

Relief from Audit

Honorable Bob Inglis
Member, United States
House of Representatives
Federal Building
201 Magnolia Street, Suite 108
Spartanburg, SC 29301<

Dear Mr. Inglis:

Thank you for your letter of May 3, 1995, on behalf of your constituent, Mr. Hudson Barksdale, Executive Director of the Southside Neighborhood Action Partnership (SNAP) of Spartanburg, South Carolina. Officers of the organization are seeking relief from the requirement that SNAP be audited as a result of having expended more than \$25,000 in a single fiscal year.

Non-profits which receive Community Development Block Grant (CDBG) funds are required to comply with certain administrative requirements. Audit requirements are contained in Office of Management and Budget (OMB) Circular A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions, specifically Item 2.a., which requires that non-profit institutions receiving at least \$25,000 in Federal awards have an audit. If the total amount of Federal awards received is less than \$100,000, the audit may be either organization-wide or program specific. The definition of receipt of Federal awards is based on how the non-profit organization recognizes and reports its revenue. Generally this means that an entity has "received" Federal awards when it has obtained Federal cash or it has incurred expenditures which will be reimbursed under a Federal award. The cost of the required audit, or the allocable portion thereof, when treated in accordance with the applicable cost standards is an allowable charge to the Federally assisted program(s). The Circular further provides that non-profit institutions receiving less than \$25,000 a year in Federal awards are exempt from Federal audit requirements, but records must be available for review by appropriate officials of the grantor agency or subgranting entity.

Your constituent's letter indicates that SNAP never received more than \$25,000 in CDBG funds in any given year. However, if the agency received exactly \$25,000 in CDBG funds, or more than \$25,000 in Federal funds from any source in any year, SNAP is subject to the audit requirement. The \$25,000 was established as the limit under OMB Circular A-133 to conform to a similar requirement in OMB Circular A-128, which contains the audit requirements for state and local governments. OMB Circular A-128 was issued in 1985, when the purchasing power of \$25,000 was greater than it is today. The purpose of the requirement was to mitigate risk to Federal programs and to determine that costs charged are necessary, reasonable, and properly documented.

OMB Circular A-133 represents government-wide policy, and HUD has no authority to offer relief from its requirements. Only OMB may provide waivers, and it is believed that they are rarely granted. It is suggested that SNAP and the City review the A-133 audit requirement and determine whether it applies to the organization. If it is determined to be applicable and the City of Spartanburg wishes to pursue a waiver, it is suggested that the City submit a waiver request, which specifically identifies the requirement

it wants to have waived, why the requirement is onerous, the amount of Federal assistance received, the year in which it was received, and the basis for the waiver request to the Department of Housing and Urban Development (HUD) Field Office in Columbia. HUD Headquarters will forward it to OMB for a response.

SNAP may also wish to clarify the City's position with respect to obtaining additional funds to undertake needed audits when it applies for CDBG funds. Finally please note that with respect to this issue, OMB issued a proposed revision in the Federal Register of March 17, 1995, which would raise the dollar amount in OMB Circular A-133 which triggers an audit from \$25,000 to \$300,000. The comment period closed May 16, 1995. In this regard, if a waiver were to be requested, it would also be useful to cite any and all provisions of the proposed rule that are supportive of the grantee's request in the instant case.

Thank you for your interest in the Department's programs.

Sincerely,

John C. Biechman
Acting Assistant Secretary