OMB is expected to issue further instructions at a later date. OMB Circular A-87 discusses the principles for determining the allowable costs.

G-4 Question - What are the responsibilities of the cognizant agency for follow-up of findings contained in single audit reports?

Answer - The responsibilities for HUD management as cognizant agency are basically the same as the responsibilities for any other audit report, i.e., oversee the resolution of HUD program-related significant audit findings. Additionally, HUD is to oversee the resolution of findings affecting more than one Federal agency. These issues are referred to as cross-cutting issues (see OMB Circular A-128, paragraph 11b.(7) and (14)). OMB Circular A-50 establishes the responsibilities for audit follow-up. Also, HUD Handbook 2000.6 REV, Audits Management System, describes operating procedures for the audit follow-up process. If dollars are involved in cross-cutting issues, HUD is responsible for the resolution of the HUD dollars. The entity should be advised of the dollars HUD will be responsible to resolve and the entity should be advised to contact other Federal agencies involved to determine how dollars affecting those agencies are to be resolved.

G-5 Question - If OMB has assigned a cognizant agency for a state or local government unit, can this designation be changed at the request of the assignee and/or another Federal agency, and if so, what procedures are to be followed?

Answer - Yes. Although OMB discouraged reassignments initially, reassignments are accepted when evidence demonstrates that a reassignment is beneficial to all parties concerned. Federal Register, Vol. 51, No. 3, page 552, dated January 6, 1986, states that "Federal agencies assigned cognizance under this notice shall remain cognizant for a period of three years." Once an agreement is reached a letter confirming that each of the three parties involved agrees should be sent to OMB for final disposition. If HUD does not have any funds awarded to the entity and funding is not anticipated OMB should be advised of your desire to change the cognizant

assignment. Your request should contain adequate justification. You are to continue your cognizant responsibility until OMB makes the reassignment.

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G-6 Question - When HUD is the cognizant agency, who notifies the other agencies when there are cross-cutting findings?

Answer - Each agency receives a copy of the report and is responsible to resolve their findings. When cross-cutting findings are involved, HUD will work to achieve final action. We do not believe it is necessary to notify other Federal agencies when final action occurs. Normally, the next audit is issued within a short time after final action and either the finding will not be in that report or a comment on the finding status will be included in the Prior Audit Finding Section of the current report.

G-7 Question - If another Federal agency is cognizant and processes a report which does not meet the Single Audit Act requirements, what is HUD's responsibility and how does HUD assure proper coverage of its programs?

Answer - The HUD Program Office should notify the cognizant agency and note their concerns and the need for correction of the current report through revision or obtaining supplemental information. It is the cognizant agency's responsibility to obtain correction of the report.

G-8 Question - Will HUD follow-up on the resolution of findings affecting HUD programs when the auditee is a subrecipient of the HUD funds?

Answer - No. The primary recipient is responsible for ensuring that corrective action is taken on subrecipient audit findings (OMB Circular A-128, paragraph 9). HUD is responsible for monitoring the primary recipients to ensure compliance with the requirements of paragraph 9.

G-9 Question - Who is responsible for tracking HUD audit findings?

Answer - HUD program staff are responsible for tracking and resolving significant audit findings related to HUD programs.

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G-10 Question - May a local government question the assignment of a particular agency as its cognizant agency, and to whom may it appeal?

Answer - Yes. Local governments may appeal their assigned agency to OMB.

G-11 Question - When HUD is the cognizant agency for an entity where the preponderance of funding from HUD is all indirect, what is the responsibility of the Department?

Answer - The Department's basic responsibility is to provide guidance to the entity, if requested. The A-128 report should be submitted by the entity (subrecipient) to the entity providing them the direct funding. State or local governments providing \$25,000 or more of Federal assistance to subrecipients are required to determine if the audit report meets Circular A-128 requirements.

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H.GENERAL OVERSIGHT

H-1 Question - When does HUD have general oversight responsibility of a local government or other entity?

Answer - OMB Circular A-128, Audits of State and Local Governments (paragraph 11a.), states that smaller governments, not assigned a cognizant agency, will be under the general oversight of the Federal agency that provides the most funds whether directly or indirectly.

HUD has general oversight responsibilities when the following situations exist:

- OMB has not specifically designated a Federal agency to be the cognizant agency for the local government; and

- The preponderance of direct Federal financial assistance provided to the recipient is from HUD. HUD-OIG made a determination that only direct funds will be considered even though the Circular calls for direct and indirect.

