



U. S. Department of Housing and Urban Development
Office of Public and Indian Housing

Special Attention of:

NOTICE PIH 2006-20 (TDHEs)

Tribes; Tribally Designated
Housing Entities (TDHEs);
Indian Housing Authorities;
ONAP Administrators

Issued: June 7, 2006

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Cross Reference: 24 CFR Part 1000,
OMB Circular A-87 and
OMB Circular A-133

Subject: Financial Audit Requirements

- 1. What is the purpose of this Notice?** This Notice reiterates Notice PIH-2002-17 which was reinstated by PIH Notice 2003-28, and provides specific guidance on the financial audit requirements for the participants in the Indian Housing Block Grant (IHBG), Indian Community Development Block Grant (ICDBG) and other HUD programs that are available to Native American recipients, such as the Rural Housing and Economic Development Program, and the Public and Indian Housing Drug Elimination Program.
- 2. What are the financial audit requirements for IHBG recipients?** Title 24 CFR §1000.544 requires IHBG recipients to comply with the requirements of the Single Audit Act and OMB Circular A-133 by obtaining annual audits if a recipient expends Federal funds equal to or in excess of a threshold amount specified by the U.S. Office of Management and Budget (OMB), which is currently set at \$500,000 in a fiscal year.
- 3. What are the financial audit requirements for ICDBG and other program recipients?** Title 24 CFR §1003.501 incorporates 24 CFR Part 85 requirements that apply to ICDBG recipients. Title 24 CFR §85.26, Non-Federal Audits, states, "Grantees and sub-grantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations.'" The other programs available to Office of Native American Programs (ONAP) recipients contain similar language and requirements.
- 4. What is the purpose of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, (Circular A-133)?** The purpose of Circular A-133 is to set forth standards to obtain consistency and uniformity for audits of non-Federal entities expending Federal awards.

- 5. What is the basic requirement for audits contained in Circular A-133?** Circular A-133 requires that non-Federal entities that expend Federal funds equal to or in excess of a threshold amount specified by OMB (currently set at \$500,000 in a fiscal year) shall have a single or program-specific audit conducted for that year in accordance with the provisions of the circular.
- 6. Who are non-Federal entities?** Non-Federal entities are defined in Circular A-133 to be “States, local governments, or non-profit organizations.” Tribes are included as a state government for the purposes of this requirement. Section 405(a) of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) states “An entity designated by an Indian tribe as a housing entity [Triennially Designated Housing Entity (TDHE)] shall be treated ... as a non-Federal entity that is subject to the audit requirements that apply to non-Federal entities....”
- 7. What are the basic audit requirements?** The basic requirements contained in Circular A-133 are:
 - Obtain an audit if an entity expends Federal grant funds in a fiscal year that meet or exceed the threshold amount (currently set at \$500,000 in a fiscal year);
 - Submit the audit reporting package with copies for the affected Federal agencies to the Federal Audit Clearinghouse (FAC); and
 - Insert in the audit report package the Financial Statements, Schedule of Federal Award Expenditures, Summary Schedule of Prior Audit Findings, auditor’s report(s) and corrective action plan.
- 8. Has ONAP expanded on the basic audit requirements?** ONAP has augmented the requirements of Circular A-133 by requesting recipients to:
 - Identify in the Schedule of Federal Award Expenditures cumulative grant expenditures and current period expenditures for each open grant.
 - For IHBG recipients - submit a copy of the audit report package to ONAP when the package is submitted to the FAC. (Note: Title 24 CFR §1000.548 requires an IHBG recipient to submit a copy of their latest audit with their Annual Performance Report (APR)). ONAP requests a copy of the audit be submitted to ONAP concurrent with the submission to the FAC in lieu of submission with the APR.
- 9. How often must an audit be conducted?** Circular A-133 requires annual audits, except where (a) a tribe is required by tribal law, which was in effect on January 1, 1987, to undergo its audits less frequently than annually. If this requirement is still in effect for the biennial period under audit, the tribe may undergo its audits biennially; or (b) a non-profit organization that for the periods between July 1, 1992, and January 1, 1995, had biennial audits may continue with biennial audits.

