



Audit Cost Reimbursement

(Accounting Issue #5)

Background:

OMB Circular A-133, issued June 24, 1997, was established pursuant to the Single Audit Act Amendments of 1996. It exempts PHAs expending less than the A-133 Threshold (*\$300,000/\$500,000) in Federal awards in a Fiscal Year (FY) from having to have a Single Audit. Listed below are key portions of key documents that have been published regarding this topic:

A. OMB Circular A-133-June 24, 1997 revision

Subpart B-Audits

section .200 (d)-Exemption when Federal awards expended are less than the A-133 Threshold (* \$300,000/\$500,000): “Non Federal entities that expend less than the A-133 Threshold a year in Federal awards are exempt from Federal audit requirements for that year **except** as noted in section .215 (a).”

section .215(a)-Audit under this part in lieu of other audits: “An audit made in accordance with this part shall be in lieu of any financial audit required under individual Federal awards. To the extent this audit meets a Federal agency’s needs, it shall rely upon such audits. The provisions of this part neither limit the authority of Federal agencies, including the Inspector General or the GAO to conduct or **arrange** for additional audits nor authorize any auditee to constrain Federal agencies from carrying out additional audits.

B. Notice PIH 98-14

This was a Notice issued by Public and Indian Housing (PIH) on February 24, 1998, which expired on February 28, 1999. This Notice basically stated that HUD was “permitted to pay for the cost of audits more limited in scope than a Single Audit when an audit is necessary for HUD to monitor an HA that is exempt from the requirement to have a Single Audit.” This Notice is neither statutory nor regulatory and has expired-so it has no real standing in the legal hierarchy.

C. 24CFR 990.108 (a) (3)

This regulation dated as of April 1, 1999, stated that a PHA “exempt from the audit requirements under the Single Audit Act may receive operating subsidy to offset the cost of an independent audit chargeable to operations (after the End of the Initial Operating Period) if the PHA chooses to have an audit.”

* \$500,000 beginning with fiscal years ending after December 31, 2003, \$300,000 for fiscal years ending December 31, 2003 and prior.

D. Quality Housing and Work Responsibility Act (QHWRA) Of 1998

This piece of legislation was signed into law in October 1998. Section 564 (6) (A) of the law gives the Secretary increased latitude in taking steps to ensure the accuracy of certifications made to HUD. Specifically, this section (which covers the Public Housing Management Assessment Program-PHAS' predecessor) states:

“To the extent that the Secretary determines such action to be necessary in order to ensure the accuracy of any certification made under this section, the Secretary shall require an independent auditor to review documentation or other information maintained by a public housing agency to substantiate each certification submitted by the agency or corporation relating to the performance of that agency or corporation.”

The QHWRA bill is the most recent document that appears to have addressed the issue under discussion.

Issues:

There are two issues that need to be resolved as follows:

- Can PHAs with yearly Federal expenditures of less than the A-133 Threshold be reimbursed for a non A-133 audit out of operating subsidy?
- Can PHAs be reimbursed for the REAC proposed audit procedures of: (1) a SAS 29 engagement examining the FDS and (2) comparing the electronic submission of the PHA's audit information to the hard copy audit report?

Analysis:

In analyzing the various documents that have been published since 1996 (beginning with the Single Audit Act Amendments), one has to look primarily at the OMB Circular A-133 and the QWHRA bill of 1998. These are two documents directly linked to specific legislation. Section .215(a) of OMB Circular A-133 is an **exception** to the threshold rule, and gives HUD and the GAO flexibility to arrange reimbursable non A-133 audits. Section 564 (6)(A) of the QWHRA, which is more legally current than the OMB Circular A-133, gives the Secretary of HUD latitude in approving audit work substantiating each certification submitted by the PHA relating to its financial performance.

Conclusion:

Based on section .215(a) of OMB Circular A-133 and Section 564 (6) (A) of the QWRHA, audit costs of non A-133 audits and the two procedures discussed in the upcoming *Guidelines for Public Housing Authorities and Independent Auditors* can be reimbursed back to PHAs from the operating subsidy.