-The entity is a housing authority that is not an integral entity of the local government and HUD provides direct funding.

H-2 Question - What does General Oversight mean to those Agencies that have only general oversight responsibility of Single Audit Act reports?

Answer - Where OMB has not identified the cognizant agency for a Federal assistance recipient, the Federal agency that has contributed the preponderance of funds would have general oversight. OMB has not defined the responsibilities of a general oversight agency and the general oversight agency can assume whatever responsibilities they desire. Additionally, we may not know HUD has the preponderance of funds since HUD may not know the amount of funds provided to the entity by other Federal agencies during the audit period and, therefore, would be unaware that HUD is the general oversight agency. It has been our policy not to act as general oversight agency unless a report is received which indicates HUD has provided the most direct funds or the recipient makes the request to HUD in advance.

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H-3 Question - When a Federal agency has general oversight responsibility, should that agency follow-up and resolve "cross-cutting" findings that affect other Federal programs?

Answer - Yes. The Federal agency with general oversight responsibility will be expected to follow-up and oversee the resolution of "cross-cutting" findings. (See Question H-5 for the exception).

H-4 Question - Can state and local governments that have not been assigned a Federal cognizant agency by OMB be required to determine which Federal agency will provide general oversight?

Answer - Yes. The state or local government is responsible for identifying the Federal agency when a cognizant agency has not been established by OMB. The state or local government has the data necessary to make the determination and not the Federal agency.

H-5 Question - If HUD has accepted general oversight for an agency with a preponderance of funding from HUD, and all Federal funding is indirect, what is HUD's responsibility concerning HUD program findings and cross-cutting findings?

Answer - The findings concerning the HUD programs are the responsibility of the pass-through agency (recipient). The cross-cutting findings are the recipient's responsibility and are to be resolved by the recipient. However, ultimately HUD program staff must ensure that the recipient has satisfactorily performed its oversight responsibilities and this could be accomplished as a part of its monitoring activity.

H-6 Question - If oversight of an agency is another Federal agency's responsibility due to preponderance of funds, what is HUD's responsibility?

Answer - HUD program staff have the responsibility to receive copies of reports and take action to resolve significant findings affecting HUD programs. In addition, they should answer questions concerning HUD programs.

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H-7 Question - When HUD has general oversight for an entity with preponderance of funding from HUD and Federal funding is all indirect, what is the responsibility of the Department?

Answer - The Department's basic responsibility is to provide guidance to the entity, if requested. The A-128 report should be submitted by the entity (subrecipient) to the entity providing them the direct funding. State or local governments providing \$25,000 or more of Federal assistance to subrecipients are required to determine if the audit report meets Circular A-128 requirements.

I.AUDIT REPORT: CONTENT - REPORTABLE CONDITIONS - AUDIT FINDINGS -
AUDIT FOLLOW-UP

I-1 Question - What is required in the Single Audit Report?

Answer - The Single Audit Report contains the Following:

(1) A report on an examination of the general purpose or basic financial statements of the state or local government (entity) as a whole, or the department, agency, or establishment covered by the audit (referred to as the accountant's report). This report includes an opinion on the entity's financial position.

(2) A report on internal accounting control based solely on a study and evaluation made as a part of the audit of the general purpose or basic financial statements.

(3) A report on compliance with laws and regulations that may have a material effect on the financial statements.

(4) A report on supplementary schedules of the entity's Federal financial assistance program, showing total expenditures for each Federal financial assistance program (this may be combined with (1) above).

(5) A report on internal controls (accounting and administrative) used in administering Federal financial assistance programs (this may be combined with (2) above).

(6) A report on compliance with laws and regulations identifying all findings of noncompliance and ineligible or unsupported costs (this may be combined with (3) above).

(7) A report on fraud, abuse, or illegal acts, or indications of such acts, when discovered (a written report is required).

Normally this report is issued separately.

Other questions on the Audit Report that are unique to HUD's PHA/IHA are discussed in section J and those unique to HUD's CDBG program are discussed in section K of these Questions and Answers.

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I-2 Question - Does the Single Audit act and/or OMB require GAAP Financial Statements to be included a Single Audit Report?

Answer - No. The Single Audit Act only requires that the audit report contain the normal financial statements used by the entity. In some cases, the entity's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Further discussion on this issue as it relates to the PHA/IHA is contained in section J of these Questions and answers.