10. What are the audit responsibilities of ONAP recipients? The audit responsibilities of a recipient, as stated in Circular A-133, are:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.
- Maintain internal control over Federal programs that provides reasonable assurance that the recipient is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards.
- Ensure that audits required by Circular A-133 are properly performed and submitted when due.
- Follow up and take corrective action on audit findings, including preparation of a Summary Schedule of Prior Audit Findings and a corrective action plan.

11. What requirements must the auditor meet? Circular A-133 requires that an auditor shall:

- Conduct the audit according to generally accepted governmental auditing standards.
- Obtain an understanding of the recipient's internal control procedures and perform tests to determine the effectiveness of the internal control procedures.
- Perform tests to determine if the recipient complied with the laws, regulations and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major Federal programs.
- Follow-up on prior audit findings; determine the reasonableness of the recipient's Summary Schedule of Prior Audit Findings and report as a current audit finding any instances of material misrepresentations in the summary schedule.

12. What are the cognizant Federal agency audit responsibilities? Recipients expending more than \$50 million in Federal awards a year shall have a cognizant audit agency. The cognizant agency will be the Federal agency providing the largest amount of funding, unless the OMB makes a specific assignment. The cognizant audit agency will:

- Provide technical audit advice and liaison to recipients and auditors.
- Review recipient extension requests for audit submission. The cognizant agency may grant an extension for good cause.
- Obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations.
- Inform appropriate Federal officials of irregularities or illegal acts.
- Advise the auditor and, where appropriate, the recipient of any deficiencies found in the audits that require corrective action by the auditor.

- Coordinate any additional audits or reviews so that the audits or reviews build upon work performed during the A-133 audit.
- Coordinate a management decision for audit findings that affect programs of more than one Federal agency.
- Coordinate the work and reporting responsibilities among auditors to obtain the most cost-effective audit.
- Consider requests to qualify as low-risk from recipients receiving biennial audits.

13. What are the oversight Federal agency responsibilities? Recipients expending \$50 million or less in Federal awards shall have an oversight agency for audit. The oversight agency will be the Federal agency providing the largest amount of funding. The oversight agency will:

- Provide technical advice to recipients and auditors.
- Assume all or some of the responsibilities of the cognizant audit agency. HUD will assume all of the cognizant audit agency responsibilities for those recipients for which HUD is the oversight agency.

14. What are Federal awards for ONAP recipients? Federal awards to ONAP recipients mean Federal financial assistance in the form of grants and loan guarantees that recipients or subrecipients receive directly from ONAP, other Federal agencies or indirectly from pass-through entities.

15. How are Federal awards identified in the audit report? ONAP recipients are required to identify all Federal funds received and expended and the Federal programs under which the funds were received. Federal program identification includes the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, awarding Federal agency, and any pass-through entities. CFDA titles and numbers may be found on the Internet at <http://12.46.245.173/cfda/cfda.html>.

16. What CFDA titles and numbers apply to ONAP programs available to Native American recipients? The applicable CFDA titles and numbers are provided below:

- 14.250 Rural Housing and Economic Development
- 14.850 Public and Indian Housing
- 14.854 Public and Indian Housing Drug Elimination Program
- 14.862 Indian Community Development Block Grant Program
- 14.865 Public and Indian Housing: Indian Loan Guarantee Program
- 14.867 Indian Housing Block Grants
- 14.869 Title VI Federal Guarantees for Financing Tribal Housing Activities
- 14.870 Resident Opportunity and Supportive Services

17. What are the financial statement requirements? An ONAP recipient is required to prepare financial statements that reflect its financial position, results of operations, and cash flows for the fiscal year; that is the Balance Sheet, Statement of Revenues and Expenses, and Statement of Cash Flows.