I-3 Question - Can the HUD Field Office require the IA to include information in the audit report that is needed by that field office in the monitoring of the entity (local requirements)? Can the field office "reject" the report if it is not included?

Answer - No and No. The Entity not HUD contracts with the IA to perform the audit and only those needs established by the Act, the office of Management and Budget and HUD Headquarters are to be included in the audit and related report. When a field office finds that they need additional information in the report (local requirements), that need should be communicated to Headquarters so that need can be evaluated on a Nationwide basis and if appropriate, the Single Audit Requirements changed.

I-4 Question - Is it true that the IA must report all instances of noncompliance found regardless of the amount involved?

Answer - Yes. OMB Circular A-128 states that the audit shall be made up of at least, among other things, "a summary of all instances of noncompliance; and an identification of total amounts questioned, if any, for each Federal assistance award, as a result of noncompliance." (See paragraph 13 of the

OMB Circular A-128 and Chapter 21 of the AICPA audit and accounting guide, "Audits of State and Local Governmental Units" and GAO Standards, Chapter 5 paragraph 5-5 and footnote 4).

I-5 Question - What is a reportable condition?

Answer - A reportable condition is a matter coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal control structure that, in their judgment, 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.

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I-6 Question - What is a material weakness?

Answer - A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not lower the risk that errors or irregularities in amounts that (1) would be material in relation to the financial statements being audited may occur and (2) would not be detected within a timely period by employees in the normal course of performing their assigned functions.

I-7 Question - How should audit findings, repeated from the prior audit report, be handled in the current audit report?

Answer - We believe to address the question, one must determine if:

(1)the condition is the same and whether or not the auditee is in the process of taking the agreed upon action; or

(2)the condition is the same and the auditee refuses to take the recommended action; or

(3)the condition got worse (more ineligible costs expended, etc.) even though the recommended action was completed; or

(4)the condition got worse and the recommendations were not implemented.

If (1) or (2) exist, the IA can report the conditions in the prior audit finding section of the report. If (3) or (4) exists, the IA should report the conditions under the current finding section of the report. The finding should identify the questioned/ineligible costs and/or condition by report period. If the recommended action from the prior report was taken, the IA should include that information in the finding and include new recommendations which should correct the deficiencies noted.

Other conditions could exist; however, those conditions would probably be some version of the four listed. If there is any doubt, the IA should be advised to include the finding in the current finding section of the report.

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I-8 Question - Should the IA include findings from HUD Monitoring Reports in their audit report?

Answer - The extent of disclosure depends on the following.

Two conditions we found to exist:

(1)the IA in performing the audit test disclosed the same or similar conditions; and

(2)the IA testing did not disclose the condition but they became aware of the condition from reviewing the auditees correspondence and/or was provided the HUD Monitoring Report by the auditee.

In case of (1) above, if the auditor found the condition based on the audit testing, the finding should be fully developed and included as a current finding. The IA should make reference to the fact that the condition was also included in HUD's Monitoring Report.

In case of (2) above, findings contained in the HUD Monitoring Report are not required to be identified in the current audit report. If the IA includes these in the audit report, they should be clearly identified as to

their source. However, if the findings identified in the monitoring report are so pervasive that it is believed that the IA should have identified those conditions, HUD program officials may want to discuss the report with the RIGA to have him/her consider the case for a QCR.

I-9 Question - Is the IA required to include the Corrective Action Plan in the audit report?

Answer - No. The auditee is responsible for preparing and submitting the Corrective Action Plan as required by OMB Circular A-128 paragraph 13d. The plan can either be submitted separately with the report or as is done in some cases, the auditee may provide the plan to the IA who includes it in the audit report even though the IA is not required to do so. The method used in submitting the plan is left up to the auditee.

I-10 Question - Must the IA comment on all prior audit findings?

Answer No. GAO Standards (Yellow Book) requires that the auditor's report should disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that effect the current audit objectives. IAs are not required to report on findings that were resolved, although many IAs include such information in their report. We have recommended that information on findings contained in the prior audit report, that have been resolved during the audit period, be included in the current report indicating that they have been resolved. However, we cannot require such reporting.

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I-11 Question - Does the IA only have to follow-up on prior IA reported findings?

Answer - No. The IA is to follow-up on all findings contained in audit reports issued during the audit period. These reports can be issued by another public accountant or by local, state or Federal government auditors.

I-12 Question - What is a cross-cutting finding?

Answer - A cross-cutting finding is a finding that affects more than one agency or program.

I-13 Question - What is HUD's responsibility on cross-cutting findings?

Answer - Technically, there are two categories of cross-cutting findings, one only effects HUD and the other effects both HUD and other Federal agencies.

-HUD only - This normally is a finding which involves CPD funds, Housing funds, Assisted Housing funds, and/or other HUD funding. The office that receives the report should determine if other HUD funding is involved.

When more than one type HUD funding is involved, the action to be taken by the HUD staff should be coordinated with all HUD program offices involved in the finding. It would be best for one HUD program office to follow-up and control the resolution of the finding; however, if each office decides to work with the auditee to resolve their portion of the finding, the auditee should be provided information on the method that will be used.

-HUD and other Federal agencies - Two situations can exist. First, HUD has Cognizant or General Oversight responsibility or second, another agency has that responsibility.

(1)If HUD has Cognizant or General Oversight responsibility, HUD is to follow-up on the procedural aspects of the finding to final action. If Questioned or Ineligible cost exists, HUD is to only follow-up on the HUD dollars and the other agency dollars should be followed-up by the other Federal agency.

(2)If another Federal agency has the Cognizant or General

Oversight responsibility HUD should only follow-up on HUD dollars and/or any finding reporting deficiencies in the HUD program and/or recommended action directed specifically to HUD.

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J.PUBLIC HOUSING AGENCY AUDITS

J-1 Question - How does the Single Audit Act affect the frequency of PHA audits?

Answer - Certain requirements in the Act and Circular A-128 immediately affect PHAs and IHAs. Among 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. HUD will also honor requests for biennial audits of PHAs that have existing policy requiring biennial audits in effect on the date of the enactment of the Single Audit Act, but only for fiscal years beginning before January 1, 1987. Such requests must be accompanied by a copy of the constitutional or statutory requirement or board resolution which adopted the policy. State law may require audits to be conducted annually. In those states, HUD cannot honor requests by PHAs for biennial audits. HUD staff should check with the HUD Field Office Counsel to determine state audit requirements.

J-2 Question - What is the justification for omitting a housing authority from the single audit of a local or state government?

Answer - The Single Audit Act requires state or local governments that receive \$100,000 or more a year in Federal funds to have an audit made. However, the Act allows the state or local government to determine what level of government unit(s) is to be included in the audit. Generally, a housing authority in most cases (for single audit purposes) is considered an independent entity and, therefore, requires a separate audit. In any case, those government units which are not included in the local or state's single audit, but receive Federal financial assistance will still be required to submit a single audit of their own if their Federal assistance is \$100,000 or more.

J-3 Question - Are all housing authorities considered separate entities and is HUD always the cognizant agency?

Answer - No. Not all housing authorities are entities separate and distinct from the local government jurisdiction. However, in most cases they are separate. HUD only assumes general oversight responsibilities for the housing authorities, not cognizant responsibility, unless cognizance is assigned by OMB.

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J-4 Question - Can closeout audits of actual development and modernization costs, etc., be conducted outside of the single audit?

Answer - No. For HUD to require closeout audits, actual development and modernization cost audits separate and distinct from the single audit would defeat the intent of the Single Audit Act. PHAs/IHAs are instructed to complete and certify to the actual cost upon project completion and submit the certification to HUD. The reports are certified to by the PHA/IHA and can be included in the audit's scope as the IA is required to perform tests to assure the reports contain accurate and reliable data (Handbook 7476.1, Rev-1, paragraph 12a).

J-5 Question - Who is responsible for notifying the IA when a certificate of actual modernization or development cost statement is to be included in the audit scope?

Answer - The PHA/IHA is responsible to include this activity as a part of the solicitation of an IA. Statements of actual modernization or

development costs cannot be required to be included in single audit reports unless they are required by the auditee. If so, they should be included as supplemental statements in the report. Even if the statements are not included in the report, the IA is required to include expenditures, incurred during the audit period, in the Schedule of Federal Assistance. Further, as part of the single audit scope, the auditor should review the Actual Development Cost Certificate (ADCC) and the Actual Modernization Cost Certificate (AMCC) where material. The PHA is responsible for assuring the auditor has the ADCCs and AMCCs for review. Unless the non-Federal auditor states otherwise in the audit report, the ADCC and AMCC should be considered acceptable.