- 18. Are there any other required statements?** ONAP recipients are also required to prepare a Schedule of Expenditures of Federal Awards and a Summary Schedule of Prior Audit Findings.
- 19. What is required to be included in the Schedule of Expenditures of Federal Awards?** The schedule shall:
- Identify individual programs by Federal agency.
 - Identify Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
 - Provide the total amount expended for each Federal grant award and the CFDA number. ONAP recipients should identify cumulative expenditures to-date and expenditures for the current period for each open ONAP grant.
 - Describe significant accounting policies used in preparing the schedule.
 - Identify the total amount provided to subrecipients from each Federal program.
 - Identify the value of non-cash assistance, amount of insurance in effect during the year and loans or loan guarantees outstanding at the year's end.
- 20. When are audit reports due?** ONAP recipients are to submit a complete audit report package to the FAC within 30 days of receipt from the auditor or nine months after the end of the recipient's fiscal year, whichever occurs earlier. ONAP program recipients are requested to submit a copy of the audit report package to the appropriate ONAP Area Office when the package is submitted to the FAC.
- 21. What is included in the audit report package?** The audit report package is comprised of the financial statements and Schedule of Expenditures of Federal Awards, Summary Schedule of Prior Audit Findings, the auditor's report(s), and a corrective action plan.
- 22. What is the address of the Federal Audit Clearinghouse?** The audit report package and a Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations (Form SF-SAC) are to be submitted to the FAC. The address for the Clearinghouse is:
- Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street
Jeffersonville, IN 47132
- 23. How many copies of the reporting package should be submitted?** In addition to the audit report package for the FAC, Federal program participants are required to include additional copies of the report package for each Federal awarding agency when the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the Federal awarding agency provided directly. Also, copies must be submitted for each Federal awarding agency when the Summary Schedule of

Prior Audit Findings reported the status of any audit findings relating to Federal awards that the Federal awarding agency provided directly.

- 24. What happens if an audit is not performed and submitted?** Circular A-133 provides that no audit costs may be charged to Federal awards if the financial reviews have not been performed according to the Circular requirements. In instances of inability or unwillingness to comply with Circular A-133, Federal agencies may take appropriate actions using sanctions, such as:
- withholding a percentage of the Federal award until the audit is satisfactorily completed;
 - withholding or disallowing overhead costs;
 - suspending Federal awards until the audit is conducted; or
 - terminating the Federal award.

The imposition by HUD of any sanction for failure by an IHBG recipient to meet the audit requirements of Circular A-133 would follow the process provided for in Title IV of NAHASDA as implemented by Subpart F of 24 CFR Part 1000. In a similar manner, the imposition by HUD of any sanction for failure by an ICDBG recipient to meet the audit requirements of Circular A-133 would follow the process provided for in Subpart H of 24 CFR Part 1003.

- 25. Are audit costs eligible costs?** Title 24 CFR Section 1000.546 states that audit costs are an eligible program or administrative expense under IHBG. For the ICDBG and other ONAP grant programs, OMB Circular A-87 in Attachment A, item 4 provides that “The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133 ... are allowable”.
- 26. May a financial review be charged to IHBG?** Title 24 CFR Section 1000.546 allows IHBG funds to be used to obtain a financial review for those ONAP recipients expending Federal funds less than the Circular A-133 threshold amount (currently set at \$500,000 in a fiscal year). Recipients that obtain such a financial review are to submit a copy of the review to ONAP when it is received from the auditor. ONAP recipients are not required to submit the financial review to the FAC.
- 27. What are the work paper retention requirements for Auditors?** Auditors are required by Circular A-133 to retain their audit working papers and reports for a minimum of 3 years after the date of issuance of the auditor’s report(s) to the recipient unless notified in writing by the cognizant or oversight agency for audit or the pass-through entity to extend the retention period.
- 28. Who may review the Auditor’s work papers?** Audit working papers shall be made available upon request to the cognizant or oversight agency for audit or its designee, a Federal agency providing direct or indirect funding or the U.S. General Accounting Office. ONAP has delegated its responsibility to conduct quality control reviews of audit working papers to the Real Estate Assessment Center’s Quality Assurance Subsystem (QASS) Team for those entities for which HUD is the oversight agency.

The information collection requirements contained in this notice have been approved by the U.S. Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-35200 and assigned OMB control number 2577-0218 (Exp. 04/30/2008)). In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

If you have any questions regarding this policy, please contact your assigned Grants Evaluation Specialist in the local ONAP Area Office.

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for Public and Indian Housing