J-6 Question - May HUD still require that the audit report be submitted within 120 days after the close of the PHA's fiscal year?

Answer - No. The Single Audit Act requires local governments to submit their audit report to the applicable Federal agencies within 30 days after the report is issued but no later than 1 year after the end of the audit period unless an extension is approved by the cognizant agency. Although HUD may not require a time frame other than that established by the Act, the PHA has the authority to stipulate the completion date in its contract with the auditor which can be more or less than the 120 days.

We have found that IAs have taken advantage of the one-year submission requirement by advising PHAs/IHAs that audits need not be completed for 12 months after the fiscal year end date, giving the IA additional time to work the audit in his/her workload. IAs and auditees are using dates ranging from six months to one year, from the fiscal year date, as the date the report is to be given to the auditee. PHAs/IHAs should be encouraged to obtain more timely audits from the IAs to benefit the PHA/IHA in executing their financial management responsibilities.

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J-7 Question - May entities continue to use the old form, Model Form of Proposal and Contract Between Public Housing Agency and Independent Accountant for Audit Services when contracting for IAs to perform audit services under the Single Audit Act?

Answer - Yes. The old form "Model Form", may be used, at the option of the PHA/IHA, so long as it is consistent with the requirements of the Single Audit Act and does not impose any requirements not anticipated by the Single Audit Act. It should be noted that the old model form contract would need to be modified to require the audit to be conducted in accordance with the Single Audit Act and Circular A-128, instead of the old audit guide.

J-8 Question - How are the audit costs to be allocated to a PHA/IHA when the PHA/IHA is included in a local government's single audit?

Answer - The audit costs should be allocated to the PHA/IHA in the same manner the local government allocates the costs to other Federal assistance programs. The audit costs may be considered a direct cost or an allocated indirect cost, determined in accordance with the provisions of Circular A-87, "Cost Principles for State and Local Governments." Generally, the percentage of costs charged to Federal assistance programs for a single audit shall not exceed the percentage that Federal funds expended represent of total funds expended by the recipient during the fiscal year. The percentage may be exceeded, however, if appropriate documentation demonstrates higher actual cost.

J-9 Question - Should Section 8 new construction projects managed by a PHA/IHA be included in the scope of the single audit?

Answer - Basically, all activity of the auditee is to be included in the single audit. The degree of inclusion of the project will depend on several factors which need to be evaluated on a case-by-case basis, e.g.,

ownership, nature of agreements involved (HAP Contract, ACC, bond indenture, etc.), contractual audit requirements in addition to single audit requirements, etc. Some of these factors may result in additional audit coverage over that required by the single audit, such as HUD's multifamily insured projects (see question B-5).

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J-10 Question - If a PHA/IHA is considered an integral part of a local government for audit purposes, but has a different year end than the local government, how can HUD use the PHA/IHA's incomplete financial data resulting from the Single Audit?

Answer - The PHA/IHA's financial data would not be incomplete, because the local government would incorporate the financial data from the PHA/IHA's fiscal year end into the local government's audit report. Although the Governmental Accounting Standards Board encourages component units to have the same year end as the reporting entity, it recognizes that this is not always possible. When the fiscal year end of the component unit and the local government differ, the year end for audit reporting purposes would be the fiscal year end of the local government. However, the local government should incorporate financial statements for the PHA/IHA's fiscal year ending during the local government's fiscal year. For example, if the local government's year end is December 31 and the PHA/IHA's year end is June 30, the local government's 1993 audit report should include financial statements for the PHA/IHA for the year ending June 30, 1993. If the PHA/IHA's fiscal year ends within the first quarter of the local government's subsequent year end, it is acceptable to incorporate that fiscal year of the PHA/IHA instead, if timely and accurate presentation of the financial statements of the local government is not adversely affected. If the PHA/IHA's year end was March 31 instead of June as in the example above, financial statements published for the PHA/IHA as part of the local government's 1993 audit report could be for the year ending March 31, 1994 (GASB 2600.113).

J-11 Question - If a PHA/IHA is considered an integral part of a local government, is it necessary for the PHA/IHA to change the Low-Income Housing Program fiscal year to coincide with the local government's fiscal year?

Answer - No. While it is not necessary for the PHA/IHA to change the fiscal year in its ACC, such a change would probably be less burdensome for the PHA/IHA, HUD, the local government and the auditor. The financial statements required by HUD should still be forwarded to HUD at the required time.

J-12 Question - Are Annual contributions toward PHA/IHA debt reduction considered HUD contributions for determining the Federal general oversight agency?

Answer - Yes. Although they are not direct payments to the PHA/IHA, HUD contributions for debt service should be included as HUD financial assistance in determining the general oversight agency for those local governments not assigned a cognizant agency by OMB.

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J-13 Question - What financial statements must be included in Single Audit Act reports for PHA/IHAs?

Answer - The Single Audit Act does not state just what financial statements are required. However, the act requires all audit reports to contain the normal financial statements used by the entity. Certified financial statements for PHA/IHAs, would generally include the following (Handbook 7476.1, Rev-1, paragraph 12a):

- Balance Sheet
- Statement of Income and Expense

- Analysis of Surplus

J-14 Question - Are the certified statements contained in Question J-13 required if state law and/or City law requires the PHA/IHA to submit financial statements in accordance with Generally Accepted Accounting Principles (GAAP)?

Answer - Yes. In the instances where GAAP statements are required, the statements mentioned in Question J-13 are to be included as supplemental schedules in the audit report. When supplemental schedules are included in the report the IA would have to perform appropriate tests for the purpose of rendering an opinion on those schedules. The opinion by the IA on the financial statements would also extend to these schedules.

J-15 Question - Is the Schedule of Federal Financial Assistance (SFFA) needed in the audit report when the entity only has Low-Rent Housing activity?

Answer - Yes.

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K.COMMUNITY DEVELOPMENT AUDITS

K-1 Question - Are all subrecipients required to have a single audit?

Answer - No. Subrecipients receiving less than \$25,000 are not required to have a single audit. Subrecipients receiving between \$25,000 and \$100,000 in total Federal financial assistance a year are required to have an audit under OMB Circular A-128 or OMB Circular A-133. Any entity receiving funding of \$100,000 or more is to have a single audit. In lieu of a separate audit, a subrecipient may be audited as a component of the recipient, e.g., airport authority, water district, etc.

The primary recipient could require the subrecipient to have a Single Audit as a part of the funding agreement regardless of the amount of Federal funds the recipient received.

K-2 Question - When UDAG agreements contain specific language that a final audit is required, is this a sufficient basis to require an audit, in addition to the single audit?

Answer - No. It is the intent of the Single Audit Act to preclude grant specific audits from being conducted and that the single audit be performed in its place. Grants between audits should be closed out subject to the next single audit.

K-3 Question - What is the role of the state agency that is administering the Small Cities State-Block program?

Answer - The state agency administering the Small Cities State-Block program has specific responsibilities for monitoring small cities (subrecipients) as spelled out in OMB Circular A-128, paragraph 9.

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K-4 Question - Will the grantee's cost allocation plan be audited?

Answer - Although there is no specific requirement that the cost allocation plan be audited as part of the single audit, the non-Federal auditor would be required to address the propriety of the cost allocation plan if it has a material effect on the financial statements or it was involved in prior material findings that remain unresolved. If this is the case, the auditor should ascertain that the cost allocation plan was approved, determine that it is reasonable, and examine the supporting documentation. Basically, the auditor should make the necessary tests to determine that the indirect costs recorded were proper and reasonable and are in accordance with an approved cost allocation plan.

K-5 Question - Are nonprofit organizations (subgrantees) considered subrecipients for Single Audit Act purposes?

Answer - It depends. Yes, if the subgrantee is a state or local government. In which case, the primary recipient is responsible for

ensuring that any required audit is completed using OMB Circular A-128. No, if the subgrantee is other than a state or local government. In this case, the primary recipient is responsible for monitoring its subgrantees and including the use of the Federal assistance by subgrantee in its single audit, or requiring a separate audit from the subgrantee using OMB Circular A-133.

K-6 Question - Can closeout audits of specific grants still be obtained?
Answer - No. The requirements of the Single Audit Act take precedent over any previous Federal audit requirement of state and local governments. The only exception is that governments may omit the hospital and higher education institutions from the single audit. In those cases, OMB Circular A-133 should be used. However, a Federal agency can make any additional audits which are necessary to carry out its responsibilities under Federal law and regulation. In this case, the Federal agency would have to contract and pay for any additional audits. If the auditee contracted for such audits without HUD approval, the cost of the audit cannot be charged to the HUD assisted program.

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K-7 Question - Does the Single Audit Act apply to subrecipients and to contracts awarded by prime recipients?
Answer - Yes. The Single Audit Act applies equally to subrecipients and to prime recipients. However, the Single Audit Act does not apply to commercial contractors engaged by state and local governments. The governmental entities should use their own procedures in deciding when and how to audit their commercial contracts.

K-8 Question - Will subrecipients be audited at the same time and by the same auditor conducting the single audit of the prime recipient?
Answer - Not necessarily. One of the monitoring functions of the prime recipient is to assure that its subrecipients comply with the Single Audit Act. While subrecipients may obtain their own audits, and for periods not necessarily coinciding with the prime recipient's fiscal year, such audits will serve the intent of the Act.

K-9 Question - Under the State Community Development Block Grant Program, the state agency acts for HUD in receipt and review of its subrecipient audits. If, due to the preponderance of Community Development Block Grant funds, the state acts as the monitoring agency, does it then assume the responsibility of coordinating review or clearance of the audit with other Federal agencies, including HUD?

Answer - No. State agencies are only responsible for assuring that their subrecipients implement and comply with the Single Audit Act. If the subrecipient receives all its Federal assistance indirectly, the state has the responsibility to review and clear the audit. If the state's subrecipient receives other Federal assistance directly from a Federal agency, the state does not have the responsibility of coordinating review or clearance of the audit with the other Federal agencies. When this occurs, the state's subrecipient is also considered a directly funded primary recipient. As a practical matter, the states should coordinate their efforts with the Federal general oversight or direct funding agency.

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K-10 Question - What is the Department's responsibility, if any, when HUD provides the preponderance of funding to a city through: (a) the state-administered Small Cities program; and (b) an urban county's Community Development Block Entitlement Program?

Answer - (a) If all Federal funding is indirect, the Department's basic responsibility is to provide technical advice and guidance, if requested. The state, as the primary recipient, is responsible for carrying out certain monitoring functions (OMB Circular A-128, paragraph 9).

(b) If any direct Federal funding is involved, the Department may have general oversight responsibility for the city's single audit.

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Attachment 1
GAO Standards on Independence

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(2) If the work requires extensive review of computerized systems, the staff or consultants to the staff should include persons with computer audit skills.

(3) If the work involves review of complex engineering data, the staff or consultants to the staff should include persons with engineering skills.

(4) If the work involves the use of nontraditional audit methodologies, the staff or consultants to the staff should include persons with the necessary skills.

e. The following qualifications are needed for financial audits that lead to an expression of an opinion:

(1) The auditor should be proficient in the appropriate accounting principles and standards and in government auditing.

(2) The public accountants engaged to conduct audits should be: (a) licensed certified public accountants or persons working for a licensed certified public accounting firm or (b) public accountants licensed on or before December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970. /2

Independence 11. The second general standard for government auditing is: In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free

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Accountants and accounting firms meeting these licensing requirements should also comply with the applicable provisions of the public accountancy law and rules of the jurisdiction(s) where the audit is being conducted and the jurisdiction(s) in which they are licensed.

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from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.

12. This standard places responsibility on the

auditor and the audit organization to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

13. Auditors should consider not only whether they are independent and their attitudes and beliefs permit them to be independent, but also whether there is anything about their situation that might lead others to question their independence. All situations deserve consideration because it is essential not only that auditors are, in fact, independent and impartial, but also that knowledgeable third parties consider them so.

14. Government auditors, including hired consultants and internal experts and specialists, need to consider three general classes of impairments to independence -- personal, external, and organizational. If one or more of these impairments affect an auditor's ability to do the work and report findings impartially, the auditor should either decline to perform the audit, or in those situations when the auditor cannot decline to perform the audit, the impairment(s) should be reported in the scope section of the audit report. In addition, in cases when the auditors are employees of the audited entity, that fact should be reflected in a prominent place in the audit report.

15. Nongovernmental auditors also need to consider those personal and external impairments that might affect their ability to do their work and report their findings impartially. If their ability is adversely affected, they should decline to perform the audit. Public accountants should also follow the AICPA code
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of professional ethics, the code of professional conduct of the state board with jurisdiction over the practice of the public accountant and the audit organization, and the personal and external impairments included in this statement.

Personal 16. There are circumstances in which auditors may not
Impairments be or may not be perceived to be impartial.
The audit organization is responsible for having
policies and procedures in place to help
determine if auditors have any personal impairments.
Managers and supervisors need to be alert
for personal impairments of their staff members.

Auditors are responsible for notifying the appropriate official within their audit organization if they have any personal impairments. These impairments apply to individual auditors, but they may also apply to the audit organization. Personal impairments may include, but are not limited to, the following.

- a. Official, professional, personal, or financial relationships /3 that might cause the auditor to limit the extent of the inquiry, to limit disclosure, or to weaken or slant audit findings in any way.
- b. Preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit.
- c. Previous responsibility for decision-making or managing an entity that would affect current operations of the entity or program being audited.
- d. Biases, including those induced by political or social convictions, that result from employment in,

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When auditing state and local governments, the public accountant should be familiar with AICPA Professional Ethics Interpretation 101-10. This interpretation establishes specific rules on financial relationships that impair the public accountant's independence.

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or loyalty to, a particular group, organization, or level of government.

- e. Subsequent performance of an audit by the same individual who, for example, had previously approved invoices, payrolls, claims, and other proposed payments of the entity or program being audited.
- f. Concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records. /4
- g. Financial interest, direct or substantial indirect, in the audited entity or program.

External Impairments 17. Factors external to the audit organization may restrict the audit or interfere with an auditor's ability to form independent and objective opinions and conclusions. For example, under the following conditions an audit may be adversely affected and the auditor may not have complete freedom to make an independent and objective judgment.

- a. Interference or influence external to the audit organization that improperly or imprudently limits

or modifies the scope of an audit.

b. Interference external to the audit organization with the selection or application of audit procedures or in the selection of transactions to be examined.

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For example, an individual performs a substantial part of the accounting process or cycle, such as analyzing, journalizing, posting, preparing adjusting and closing entries, and preparing the financial statements, and later the same individual performs an audit. In instances in which the auditor acts as the main processor for transactions initiated by the audited entity, but the audited entity acknowledges responsibility for the financial records and financial statements, the independence of the auditor is not necessarily impaired.

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c. Unreasonable restrictions on the time allowed to competently complete an audit.

d. Interference external to the audit organization in the assignment, appointment, and promotion of audit personnel.

e. Restrictions on funds or other resources provided to the audit organization that would adversely affect the audit organization's ability to carry out its responsibilities.

f. Authority to overrule or to influence the auditor's judgment as to the appropriate content of an audit report.

g. Influences that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

Organizational 18. Government auditors' independence can be affected
Independence by their place within the structure of the government entity to which they are assigned and also by whether they are auditing internally or auditing other entities.

Internal Auditors 19. A federal, state, or local government audit organization, or an audit organization within other government entities, such as a government college, university, or hospital, may be subject to administrative direction from persons involved in the government management process. To help achieve organizational independence, the audit organization should report the results of their audits and be accountable to the head or deputy head of the government entity and should be organizationally located outside the staff or

line management function of the unit under audit.
20. Auditors should also be sufficiently removed from political pressures to ensure that they can conduct
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their audits objectively and can report their findings, opinions, and conclusions objectively without fear of political repercussion. Whenever feasible, they should be under a personnel system in which compensation, training, job tenure, and advancement are based on merit.

21. If the above conditions are met, and no personal or external impairments exist, the audit staff should be considered organizationally independent to audit internally and free to report objectively to top management.

22. When organizationally independent internal auditors conduct audits external to the government entity to which they are directly assigned, they may be considered independent of the audited entity and free to report objectively to the head or deputy head of the government entity to which assigned.

External Auditors 23. Government auditors employed by audit organizations whose heads are elected and legislative auditors auditing executive entities may be considered free of organizational impairments when auditing outside the government entity to which they are assigned.

24. Government auditors may be presumed to be independent of the audited entity, assuming no personal or external impairments exist, if the entity is:
a. A level of government other than the one to which they are assigned (federal, state, or local).
b. A different branch of government within the level of government to which they are assigned (legislative, executive, or judicial).

25. Government auditors may also be presumed to be independent, assuming no personal or external
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impairments exist, if the audit organization's head is:

- a. Elected by the citizens of their jurisdiction.
- b. Elected or appointed by a legislative body of the level of government to which they are assigned and report the results of their audits to and are accountable to the legislative body.
- c. Appointed by the chief executive but are confirmed by, report the results of their audits to, and

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2 of 5

Office of Management and Budget Circular A-133 (3/16/90)

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Office of Management and Budget Circular A-133 (3/16/90)

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